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Abstract

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by

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The success story of Japanese firms, both in their home country
and in their overseas subsidiaries, has been the focal point of com-
parative management research in the 1970s and early 1980s. Several
scholars attributed the impressive productivity gains in Japanese
industries to the basic principles of Japanese management. Further,
they advocated the utilization of these principles by American and
European businesses in order to solve employee morale and productivity
problems.[1]

However, in recent years, the validity of the "happy worker"
hypothesis in explaining the effectiveness of Japanese management has
been seriously questioned. In fact, the results of several empirical
studies indicate that Japanese firms are facing manpower management
problems both at home and in their overseas subsidiaries.[2]

The main purpose of this article is to identify and discuss the
Japanese management problem of overseas subsidiaries.

The study reported in this paper represents a small part of a
large-scale study undertaken around the world.

Introduction

Japan's position in terms of foreign direct investment is changing rapidly. During a period of five years, between 1977 to 1982, the nation's cumulative total foreign investment increased from 11.9 billion U.S. dollars to 29.0 billion U.S. dollars (Kaigai Shijo Hakusho, 1981, p. 4 and 1984, p. 3). In relative terms, Japan's share of total foreign direct investment increased from 3.6% during 1970-72 to 6% of the world's total between 1978 to 1980 (Transnational Corporations in World Development, 1984).

Over the next two decades, the most significant impact on Japanese firms in the world and the most drastic challenge to their own management and organization, will be the effort of these companies to become global, with major operations around the world. An important aspect of this challenge is adapting the unique and highly culture-bound aspects of Japanese management to the economic, political, legal, technological and social characteristics of the diverse societies within which they are operating. Success in the adaptation process is of critical significance if Japanese subsidiaries overseas are to be as efficient and productive as their headquarters.

This paper deals with the localization problems of management of Japanese subsidiaries overseas with special focus on three East and South-east Asian nations: Malaysia, Singapore, and Thailand.

Conceptual Framework:

Much has been written on the unique characteristics of the Japanese Management System (Abegglen 1958; Drucker, 1971; Johnson and Ouchi, 1974; Sethi, 1974). Briefly stated, the most widely publicized elements

of that system include the practice of lifetime employment, consensus style of decision making, in-company training through job rotation, the use of quality circles at the shop floor to facilitate worker input, as well as slow, implicit and infrequent performance appraisal.

The success of the practice of lifetime employment depends on the fulfillment of a dual set of expectations. For the worker, there is the expectation that he will be able to stay with his chosen firm, and he intends to do so. For the employer, there is the expectation that the worker will stay, provided he is offered "standard" wages and conditions of employment.

Under the consensus system, any changes in procedures and routines, tactics and even strategies are originated by those who are already concerned with these changes. The final decision is made at the top level after an elaborate examination of the proposal through successively higher levels in the management hierarchy that results in acceptance or rejection of a decision only through consensus at every echelon.

In-company training by rotation promotes tremendous flexibility in the workforce. A Japanese employee keeps on training as a regular part of his job until he retires. The training is not only in the employee's own job, but in other jobs of the same level. The successful implementation of the concept of "quality circles" takes many years and requires a cohesive and loyal employees force who are highly committed to the goals of the organization. Finally, in the Japanese business organization, performance appraisal is a long-term, implicit and slow process. Both outcomes achieved by an employee and the process through which the outcomes are obtained are considered in the evaluation.

The above practices are highly correlated and one cannot be implemented without the presence of the other. Most of them are also consistent with the socio-cultural characteristics of the Japanese society. Lifetime employment can be traced to the Japanese paternalism. The society sanctions both the individual and the firm which deviates from this practice. On the other hand it is the existence of lifetime employment combined with the group orientation of the Japanese which provide the framework for successful implementation of the consensus-style decision making. Also, in-company training and slow promotion, based on implicit performance evaluation, can be practiced only if the employee is expected to stay in the company long enough to economically justify job rotation and to provide adequate information to be used in performance evaluation and promotion decisions.

Observing the enormous success of Japan's economy and its business organizations on the one hand, and the unique features of its management on the other, many scholars in the 70's concluded that:

1. The success of Japan in international markets is mainly due to the Japanese management style.

2. The principles of Japanese management can be successfully transferred to other countries (both by Japanese-owned and local firms).

