"Japan needs a two-pronged and inter-related cultural revolution, consisting simultaneously of both rejuvenation and internationalization."

1850s, when Japan was "opened" to the outside world by Western gunboat diplomacy, the country was emerging from two centuries of feudal isolation. In industrial, technological, economic, social and institutional terms, it was backward compared to the west. In order to catch up, the modernizing Japanese government, in particular, did two things. It sent out numerous promising youth, its future elite, to study in and learn from the West. And it "imported" a substantial number of foreign experts for senior positions, to lay the institutional and technological foundations for a modern industrial society. This program proved highly successful and was the major reason why Japan so successfully met the challenge of modernization. The similarities between the institutional national sclerosis of the mid-19th century and those of corporate Japan at the dawn of the 21st century are striking. Now, as then, Japan needs a two-pronged and inter-related cultural revolution, consisting simultaneously of both rejuvenation and internationalization. Younger, more dynamic, individual merit-based and more leadership-oriented corporations would have an impact on the fabric of Japanese industry domestically, but would also make Japanese corporations much more attractive to prospective foreign employees.

Next, a strong and sincere engagement with the outside world is called for. The spirit, energy and intellectual curiosity for the overseas world, which characterized Japan in the post-war decades, needs to be recaptured. Large numbers of Japanese managers should be going to study abroad in order to learn and transfer best practices. Japanese companies should also commit to opening up management – including senior management positions – to foreign talent. Not only to Westerners, but also, and perhaps even more so, to Asians. There are far more Asians in senior positions in American and European firms, than in Japanese ones. Most multinational corporations have adopted English as the corporate language in their overseas affiliates and some even at their headquarters. Japanese companies have not followed this practice and one often sees Japanese managers huddled together in linguistic isolation. The official adoption of English, at least in their overseas offices, would send a clear message of a desire and commitment on the part of Japanese management to engage in globalization.

Globalization is not synonymous with homogenization. The fact that Nestlé has a predominantly foreign board and uses English as the corporate idiom does not mean that it has become a carbon copy of Heinz or Kellogg. Globalization has not only been a major factor in Nestlé's success, but has also strongly contributed to reinforcing its distinct cultural identity. Tetra Pak, though it now has an ethnic English, Argentine-born CEO, and is headquartered in Switzerland, retains a strong legacy of its Swedish roots. A resilient corporate culture will not only withstand the challenge of globalization, but will be enriched and strengthened by it.

Japan is one of the pillars of the world economy. But Japanese companies still have work to do if they are to catch the globalization train. The sooner definite, courageous and strategic steps are taken by Japanese management to study and implement global management leadership, the sooner Japanese companies will re-join the ranks of global winners.

Editor: Roger Whittle

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Perspectives for Managers

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Japan missed the first globalization train:

Will it catch the next

Japan's truly remarkable post-World War II economic ascendancy will long feature in the annals of economic history. It was, among other things, the first country in the world to achieve double-digit average annual GDP growth. By the 1980s, the business world was wondering how long it would take Japanese companies to conquer global markets and for Japan to become the Number One industrial nation. In the ensuing decade, however, not only did the expectations (or fears) of Japanese global market dominance fail to materialize, but much worse, Japanese corporations, with only a handful of exceptions, wallowed. What went wrong and how can these resourceful and frequently innovative companies get back on track?

In Japan in the 1950s there was a major thrust in labor intensive (especially textiles) and smoke-stack (steel and ship-building) industries. By the 1960s the Japanese were moving aggressively into consumer goods, notably motorcycles, time-pieces and consumer electronics. There then followed major worldwide victories in the 1970s in automobiles, with the effect of totally reversing the image of the "Made in Japan" label, from one of cheap shoddiness to one of very high quality. Influenced by the erstwhile poor image of Japanese manufacturing capability, Western business leaders, were for the most part unprepared for the "Japanese assault". In particular, Japan's mastery of total quality control and "just-in-time" management took many Western manufacturers by surprise.

"Influenced by the erstwhile poor image of Japanese manufacturing capability, Western business leaders were for the most part unprepared for the Japanese assault."

