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Japanese Management Strategies

Sándor Dobi

Keleti Károly Faculty of Economics, Budapest Tech
Népszínház u. 8, H-1081 Budapest, Hungary

Linda Bugár

Keleti Károly Faculty of Economics, Budapest Tech
Népszínház u. 8, H-1081 Budapest, Hungary
e-mail: bugar.linda@kgk.bmf.hu

Abstract: During the detailed researching work of the Kaizen based management practices of the most advanced Japanese companies, that is the best representatives of the Japanese industry, at certain phases occurs the need to have a look of a wider perspective embracing some aspects of the strategies and the external connections of these firms, especially the lean enterprises. The goal of this paper is giving a framework for the detailed researches investigating the Kaizen based activities within the companies with the help of general pictures on the 'Japanese way' and on the behaviour of the Japanese companies in the glorious fast growth period and then in the times of the serious crises and stagnation as an adaptation to the globalization process.

Keywords: Japanese company culture, Kaizen management philosophy, lean enterprise, corporate strategy, confrontation strategy, avoiding strategy, organizational learning

1 General Aspects

Japanese industrial enterprises began to import American management methods and practices from the second decade of the twentieth century. In the inter-war period, the most successful fibre spinning companies and the leading ship-building and electric machine companies in Japan successfully adopted the core principles of scientific management, represented especially by time and motion studies. It should be noted that not only did the most successful industrial enterprises learn much about American management methods such as the Taylor system, but they almost simultaneously developed indigenous Japanese management practices, such as lifetime employment and promotion by seniority.

In the two decades after World War II, feeling that Japan's defeat had been the result not only of America's technological superiority but of superior in management methods as well, Japan absorbed almost all the advanced management practices that were developed in the US. The establishment of the Japan Productivity Center (JPC) in 1954 reflected the growing interest in management and management education, and sparked a boom of interest in American management practices in Japan. In the 1950s and 1960s, almost all elements of American practices were eagerly absorbed. Some management practices, methods, and programmes were found to be very relevant and had important lasting effects. Yet even those most influential practices proved useful only after considerable modification. Some essential aspects of the so-called 'advanced scientific managerial approaches', such as using linear programming, decision sciences, mathematical models, and others, were hardly adopted at all in Japan.

Quality control, the most successful management practice transplanted to Japan, is a good example of how American methods were modified. American statistical quality control techniques, which were usually imposed from the top, with workers being required to implement procedures on the basis of manuals provided by head office, were completely transformed in Japan during the 1960s, into the total production control (TQC) techniques that came to be recognized as a unique development of the Japanese management system. TQC was based on measures worked out through discussions between managers and shop-floor employees, with a strong emphasis on input from the workers who would be responsible for carrying out the procedures, and on widespread agreement among all concerned.

Nippon Denso had already introduced statistical control techniques in 1950 when it was designated as a parts supplier for the United States Army. These practices were reinforced and enhanced by Nippon Denso's contract with Bosch, which led to the standardization of production management and parts procurement. In 1957, the company embraced total quality control and rationalized its systems of production, distribution, and management.

In 1961, Nippon Denso won the Deming Prize for outstanding quality control performance.

Although the Japan Productivity Center advocated efforts to increase productivity and improve business management, it was not a blind adherent of American practices. After a visit to the US and Europe, chairman of the JPC, proclaimed the aims and principles of the JPC, saying that efforts to raise productivity should be made using Japan's own practices as the base, and incorporating American ideas (efficiency) and European attitudes (humanity)".

In the postwar period, as in the pre-war era, institutions of higher education did not consider business management to be important enough for inclusion in their curricula. Only in the late 1970s were any faculties of business administration established at undergraduate level, after there had been earlier a cooling off of the

earlier acute interest in management. In the 1960s, many large Japanese firms had sent their young college graduates to join MBA programmes in the US, but this experience was found to be almost useless, because sophisticated American management theory and practice could not be applied in their original forms to Japanese shop-floor oriented management.

Throughout the 1970s, Japanese industrial firms overcame the two oil crises that hit the Japanese economy severely (through their efforts to rationalize and develop energy- and labour-saving innovations). In the mid-1980s, the consistent growth of Japanese firms, and in particular the resilient improvement in their international competitiveness, drew the attention of the world business community to Japanese business and management. This culminated with the amazing success of Toyota Motors in global markets.