In the 1980s, as the applicability of Japanese management practices in other cultural settings was debated, new evidence surfaced indicating that the Japanese were having problems in managing their overseas subsidiaries, both in the West and in countries in the Orient (Sethi, 1985; Ohmae, 1985).

The transferability of JMS to other countries in the Orient presents a particular dilemma (Fukuda, 1983).

Several recent studies of Japanese-owned firms in the Orient indicate that there is very little similarity among Japanese management as practiced in these subsidiaries and as it is known to exist in Japan (Putti and Chang, 1984; Sim, 1977; Kobayashi, 1985).

Negandhi et. al (1985) use the term Modified Local System to explain the common management style used by the Japanese in the developing countries, including the Far East. This style of management is identified to have the following characteristics:

　°Existence of several managerial hierarchies and centralization of
　 decision making

　°Inability to attract and retain qualified personnel, particularly
　 at the executive level

　°Significant problems in dealing with environmental issues

Overall, in the Modified Local System, there is:

　°no clear functional level policies.

　°a low level of trust and confidence in local managers and sub-
　 ordinates.

　°a ceiling on promotion for locally employed managers.

　°a problem with unions and equal employment regulation.

The sources of the problems are both in the external environment and within the Japanese-owned firms.

The study reported in this paper represents a small part of a large-scale study undertaken in the Far East, Europe, Latin America, and North

America. It involved Japanese and local managers of Japanese manufacturing firms in these countries and sought to evaluate the impact of external and internal variables on the management of the companies. The paper examines data collected from three countries, namely: Malaysia, Singapore, and Thailand.

Method

Sample: The sample in the study consists of 65 Japanese and 77 local managers of Japanese-owned manufacturing firms in Malaysia, Thailand, and Singapore. Information regarding Japanese firms was obtained from the Chambers of Commerce, Foreign Investment Centers, Trade Organizations and banks.

Instruments: Two extensive questionnaires were designed to inquire about the perceptions of the Japanese and the local managers regarding the localization problems and issues. The questionnaire for the Japanese group consisted of questions regarding company profile, issues on manpower supply and recruitment, training policy, desired manpower qualities, retaining of local personnel, organizational practices, structures, and decision making at the headquarter's and the subsidiary's level, and the approach to decision making.

The questionnaire for the local managers contained questions regarding personnel data, the local manager's perception of training needs and availability, career aspirations, promotions and renumeration policies, corporate climate and the decision making style of the company. The data were collected through mail survey.

Results and Discussion

Tables 1 to 5 present a breakdown of the sample of the local managers by age, level of education, years in the company, years in present position, and university specialization. As one can see from these tables, the majority of the local managers are between 30-49 years old and have a university education. The most frequently cited area of specialization is management and business administration (27.6%), followed by engineering. The local managers' tenure in the company varies from 1 to 3 years (14.3% of the respondents) to more than 10 years (26% of the respondents).

Decision-Making Approach

It was stated before that in the Modified Local System, there is a centralization of decision making. Strategically important decisions are made either at the headquarters or by the expatriate managers of the subsidiaries. The findings of the present study also confirm this pattern. Tables 6, 7, and 8, present the frequency of responses to the questions pertaining to the degree of involvement of the headquarter, subsidiary, and local manager in decision making. The headquarters have significant influence on corporate planning, budgeting, appointment of CEO as well as all decisions regarding recruitment, promotion, and dismissal of Japanese managers. Table 7 also indicates that the subsidiaries have equal influences in decision-making.

However, the comparison of Tables 7 and 8 reveals significant incongruencies in the perceptions of Japanese and local managers regarding the subsidiary's involvement in decision making. For example, only

14.6% of the local managers feel they are heavily involved in corporate planning. Some thirty four percent indicated the considerable involvement in budgeting; and 27 percent in recruitment of top managers. In addition, the majority of the local managers indicated that they had minimal or no involvement in decisions regarding "local matters," except the recruitment and training of local managers. A unique characteristic of Japanese subsidiaries is the existence of a dual set of rules and exceptions. The expatriate managers are highly involved in corporate decision making, much the same way as in Japan. On the other hand, most local managers are isolated from the decision making process. In reality only expatriate managers and not the entire staff of a subsidiary participate in the decision making process.

