The Influence of Japanese Business on the Development of European Business Environment

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Abstract

The European market is one of the most attractive markets for foreign investments. The presence of direct investments, as well as a large number of Japanese companies that co-exist with European companies, point to the interactions of different management philosophies on the European business scene. Respecting the differences between the Japanese and European management styles, a comparative analysis of the impact of Japanese management philosophy in the European business environment points to further prospects for business development in Europe.

The large increase in direct investment by the Japanese in Europe is a specific challenge for the European business environment, at the same time a “threat” and “opportunity”- a “threat” through direct competition and the presence of Japanese companies in the European market, and an “opportunity” through job creation where Japanese production units are located. However, in considering the impact of Japanese management philosophy, the key question relates to the behaviour of Japanese companies on the European business: do they perform their operations as “insiders” trying to adopt their operations to European business practices, or they hold a position inside “European fortress” with the goal of transferring their own unique business management model.

Key Words: Management, Model, Business, Investments, Business Operations, Decision-Making, Business Environment.

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The European market is one of the most appealing markets of the foreign investments. Presence of American and Japanese direct investments, as well as the large number of American and Japanese companies which coexist with the European ones, point out to the mutual influences of different management philosophies on the European business scene. Taking into consideration the differences between the American, Japanese and European management style, as well as the comparative analysis of the American and Japanese management philosophy influences in the European business environment, this paper will suggest further perspectives for the European management model development.

The research of T. Pascal and A. Athos, together with the research of Ohmae and Ouchi make up some of the most comprehensive studies, where the characteristics and influences of the Japanese management model, as the alternative to the dominant American model have been analyzed.[1] According to them, the most successful firms are characterized by the harmony between elements of the “7S” Model. The Americans are similar to the Japanese in the way they manage the components such as: the strategy, structure and systems. However, the Americans differ in managing the other components, such as the abilities, style, experts and subordinate goals. Their culture has influenced Japanese valuation of interdependence as a model of relations, contrary to the American model which values independence. In Japan, individuals are considered to be an obstacle for the development; individuals define their identity within a group they belong to. American society has been built on the fact that they assign importance to the individual. These authors cite T. Fujusawa (co-founder of Honda), who states that: “Management in Japan and management in the USA are similar up to 95% percent and totally different on the remaining 5%, the essential 5%"[2]

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[1] Ohmae K., *The Mind of The Strategist: The Art of Japanese Business,* McGraw-Hill Education, New York, 1991.
[2] Pascale R.T., Athos A.G., T*he Art of Japanese Management*, Warner Books, New York, 1981.

These differences have been commented upon extensively in further research. American management is based on strategic planning and rational tools in search for coherence, whereas the management of Japanese companies (such as Canon, Komatsu, Honda...) defines a long-term strategic "intent" and it focuses on careful strategy implementation. The American model is identified with the "professional management" which has perpetuated the notion that a manager with net percent value calculations in one hand and portfolio planning in the other, can manage any business anywhere in the world. Contrary to that, in Japan, the priority is given to the on-the-job training and in-company training programs.[3]

The individualistic orientation of Americans and the group orientation of Japanese has some managerial consequences: for instance, there is a great company loyalty in Japan (lifelong employment). Similarly, when it comes to values, strongly shared group connections enable decisions to follow a “bottom-up” process in Japan, compared to "top-down" processes in the US firms. [4]

Chandler has put these characteristics into a historic perspective.[5] In the US, a new corporate meritocracy emerged and a new class of professional managers developed. Chandler described this management culture as the " managerial capitalism". Delegating responsibility can ensue only if the top management retained access to information as a means of control. Thus, divisional zed structures and sophisticated management systems developed. The Japanese cultural heritage stimulated a form of management which Chandler called "group capitalism". Societal and cultural barriers made integration of the non-Japanese difficult. This has the effect of encouraging Japanese companies to retain the decision-making and control at the centre, where only those who understood the subtleties of the system could manage them.