As these brief historical observations show, Japanese management practices are not based on culturally dogmatic attitudes, but have evolved over time to become institutional arrangements.

Japanese management practices, together with labour management practices which are well known and documented, are two of the basic elements of Japanese industrial enterprises. Looking at Japanese enterprises from a historical perspective, one can make the following observations that will point out the contrasts with what are generally considered to be the characteristic features of enterprises in the United States.

First, as independent industrial firms, Japanese enterprises are not always large in size. They are less vertically integrated less diversified, and less multinational in character than their American counterparts. Among the two hundred largest industrial enterprises in Japan, only paper, rayon fibre, and petrochemicals are highly integrated, and in terms of diversification (strictly double-digit, non-related diversification in different industrial categories), quite a few companies can be found. As is well known, Japanese enterprises are the least multinational in the world.

The size of Japanese firms is significantly smaller than the size of firms in the United States. For example, in 1992 Toyota, the largest company in Japan, had 65,000 employees, producing 4.5 million vehicles a year, while General Motors had 750,000 employees who produced almost 8 million vehicles per year. On the other hand, almost all Japanese firms have extensive inter-company networks that form enterprise groups. Typically, most major companies that produce items such as machinery, automobiles, electric appliances, or other complex products, have a string of subcontractors. These subcontractors are usually smaller in size, and in turn have their own subcontractors.

Second, within the company the head office is relatively small, and neither greatly specialized nor stratified, though one result of the *bubble economy* has been a blurring of this aspect. Instead, Japanese companies have administrative offices at

factory level, with their own distinct managerial organization and a complete set of managerial functions. At times the size and complexity of the organizational structure of main factories rivals or even surpasses that of head office.

Much of the reason for this focus may be found in the existence of multifunction manufacturing sites. A basic definition of such factories is a production site with appended planning, design, development, and process-engineering capabilities, plus an ambition to accumulate, combine, and concentrate experience for the propagation and improvement of products and processes. Focal factories exploit opportunities for *intrafirm* economies of scope by amassing and reshaping organizational capabilities in the midst of integrating product design, process development, and manufacturing. Factories with such capabilities were not at all common before World War I, increasingly so during the inter-war era, and widely present since the high growth 1960s.

The Japanese enterprise as a system is based on “strategic interaction and alignment of three basic forms of organization—factory (shop floor), firm, and inter-firm network”.

Third, both in the head office and at the factory level, executives are salaried managers, promoted from within the company, and as a result the rate of turnover is extremely low. Almost all top executives are promoted from the ranks of middle managers who have had experience both at head office and the factory level. High levels of company-specific experience and know-how are coupled with in-house promotion and information exchange.

Fourth, demarcations between and within organizational boundaries are not rigidly fixed, so that a functional group at the factory (or laboratory) has the flexibility to perform the work of other groups. An engineer working in R&D at Factory A can take on work at the request of Factory B, without transfer payments or additional remuneration. It is not unusual for the head of production engineering at a major factory to be the factory manager at the same time.

From the logic of management theory such flexibility and duplication of function may lead to confusion, but because turnover is low, the volume of communication among managers is high, and employees are trained in general rather than specialized tasks, such difficulties are largely avoided. In addition, coordination at each level and between departments is often facilitated by a General Affairs Department, which frequently covers secretarial and legal affairs, and personnel functions—a seemingly unique Japanese solution.

Based on these fundamental organizational features, we can make the following observations about strategy and decision-making.

- 1 Japanese enterprises excel in manufacturing a full line of goods with ‘finetuning’ and in diversifying closely related products, but they are not always good at unrelated diversification.

- 2 Because of the emphasis on human resources at the factory or shop level, the momentum for decision-making comes from the middle or bottom, rather than from the top of the organization.
- 3 The high volume of communication and information within the company allows Japanese corporations to take full advantage of technological and market opportunities in their areas of specialization both in domestic and global markets.
- 4 The board of directors does not control management, but is rather controlled by management. The committee of senior executives whose members are career managers, is the locus of de facto decision-making. However, this committee does not actually assume the responsibility of dealing with decisions of high uncertainty. Its function is usually to select from among the policy alternatives proposed by middle management. This may be part of the reason why the compensation of Japanese executives is remarkably low by American standards.

