THE CHALLENGE OF GLOBALIZATION

HOW WILL JAPANESE MULTINATIONAL CORPORATIONS ADVANCE THEIR ORGANIZATIONAL CULTURES?

Japanese history is marked by a significant 250-year period of isolation, cut off from trade and diplomacy with the outside world. Japan today is quite different. One of the world's largest economies, Japan ranks fourth among both the world's importers and exporters, and Japanese companies play leading roles in a number of worldwide industries, including automotive, electronics, video gaming and many other sectors. However, remnants of the more inward-looking Japan may still exist in the management and operational culture of some Japanese companies doing business overseas. Despite their global expansion, Japanese businesses have not traditionally been known for forging diverse organizational cultures, planting roots in or drawing talent from other countries.

In an increasingly global marketplace, companies are driven to develop a culture that welcomes diverse ideas and draws on the best senior-level talent across the organization. Many Japanese companies have begun to adapt their business cultures and talent programs to accomplish these goals, while others are just beginning to evaluate what changes may be needed. In this article, we consider some of the challenges Japanese companies face as they evolve and look at examples of the transformations that are occurring and the insights they reveal.

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INHERENT CHALLENGES

> Some might argue that there are facets of Japanese culture that tend to be resistant to embracing and integrating outside models. There are other factors, however, that play a significant role in slowing the advancement of Japanese companies' adoption of new organizational cultures.

The burden of past success

Japan experienced significant growth in the years following the Second World War. The nation united to rebuild under the direction of a strong central government, aided by a growing domestic market. Meanwhile, in the private sector, companies adopted a strong, centralized management approach and an insular, localized business culture focused on efficiently delivering high-quality products. This approach propelled many Japanese companies beyond the nation's borders and enabled them to build dominant brands in international markets.

However, the centralized decision-making apparatus began to appear less agile as new competitors emerged and the ability to respond rapidly to events and trends became an important competitive asset over time. As the global economy continued to expand and intertwine, organizations felt increased pressure to become more flexible and develop strategies that reflected the diversity of their markets. Those pressures have not necessarily been enough to foment change, however. Some management teams may feel instinctively that it is unwise to abandon methods that have proven their value, while others may adhere to the philosophy that a focus on quality alone will overcome all other obstacles to success. Recent high-profile setbacks, such as the bankruptcy of Elpida Memory and the significant losses suffered by some of Japan's largest television manufacturers, have demonstrated that the past promise of guaranteed reward for hard work is no longer valid, and many are seeing that globalization is changing the rules for what makes a worldwide company successful.

An inward focus

Japanese students begin learning English in junior high school, but it has not been a skill much valued in the business community until recently. Indeed, the most successful multinational companies in Japan traditionally encouraged local executives to operate in Japan as Japanese companies would, embracing the local language and business customs. A good example is IBM, which became one of the largest IT companies in Japan through the leadership of Takeo Shiina, who drove home the slogan, "Sell IBM to Japan, sell Japan to IBM." Today, as the company institutes a company-wide initiative to unite corporate functions around the world under a standard technology infrastructure, known as The Globally Integrated Enterprise, Japanese executives are being asked to evolve from a highly localized organization to a more Western-style of operating, including communicating in English. Perhaps underscoring the significance of the shift, IBM Japan recently named German native Martin Jetter as its next president, the first foreigner to attain the role in the company in 56 years.

Some Japan-based corporations have proven less successful at immersing themselves into other countries and localities in a similar way. Now that they wish to reach a worldwide marketplace, these habits are holding them back. For example, Japanese mobile phone manufacturers have focused on developing phones for the Japanese market for years while other Asian manufacturers launched products with multi-language capability. As a result of this country bias, Japanese cell phones are said to suffer from "Galápagos syndrome," evolving separately from and unable to interact with the rest of the world.

SIGNS OF CHANGE

> As the need for fresh cultural attitudes and initiatives becomes more obvious, more Japanese companies are taking the necessary steps to meet the new demands of globalization.

Word from the top

Some Japanese founders of global companies are embracing English as an official language for doing business, after years of seeing the gains in English fluency among other Asian nations. They include Tadashi Yanai, whose Fast Retailing is an apparel giant generating $10 billion in revenue annually. Rakuten, an e-commerce conglomerate, has also announced plans to make English its official language by the end of 2012. English already is used at all major meetings, even when all participants are Japanese. An earlier initiative to mandate English as the official corporate language collapsed due to resistance from more traditional employees. However, the effort sent a powerful message to the younger generation to improve their English communication skills. Other leaders determined to grow their businesses outside of Japan are becoming more open to hiring high-potential non-Japanese executives, whose ability to communicate in English is viewed as essential in executing a global strategy.

Change in traditional talent management approaches

Organizations in every sector are learning that operating in other countries means being more aggressive in recruiting local talent and expecting that talent to shoulder greater responsibility in developing and executing strategy. Food and chemical manufacturer Ajinomoto has made it a priority to increase the percentage of non-Japanese in general manager positions from the current 35 percent to 50 percent. Toward this end, a group talent management committee regularly discusses assignments for each of 300 global management positions. With 2,200 prospects for global management positions, including 800 non-Japanese managers, Ajinomoto is able to replace expatriate general managers with local talent. This approach already has paid dividends for the company: In the United States, Ajinomoto's local management has built relationships and expanded business with some of the country's largest retailers.