Our findings confirm the results of several previous studies of Japanese subsidiaries. Negandhi (1973), in his study of 27 American, Japanese, and local companies in Taiwan, found a high degree of centralization of decision making as well as several levels of hierarchies among Japanese companies. In a recent study of management practices of Japanese firms in Singapore, Putti and Chang (1985) found that only one out of ten firms in the study used the "ringi" system or consensus approach to decision making. Furthermore, Japanese companies in Singapore exercised tight control on their operations and decision making was centralized.

While centralization of decision making is characteristic of many Japanese subsidiaries, regardless of their location, local conditions and cultural attributes in South East Asia may aggravate the situation. In a survey of the managerial attitudes in eight Asian countries,

Redding and Casey (1976) found a consistent tendency for the Asian group (excluding Japan) to believe in a more autocratic approach to the managerial role, including participation in decision making and the sharing of information. And Silin (1976) in his study of Chinese firms in Taiwan, concluded that Japanese and Chinese firms can be differentiated on the basis of variations in the interpersonal relationships between leaders and followers.

The lack of participation on the part of local managers in decision making elicits their resistance to the implementation of decisions. Our survey indicates that there was some difficulty at the subsidiary level in implementing decisions which were made at the headquarters (see Table 9).

Ceiling on Promotion for Local Managers

A major problem area in the Modified Local System of Management, which is practiced by Japanese firms in developing countries, is that opportunities for advancement for local managers are extremely limited. In order to ensure centralization of decision making and to maintain the influence of the headquarters on the subsidiary management, the majority of the top-level positions are staffed by expatriate personnel. In fact, this practice is common among Japanese MNCs throughout the world. For example, there have been two court cases against Sumitoma Shagi America, Inc. and C. Itoh by the American employees of these companies, accusing them of race and sex discrimination in promotion decisions. Our present study confirms an existence of this problem. In order to investigate the nature of the problem, we asked the local managers three related questions:

a. Which is the highest rank attainable for locals?

b. What are the chances of obtaining your career aspirations in
    the present company?

c. What are the chances of obtaining your career aspirations out-
    side?

Tables 10, 11, and 12 present the distribution of responses to these
three questions. Only 10 of the 77 managers thought that positions of
managing director, finance manager, and marketing manager were attain-
able by locals. Also, Table 12 reveals that 36 percent of the respon-
dents felt they had a better or much better chance of obtaining their
career aspirations outside. Another 42 percent perceived their chances
as being equal in the company and elsewhere. Once again, these findings
are consistent with the literature.

It has been well documented that among the multinations of all
countries, the Japanese companies are the most ethnocentric in their
staffing policies. This phenomenon has been observed in Japanese sub-
sidiaries in both developed and undeveloped countries (Van der Merwe
and Van der Merwe, 1980; Negandhi and Baliga, 1979). Kobayashi (1975),
summarizing the results of a study of 90 Japanese multinations, states
that among the areas of management process, hiring and promotion of
locally-recruited employees is the least multinationalized. Since
senior positions in most Japanese overseas subsidiaries are filled by
Japanese nationals, it is not surprising that an unofficial ceiling on
promotion exists for the locally employed managers. Japanese and local
managers enjoy two basically different employment systems. They pursue

different career paths, enjoy different levels of job security, and receive different types of training (or no training) and different fringe benefits. In addition, Japanese managers have exclusive access to headquarter personnel—which is the locus of power, influence, and information. This problem is aggravated by the fact that, particularly in Japanese subsidiaries based in less-developed countries, there is no formal set of human resource management policies.

Low Level of Trust and Confidence in the Subordinates' Abilities

As mentioned before, the Japanese Management System is composed of highly interrelated elements, such as lifetime employment, infrequent and implicit performance evaluation, and consensus decision making. Lifetime employment is a necessary condition to create the high level of trust and confidence that exists in Japanese companies. Trustworthiness for the Japanese is a highly demanding quality. DeMente (1975) states that to the Japanese, a man in whom they can have Shingo (trust) is a man of honor who will do what is expected of him at whatever cost and situation. Trust is the result of a long-term, successful relationship in which both parties find fulfillment of mutual expectations. It is a relationship which takes years to develop.