Many so-called Japanese management practices could thus be considered as being derived from these basic features of the organizational structure of Japanese business enterprises.

Based on these observations, the failure of Japanese enterprises in the late 1980s and the early 1990s – the other so-called *bubble economy* – cannot always be attributed to faults in the basic Japanese management system itself, but the ‘mistaken approaches’ of some firms as they confronted ‘global standards’ such as *growth in the size of the firms, strategies of unrelated diversification, overseas investment, and financial operations*, which had not been customary for Japanese industrial enterprises. In other words, during the *bubble economy* Japanese enterprises had attempted to emulate the very different American type of organizational capabilities rather than enhancing their own organizational strengths.

Actually, most Japanese enterprises are now beginning to recover their international competitiveness through rationalization, reducing the number of employees, and retrenching out of diversified business and speculative overseas operations. It is worth noting that quite a few companies, such as Toyota, Honda, Sony, Matsushita, Fuji Film, Bridgestone, and others, are now successfully regaining international organizational capability as well as competence. By contrast, many firms, including most of the financial corporations which over-expanded their operations under the umbrella of government protection, are now struggling to survive.

2 Strategies in the Fast Growth Period

Two factors help to explain the early adoption of confrontation strategy in Japan: the emergence of the lean enterprise and the role that it played in shaping competition in the Japanese economy, and the existence of mechanisms for rapid technology diffusion that make it virtually impossible for firms to develop a sustainable technological advantage among competitors.

The origins of the lean enterprise lie in the Japanese automobile industry, which was subjected to severe capital rationing during the early 1950s and was too small to support mass production.

Thus, while American and European firms were well financed and produced vehicles in high volumes using a great deal of expensive equipment, the Japanese industry was forced to find ways to produce automobiles in small volumes using far less equipment. Toyota was the first to solve the capital scarcity problem by reducing set-up times from days to minutes. The reduced set-up times allowed the company to mass produce automobiles on a limited number of presses. Once set-up times could be measured in minutes, small-batch production became economically feasible. However, small-batch production created other problems, or, as it turned out, opportunities.

The small batch sizes led naturally to reduced parts inventories, which led to two additional innovations. First, while Western firms could simply scrap a defective batch and pull another one from their large parts inventories, Toyota was forced to run another batch. This frequently brought the assembly line to a halt until the part was available. As a result, there was great pressure to improve quality and reduce the number of defective parts produced. Thus, the attention to quality, a critical part of the lean enterprise, emerged naturally, culminating in the introduction of total quality management (TQM) and zero defects (ZD) programs.

Clearly, reducing defects to the required level demanded an extremely skilled and highly motivated workforce. The Japanese tradition of lifetime employment contracts made Toyota's management more than willing to invest in its workforce. This willingness coupled with a key aspect of Japanese culture – the unwillingness of the Japanese worker to “accept something for nothing” – led to the second innovation, effective employee empowerment programs. Because the unions felt they had to find ways to “give something back” to Toyota when demanding higher wages, the firm was able to tie compensation to performance evaluation through bonuses. ZD programs provided the mechanisms for employees to give something back in return for higher wages. Successful employee empowerment was crucial to the success of the TQM, ZD, and other programs that enabled the lean enterprise to emerge.

Because the new production system could not cope with either large surges or troughs in total demand or abrupt shifts in demand among products that utilized

different equipment, the dealers (and eventually customers) were drawn into the organization, and the customer orientation that is a hallmark of the lean enterprise came into being. The dealers' role was expanded to include active management of sales volumes. Dealers would exert considerable additional effort to sell cars in slump periods. To reduce swings in sales demand, it became important to produce products that satisfied the customer. Thus, knowing customer preferences became critical. The important point is that setting out to satisfy customers did not lead to the lean enterprise. Rather, the pressure to satisfy the customer emerged naturally as part of the lean enterprise.

Other elements of lean production evolved either through the constraints placed on the Japanese automobile industry or through the outcome of the adoption of JIT and TQM. From start to finish, the evolution of the lean enterprise was rapid; within ten years, it had become the dominant organizational form for the Japanese automobile industry. As other manufacturers discovered that lean producers could manufacture products in lower volumes more quickly and with higher quality than mass producers and then pass the savings on to customers through lower prices, the lean enterprise spread to other sectors, including service sectors, of the Japanese economy. The gradual spread of the lean enterprise throughout the world suggests that in many sectors of the economy it is becoming the dominant organizational form and will presumably replace mass production to approximately the same extent that mass production replaced craft production.

