

How Can Japanese Companies Realize New Global Strategies?

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1. Introduction

Japanese companies between the late 1980s and early 1990s became regarded as excellent companies, as a result of their continued expansion and management excellence which contributed so much to the economic success of Japan during this period. Since that time however, these companies and the Japanese economy has not fared so well, some have said that this relates to underlying problems in the Japanese style of management and business systems, which have laid hidden and which have now crystallised into the problems we see today. In addition to this, the rapid advance of technology, particularly in the software and IT field, has contributed to the erosion of the competitive edge of Japanese companies, and has had an immense impact upon them and the whole of the Japanese economy. If Japanese companies are to return to their former economic glory, then Japanese companies of the future must become truly global in outlook and catch up with and master the technological advancement which will be so fundamental to organisations success in the new millennium. To be an effective competitor in this brave new world, global companies must build a new type of global strategic management in order to cope with a global environment which we will refer to as mega-competition.

Thus, the successful 21st century company will of necessity be completely different to that which existed and thrived in the 80s and 90s.

In this paper, we will draw from our recent research to consider what such new global companies might look like if they are to be successful.

1.1 Changing Global Business

If we examine companies operating in the 90s in the global economy, we must discuss such issues as; how many countries such companies operated in, their strategy on coping with differing national and regional laws, such as that relating to “local content”, their strategies for coping with differences of economic growth among countries, and the associated problems of fluctuation in exchange rates and inflation; and how such companies were able to adapt to local market conditions.

However, the business environment has been continually and rapidly changing, and this pace of change has been developing added momentum which has had a substantial impact on Japanese companies. In this rapidly changing environment, Japanese companies like many others have been trying to find a balance between the requirements of adaptability and efficiency, which many commentators now consider to date have been mutually exclusive goals. Foreign direct investment (FDI) by Japanese companies had decreased for two years since the bursting bubble economy, but it has recently shown an upward trend. However, the nature of this FDI is substantially different to that which went before. Many Japanese companies have been forced to abandon their “one-set” type of globalisation, in which one company takes their partners and builds the same production-sales system in each overseas market. Thus, the old type of Japanese “efficient” globalisation has been sacrificed in the name of adaptability.

Secondly, global competition is in a state of continual flux. US, and European companies, which had lost their global competitiveness in the 80s, have regained some of their lost ground in the 90s through immense re-structuring and re-engineering. In addition, there is the impact of

companies from the emerging tiger economies of the Pacific Rim, such as companies from Taiwan and Hong Kong, this despite the recent set backs in the region, which serve to highlight even more this continued state of flux. As a consequence therefore, the international competitive edge of Japanese companies in relative terms has been decreasing. In order to survive and grow in the 21st century in the global economy, it will be necessary for Japanese companies to fundamentally rethink their strategic behaviour.

A third problem which Japanese companies face is that at the same time as the massive increased competition as a result of globalisation, the home market is also being subjected to substantial change in terms of extensive deregulation. In recent years, many foreign companies have looked to expand into the Japanese home market, particularly in the financial sector. As a result of the financial “big bang”, Japanese financial markets are opening up to foreign competition and Japanese finance houses are having to compete with new foreign competition in their (the Japanese finance houses) home market on almost an equal footing.

1.2 Global Management Standard

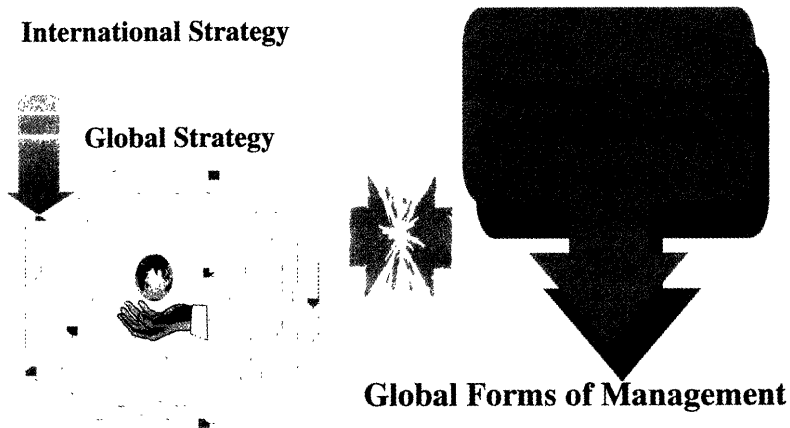
We must perhaps therefore re-consider the international business development and international strategies of Japanese companies in the future. In the past, Japanese companies globalisation has been on a country by country basis and has never been on a truly “global” basis, until perhaps now. In the past Japanese companies internationalisation strategy has been completely controlled and directed from head office, this has had the effect of often extremely strong head office autocratic management for local Japanese companies who, as a result, have been forced to wait for advice and instructions from head office. To achieve a step change in performance and become truly global, Japanese organisations need to throw off the old mode of operating and must

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behave very differently to the ways of the past. Whilst the traditional Japanese management style is considered logical and is well understood in Japan, when Japanese companies internationalise this apparent logic can fly against local country level management styles and customs to the extent that major barriers to adopting the apparent Japanese management logic and philosophy can inhibit an organisation's ability to internationalise.

To move forward successfully in the new millennium, particularly after the recent continuing recession, Japanese management must change their management style particularly when attempting to globalise.

Figure. 1 Transform of Global Strategy of Japanese Companies



1.3 The Tide of Globalisation towards a Global Standard

There are common problems to be addressed by Japanese companies in achieving a standard globalisation strategy, that works for them and Japanese organisations have adopted a number of different approaches in their drive towards achieving a truly global organisation. Based on our research, we will now consider the different forms this globalisation takes

in practice:

The first common factor which can be evidenced is the move towards the standardisation of accounting and of the standardisation of the capital markets. This is evidenced by increased liberalisation and internationalisation of the Japanese capital markets, with particular emphasis on the banking and finance system. As a result of extensive proposed financial de-regulation in the Japanese financial systems and markets, Japanese companies must as a result re-examine their financial reporting strategies, in order for them to conform to internationally recognised accounting standards, for example, how to account for Japanese companies large debts in their financial statements. When accepted on a foreign stock exchange companies must comply both with IAS (International Accounting Standards) and the local stock market regulations eg. London, New York, Chicago etc. This will require a change in current reporting practice in Japan. At the current time, Japanese companies are not obliged under Japanese financial legislation to consolidate group and associated companies however, under internationally recognised standards they will be required to do this and they have until the year 2001 to comply.