James C. Abbeglen and George Stalk used a radically different perspective in studying the Japanese corporation and comparing it to the dominant American model. They advocate the fact that market strategy and the "manpower strategy", rather than management style, are what makes the Japanese management the pace-setter. Japanese companies have a growth bias: "Management with a bias towards growth has a different mind-set, which includes expectations of a continuous growth, decisions and plans, formulated to produce growth."[6]

Lester Thurow confirms this key difference in business logic: for the Americans, the ultimate goal is profit; while for the Japanese profit is a means to build an empire and strengthen their company. According to him, these two systems are fundamentally different: US society is oriented towards consumption and the welfare of owner and shareholders, whereas Japanese society is savings and investments oriented. Thurrow also points out the key differences between the roles governments play in these two systems. Apart from the induced effects of the US government’s defence politics, the American system is characterized by pure liberalism. The Japanese government has always participated in the development of the national industrial strategies, thus indirectly protecting some of the domestic industries, selecting priority sectors to develop in the long-term and funding research and development related to the these domains. Therefore, the American government initiated anti-trusts legislation, in order to enable the freedom of domestic market competition. Contrary to this, the Japanese government has never completely dismantled "Zabartsu", so conglomerates survived and developed in the form of "Keiretsu". Mitsui, Mitsubishi, Sumitorno, Fuji, Dal-Ichi and Hitachi together represent an organized economic structure. Share-swaps between the members of Keiratsu, guarantee a cheap and stable capital, both of which are necessary in order to work out long-term industrial strategies.[7]

When we take into consideration such contrasts between the two management systems, it is clear that Fujisava's five percent difference is crucial.

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[3] Hamel G., Prahalad C.K., *Strategic Intent*, Harvard Business Review, 1989, p. *63-76.*

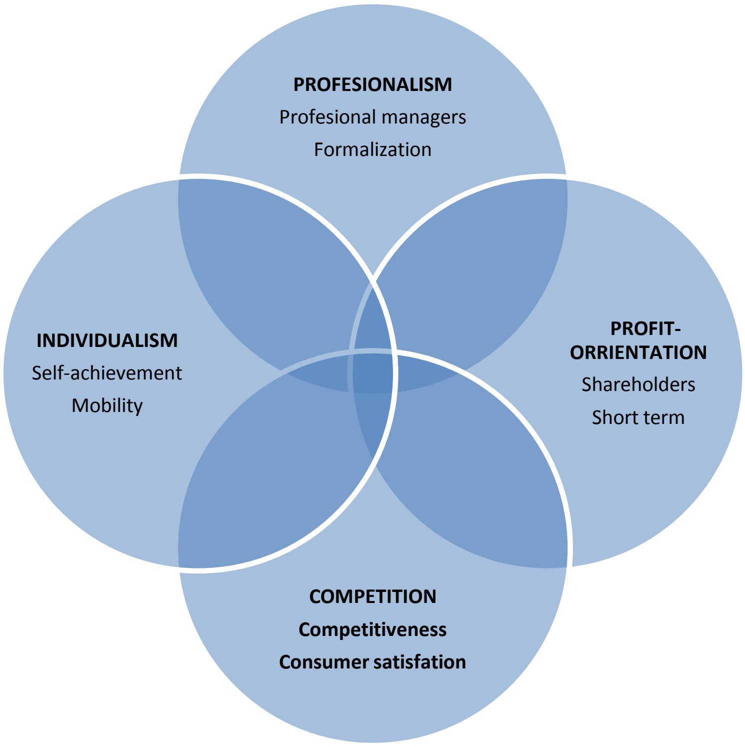
[4] Thurow L*., Head to Head*, Mit Press, Cambridge, 2013.

[5] Chandler A.D., "The Evolution of Modern Global Competition", Competition in Global Industries, Harvard Business School Press, 1986.