The gaijin boss

Although it is rare, companies are placing non-Japanese executives at the highest levels of management. A strong model for this transformation is Nissan Motors, a company that is thoroughly integrated into the global marketplace and which has flourished under the leadership of Carlos Ghosn, a Brazilian of Lebanese and French heritage. The key executive staff is also a mix of nationalities, and Japanese employees working directly with these non-Japanese leaders have been inspired to learn cross-cultural management skills and improve their English capabilities. In a country where succession planning has tended to be an insular process limited to executives with lifelong service to the company, Nissan's success with a non-Japanese leader and a diverse executive team serves as a valuable example of how other succession models could work.

Welcoming foreign talent can also provide the additional benefit of introducing vital skills to some Japanese firms. Three of the four regional CEO roles at sports equipment manufacturer Asics are occupied by non-Japanese executives as part of a conscious strategy to develop a stronger marketing presence around the world. Asics wanted to tap more effectively into sales distribution networks, resulting in significant growth in an industry noted for its high level of competitiveness.

The path for the foreign-born leader in Japan is still not a smooth one, however. For every success story, there is another tale of an expatriate whose tenure as CEO was brief. In one respect, this is not necessarily a reflection on a candidate's heritage. Companies with a history of insularity can seem hostile even to outsiders born in Japan, and business based on personal relationships developed in school or the lower echelons of the workplace are inherently exclusive. However, the need to compete globally continues to drive the pursuit of the international executive, to the point that demand for leaders from outside Japan may eventually surpass supply.

OPPORTUNITIES FOR CHANGE

For management at Japanese companies, aligning the organization and talent development initiatives to meet the challenges of globalization is one of the key factors for success. Japanese companies found their greatest success in the post-war era by learning and customizing the best practices of foreign companies. In the era of globalization, a willingness to be open to the successful habits of others may once again prove fruitful. Here are some suggestions from the organization and human capital perspective.

Matrix organization management

Many of the most successful globally integrated enterprises have a matrix organizational structure, allowing more flexibility and independence among corporate units to serve customer needs and relying less on corporate hierarchy. The perception that Japanese companies have been reluctant to convert to a matrix organizational style is perhaps best demonstrated by the travails of Japanese executives looking to join a multinational corporation. A lack of experience in a matrix setting can be viewed as a demerit by global firms, making it difficult for top Japanese talent to cross over. Technology firms are among the best examples of Japanese firms adopting matrix-style organizations to become more globally attuned. At one firm, the head of enterprise business in Japan reports to the head of enterprise business in Asia Pacific, not to the chief executive in Japan. It's a departure from the traditional model wherein country borders or strict vertical hierarchies govern the organizational chart.

Skill inventory

The talent needed to undertake new global initiatives may already exist in many organizations; it just needs to be located and cultivated. Since 2008, Sony has assigned global talent directors in each region to implement a rotation system, exposing high-potential individuals to different business units and geographies and giving them the skills and opportunities to become future global leaders. In this program, a global talent director identifies and defines the key positions in the region where the company can bring in talent and conducts position matching at biannual sessions.

Similarly, IBM has a sophisticated skill inventory system enabled by technology. When building client teams, project leaders can use the skills database to identify professionals possessing the necessary expertise to achieve the mission of the project. The database is fully integrated with a communication tool called Sametime, which allows colleagues in any country to chat over PC, making it more efficient and productive than a standard messaging system.

Executive assessment and development

A rigorous and standardized global approach to developing and evaluating executive talent is an essential tool for staying competitive in a market where companies from around the world are pursuing top talent. Most integrated global enterprises establish common criteria for qualifications and expectations for leadership roles. Some of the best have a management acceleration program through which they identify individuals with the highest potential and give them opportunities to develop needed skills, such as working in different countries. One global IT giant assesses its executives within the context of tangible management standards such as sales and revenue size, number of countries and/or business units managed and complexity of the business. Japanese companies have typically developed different assessment criteria for domestic and international initiatives, essentially creating two different classes of employee with no opportunity for crossover. In our own assessment work globally, Spencer Stuart has found that a common methodology for assessing senior-level executive aptitudes can work effectively across cultures.

DRAWING CONCLUSIONS

Japan has a proven record of finding success in reinventing the way it does business. By ending its isolation and joining the market economy, Japan entered the 20th century as one of the most developed nations in Asia. Rebuilding in the wake of war, Japan expanded vigorously into new markets and experienced dramatic economic growth. Now Japan has the opportunity to re-create itself again by disrupting tradition and evolving its practices to keep pace with the changing nature of global business. Japanese firms have the potential to set a new standard for transcending national boundaries and integrating worldwide, at the very time that newer multinationals across a number of growing markets are beginning to navigate precisely the same issues. How all these companies shape the effective organizational culture of the future will play a large role in their global success in the decade ahead.

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