In addition to the drive towards adopting common international standards in the financial arena, there is a similar drive towards the adoption of common standards for production distribution and logistics. Further evidence of this drive towards the adoption of common international standards is indicated by the number of Japanese companies who have and who are currently implementing ISO 9000 and ISO 14000 in their manufacturing facilities, this despite the fact that these manufacturing facilities have in the past won international acclaim for their quality, productivity and performance. The result of this drive towards adopting international standards has meant that Japanese companies have found it necessary to develop new interpretations to a number of important issues, eg. productivity in the past has been solely

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related to the volume of output verses the resources input to the process however, the international standards require that Japanese companies must now consider additional factors, such as those of a social and environmental nature.

In order to achieve the step change in performance that is required in the new world of globalisation, Japanese companies will have to break through the traditional homogeneous character of Japanese management in order to achieve the levels of flexibility, local autonomy, speed of action and performance that will be required.

Japanese markets have in the past been considered as closed by foreign companies and a major portion of this criticism in this regard has been levelled at the Japanese distribution system, which some foreign competitors have criticised on the grounds that they have via custom, practice and regulations tended to exclude their international competitors, thereby acting as an “unofficial” barrier to entry. The increased trend towards globalisation has meant that in order to take advantage of the free trade opportunities that globalisation presents to Japanese companies, that the Japanese government has been forced to open local markets to foreign competition, which have in the past been considered by some to be closed, perhaps if those who assert that there have in the past been barriers to entry are correct, for the first time.

An opportunity to gain a competitive advantage over competitors exists for those companies who are able to have their own products and internal standards adopted as the defacto international standard. Japanese companies have historically proven themselves to be very adept at achieving competitive advantage in products such as VHS, CD and MD but not as yet via the potentially more advantageous route of setting the international standards themselves.

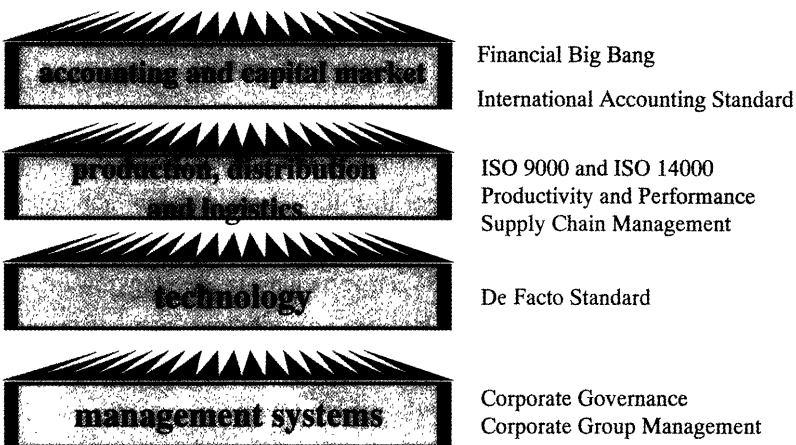
For example, in the IT industry if organisations are not the not technological leaders who participate in setting the international standards,

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then they are at a potential technological competitive disadvantage. Thus the adoption of a companies technological standards becomes a critical goal to achieving not just a competitive advantage, but a long term competitive barrier against their competitors.

In the past, Japanese companies have had the luxury that, to a large extent, their management was not burdened by extensive corporate governance, regulations and legislation as compared to their Western competitors. However, as a result of the drive towards globalisation and the adoption of international standards and the necessity for some Japanese companies to be quoted on foreign stock exchanges, the adoption of different definitions and interpretation of corporate governance from both North America and the EU has resulted in a substantial change for management in this area, than has been the case in the past. This therefore requires Japanese management to re-define their duties and obligations in relation to corporate governance, if they wish to internationalise on a level with their competitors, (as opposed to attempting to globalise and being considered by their international

Figure. 2 Tides of Global Standard



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competitors as competing unfairly as a result of their historically poor corporate governance behaviour). In addition, in the future, the issue of corporate governance will not just be a head office issue (as was the case in the past). In the future it will be necessary for Japanese management to also consider corporate governance at a local national level (eg. the existence of works councils in Europe as a result of EU legislation, which even the UK now looks set to adopt).

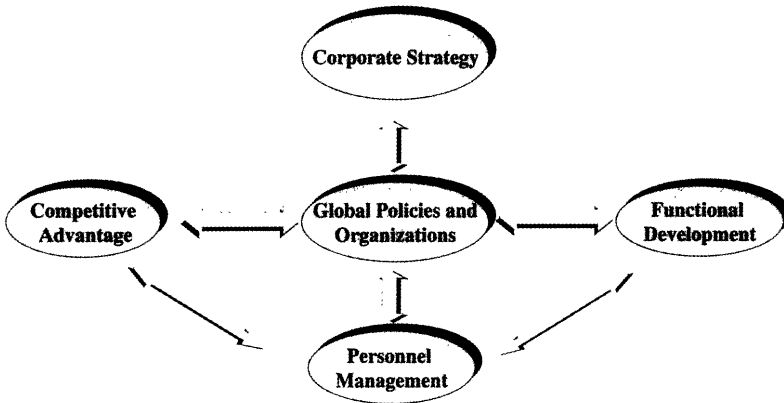
In the light of the above, we will now consider the following questions which have been the subject of a research project into 200 companies funded by the JMA.

- 1) What are the environmental characteristics that Japanese companies are facing in their attempt to globalise.
- 2) Given the above environmental conditions, how do Japanese companies set about constructing their global management systems.
- 3) Given (1) and (2) above, how will Japanese companies develop in the next millennium to be truly “global” companies in an environment which is increasingly more competitive and which will force them to adopt more alien (non Japanese) management practices.
- 4) Given the extraordinary challenges that face Japanese companies in the future and given that a major part of their success will depend on their management’s and work-force’s ability to learn, how do they construct a Human Resource system that will enable them to learn and develop in ways that they have hitherto not found possible. There has been much written in the academic literature recently about the need for organisations to develop towards a “learning company” and Japanese organisations more than any other need to achieve this goal if they are to maintain their competitive edge in the future.

2. Analytical Framework

The Global business development of firms should not be analysed only in terms of global strategies. It should be examined in terms of other complementary factors, such as corporate strategy, organisational strategy, competitive advantage, personnel management, and the interaction between them. This paper will discuss the globalisation of Japanese firms, with respect to five critical factors. 1) Corporate strategy, 2) Functional development on overseas businesses, 3) Competitive advantage in global markets, 4) Personnel strategies and personnel management systems, 5) Strategic policies and organisations for developing overseas business (see F-3).