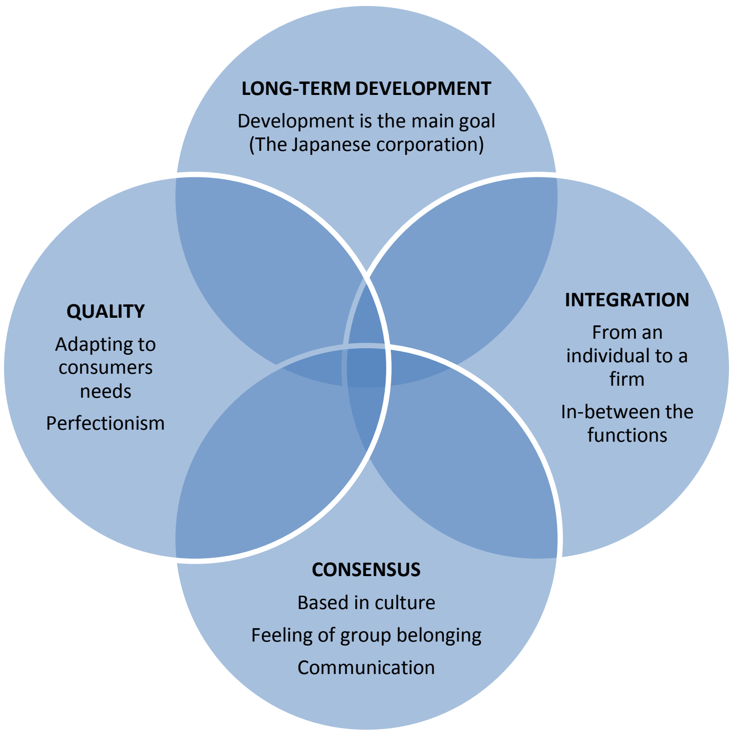
[6] Abbleglen James, Stalk George, *Kaisha, The Japanese Corporation*, Basic Books, New York, 2012.

[7] Thurow Lester, *Head to Head*, Mit Press, Cambridge, 2013.

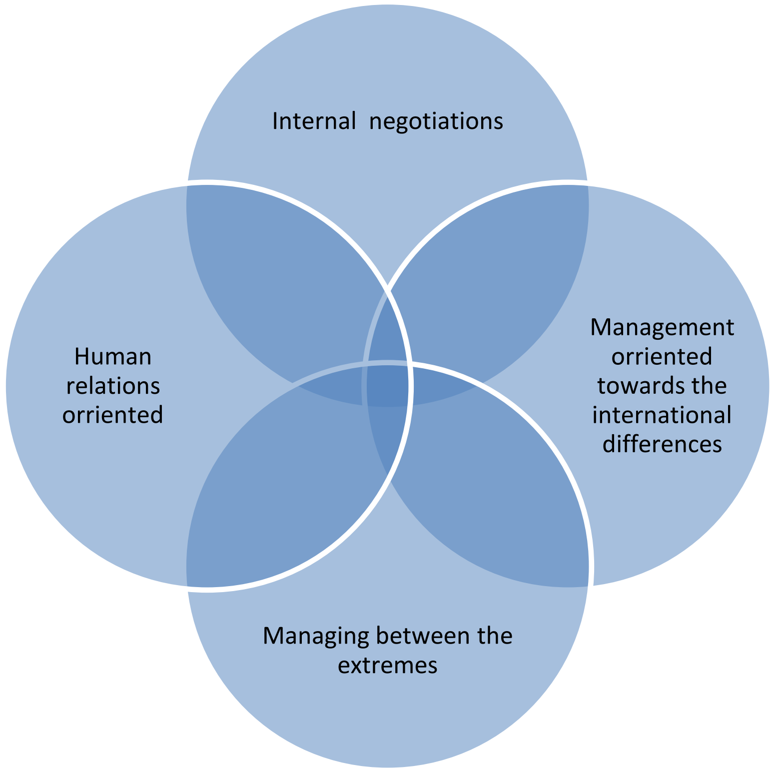
Pictures 1, 2 and 3 sums up the main characteristics of the American, Japanese and European management model, which will in the following pages of this paper, serve as the basis for the analysis of the American and Japanese management philosophy influence on the European management.