It was the emergence of the lean enterprise that shaped the competitive environment in Japan. Instead of accepting quality levels that had defects in the parts per hundreds, firms began to compete on quality levels that were measured in the parts per thousands and then per millions. As quality and JIT programs reduced costs, prices began to fall and thus became a critical competitive issue.

Japanese customers reacted to these improvements in quality, price, and functionality by aggressively demanding more. These demands caused Japanese firms to become engaged in an intense competitive battle. The existence of four to six equivalent competitors has shifted the power to the customer. To keep their customers satisfied Japanese firms were forced to match each of their competitors' moves, making the confrontation strategy an exhausting treadmill of continuous product development.

There are six mechanisms the lean enterprise system and Japanese society as a whole that ensure the efficient transfer of technology between competitors and thus make it difficult, if not impossible, to create sustainable competitive advantages through technology. Some mechanisms work only when the Japanese industry is developing and foreign competition is seen as a greater threat than domestic competition. These mechanisms involve direct information sharing among Japanese competitors, and as Japanese firms gain global dominance, they usually lose their effectiveness.

2.1 Multifunctional Teams

In the lean enterprise, new product development is undertaken by large, multifunctional teams. These teams are made up of representatives internally from engineering, production, marketing, and externally from suppliers and subcontractors. Although they play an important role in designing products that satisfy customer requirements, the teams tend to create their own barriers to extreme innovation. Before a new concept can be implemented, it must first be accepted by the design team. Natural conservatism makes it difficult for extreme innovations to be accepted, and therefore, incremental changes tend to dominate. Four forces cause these incremental changes to be similar among competitors. First, each firm in the industry is trying to satisfy the same set of customers. Second, the engineers who drive the design process have similar educational backgrounds and therefore tend to solve problems in similar ways. Third, using tear down and other value engineering techniques, teams study competitors' products and borrow ideas from them. Fourth, teams have access to the same technical sources. Consequently there is a natural tendency for firms to develop products using the same technology and hence having similar functionality.

Usually when one firm introduces a "revolutionary" product, its competitors already have equivalent products under development. By speeding up the introduction of their version of the new product, these competitors can significantly reduce the gap between the launch of a "revolutionary" product and its me-too equivalents. Only when the product can catch all of its competitors by surprise does the gap between the introduction of the new product and the appearance of its me-too equivalents become extensive. Sony's introduction of the Walkman came as such a surprise to its competitors that it took over twelve months for the first competitive product to appear on the market, a phenomenon that usually occurred within just a few short months in the Japanese consumer electronics industry.

2.2 Horizontal Integration

Japanese firms have extended relationships with their suppliers to facilitate continuous innovation and rapid adjustment to changes in demand. The interaction among firms with well-established horizontal linkages increases the diffusion of new technologies through the encouragement of cooperative arrangements that require extensive information sharing across firm boundaries.

The information sharing includes research and development and product innovation. At Nissan, for example, parts suppliers were asked to generate cost reduction ideas. An incentive plan was used to motivate the suppliers. For example, if an idea was accepted, the supplier that suggested the cost reduction idea would be awarded a significant percentage of the contract for that component

for a specified time period, say 50 percent for 12 months. Nissan then communicates the supplier's improvements to the competitors of the innovating supplier, which would adopt the innovation and share it with their suppliers and customers. Since many of Nissan's suppliers also supply other major automobile manufacturers, innovation soon spread throughout the industry and beyond.

2.3 Imitation

The willingness of Japanese firms to imitate their suppliers and competitors also encourages the diffusion of technological innovations. In Confucian philosophy it is considered honorable to imitate and an honor to be imitated. In Japan's ancient form of teaching, the sensei, or master, would teach his students by demonstration, and the students would copy the master exactly until they gained the requisite skill to become master in their own right. This type of teaching still influences Japanese society, and with the availability of mass media, it is now possible for significant innovations to spread rapidly. For example, the price control system at Higashimaru Shoyu Co., Ltd., has been documented and imitated by Kirin Brewery Co., Ltd., among others. In a similar fashion, both the Taiyo system and the Isuzu (which subsequently became the Japanese) tear down approach were publicized and adopted throughout Japan.