Figure. 3 Analytical Framework of Global Strategic Behavior



2.1 Analytical Factors

The first factor, “corporate strategy” relates to the basic policies for achieving an organisation’s corporate vision. It represents the central feature which guides corporate behaviour. If an organisation’s global strategy is not related to its corporate strategy, there is the opportunity for

dysfunction and global business development cannot be achieved without substantial problems. In our questionnaire, we asked Japanese companies what strategic issues were important to them in surviving and overcoming the present severe business environments.

A second factor is the “functional development of overseas businesses.” This question relates to how companies operate their overseas business from a functional perspective. The forms of functional transfer differs from firm to firm, corresponding to the phase of global business development of each company, adding to corporate strategies, organisational structure, business structure, management structure and competitive structure of each company. In the questionnaire, we asked the companies how they developed functions such as production, sales & distribution, procurement, R&D and, how and why they utilised external resources where appropriate.

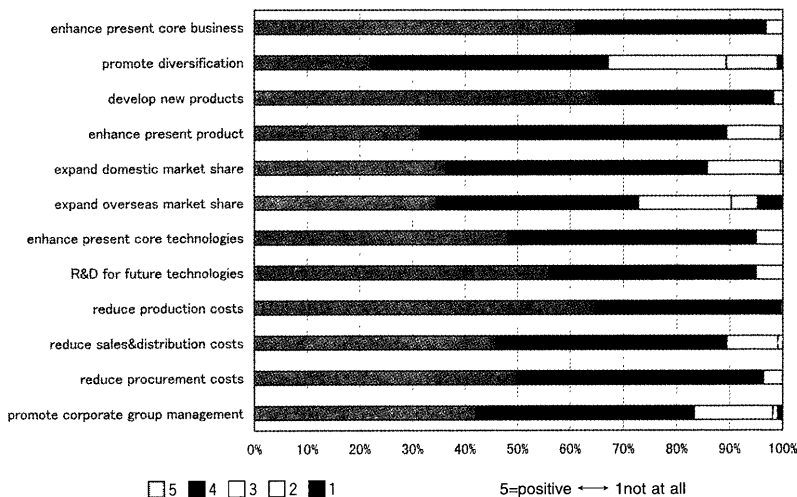
A third factor is the issue of “global competitive advantage.” It can be difficult to establish what the precise core competence of each company is. Therefore, we asked the companies in the questionnaire, which aspects they evaluated in overseas markets, to enable them elaborate on what they considered their core competence to be.

A fourth factor, “personnel strategies and personnel management systems” relates to strategies adopted when operating overseas. To date, many researchers have conducted research into the global personnel strategies of Japanese firms. However, most of this research is concerned with the transferability of the “Japanese style” of management to its overseas subsidiaries and on particular shop floor level management techniques.

The purpose of our research project, taken as a whole, is to identify whether in fact the emergence of a new global management strategy can be identified. Changing personnel strategies and management systems are inevitable in moving from the “Introverted Japanese Management Style.”

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Figure. 4 Corporate Strategies



their market share.

Figure. 5 Factor Analysis of Corporate Strategies

	first factor	second factor	third factor
	Reducing Costs	Enhancing Domestic Core Business	Developing New Technologies
enhance present core business	0.125	0.690	0.000
promote diversification	0.201	-0.220	0.576
develop new products	0.000	0.314	0.504
enhance present products	0.249	0.429	0.000
expand domestic market share	0.000	0.713	-0.107
expand overseas market share	0.111	0.531	0.358
enhance present core technologies	0.305	0.552	0.251
R&D for future technologies	0.000	0.000	0.823
reduce production costs	0.796	0.160	0.000
reduce sales & distributin costs	0.761	0.000	0.18
reduce procurement costs	0.774	0.228	0.000
promote corporate management	0.134	0.264	0.541

3.2 Functional Development for Overseas Business

Figure.6 indicates the overview of functional development on overseas businesses. Although, more than 50% of the companies positively developed a production base, sales & distribution base, and an

The question that arises however, is what the new “organisational form” will look like? Hence, we must focus mainly on middle management, who are key factors and catalysts in strategic management and the development of the new “organisational form”. Because this paper is a first step of a larger research project, we will not deal with these matters in detail here and leave this until the next stage of the research has been completed.

The last factor is “strategic policies and organisations for developing overseas businesses.” This refers to the organisational and decision making systems among Head Quarters (HQ) and subsidiaries in promoting global businesses. We asked the companies in our questionnaire, how they adapted to the local markets, how they structured their functions and authority systems, and how they structured the flow of information for global business development¹⁾.

3. Overviews of the Globalisation of Japanese Firms

In this section, we will analyse five factors mentioned above, based on the data²⁾.

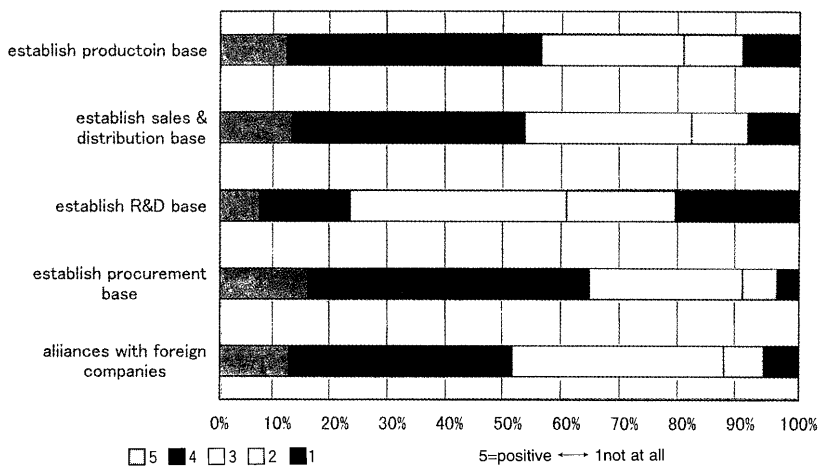
3.1 Corporate Strategies

As figure.4 illustrates, many Japanese companies progressed their business through enhancing their present core business and reducing costs (see figure.4). It can be said that these corporate strategies are in fact closely related to the long-term recession in Japan. On the other hand, “R &D for new products” and “R&D for future technologies” also gained higher scores. From this, we identified a new trend, in that Japanese companies are focusing much more on their profitability, rather than on

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- 1) The questionnaire was designed based on the discussion by Batlett, C.A., S. Goshal, (1989) “Managing Across Borders,” Harvard Business Press.
 - 2) In this paper, we do not analyze from the viewpoint of corporate size and types of industries, which can be considered an important factor for analyzing of global business development. In a next paper, we will discuss these subjects.

overseas procurement base, it was apparent that only 20% of the companies developed R&D facilities overseas. This result demonstrates that the internationalisation of R&D development facilities of Japanese companies is not yet that advanced. However, since a majority of the companies are allied with a foreign company, strategic alliances of this nature can be seen to be an important factor in the global strategy of Japanese companies.