Picture 1. *Characteristics of the US system of management.*



Picture 2. *Characteristics of the Japanese system of management.*



Picture 3. *Characteristics of the European system of management.*

The research conducted in European companies has shown that European managers define the influence of the American management in more positive terms than the researchers did: this is clearly due to the fact that Europe still values some key characteristics of American society, such as entrepreneurship, the concept of individualism, profit orientation and competition. Competition is defined as the main characteristic of the American management, primarily because of its contrast with Europe, where the companies and markets are far more protected. Analyzing Japanese companies and their influence on the European market, these researchers have shown that "aiming for quality" is the fundamental feature of the Japanese model.[8]

The comparative analysis of US and Japanese model of management has led to a wider comparison between the two forms of capitalism: the Anglo-Saxon "individualistic form of capitalism" (represented by the USA and the UK) and the "communitarian form of capitalism" (represented by Germany and Japan), in terms used by George C. Lodge.[9]

In that sense Michael Albert makes a distinction between "Capitalism Anglo-Saxon" and "Capitalism Renan". This extended segmentation is based on the synthesis which is similar in comparison to the USA and Japan. According to these authors, Great Britain and the USA share a common paradigm: liberalism, profit orientation, domination of finance over industry, orientation towards the shareholders in the decision-making process, individualism and huge staff mobility. Germany and Japan have similar paradigms: an organized competitive power, a long-term orientation, big investments, a stable capital structure and loyalty to the company.[10] However, despite the similarities, some inconsistencies are evident. German companies definitely belong to the "occidental clan where the "self" dominates work relationships"; the German manager is a "specialist" whereas the Japanese manager is a "generalist". The German market economy and the relationships between top management and trade unions are

[8] Roland Calori, *Contrasting the US and the Japanese Systems of Management*, European Management Model, Prentice Hall, 2015.
[9] Lodge C. George, *Perestroika for America,* Harvard Business School, Boston, 1991.
[10] Albert Michael, *Cpitalisme Contre Capitalisme,* Seuil, Paris, 2000.

basically different from the Japanese model. Peter Lawrence has identified some of the key differences between the British and the US system of management: In Britain, management is intuitive: system, operating procedures, standards and strategic planning are far less developed than in the USA. British management is pragmatic and discretionary, while American management is more realistic. In the US, conflicts are considered normal and desirable, whereas the British view them as disruptive and as a sign of failure.[11]

However, these assumptions indicate indirectly that, within Europe, there are characteristics which make the European management model specific compared to the American or Japanese, but at the same time point out mutual integrations and impacts of these three models.

Transfer of Japanese business politics to European business environment

A huge increase of Japanese direct investments in Europe is a specific challenge for the European business environment – at the same time, it is a "threat" and an "opportunity" – a threat through direct competition and presence of Japanese companies on the European market and an "opportunity" through opening of new vacancies where Japanese production units are located.[12] However, in discussing the influence of the Japanese management philosophy, a crucial question arises - how do Japanese companies act on the European market? Do they manage their business operations as insiders, trying to adapt their management to European business practice or have they attained their positions inside the "fortress Europe", aiming to transfer their own management model?

In discussing this question, the case of automotive industry can serve as a great example. Automotive industry has an influence on other economy sectors, as well as on the employment policy: it has created four million jobs and 7% of the European Community gross domestic product (GDP). Thus, the presence of Japanese companies in this industry in Europe is the main economic, social, political and business challenge. American car producers in Europe, such as *Ford of Europe* and *GM Europe* (Vauxhall and Opel) are such insiders that they have become the ACEA (European Automobile Manufacturers' Association) members. The membership in ACEA has enabled the American producers to exert influence in order to limit Japanese cars sales in the European Community. In the mid 1990s under the French and Italian pressures, a treaty on banning the import of cars from Japan into European Community and monitoring the development of Japanese transplants in the European automotive industry was signed, in order to make sure that their production did not exceed the limit of 1.2 million of vehicles by the end of 1999. The policy of Great Britain, which opposed this by staying open for Japanese companies and French-Italian relations, caused tensions in the European Community.[13]

The majority of Japanese companies' business operations (as opposed to US) in Europe, are of a recent date and their adaptation to the local way of doing business has still not been completely achieved. This is mainly caused by the problem of transferring Japanese management methods and techniques to Europe. On one hand, in the production domain (organization and quality), the transfer of Japanese business practice to Europe has been successfully completed. On the other hand, in domains of decision-making and management of communications and staff, social differences increase the complexity of Japanese companies' operations. Here, we can single out some of the limiting factors.