Things and attitudes changed. As Japanese companies were gaining global market share in one industry after another, from consumer electronics and automobiles to computers, cosmetics and household appliances, its banks emerged as the largest in the world. Seminars, books and consultancies on "learning from Japan" became a significant growth industry! In the meantime, the "Japanese juggernaut" (as the Japanese advance was often referred to at the time) continued relentlessly. From having gained market share initially by aggressive export strategies, by the late '70s and early '80s, Japanese companies began investing in Western markets, mainly through green-field sites. Then in the mid/late '80s, the emphasis switched to acquisitions, as Japanese corporations embarked on a major buying spree for market dominance.

Japanese tire manufacturer Bridgestone took over its American archrival Firestone, while Sumitomo Rubber acquired Dunlop in Europe. Kao the leading Japanese cosmetic manufacturer had bought Jergens in the USA and Guhl in Germany and was aiming at challenging Procter & Gamble as a global personal care, cleansing and sanitary products manufacturer. Dainippon Ink & Chemicals launched an unfriendly take-over for Reichhold Chemicals Inc., while Matsushita Electric and Sony were acquiring movie studios in Hollywood. Hitachi and Toshiba were successfully turning around troubled European acquisitions in the consumer electronic sector. And in computers, NEC took over ICL.

"Many observers took the view that Japan's success was due to superior human resource management procedures."

Many observers took the view that Japan's success was due to superior human resource management procedures: Japan's workers were prepared to work hard in dynamic and efficient teams to ensure customer satisfaction and promote collective corporate interests. Japanese workers were better educated and motivated, and were even willing to sacrifice parts of their personal life for the success of their company. Moreover, the Japanese economic paradigm, with the strong direction of the state, had from its inception contained a very dominant nationalistic flavor. Major Japanese companies were emphatically "Japanese", imbued with the "Japanese spirit" and expected to perform not only for the corporate good, but also, and perhaps above all, for the good of the nation. This nationalist ethos was inscribed in corporate mission statements and corporate anthems.

In the quasi-mercantilist business environment that dominated throughout the cold-war decades, with many nations seeking to promote their "national champions", the Japanese strategy worked eminently well. In the early '90s, however, the environment changed dramatically: the cold war ended, the emergence of the World Trade Organization facilitated the precipitous reduction of barriers across most products and services, while new information and communication technologies led to a network-oriented, cross-corporate, borderless world. The globalization train had arrived, but Japanese corporations, still hurtling down the nationalist track, were not on the platform. Although today, Japanese companies can still count on great technology, plenty of capital and high quality products, these ingredients are not enough to become truly global. The human dimension, which was Japan's key advantage in the nationalist era, is now its major liability.

The Cultural Factor

It all started out rather differently. Initially Japanese inward investments were welcomed, indeed avidly sought after. Nissan operations in the US and in the UK, were held up as paragons of good corporate management practices. The successful turn-around of a number of European and American acquisitions by Japanese companies clearly demonstrated that they could be successful at managing non-Japanese blue collars, by bringing more "*equality*" into the factories and breaking up archaic and unproductive practices. Thanks to their initial successes, Japanese companies were able to attract talented western executives.

"We find that Japanese companies still have great difficulty in providing motivation, let alone inspiration, collegiality, cross-fertilization and leadership."

A decade later, however, disillusion abounds. Speaking to non-Japanese white collars, we find that Japanese companies still have great difficulty in providing motivation, let alone inspiration, collegiality, cross-fertilization and leadership. One key reason seems to be that the selection criteria for foreign executives by Japanese firms have in too many cases relied excessively on the fit with Japanese attitudes (willingness to conform and absorb Japanese corporate philosophy and management principles) at the detriment of the leadership quality needed to drive a business in a non-Japanese environment.

Managing women, minorities and creative people has been another major challenge for Japanese companies operating overseas. Within Japan, this problem has been either non-existent or downplayed as the rule goes that *"the nail that sticks out must be hammered in"*. One observer, the late Gunnar Hedlund, quipped that the Japanese human resource track record in overseas operations can be summarized as: "great with blue collars, so-so with white collars, insensitive to skirts, terrible with minorities, awful with pony tails".