Figure. 6 Functional Development for Developing Overseas Business



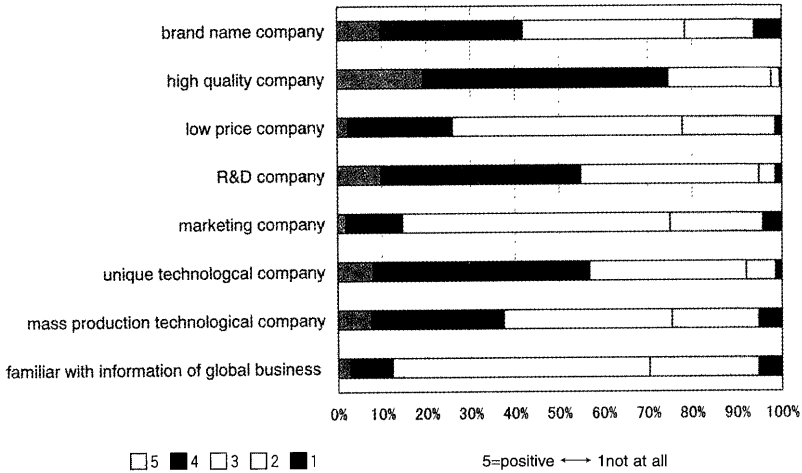
3.3 Global Competitive Advantages

In figure 7, the current situation of “global competitive advantages” is revealed. Most Japanese companies recognise quality of products or unique technologies as their strength, rather than mass production technologies (see figure 7).

Common factors among global competitive advantages was searched for using factor analysis (see figure 8). As a result of this analysis, global competitive advantage can be explained by two factors; global competitive advantage based on “mass production and low price,” and global

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Figure. 7 Global Competitive Advantages



competitive advantage based on “unique technologies.”

Figure. 8 Factor Analysis of Global Competitive Advantages

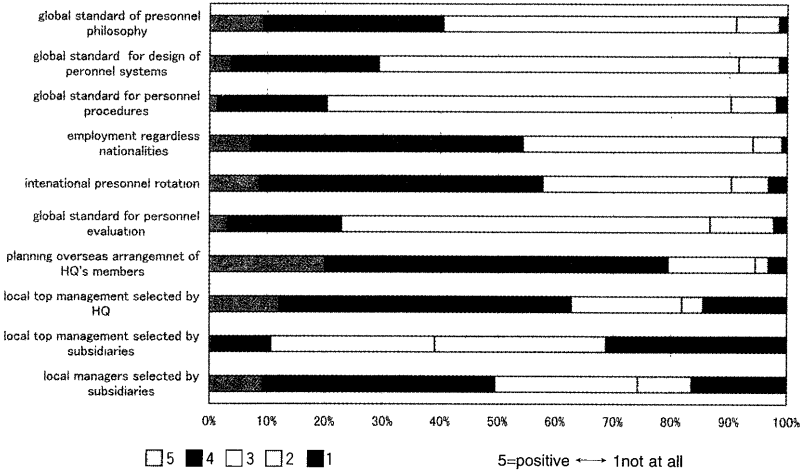
	first factor mass production and low price	second factor high quality and unique technologies
brand name company	0.467	0.481
high quality compay	0.295	0.790
low price company	0.719	0.000
R&D company	0.256	0.786
marketing company	0.792	0.206
unique technological company	0.000	0.869
mass production technological company	0.740	0.118
familiar with information of global business	0.648	0.301

3.4 Global Personnel Strategy and Management Systems

From figure 9 which relates to personnel strategies and management systems, we can see that few companies consider global standardisation

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Figure. 9 Global Personnel Strategies and Management Systems



important (see figure 9). And ever fewer companies consider localisation of personnel strategies and management systems. By contrast, many

Figure. 10 Factor Analysis of Global Personnel

	first factor global standard of personnel strategies and management systems	second factor HQ controlling personnel management	third factor localization of personnel management
global standard of personnel philosophy	0.814	0.208	0.000
global standard for design of personnel systems	0.907	0.000	0.000
global standard of personnel procedures	0.785	0.000	-0.142
employment regardless nationalities	0.344	0.388	0.238
international personnel rotation	0.304	0.701	0.118
global standard for personnel evaluation	0.747	0.245	0.000
planning overseas arrangement of HQ's	0.182	0.796	0.000
local top management selected by HQ	0.000	0.812	0.000
local top management selected by subsidiaries	0.000	0.000	0.934
local managers selected by subsidiaries	0.000	0.539	0.641

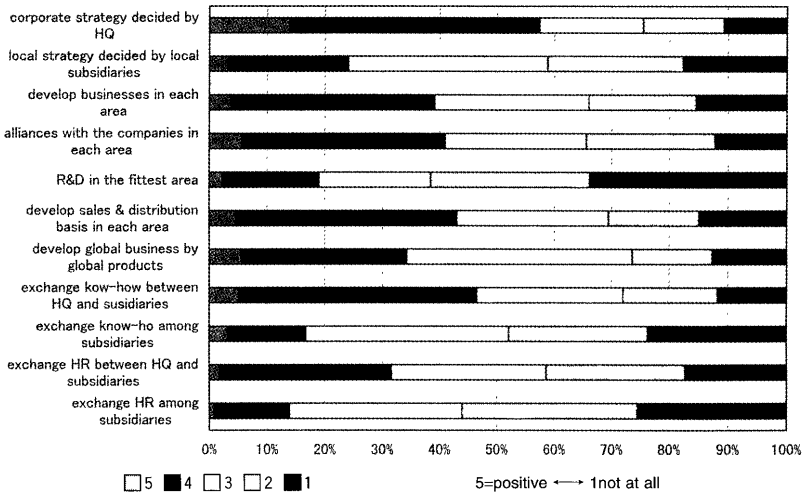
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companies considered that “to plan the overseas arrangement of HQ’s members” and the “selections of Top management of subsidiaries by HQ” was important. In addition, more than 50% of the companies considered that international personnel rotation was important. Clarification is however required on just how to and who will implement this international personnel rotation, as it is closely allied to and has an impact upon the information flows in the organisation.