Firstly, key managerial positions in the branch offices of Japanese companies in Europe are mainly occupied by the Japanese, who have still not completely adopted European cultural and social customs. Japanese companies do not recruit top, higher and middle-level managers from the country the branch

[11] Lawrence Peter, T*hrough a Glass Darkly: Towards a Characterization of British Management*, Professions and Management in Britain, University of Stirling, Scotland, 2013.

[12] In the early 1990s, Japanese investments have amounted around $ 27000 milion . Compared to US investments in Europe, which were at the same time approximately $35000 million, USD shows the significance of Japanese investments in Europe. Source : *Japanese External Trade Organization, White Paper on Foreign Direct Investment,* Jetro, Tokyo, 2016.

[13] Japanese External Trade Organzation, White Paper on Foreign Direct Investment, Jetro, Tokyo, 2016.

office is being opened in, due to a possibility of losing control in the process of making and implementing decisions and complicating communication between the branch and the head–office.

Secondly, the existence of a cultural gap between Japan and Europe affects running of business operations. Due to a long period of isolation, the Japanese have established original principles of decision-making and decision-implementing, which can be described in the following way: collective spirit, introversion, consensus, precision, group responsibility. These characteristics are in contrast to almost every characteristic of decision-making in the European management model: individualism, extroversion, approximation, acceptance of different options, control directed to the individual (picture 5.15). [14]

Japanese model	European model
Collective spirit	Individualism
Introversion	Extroversion
Consensus	Accepting different options
Precision	Approximation
Group responsibility	Control directed towards the individual

***Picture 5.15.** The decision-making in Japanese and European management model.*

In running business in Europe, Japanese companies have implemented only a part of their managerial practice (in production domain), but at the same their management has been forced to adapt to local European managerial practices (especially in the field of directing and managing staff).

The majority of typically Japanese business policies and techniques are successfully transferred and applied to European branches of the Japanese headquarters.. They entail a long-term goals perspective, a demand for top-notch quality, production priority and horizontal integration.[15]

For the Japanese top level managers, short-term profitable goals are never priorities, as it is the case with the managers of American companies. The managers of Japanese companies make decisions guided by the goal of a “long-term strategic intent“. Japanese companies start their operations in Europe mostly with small investments. Only in the second phase, after getting to know the market better and establishing a stable relationship networks with suppliers and clients, do they expand the investment network. The dominant goal of Japanese company’s management is a continuous growth and the increase of the market share.

The second characteristic of Japanese management is the fact that when it comes to transfer of business policy onto the European market, priority is given to production and its sectors. Japanese managers possess technical knowledge, skills and experience in production. With the exception of German management system in European companies production is far lest ”prestigious” compared to the fields of marketing, research, development or finance. That is why technicians, together with the production workers and employees in Japanese companies' European branches, fully accept the dedication that is ascribed to their functions, while Japanese skills in this field are easily transmitted and adopted.

Japanese strategies of doing business give priority to consumers in terms of production and service quality. That being said, Japanese companies in Europe implement this type of strategy, not facing a

[14] Sachwald F., Les Enterprises Japonaises en Europe, motivations et strategies, Travaux et Eecherces de L'IFRI, Masson, Paris, 2010.

[15] Yoshihara H., Hayashi K., Yasumuro K., NIHON KIGY No GLOBAL KEIEI, (Global Management in Japanese Companies), Toyo Keizai Shinposhya, Tokyo, 2015.

great resistance: consumers approve the excellent service (up to a point when the price difference gets too big) and the employees are stimulated to excel in running business (as long as their training is being carried out). Thus, for instance in the automotive industry, Japanese companies were the first to offer their customers a three year warranty for free repairs.

Japanese business strategies are based on the product quality, which is the main goal when it comes to domestic and international markets. In European business environments, where consumers think the quality is of crucial importance, management of Japanese companies' European branches has successfully implemented transfer of Japanese quality strategies.