2.4 Loyalty to Classmates

Another societal mechanism that leads to technology diffusion is the intense loyalty that engineers feel toward their classmates. Under Confucian philosophy, loyalty to classmates (like brothers) is as strong as loyalty to the company. When classmates get together after graduation (a common occurrence in Japan), they discuss freely what they are doing and the major achievements of their firms. This informal interaction makes it virtually impossible for a single firm to create and sustain a technological advantage. While the head of engineering at Olympus disputed the current importance of this mechanism in the Japanese camera industry, he agreed that it had played an important role when the Japanese industry was forming.

2.5 Industry Associations

Industry associations are an additional mechanism that helps to transfer technologies between firms. While some of these associations are funded by the Ministry of International Trade and Industry (MITI), others are made up of private groups of interested firms. One of the major purposes of these associations is to hold workshops where information is exchanged freely. Associations such as the Japan Productivity Center hold tours to other countries, including the United

States, during which competitors travel together and write reports on their observations. Because competitors share information as they write their reports, these associations and tours act as technology diffusion mechanisms.

2.6 MITI Committees

Formal MITI committees constitute the final major mechanism that facilitates the diffusion of technology in Japan. Often, MITI identifies technologies that will become critical to a major industry.

If MITI believes that the effort required to develop a technology is greater than a single firm can support, it creates a committee from the major competitors in that industry. The creation of a committee signals the importance of that technology and the direction in which it should probably go. MITI committees bring together some of the best technical minds in the industry. This technological sharing ensures that even if one of the firms makes a technological breakthrough, the others will not be far behind. It was a MITI committee formed from five of Japan's six largest chipmakers that helped to design the VLSI (very large scale integration) chip

MITI committees, industry associations, and classmate loyalty have become less effective at diffusing technology as Japanese firms have begun to dominate internationally the industry in which they are competing. When this has occurred, the firms involved have become less willing to share information. Industry Associations, for example, no longer act as agents of technology transfer and training but as agents of coordination, education, and training. MITI joint development projects now provide industries with direction rather than technology. Consequently, they no longer attract the "top minds" of the participating firms. Instead, these individuals remain inside the firm, running the research projects that utilize that technology.

The emergence of the lean enterprise moved the minimum allowable values and the maximum achievable values for quality and functionality outward. At the same time, it decreased the minimum achievable cost, which led to a decrease in the minimum acceptable and maximum allowable selling price. Finally, the mechanisms for technology diffusion kept the functionality of competitive products relatively similar. This similarity further narrowed the range of allowable product cost-price, functionality, and quality characteristics.

In many Japanese firms, successful TQM programs increased the maximum achievable levels for the quality characteristic that any additional improvements were unlikely to be considered of value to the customer. When defects are measured in parts per million, individual customers are unlikely to encounter defects, let alone detect improvements in the defect rate! At the same time, the Japanese consumer demanded such a high level of quality that even minimum

acceptable levels were high. Consequently, the survival range for the quality characteristic was extremely small for most products, and quality became a hygiene factor that could be ignored as long as it was under control. This did not mean that firms abandoned TQM programs or efforts to improve quality. Quality enhancements resulted in internal benefits, including the ability to reduce additional workers from the line, faster introduction of the next generation of technology, and reduced costs.

The forces that led Japanese firms to adopt confrontation strategy are numerous but include the emergence of the lean enterprise, the existence of mechanisms for increasing technology transfer among competitors that render it almost impossible for a firm to develop and maintain sustainable competitive advantages through technology alone, and the intense loyalty that Japanese employees feel toward their firm and its success.

The fast reaction times of lean enterprises make product related competitive advantages too fleeting to consider sustainable. Any advantages one firm achieves are so quickly matched – me-too versions can spring up in only a few months' time – that they do not differentiate the firm in the eyes of its customers. Such rapid competitive matching can dilute first-mover advantages to almost nothing.

In addition, the ability of lean enterprises to make products economically, in smaller batch sizes than can their mass-producer counterparts, opens many of the niches occupied by mass producers to attack. Thus, sustainable competitive advantages that lead to successful niche strategies are also less likely to arise when lean enterprises compete. The fast reaction times and ability to make products economically in small volumes hobble firms' abilities to develop and maintain sustainable competitive advantages.

