WHAT HAPPENED TO JAPANESE STYLE MANAGEMENT?

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During the late 1960s and early 1970s, Japanese style management was venerated in business schools and books as the way to build successful enterprises. Japanese companies validated this assumption by capturing worldwide market share in diverse products, such as automobiles and electronics, writes P Reed Maurer, long time pharma industry watcher who is president of International Alliances Limited, in his regular exclusive insight for The Pharma Letter.

A few naysayers have suggested Japanese management practices worked well in a homogeneous society like Japan, but would not transplant well in societies with a high level of diversity. With the benefit of 40-plus years of hindsight let's review, the hype and reality of Japanese style management.

Life time employment

Life time employment was a cornerstone of the Kaisha (company) personnel philosophy.   It resulted in a stable work force with undying loyalty to the company. Employees started their day in group exercises and at closing time many joined colleagues for an evening meal. No one took a vacation lasting more than three days, and no one ever contemplated changing jobs.

As life expectancy of the population increased, the idea of lifetime employment where employees were expected to retire at age 60 morphed into half-a-lifetime employment. And when growth slowed from double digits to a single digit, employees were often asked to take early retirement. More significant was the trend toward hiring non-regular employees, who today account for 60% of all employees. These people never heard about lifetime employment but do yearn for greater job security.

Seniority rules

There was a time when every new employee stepped on a salary escalator that went up until retirement. Each was given an annual raise in pay that mostly reflected service with a slight nod to performance. In order for the company to keep its wages under control it needed an early retirement age and a steady supply of new employees just getting on the escalator at low wages.

This system continues to dominate personnel policy in many companies, which is obvious to observers who see new graduates pictured en masse being welcomed by company presidents every April.

But this practice rewards people who “stand in” versus those who want to stand out. A growing number of young people are seeking an individual rather than a group identity. This is particularly true in a knowledge-based economy compared to an economy dominated by production-focused companies. More significant is a desire to strike a balance between a personal life and a work life. Vacations are longer and the office lights are turned off at 6:00pm in a growing number of companies.

Consensus decision-making

A consensus style of making decisions fits nicely into a society that values group versus individual action. I have been doing business in Japan since 1970 and cannot recall even one time when a decision was made by taking a simple vote. All were made by consensus.

The downside of this process is the time it takes to get 100% buy-in to a particular course of action. The upside is everyone is on the same page during the execution phase. Arriving at a consensus is essentially a bottom up process of reaching a decision. Thus, people who will be critical in the implementation phase of a project are part of the solution and fully committed to a successful outcome.

But, once again arriving at a consensus takes a lot more time than a senior executive at the top telling everyone down below what to do and how to do it. The result is a quick decision, but executing the decision often drags on because there is a lack of commitment. Not everyone appreciates being told what to do.

Expansion outside Japan, survival inside

The above mentioned characteristics of Japanese management are under assault both at home and abroad. Toshiba is on the verge of collapse because of a failed investment in Westinghouse atomic power. Sharp had to be rescued by a Taiwanese company. Japan Post incurred huge losses in an Australian acquisition. In the pharma industry, Daiichi Sankyo finally bailed out of a failed acquisition of Ranbaxy in India. To the shock of many, Takeda appointed a Frenchman as chief executive to guide its future into new therapies and foreign markets.

There are serious questions about the tolerance of Japanese management for risk. When you are expected to “stand in” versus standing out you become risk averse. And risk averse people are generally not innovators. Rather, they are incrementalists. They excel at creating small step improvements versus game changing innovations.

There is no doubt that new drugs originate in Japan, but these have very often been second or third generation improvements on original drugs discovered elsewhere. This may be the niche particularly suited to a management style as practiced in Japan.

But this raises the question as to how Japanese companies can access leading edge technology outside Japan where they must compete with US and European companies who also want new ideas originating in emerging companies. In this competition time is critical. A consensus driven decision making process will lose.

In short

Do not expect Japanese management style to change in the way it does business in Japan. But it must change to do business outside Japan. Conversely, if you want to succeed in Japan, study and learn how to use Japanese style management versus what you learned elsewhere. But recognize Japan is changing, thus making the workplace a more diverse environment in terms of gender and age. A one size fits all management style is passé.