In this context, it is easy to understand why Japanese managers are hesitant to extend trust to local managers whom they do not know on a personal basis. In addition, the Japanese expatriate managers tend to have a low level of confidence in the abilities of local managers and subordinates. This is manifested in close supervision, tight control, and overall low evaluation of their performance. Table 13 reports the

performance ratings of local managers by the Japanese superiors. Of
the total of 66 expatriates in the sample, none is highly satisfied with
the local managers, although about two thirds considered local managers
as satisfactory. These findings are supported by Sim's (1977) study of
Japanese MNCs in Malaysia; Putti and Chang's study of American and
Japanese subsidiaries in Singapore (1985); and Sterring and Everett's
(1984) study in South-East Asia. In a recent study of expatriate and
local upper- and middle-level managers of U.S.-based Japanese firms,
both groups were asked to evaluate the performance of their subordinates
and identify the subordinates' nationalities. The study found a strong
case of nationality bias; they rated the Japanese managers more favor-
ably than the American subordinates (Eshghi, 1985).

Summary and Conclusion

The results of a recent empirical study of Japanese manufacturing
subsidiaries in the Far East have been presented and comparison was
made with existing literature on the localization practices of Japanese
firms in the Far East countries. The dominant elements of the Japanese
management system are highly interrelated and mirror the Japanese cul-
ture and society to such an extent that they cannot be transferred to
other countries, including those in the Orient. The prevailing manage-
ment practice among Japanese subsidiaries in the Far East is a <u>Modified
Local System</u> which is highlighted by centralization of decision making
either at the headquarters or by the expatriate managers. There is a
ceiling on promotion and low level of trust and confidence in local
managers. Overall, the management approach is more similar to the local
practices in developing countries than the prevailing system in Japan.

The underlying causes for the observed pattern are several. First, the Japanese MNCs are relatively inexperienced in their foreign operations and the major control mechanism is through expatriate managers. Further, the management practices at the headquarters of these companies are extremely culture bound and cannot be transferred to other countries. Local laws, shortages of skilled employees, and cultural attributes clearly restrict the applicability of practices such as lifetime employment and consensus style of decision making.

The above discussion is not meant to undermine the success of Japanese firms. However, recent studies indicate that some rather neglected aspects of Japanese production management, such as the just-in-time inventory system, attention to quality and detail, and the discipline at the shop floor are major determinants of the Japanese success story. These elements are frequently transferred to their foreign operations.

Table 1

Age of the Local Managers

Age Group	#	%
20-24	1	1.3
25-29	8	10.4
30-34	21	27.3
35-39	20	26.0
40-49	21	27.3
50-60	5	6.5
>60	1	1.3
TOTAL	77	100%

Table 2

Level of Education of Local Managers

	#	%
High School	5	6.5
0 Level	7	9.1
A Level	13	16.9
University	36	46.8
Technical College	11	14.3
Post-Graduate	5	6.5
TOTAL	77	100%

Table 3

Years with the Company for Local Managers

	#	%
< 1	1	1.3
1-2	11	14.3
3-4	14	18.2
5-6	18	23.4
7-8	7	9.1
9-10	6	7.8
> 10	20	26.0
TOTAL	77	100%

Table 4

Years of Experience in the Present
Position for Local Managers

	#	%
1-2 years	24	31.2
3-5 years	31	40.3
6-10 years	17	22.1
> 10	5	6.5
TOTAL	77	100%

Table 5

University Specialization of Local Managers

	#	%
Economics	2	2.6
Physical Sciences	1	1.3
Engineering	13	16.9
Social Sciences	6	7.8
Management & Business Administration	21	27.6
Other	10	13.0
Missing	24	31.2
TOTAL	77	100%

Table 6

Japanese Managers' Perceptions of Degree of Influence of Headquarters in Subsidiary Decision Making

	No to Little Influence	Medium Influence % of Total	High to Very High Influence
Corporate Planning	25.81	29.03	45.16
Budgeting	29.51	31.15	39.34
Appointment of CEO in Subsidiary	35.49	16.13	48.39
Recruitment of Managers with Special Skills	70.00	20.00	10.00
Use of Japanese Managers	12.90	12.90	74.19
Selection of Locals for Executive Training	74.58	16.95	8.47
Setting Salary Levels for Locals	74.58	18.64	6.77
Fringe Benefits for Locals	76.67	15.00	8.33
Promotion of Local Managers	69.49	15.25	15.25
Promotion of Japanese Managers	10.00	13.33	76.67
Dismissal of Local Managers	68.97	15.52	15.52
Dismissal of Japanese Managers	5.17	15.52	79.31
Layoff of Personnel	56.37	18.18	25.45
Allocations of Resources for Training	60.34	29.31	10.34
Training Policy	62.71	25.42	10.17