There are also several mechanisms for rapid technology diffusion that make it almost impossible for firms to develop sustainable technological advantages. Multifunctional teams, horizontal integration, willingness to imitate, loyalty to classmates, and the existence of both industry associations and MITI committees all aid technology transfer between firms, preventing any one competitor from developing a significant technological lead. With all products being virtually equivalent technologically, firms are forced to adopt confrontation strategies.

The final key to the puzzle of why Japanese firms adopted a confrontation strategy lies in the intense loyalty of Japanese workers to their firms and the tying of self-worth to the success of those firms. This makes it difficult for Japanese firms to accept second place. Consequently, all firms strive to be the best at what they are doing, which increases the intensity of competition and forces firms into confrontation.

The emergence of the lean enterprise lessened the importance of the price characteristic, which had tended to dominate the other two characteristics under mass production. The ability of the lean enterprise to produce high-quality, high-

functionality products at low cost forced firms to compete more aggressively on all three characteristics. Therefore, firms that adopt a confrontation strategy must carefully manage the value of each of the three characteristics.

3 Reactions to the Globalization

The crisis of the Japanese economy has forced large Japanese multinationals to reconsider their established modes of organization and corporate governance. Globalization has been the main driving force behind such changes. Its impact on corporate organization however does not necessarily conform to the popular convergence theory. Neo-liberals expect globalization to act as a powerful equalizer, both among nations and among firms. Among nations, globalization imposes new constraints on the policy-making of national governments, constraints that force a convergence towards economic liberalization, balanced budgets, and lower expenditures on welfare. Convergence is also expected among firms. Faced with similar constraints, firms are expected to converge in organization and strategies, irrespective of their national origin.

3.1 Implications for the Theory of the Firm and Management Strategies

Research on firm organization has focused primarily on the decentralization versus centralization dimension. This is a much too narrow focus. Decentralization is a necessary condition for competitive success, but not a sufficient one. The key is externalization: the internal control system usually produces dysfunctions. Externalizing the control, organizations can avoid this dysfunction without incurring significant costs. The result is that HQ will not be overloaded with control and coordination functions: HQ can share them with other control agencies such as banks and capital markets. Both banks and the capital markets evaluate the performance of affiliates on a daily basis and are immune to the excuses and lobbying efforts of affiliate managers.

Externalization of course also comes at a cost: it may lead to messy organizational charts, difficulties of coordination and lack of specialization (overlapping of activities). By designing suitable levels of externalization, organizations may maximize the benefits of externalization while minimizing its risks and costs. Amorphous externalization may be the appropriate approach in the Japanese context, given the existing industry structure.

3.2 Catalysts for the Disintegration of Keiretsu-Type Networks

During the 1980s, corporate growth in Japan has relied on aggressive equity financing within the keiretsu. This has led to a strengthening of keiretsu-type networks. Not anymore: the bursting of the *bubble economy* has forced Japanese companies and banks to reduce their equity shares in corporate group-member countries, as there is no longer any guarantee that stock prices will increase. The result is a gradual disintegration of keiretsu-type networks with far-reaching implications for corporate behaviour and industry structure.

The bursting of the *bubble economy* has acted as a catalyst for the gradual deregulation of the financial system. While this process remains painfully slow, there has probably been some improvement in terms of static allocation efficiency of investment. At the same time, there are attempts to tighten financial reporting producers which is expected to end the Japanese practice of buying and selling securities simultaneously for quick paper profits. Together with more stringent tax declaration requirements, such stricter financial disclosure rules imply that corporate HQ is now under much greater pressure to improve consolidated results for the whole group rather than just for individual divisions. In other words, financial deregulation imposes greater pressure to increase efficiency. Inter-organizational networks are a peculiar form of organization to address this challenge.

3.3 A Major Challenge: Upgrading the Product Mix

Probably the greatest challenge for Japanese firms is to upgrade their product mix. The first response is typical for many US companies and is the established gospel of strategic management gurus focus on what you do best and outsource all the rest. This approach is driven primarily by a short-term financial logic: it improves static allocation efficiency and can also accelerate the speed of new product innovation. Yet, its long-term benefits remain in doubt, especially as long as outsourcing is not being balanced with all improvement of corporate coherence.