Also, a common factor among global competitive advantage was examined by factor analysis (see figure 10). From this analysis, global personnel strategies and management systems can be explained by three factors; “global standardisation of personnel management,” “HQ controlling world-wide personnel systems,” and “localisation of personnel management.”

3.5 Strategic Policies and Organisations for Developing Overseas Business

Figure. 11 Global Policies and Organizations for Developing Overseas Business



The last factor is on strategic policies and organisations for developing overseas businesses. Figure 11 illustrates that many Japanese companies developed their global businesses with their HQ centered in Japan. A particular characteristic of Japanese companies used to be that technological know-how, and human resources flowed from HQ to subsidiaries in most Japanese companies.

In addition, factor analysis revealed the existence of common factors among strategic policies and organisations for developing overseas businesses (see figure.11). From this analysis, strategic policies and organisations for developing overseas business can be explained by two factors; global business development through “global interchange of human resources and know-how,” and “control by HQ.”

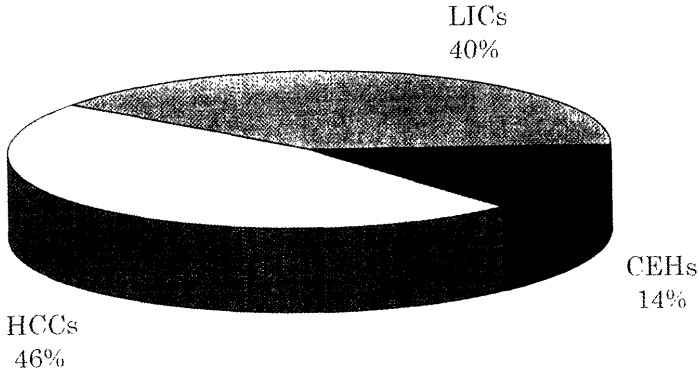
4. Analysis Based on Strategic Policies and Organisation for Developing Overseas Business

In this section, we will analyse the relevance among “strategic policies and organisations for developing overseas businesses” and the other four factors.

4.1 Classification of Globalisation

Firstly, we will categorise globalisation of Japanese firms into three types, by using two common factors that were established by factor analysis as detailed in section 3.5. The first group are those companies that developed their global businesses through exchanging human resources and know-how positively among global group companies. The second group are those where HQ does not control global businesses, but exchanges human resources and know-how among subsidiaries infrequently. The third group are those companies controlled by HQ, who exhibit the interchange of human resources and know-how among subsidiaries and are not strong in developing global business³⁾.

Figure. 12 Types of Globalisation



- companies exchanging human resources and know-how (CEHs)
- strong HQ control's companies (HCCs)
- less interchanging companies (LICs)

Thus, we will refer to the 3 categories as types of globalisation as follows:

- 1) Companies Exchanging human resources (HR) and know-how (CEHs),
- 2) Strong HQ Control's Companies (HCCs),
- 3) Less Interchanging Companies (LICs).

The ratio of each group to all samples is that CEHs is 14%, HCCs 46% and LICs 40%.

4.2 Analysis of Relevance among Factors

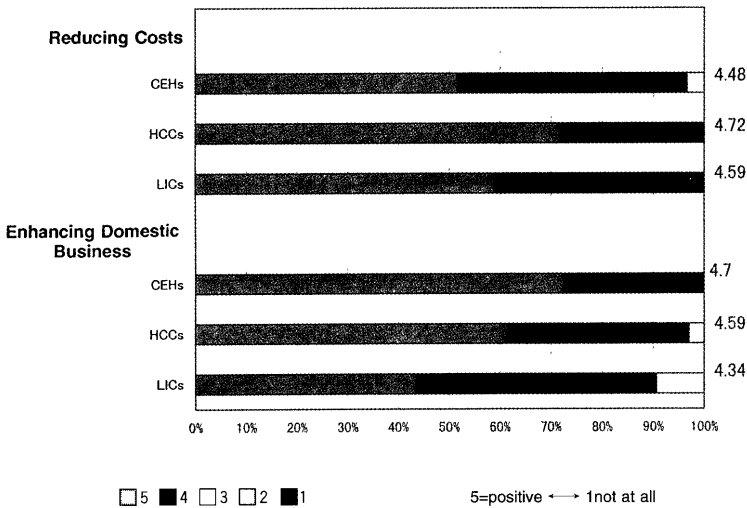
In this section, we will analyse the relevance amongst five factors, shown in the analytical framework (see figure.1).

- 3) In the analysis, we do not distinguish companies with only "exchanging HR and know-how" independently, but companies with both "exchanging HR and know-how" and "HQ controlling companies" are included in "0CEHs," because there are not many samples and, we can define globalization of these companies is advanced on overseas business.

4.2.1 Corporate Strategies

We discovered significant differences from the analysis of the relevance between types of globalisation and three common factors of corporate strategies; “reducing costs,” “enhancing the core businesses in domestic market,” and “developing new technologies.” That is to say, HCCs and LICs implement “cost reduction” strategies more positively than CEHs, and CEHs implement “enhancing core business in domestic market” strategy more effectively than HCCs and LICs (see figure.12).

Figure. 13 Relevance between Corporate Strategy and Types of Globalisation



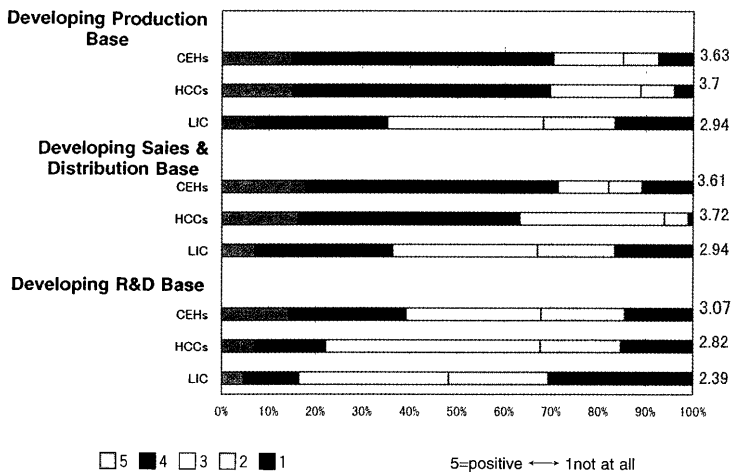
We can conclude the following from the data. At first, “reducing costs” strategy by HCCs was not necessarily focused on “enhancing the core businesses in the domestic market.” On the other hand, CEHs facilitated the exchange of HR and know-how among subsidiaries, not only in order to expand overseas business, but also to enhance their core business in the domestic market.