Decision-making in Japanese and European companies – a comparative approach

European management model is characterized by the ”bottom-up” decision-making and communication process. In contrast to European companies where the top-level managers are in charge of decision-making, in Japanese companies the centre of decision-making are middle-level managers (”Kacho” - section chief). In the Japanese management model, mid-level managers initiate and develop projects. The first phase of the decision-making implies an intense communication between the mid-level managers, section chiefs and subordinate levels of the company′s management. In this phase, the goal is to discuss and test the ideas. This phase is called Nemawashi – the procedure of reaching consensus. In the second phase, mid-level managers consult and submit report to the higher management levels. This phase is termed – *Ringisho*. Information circulates among the managers involved in the given project, with the aim of obtaining their approval. After the top-level managers have given their approval, Ringisho is returned to the mid-level manager who initiated the project and the decision implementation can begin.

In European companies, processes similar to Nemawashi can occur (system of co-determination in German management system or decision-making in Scandinavian countries). However, in European companies, the flow of information is limited, less people are involved in the decision-making process (for instance lower-level managers) and furthermore the opinions of higher and top-level managers have the final say in the decision-making.

The process of decision-making in the Japanese management model demands a longer period of time, however that way, the possibility of error is prevented and the very process is made easier.

One of the common challenges that Japanese managers encounter in Europe is vertical organization structure. In European companies every department is considered relatively autonomous and dependent only on its managers' decisions. Communication between departments is poor and no employee can intervene outside of their department without the department manager' consent.

Communication between departments in Japanese companies is far more direct. The flow of information is free (inside the department and among departments in a company). Information in Japan is a shared tool, while information in Europe is a tool owned by company’s departments.

Cultural differences between the Japanese and the European management models have influenced Japanese management to limit or slow down the transfer of its domestic management practice in its European branches. Picture 5.16 shows some of the results of a study conducted by JETRO, which point out and confirm certain dilemmas that Japanese managers have.[16] It is apparent that the highest transfer index has been achieved in the field of in-company training and the lowest in a distinctive Japanese policy of slow managerial career advancement.

[16] Japanese External Trade Organization, White Paper on Foreign Direct Investment, Jetro, Tokyo, 2016.

Characteristics	Japanese branches in Europe where Japanese management practices has been implemented (in %)
"Just in time"	10,9
Life-long employment	14,9
In-company training	69,9
Slow career advancement	4, 6
Daily meetings	36,2
Work uniforms	56,2

Picture 5.16. *The transfer of Japanese management practices in European branches of Japanese companies.*

Among the Japanese multinational companies which conduct their business operations in Europe, Sony is one of the few Japanese companies that have an organizational structure, in which "global integration" and "local responsibility" have been reasonably implemented. The headquarters of *Sony Europe* Company is located in Germany, TVs are produced in the UK branch, while video recorders and hi-fi systems are produced in the French branch. If we analyze the organizational structure of *Sony France*, it shows that a Frenchman was appointed CEO of the branch (it is an unusual practice for the Japanese companies to appoint local staff on its branches' top-levels). Furthermore, managers of three production units were also French. Only 12% of 2000 employees were the Japanese (mostly technicians and one executive director). Responsibility for making and implementing decisions was delegated to local managers (France). In Japan, *Sony's*' main office retained the right of decision-making in the field of setting goals and determining the strategy.

Sony's management has applied this model in practice and it integrated positive aspects of Japanese and European corporative cultures (Japanese decision-making style and French egalitarian style of human relations) with goal of avoiding different interpretations of decisions that were made (regardless of who makes the decision – Japanese main office or French branch office). That way, some of the Japanese companies such as *Sony*, have started changing their approach – from the former "outsiders" to current "insiders" in the European business environment.

A large number of researchers, among whom are Barlett and Ghoshal define the organization of Japanese companies as a "centralized node". In their research, Barlett and Ghoshal have compared a large number of European and Japanese companies: *Kao* with *Univer* (cosmetic industry), *NEC* with *Ericson* (telecommunications) or *Matsushita* whit *Philips NV* (electronics). These examples indicate that a specific manner of decision-making and exerting control, characteristic of Japanese companies, is a result of culturally dependent managerial system based on group-oriented behaviour.

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