

Notes on Japanese Multinational Companies

- Was the “Future” we thought out 30 years ago something like this? -

Kiyoshi Urakami

1. General interests shared among academic researchers in 1960's

Japanese history of industrialization remained a unique record of social change. Japan had a history of starting capitalistic production late in comparison with those of advanced foreign countries. Based on insufficient prerequisite to the development of modern industry, Japan built her industrial society by making the best use of the knowledge and skills of the West. In Japan Western style of civil society was regarded as a “model” by which researchers tried to explain the “gap” between Japanese and Western society and to estimate a degree of Japanese “modernization”

It has been frequently pointed out that Japan's industrial relations have such characteristics as “a life-time, or a longer-time employment”, payment and promotion based on merit in terms of seniority, management based on irrational ideology of “family system” and so on. The academic researchers at that time considered these characteristics “pre-modern”. But as far as we remember, one of the most fundamental questions was whether or not Japanese industrial society or company would become like Western one, and this seemed to be a difficult and an interesting subject to be pursued.

2. Initial exposure into “Foreign Environment” in 1970's - Export and factory shifts

Since Japanese domestic market was limited in size, most of the industrial sectors put an extraordinary effort to export products. Thus, Japanese industry started an initial activity in the international markets. Starting early 1970's, Japanese consumer electronic companies moved their production facilities to the U.S.A. and Europe, and a lot of activity were reported on how Japanese companies tried to adapt into local environments, which triggered an effort by academic researchers to examine the type of industrial relations in the newly established Japanese companies in the U.S.A. and Europe. From a general perspective, Japanese companies in advanced countries enhanced the level of internationalization by adaptations into a local environment, while the same Japanese companies tried to apply what they had acquired at home to their subsidiary in developing countries in South East Asia. The latter case received a severe criticism of Japanese companies also in 1970's. Here we want to simply point out that Japanese company behaved rather differently according to host country. In

advanced countries like the United States of America and European countries, they behaved rather gently who try to adapt into a society where they operate, while the same organization took a rather aggressive attitude in some of the developing countries.

3. What were pointed out as basic characteristics as Japanese multinational companies 30 years ago?

Internationalization of a company involves various aspects such as business strategy, R & D, production, procurement, sales & marketing, brand & intellectual property management, human resources, financing & accounting, IT management and all other decision making processes.

Some of the general characteristics of Japanese multinational companies which were summarized by books and papers written in the mid-70's are (1)The sense of belonging to Japanese head office is very high compared with that of Western companies, (2)Japanese multinational companies appoint less local personnel as board directors, senior executives and top management including president compared with Western multinational companies and this is perhaps due to the limitation of human resources management, and (3)The control of overseas subsidiaries is much stronger than that of Western companies.

It was generally forecasted, at that time, that "Japanese elements" in overseas management would be decreased gradually in the process of internationalization of business activities and the description of future image that Japanese MNC's, by degrees, would become similar to Western ones appeared to be shared among most academic researchers.

4. What has become of the "Japanese elements" in overseas Japanese companies in recent years?

The three elements that were mentioned in 3 are more or less still stay with Japanese multinational companies now, although there have been noticeable changes in the Japanese elements or Japanese styles. Things, however, are all relative. Japanese multinational companies experienced changes and so did the U.S. companies and European companies.

Regarding (1) in 3, the sense of belonging to mother division came out from the simple fact that those Japanese expatriates sent abroad in the initial stages of overseas operation were full of responsibility to build up business activities as one of the frontiers. In other words, the motivation was very high. As we entered mid 1980's, however, it was almost an established ethics for expatriates to work for a local subsidiary company

where they were dispatched. Japanese expatriates took an initiative to develop the company for whom they were working. To develop and protect a local company's interest came first at this stage.

In regards to (2), there were enormous progresses; Japanese MNC's hired particularly a lot of qualified local managers. In 1990's, Japanese multinationals filled senior management positions or board director positions with local nationals citizens. However, local people have not yet usually replaced a president or a CEO position, and there were huge differences if we compare Japanese situations with the U.S. and/or European ones where we can often see a local citizen is appointed as a president.

As for (3), the level of headquarters' control over subsidiary companies varies according to business nature. Particularly, when an overseas company is mainly a factory operation with products destination is global, local activities are heavily under headquarters' control and this is nothing to do with a nationality of the company. When an overseas factory is built to support the local market, most of decision is made locally since the local subsidiary company knows the business situation better than their mother division.

It is true to say that the internationalization process at Japanese multinational companies has historically seen the decreased level of the Japanese elements or styles. To compare those situation with both U.S. and European one, however, one of the most fundamental characteristics is the fact that Japanese multinational companies in general have not come to the stage where they hire a local citizen as a president or a CEO position. Of course, there might be a minor case where an organization hierarchy starts with a person with a local nationality. The subject involves a basic problem at Japanese corporate headquarters management system. How far is it possible for Japanese companies, on a headquarters level, to initiate an organizational structure where a people with a different nationality can become not only a president or a CEO at the local subsidiary but also, in some cases, climb up the corporate ladder in the mother country?

5. The recent business restructuring in Japan and the impacts on Japan's multinationals

The Japan's industrial restructuring activity seems to be an ever-lasting process since the fruitful outcomes have not yet been realized. During the past more than several years, Japan's multinational companies have changed their internal and organizational structure rather drastically. In fact, "Japanese management system" has exposed weaknesses in various ways in the last decade of 20th century, while the U.S.

business style and its globalization capability have shown a remarkable strength.

I would like to point out two subjects here. Firstly, large Japanese enterprises started a creation of subsidiary company within the company group (*bunshaka*) a couple years ago, which triggered a situation where sales organization including overseas sales division come under the president of a new subsidiary. The name of “International Division” tends to be disappearing nowadays and thus domestic and overseas activity are put together in the light of “Globalization”. In this way, Japanese companies are entering into a new phase of global business.

Secondly, the Japanese companies have introduced a performance oriented human resources system where they reviewed the traditional Japanese employment relations. A longer-term employment, payment and promotion based on seniority, for instance, have undergone significant changes. This type of human resources policy change will give some influence on Japanese multinational companies in the near future.

6. Looking at Japanese multinationals from an employee’s point of view

How do Japanese NMC’s look like for a person who is either being employed or just wondering if he or she finds a job there? Answers to this question vary according to country, region or type of business.

Japanese multinationals built up a fair image as a global enterprise through the historical development process in the past. Things are all relative, however. The U.S. and European companies have established and developed a better environment in most regions, particularly in Asia. In China, the U.S. company is reported to rank number one as the most desirable work place from China local applicants point of view. My personal observation also supports this general reporting. When I was stationed in Hong Kong, I visited many American multinationals where I met number of excellent management people who were locally hired. Some of the cases these people were overseas Chinese and in some cases they had an education in the U.S. Recently we hear that the university graduates from famous China universities tend to chose either the U.S. or European corporation as a place to work.

Japanese companies in the Mainland China reportedly do not attract the first class management candidates, and we need to re-look back our China business operations to understand why we cannot attract and retain good China locals so that we can possibly develop a better business.

The issues involve a cultural and social factor, and we believe that some of the critical keys to solve these problems still on the side of Japanese headquarters.

(September 2003)