4.2.2 Functional Development for Overseas Business

Several significant differences were revealed between the analysis of the relevance between types of globalisation and two common factors of functional development of overseas business “developing overseas production bases,” and “developing overseas sales & distribution bases.”

From the data concerning the development of production bases and from the sales and distribution bases, HCCs are the most advanced and LICs are the least advanced. In addition, HCCs are the most advanced concerning R&D overseas bases, though it is not a statistically significant difference. The analysis indicated that HCCs are expanding overseas business more aggressively than CEHs and LICs.

Figure. 14 Functional Development and Globalisation

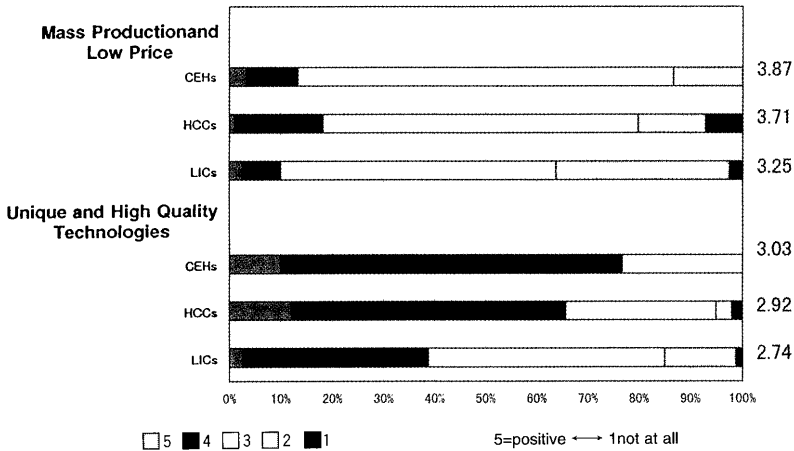


4.2.3 Competitive Advantage in Global Market

There are significant differences among factors of globalisation and two common factors of competitive advantage based on “mass production and low price,” and one based on “high quality and unique technologies.” From the fact that CEHs possesses competitive advantage in both cases, to

exchange human resources and know-how on a global basis is important, when companies are attempting to build a global competitive advantage.

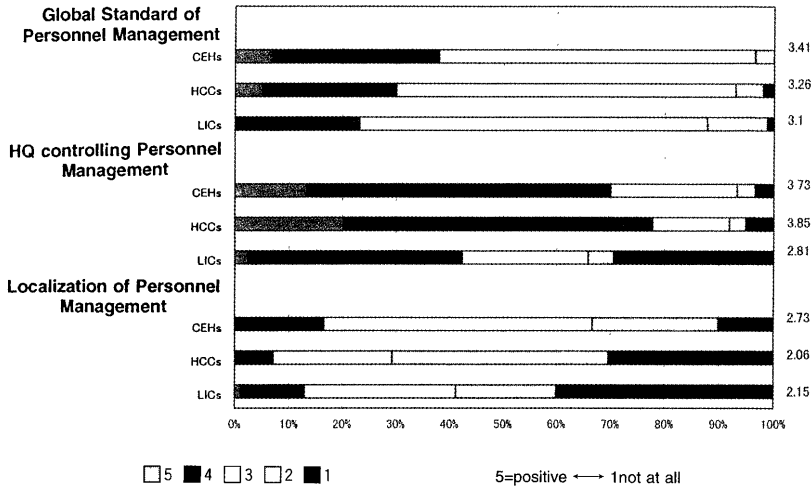
Figure. 15 Competitive Advantage and Types of Globalisation



4.2.4 Personnel Strategy and Systems in Globalisation

Finally, we will analyze the relevance between the types of globalisation and global personnel strategies and systems (see figure.15). There are significant differences between types of globalisation and the three common factors; that is to say, “global standardization of personnel management”, “HQ controlling personnel management,” and “localization of personnel management.” CEHs emphasize “global standardization of personnel management” and “localization of personnel management,” but HCCs do emphasise “HQ controlling personnel management.” Thus, global personnel strategies and management systems influence the corporate globalisation, and vice versa.

Figure. 16 Relevance between Personnel Management and Types of Globalisation



5. The Performance of Three Different Categories

From the previous work (section 4), it was apparent that when respondents companies globalisation strategies were examined they fell into one of three categories these being:

- 1) Companies which exchange human resources and know how (CEHs).
- 2) Those companies that exhibit the strongest form of control from headquarters and are therefore referred to as Head Quarter controlled companies (HCCs).
- 3) Those companies which exhibited less interchange between headquarters and subsidiaries and exercise a certain degree of operating autonomy from head-quarters (LIC).

In this paper we will consider the relationship between these three categories and organisational performance.

5.1. Turnover and Profitability

As a result of the factor analysis we conducted, we found that the larger companies (being defined as those companies whose sales are in excess of 200 billion yen) tended to exchange human resource and know how between operating subsidiaries more often than smaller companies.

In analysing profitability and turnover we assessed this from two perspectives, firstly increased profitability and turnover from Japan's

Figure. 17 The Performance of Three Categories (non-consolidated)

