TOMORROW'S CHALLENGES

GLOBAL (NON)COMPETITIVENESS

WHY JAPANESE COMPANIES ARE FALLING BEHIND THE REST OF THE WORLD, AND WHAT THEY CAN DO ABOUT IT

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Japan's economy has a lot of things working in its favor. For example, it is one of China's nearest neighbors, which creates great export potential, as well as the ability to achieve economies of scale and benefit from low-cost employees. Other countries close by offer equally exciting economic opportunities, thanks to regional growth that is far more dynamic than anything occurring in Europe.

On top of this, Japan has low inflation, a high level of foreign direct investment, low unemployment, excellent labor relationships, strong corporate social responsibility, and significant investments in research and development.

But despite all these positives, Japan is not doing terribly well. The 2012 IMD World Competitiveness Yearbook ranks it only 27th out of 59– below smaller but much more competitive economies such as Qatar, Hong Kong, and Norway. The main reason for this low position is that few Japanese companies are genuinely global. That is, companies that have gone beyond exporting their products, or even localizing their offerings for different markets, to operating in a way that brings all their global resources to the table for all markets. Nestlé is a good example of a genuinely global company: it is a Swiss business, but with very few Swiss nationals in its top management. Its current country manager for India is Brazilian, for example.

Japanese companies, by contrast, rarely have a single non-Japanese manager in their top leadership ranks. This may have been acceptable when such businesses could afford to focus entirely on domestic markets, but this strategy is no longer sustainable. Japanese companies – along with those of every other country – need to be able to operate in a global market, which means that they need people whose diversity reflects that of this new reality.

Japanese firms that want to become global players face a number of significant challenges. One of the biggest is linguistic. The latest tests by TOEFL (Test of English as a Foreign Language) place Japan 135th in the world (well behind North Korea – 96th). Worse than that, the number of students who study overseas is declining, not least because international experience is not valued by employers when they consider whom to promote. Taken together, these facts suggest that linguistic barriers are likely to remain for some time.

Another obstacle related to this cultural separateness is that too many Japanese companies still base their strategy on catering specifically to the domestic market. A big part of this stems from the geographical and cultural isolation that defined the country for so much of its history. This meant that Japan had limited interaction with other countries, even its closest regional neighbors, and as such focused tightly on domestic markets. As its society ages, this strategy is becoming less and less feasible; for example, we have seen Japanese companies miss opportunities in the mobile phone industry as a result of this inward focus. Japanese companies can expect to see consumption increase in some fields – notably the health and pharmaceutical industries – but on the whole it will not grow enough to play a more significant role in the country's economy than exports will.

There are a number of steps that Japanese executives can take to help them develop a global mindset:

Understand your own cognitive biases. Many executives from countries with a big home market tend to think that there is only one right way of doing things. Global executives recognize that this is not the case, and that context is always key.

Promote diversity. This needs to start at the top, with the appointment of non-Japanese managers into key roles, including board positions. Linguistic differences make this difficult, but it can be done. Takeda, the largest pharmaceutical company in Japan, offers one example. It recently acquired two companies, one Swiss, one American. Takeda's president decided to appoint the foreign leaders from each of the new businesses to the Takeda board, thus increasing diversity. However, with neither of the new directors speaking Japanese, he decided that all board meetings would be held in English, with a one-year changeover period during which translators would be present.

Demand international experience. Revise the policy for promotion and make foreign experience an expected part of the picture. What tends to happen today is that the best managers are kept in Japan at head office; this should be reversed. Send your best people out to work in the most critical markets so that they can contribute there while gaining the broader international perspective that will serve the company well when they do eventually return to Japan. Note also that requiring international experience for promotion past a certain level should become official policy so that people overcome their preconceptions, and trust that time abroad will be good for their careers.

Develop global leaders. Policies and good intentions are not enough on their own. Companies need to invest significant resources in changing their people, while leaders will need to show considerable determination to overcome entrenched attitudes. Japanese companies tend to invest in the basic education of young employees, but when it comes to executive education, research shows that they are well behind their foreign competitors. This needs to change quickly. As the American quality management guru Edward Deming used to say: “Learning is not compulsory, but neither is survival.”

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His book Japan’s Competitiveness in the Age of Globalization*, co-written with Naoshi Takatsu, IMD’s Executive Vice President (Japan), was recently published in Japanese by Nikkei Publishing.*

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