Table 7

Japanese Managers' Perception of
Subsidiary Influence in Decision Making

	No to Little Influence	Medium Influence % of Total	High to Very High Influence
Corporate Planning	21.87	23.53	54.90
Budgeting	13.72	23.53	62.74
Appointment of CEO in Subsidiary	40.84	18.37	40.82
Recruitment of Managers with Special Skills	11.80	19.61	68.63
Use of Japanese Managers	34.00	24.00	42.00
Selection of Locals for Executive Training	12.70	10.91	76.36
Setting Salary Levels for Locals	12.73	7.27	80.00
Fringe Benefits for Locals	12.72	9.09	78.19
Promotion of Local Managers	12.97	7.41	79.63
Promotion of Japanese Managers	46.30	22.22	31.48
Dismissal of Local Managers	12.96	11.11	75.92
Dismissal of Japanese Managers	40.74	20.37	38.89
Layoff of Personnel	11.54	13.46	75.00
Allocations of Resources for Training	13.47	9.62	76.92
Training Policy	9.62	11.54	78.84

Table 8

Local Manager's Perception of
Local Manager's Involvement in Decision Making

	No to Little Influence	Medium Influence % of Total	High to Very High Influence
Corporate Planning	14.60	38.67	46.67
Budgeting	34.21	21.05	44.74
Recruitment of Top Managers	27.02	14.86	58.10
Recruitment of Managers with Special Skills	29.72	18.92	51.35
Recruitment of Junior Managers	41.89	24.32	33.78
Junior Managers Training Program	52.70	20.27	27.03
Setting Salary Levels for Local Managers	17.10	26.32	56.58
Setting Performance Standards for Top Managers	21.92	8.22	69.86
Setting Performance Standards for Supervisory Managers	21.92	13.70	64.39
Setting Performance Standards for Junior Managers	28.77	19.18	52.06
Promotion of Middle and Junior Managers	22.37	26.32	51.32
Dismissal of Middle and Junior Managers	10.86	16.44	50.69
TOTAL	77		

Table 9

Degree of Difficulty in Implementation
of Decision Made by Headquarters

	Major Difficulty	Some Difficulty	Minor or No Difficulty
Budgeting	12.91	41.94	43.65
Recruitment of Top & Middle Managers	27.12	28.81	44.07
Training Policy	13.12	31.15	50.82
Salary Levels of Local Managers	26.67	23.33	50.00
Fringe Benefits for Local Managers	24.14	23.33	51.66
Promotion & Dismissal of Managers		24.14	51.73
TOTAL	65		

*The top two and the last two categories of the questionnaire were
 collapsed to one category.

Table 10

Highest Rank Attainable for Locals

Category Label	#	%
Managing Director	7	9.1
General Manager	28	36.4
Division Manager	13	16.9
Finance Manager	1	1.3
Marketing Manager	3	3.9
Production Manager	10	13.0
Other Functional Area Managers	9	11.7
Missing	6	7.8
TOTAL	77	

Table 11
Chances of Attaining Career Aspirations in the Present Company

Category Label	#	%
Most Likely	15	19.5
Quite Likely	27	35.1
Some Chance	20	26.0
Quite Unlikely	11	14.3
Very Unlikely	3	3.9
Missing	1	1.3
TOTAL	77	

Table 12
Chances of Attaining Career Aspirations Outside the Present Company

Category Label	#	%
Much Better Chance	8	10.4
Better Chance	20	26.0
About the Same	32	41.6
Less Chance	11	14.1
Little or No Chance	3	3.9
Missing	3	3.9
TOTAL	77	

Table 13
Overall Performance of Local Managers Rated by Japanese Managers

Category Label	#	%
Very Unsatisfied	1	1.5
Not Satisfied	15	23.1
Okay	23	35.4
Satisfied	16	24.6
Very Satisfied	0	0
Missing	10	15.4
TOTAL	65	

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