The immediate response of Japanese firms to the bursting of the bubble economy, not surprisingly, has been to cut costs wherever possible, and, to consolidate their core businesses. Increasingly, however, they rely on the second option: they try to upgrade their product portfolio with the help of inter-organizational (IO) networks. Diversify through externalization appears to be the prevailing approach: ... in order to be more competitive and to diversify, companies ... set up subsidiaries or autonomous business divisions within their present corporate structure.

3.4 Changes in Corporate Strategy: From Ad Hoc to Strategic Management Approaches

In response to the bursting of the bubble economy, Japanese firms experience a fundamental shift in their organization from an orientation toward operational requirements to a strategic focus. Japanese corporate organization traditionally developed in an ad hoc manner. Primary determinants were the requirements of particular functions, such as human resource management, sales and distribution and requires that result from an industrial logic, i.e., production and logistics. For instance, quite a few cases the purpose of establishing a particular subsidiary has been to provide a second career for senior managers as CEO or directors until their retirement. Today, organizational change is driven primarily by a strategic purpose: to improve the organization's learning efficiency and to acquire, as quickly as possible, knowledge and complementary capabilities: Japanese corporate groups are becoming more learning-oriented. The main objective of organizational restructuring is to create a learning corporate group. Improving learning efficiency and capabilities in turn, is an essential prerequisite for sustaining the companies' international market share.

This shift from defensive to strategic restructuring however does not necessarily follow the US model of industrial outsourcing. While many Japanese firms have focused, during the early 1990s, most of their attention on a consolidation of their core businesses, they are now eager to combine this with a vigorous diversification of their product portfolio. However, diversification relies on a specific type of externalization, i.e., the creation of subsidiaries or autonomous business divisions *within* (DE) their present corporate structure. In other words, diversification relies heavily on some of the existing strengths of the Japanese corporate organization. In the case of Japanese firms, organizational upgrading results in the spread of IO networks that are very different from the international production networks established by American firms.

3.5 Convergence and Diversity

Learning from the American experience is consistent with persistent diversity. Practically all the leading Japanese electronics firms have exposed themselves to this learning. Yokogawa Electronic for instance has long-standing links with two American companies, each of which in its own field is widely regarded as a pace setter for organizational innovations. Yokogawa's management stresses the crucial importance of learning from US management practices.

It is important to note that learning has been a two-way process. Not only did Yokogawa gain knowledge about HP's organization and management practices, but also HP was able to learn. Through this joint venture, HP was able to gain early on a foothold in the Japanese market, on which it could later build when it

began to penetrate Japan's computer market. It also was able to learn about some peculiar features of Japanese management methodology. For instance, it was through this link with Yokogawa that HP became acutely aware of some organizational innovations in quality control, much earlier than many of its competitors. This knowledge of the existing far superior quality control procedures in Japanese firms is one of the reasons why HP, in the early 1980s, was able to criticize with full confidence the decline of quality levels in the U.S. semiconductor industry. HP was also able to reap similar learning effects in other areas where Japanese firms have a proven record of strength, such as inventory management, human resource development, and the acceleration of the design cycle for new products. All of this indicates that Yokogawa's links with foreign companies can certainly not be reduced to a one-way convergence to the US model. In the case of its link with HP, we are clearly talking about a case of mutual convergence or hybridization — both Yokogawa and HP have been able to learn from each other and to adapt elements of its partner's organization into its own organizational structure. There is simply no evidence that Yokogawa has converged to the HP model.

Conclusions

From all of the previously stated facts we can obviously see that the so-called 'Japanese way' is not a result of a one-way convergence to the 'Western Model'. As a verification of the aboves we can state the followings;

- the structural learning between the Western and the Japanese companies has been a two-way process,
- the Japanese companies learned among others the best western organizational and management practices, the western firms learned the Japanese inventory management, human resource development, the acceleration of the design cycle for new products and other elements of the lean production,
- as a consequence of the aboves we are talking about the mutual convergence or hybridization of the Western and Japanese models.

In the light of the aboves it can be stated with a relatively high probability that the Japanese economy as a whole and the individual Japanese companies would give an appropriate answer to the challenge of the more and more complex globalization process with the help of the changing but continuous macro-economical reforming activity of the Japanese Government.

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