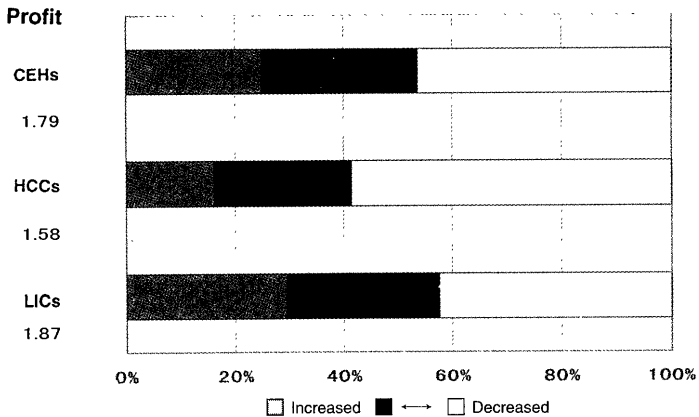
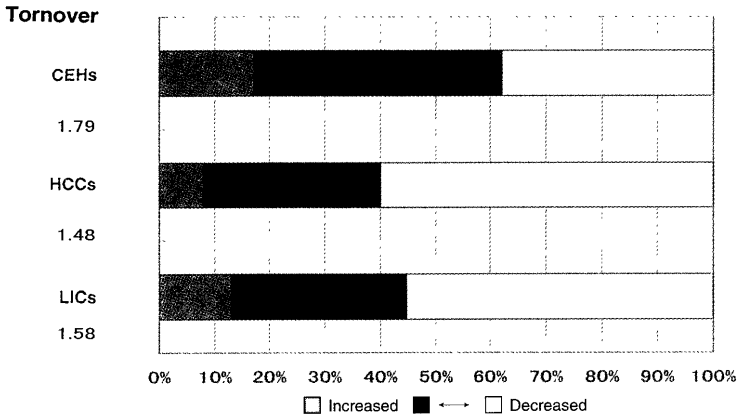
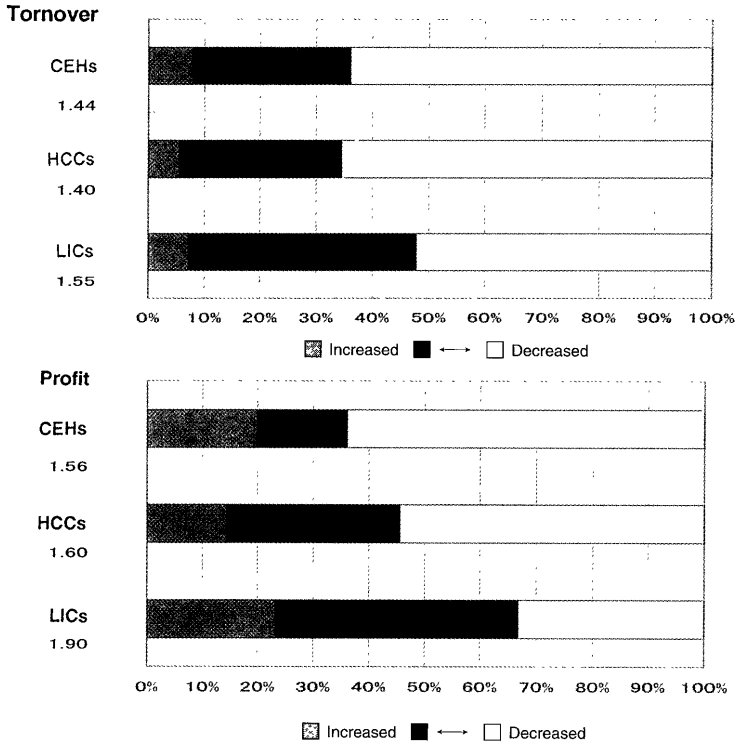


Figure. 18 The Performance of Three Categories (consolidated)



perspective (Japan Inc. – this would of course therefore include exports from Japan) and secondly increased profitability and turnover from a total business perspective (this will include Japan Inc. and will be the total sales and profitability world wide).

When we analysed the company’s performance over the last three years and overlaid this with the categorisation of each organisation’s management style, we discovered that organisations which fell into definition 3 were in fact the highest performers, in terms of increased turnover from Japan, but with only medium profitability and that they exhibited only a modest increase in turnover from a total company

Figure. 19 The Performance of Three Categories

Style of Global Management	Turnover		Profit		Competitive Advantage		Functional Development
	Non consolidate	Consolidate	Non consolidate	Consolidate	mass production and price	unique & high quality technology	numbers of overseas facilities
CEHs	H	M	M	L	H	H	M
HCCs	L	L	L	M	M	M	H
LICs	M	H	H	H	L	L	L

H:high M: medium L:low

perspective, whilst having the lowest profitability.

When we examined HCCs, we found that their increased turnover from both a Japan Inc. and total company perspective was the lowest, whilst profitability for Japan Inc. was also the lowest and world wide profitability was in the medium category.

Finally, when we examined LICs, we found that their increased turnover was medium from a Japan Inc. perspective, but from a total company perspective this was the highest. Whilst LICs scored the highest in profitability for both Japan Inc. and total company.

From the above analysis, we can conclude that LICs exhibited by far the largest increase in both turnover and profit when compared to companies in the other categories. HCCs on the other hand, exhibited the worst performance overall in that, out of four of the categories of increased turnover and profits, on only one occasion were they able to score better than lowest, (for total company sales), increased profit was in

the medium category. CEHs showed a mixed performance, scoring the highest in terms of increased turnover for Japan Inc. but were the lowest in terms of increases in company wide profitability.

It is clear from our analysis that LIC companies can be considered to be the most successful in terms of profitability and increased turnover however, the reasons for this apparent superior performance needs to be understood before an accurate assessment of the longer term outcome can be predicted with some certainty. From our earlier discussions we indicated that the globalisation of Japanese companies would take up to five years however, the performance we have highlighted in our analysis is only for a three year period and whilst Japanese companies globalisation is only a comparatively recent phenomenon, there has not been a sufficient time lapse for the true effects of globalisation to be evident. Therefore we predict that Japanese companies need more time to effect this step change in performance that globalisation will require and that in the near future a full analysis of performance may reveal the total picture. Thus although currently LICs which exhibit the highest profitability and increases in turnover appear to be the most successful companies. Once a fuller analysis is conducted and once the full effects of globalisation have had the opportunity to work through the Japanese companies, it is possible that they may not then be considered the most successful. The reasoning behind this is that as LICs they have most freedom of action in the short-term, in that they are more autonomous and have a greater degree of independence, this gives them freedom of action in the short-term but in the longer-term, they are subject to impositions from Head Office, which may not always be effective, head office in Japan having less local knowledge than non LIC companies.

5.2 Competitive Advantage

In our analysis of competitive advantage we categorised this into two

facets these being, mass production and low price and unique and high quality technologies. We found that CEHs exhibited the highest competitive advantage in both mass production low price and unique high technology areas. HCCs exhibited medium performance in each of these areas, whilst LICs exhibited the worst performance in that for both of the areas, mass production/low price and unique and high technology they scored the lowest. From this we can conclude that CEHs are likely to be more successful in the future, once the full process of globalisation has been effected, as they are then in a position to be make better use of their enhanced competitive advantage than their competitors.