The Leadership Factor

The other reason behind these poor results is that the global leadership skills of Japanese executives are often disappointing. Their English language communications capability is often poor, their cultural "antennae" deficient. Hence they often fail to motivate and inspire. Although Japanese managers have been good at vertical management – i.e. in managing blue collars – in the far more complex challenges of managing managers and especially in managing mergers and acquisitions, successes have been conspicuous by their absence. Some of the most global Japanese companies have lost the few top foreign executives who were leading their operations in the USA and Europe. The perception in many foreign business circles is that Japanese companies have a hard time globalizing because they are exclusive and hence cannot trust, inspire and lead local resources.

One Japanese senior executive recently claimed that he wants to blend the best of Japanese and Western management techniques to turn his company into a truly global one. Yet the firm has failed to appoint a single non-Japanese to its board and local executives are wondering if it can in fact be done, since the concept of leadership seems to have such different meanings in and outside Japan. Some Japanese observers are even going as far as to say that global leadership is not yet part of the Japanese vocabulary.

The Trust Factor

"Perhaps the most irritating feature of working for the Japanese is the feeling that there is an absence not just of comprehension, but especially of trust."

While it is not unusual for western corporations to be led by non-nationals (e.g. R. Gupta at McKinsey, P. Brabeck at Nestlé, or L. Owen-Jones at l'Oréal), the practice has not yet taken root in Japan. No Filipino, Korean, or Chinese leads a major Japanese corporation and hardly ever even heads a major business division. The same is true of Japanese corporate boards. Although a growing number of large Japanese multinationals have invited foreigners to sit on their boards, their numbers remain extremely small and restricted to (male) Western executives. Japanese CEOs often claim that a lack of command of the Japanese language is a major stumbling block for foreigners. Yet, executives from other Asian countries (e.g. the former Japanese colonies of Taiwan and Korea, where Japanese is still quite widely spoken) also remain absent from top executive positions. From the foreigner's viewpoint, perhaps the most irritating feature of working for the Japanese is the feeling that there is an absence not just of comprehension, but especially of trust.

The Learning Factor

While many Western firms learned about quality from the Japanese, executives from Japan have in recent years seemingly failed to learn and transfer best practices from the West. In particular, they have failed to learn about global leadership. Our view is that not only have they failed to learn, but also that there is so far relatively little evidence that they are in fact eager to learn. Japanese executives tend to be conspicuous by their absence and/or conspicuous by their silence in global management conferences and workshops. This reluctance may be understandable. Whereas Western multinationals have for a long time tended to be multi-cultural, even multi-ethnic, Japanese no doubt perceive their past success, with some justification, as emanating from the highly homogenous (mono-cultural) nature of their enterprises. Hence, foreign managers tend to be treated on an arms-length basis and as second-class citizens, and quite dramatically different standards have tended to prevail between Japanese and foreign managers.

The Imperative of Catching the Globalization Train!

Learning global leadership skills, unlike acquiring managerial techniques, cannot be done passively, e.g. simply by reading about it. It requires a change in attitude, mindset and communication skills. There is also a very high risk that embracing multi-culturalism will transform beyond recognition and, in some aspects, could initially weaken, Japanese companies. But globalization is where the challenge is and where it will remain for the foreseeable future. Failing to meet this challenge could relegate Japanese companies to second-raters or even to extinction. At present, the brightest glimmer of hope in the domestic Japanese environment has been the extraordinary success of the ethnic Lebanese, Brazilian-born, Renault senior executive Carlos Ghosn in pulling back Nissan from the edge of the precipice and turning it around to becoming, once again, a viable automotive manufacturer and world player. Though very much has been written and remains to be written about the "Ghosn" phenomenon, his ability to provide leadership, trust and inspiration in particular stands out.

"Failing to meet the challenge of globalization could relegate Japanese companies to second-raters or even to extinction."

In seeking to find the sources for the transformation to globalization in the 21st century, Japanese corporate leaders can also draw lessons from their country's own historical experience and specifically its transformation to modernization in the 19th century. In the