The research showed that CEHs were only moderately developed in terms of developing production facilities, whilst HCCs were the most active in this regard. LICs on the other hand were less developed in this area than their competitors.

From the above summary and our earlier analyses, we can see that although LICs are currently the most profitable, CEHs have the highest level of competitive advantage and therefore in the longer term are more likely to be the “winners” than LICs. In addition, from our earlier analysis, we can see that CEHS are not only aggressively developing their overseas businesses, but also enhancing their domestic business through making the best use of performance and experience gained in overseas markets. Whilst admittedly HCCs are developing their overseas business activities like production and sales more aggressively than CEHs, nevertheless CEHs are building their global advantages more effectively than HCCS and this, allied to their superior competitive advantage would indicate that they will ultimately be more successful than their competitor categories either HCCs or LICs.

5.3 Towards a Global Standard

The above would therefore lead us to believe that in the longer term

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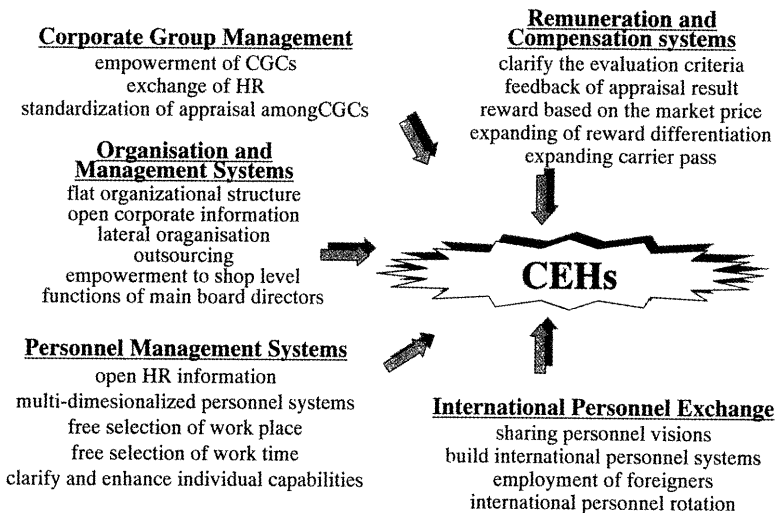
CEHs are likely to be the more successful in their efforts to truly globalise. The question therefore arises for both LICs and HCC companies as to how they can effect this transition to the CEH category in order to be able to become more effective global companies. We will now consider the key factors which facilitate the achievement of CEH functionality these being:

- 1) Corporate group management
- 2) Organisation and Management System
- 3) Personnel Management System.
- 4) Remuneration and compensation systems
- 5) International personnel exchange

From the perspective of corporate group management, CEH companies emphasises three factors, empowerment of corporate group companies, exchange of human resources between head-office and subsidiaries and the third element is designing and constructing an effective appraisal and motivational human resource development system. From the above analysis, we can conclude that Japanese companies should attempt to develop a “total company” view of the organisation which is in keeping with the spirit of globalisation, rather than as has been the case in the past, of them considering the organisation of being made of two facets, Japan Inc. and Rest of World.

CEHs also place great emphasis on achieving a flat organisational structure and promoting internal information exchange, both on a inter and intra company basis. Our research also found that in CEH companies the function of the main board directors (other than key officers like CEO and President) is much more enhanced than has traditionally been the case in Japanese companies and that such directors have substantially more influence and power than has been the case in the past. This is incidentally very much in keeping with the Western model of main board structure and responsibilities.

Figure. 19 Factors of Promoting CEH



CEH companies tend to outsource more functions than their competitors such as administration, personnel functions, even to the extent that some organisations have outsourced some of their operational functions (excluding their core competence). One further aspect relating to CEH companies is that our research found that CEH companies also exhibited a more “empowering style” of management in relation to their local employees, particularly in regard to their shop floor employees.

From the above items, we can conclude that CEH companies tend to share information amongst company members to a much greater degree than their competitors. From the perspective of the personnel management system, CEHs tends to emphasise the sharing of personnel information (such as performance levels, appraisal evaluations etc.) and multi-dimensionalised personnel system (in the sense that it is much more customised to individual employees needs, as compared to the more traditional Japanese style of ensuring that employees conform to company

norms). The incidence of variable working patterns (such as flexi-time and home working) is much more pronounced in CEH companies indeed, they positively encourage such innovative working practices.

In addition to having a more empowering style towards their employees, CEH companies extend this empowerment to the working conditions in permitting and encouraging their employees to decide on job rotation timetables themselves, rather than this being imposed by management.

Our research indicates that CEH companies tend to spend more time in identifying and developing and enhancing their employees individual capabilities.

In addition to the above areas where CEHs outperform the other two categories, we will now examine this from the perspective of appraisal, compensation and employee development. CEHs spend more time in clarifying the precise evaluation criteria (thus they spend more time identifying what a successful manager is and how that manager should be effectively rewarded, as compared to the more traditional *Nenkojoretsu* seniority system) in contrast to companies in the other categories. Furthermore, having established these criteria CEH companies spend much more time in evaluating the feed-back from such companies and adopt more innovative approaches to the evaluation process, by for example including 360 appraisals and expanding the principle of payment by results as compared to the more traditional Japanese rigid payment/promotion structure. Lastly CEH companies also tend to identify and invest resources in developing their potential “high fliers” at a much earlier stage, than companies in the other two categories.

6. Conclusion

From the above analysis we can conclude what the necessary factors are in order for a company to achieve and therefore be able to transfer its

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category from LIC and HCC to the CEH category. These are that the company must as a matter of priority promote and develop itself to encourage and facilitate the exchange of information and ideas at every level and location (both Japan Inc. and company wide). These items cannot, however, be adopted in isolation and must form part of a wider organisational philosophy which promotes fairness, openness, exchange of information and the development of all in the organisation, irrespective of educational background, nationality or location (clearly the exchange of information of itself will achieve little unless an organisational culture is developed in which all such information can be openly and honestly discussed without fear).

For the future, clearly though the companies in the HCC and LIC categories can improve their respective performance in the longer term by adopting some of the characteristics of the CEH companies those more advanced companies in the CEHs category are not likely to stop their development, and it is therefore imperative that all companies keep pace with the initial developments which are indicated from this research, so that they can keep abreast of and react to the developments that “best in class” and truly “world class” companies introduce as they struggle to globalise. The question of course then arises as to how CEH companies will develop, a question perhaps for future research to address?

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