



# Japanese Management Culture and Corporate Innovation

Then [mid 1980's] and now [2010].

A focus on elements of the Japanese management style and culture and their impact on innovation and national economic growth.

**A White** & Partners Ltd. **Paper**

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# Table of Contents

- Executive Summary.
- Then [mid 1980s].
- Japanese Management Culture.
- Score Card; How Does Japanese Management Culture Support or Detract From an Innovative Culture?
- A Change in Management Practices and Culture? Which Directions?

## **Appendix**

- Study of International Competitiveness;  
Information and Technology and Innovation Foundation, February 2009.

## Executive Summary.

### Japanese Management Culture and Corporate Innovation.

#### Why examine Japan's management practices and culture at this time.

- For the last two decades Japan's economy has disappointed. Economic growth has stagnated, unemployment has remained high, yet two decades ago prospects were never brighter; exports were growing and Japanese business styles were taken up by most western companies.
- Now seems a good time to examine some of the underlying developments which have contributed to Japan's stagnant economy. We know that one of the major reasons for poor economic performance is due to a declining working-age population. Are there other contributing factors which might have exacerbated the stagnation?
- This examination of Japan's management practices and culture seeks to identify contributing factors to the current situation from the viewpoint of innovation. If, as many believe, innovation is the driver of economic development, what is the status of innovation in Japan? What steps can be taken to move the economy ahead? Are there lessons to be learned from the Japanese experience?

# Executive Summary

## Japanese Management Culture and Corporate Innovation Research Sources

- The examination relies primarily on the following sources of information:
  - a study undertaken by Arthur D Little Inc., and updated by White & Partners Ltd. which provides some insight into innovation in the corporate world as of the mid 1980s, about the time that the economy started to ‘sputter’,
  - The Economist, November 5<sup>th</sup>, 2009, review of ‘Japan’s technology champions, Invisible but indispensable’,
  - A study of international competitiveness by the Information and Technology and Innovation Foundation which issued a report in February, 2009, ranking 36 countries using 16 indicative factors,
  - Wikipedia information on Japanese management and business practices.
  - Innovation Symposium, ‘The Imperative for Strengthening Innovation’, Embassy of Canada, Tokyo, Japan sponsored by the University of Toronto and GRIPS (Japan), November 16<sup>th</sup> and 17<sup>th</sup>, 2009.

# Executive Summary

## Japanese Management Culture and Corporate Innovation Premise

In terms of inputs, Japan, in spite of;

- spending massive amounts on Research and Development in both the corporate and public sectors (Japan leads all other countries in R&D spending; 2.6% of GDP compared to the U.S. at 1.7% and Canada at 0.9%),
- having an education system which has a record of higher education attainment than the U.S. by 30%, and has a higher number of scientists and engineers than the U.S. (by 13%) and the EU-15 (by 77%),
- ranking as the best country in terms of E-government (use of digital technology) and use of broadband where Japan ranks 5<sup>th</sup>, and corporate investment in R&D where Japan ranks 3<sup>rd</sup>,

the economy lags significantly in its innovative capacity and has been stagnant for two decades.

# Executive Summary

## Japanese Management Culture and Corporate Innovation Premise

- But Japan:
  - has amongst the highest tax rates – but still close to the U.S.,
  - has an ease of doing business which ranks below the U.S. Canada, and Australia but above 12 other nations,
  - has, for years, run a trade surplus,
  - has a venture capital facility which ranks 17% below U.S. levels,
  - a relatively low level of new firm creation (ranking at 1/3 of U.S. levels),
- Just maybe there is a suggestion that some other factors are at work. This review sets out to explore some of the other factors which may be contributing or inhibiting innovation and economic growth in Japan. Can we learn from the experience of the last two decades?

# Executive Summary

## Japanese Management Culture and Corporate Innovation Observations and Conclusions

- Japanese management practices and management culture need to change.
- There are significant barriers to corporate innovation which are rooted in a long-standing management culture.
- While Japanese management has provided almost all western companies with a host of solid approaches to improving performance through better management, it is now time for Japanese management to examine how it can improve its own inventiveness and innovativeness.
- Major dimensions of change includes:
  - adopting a greater tolerance for risk taking, for mavericks (and crazy ideas), for different approaches to business, and for addressing failure in a corporate setting,
  - putting in place a reward system which recognizes outstanding individuals, as well as group contribution to invention and innovation,
  - allowing industry restructuring by way of mergers, acquisitions, and divestments including the use of foreign capital for this purpose,
  - encouraging improved communication and openness within the corporate setting, and
  - instituting programs which allow for greater job mobility within industry.

# Then [mid 1980s]: Responses to Questions Related to Innovation Practices and Expectations; Japan versus North America/Europe.

Based mainly on a study by Arthur D Little Inc. and updated by White and Partners Ltd.

## Japan

- Need for innovation becoming much more important – 67% 
- Corporate expectations for contribution from innovation in next 5 years – 87% 
- Likelihood of a good idea being implemented – 16% 
- Preoccupation with existing operations and short-term problems - 55% 
- Reluctance to obsolesce exiting skills, equipment, or facilities – 1% 
- Insufficient incentives for managers to take risks – 36% 
- Inadequate capital and resources – 52% 

## North America/Europe

- Need for innovation becoming much more important – NA 41%, Europe 25%.
- Corporate expectations for contribution from innovation in next 5 years – NA 51%, Europe 71%.
- Likelihood of a good idea being implemented – NA 38%, Europe 39%.
- Preoccupation with existing operations and short-term problems – NA 81%, Europe 79%.
- Reluctance to obsolesce existing skills, equipment or facilities – NA 20%, Europe 20%.
- Insufficient incentives for managers to take risks – NA 22%, Europe 19%.
- Inadequate capital and resources – NA 17%, Europe 13%.

Arrows show Japan's (the sample) opinion re prospects for innovation as compared to responses from North America/Europe.

# Then [mid 1980s]: Sources of invention (or creativity) versus sources of innovation in industry.

Based mainly on a study by Arthur D Little Inc. and updated by White and Partners Ltd.

Source	Invention		Innovation	
	Japan	NA/Europe	Japan	NA/Europe
Dedicated groups within the organization.	70%	59%/63%	53%	70%/67%
Others in the organization	38%	29%/25%	32%	51%/31%
Others in your industry	23%	33%/16%	24%	33%/17%
The academic community	45%	13%/28%	43%	6%/11%
Customers	25%	19%/34%	14%	31%/29%
Entrepreneurs	24%	20%/13%	17%	22%/11%
Other American companies	14%	18%/19%	6%	20%/15%
Other European companies	11%	9%/10%	25%	7%/11%
Other Japanese companies	2%	9%/16%	3%	11%/13%
Other	0%	4%/2%	0%	3%/4%

Highlighted information noted by W&P Ltd.

# Then [mid 1980s]: To what degree do you see innovation needing to occur in each area in your organization or core business?

Based mainly on a study by Arthur D Little Inc. and updated by White and Partners Ltd.

Area	Japan	Europe	North America
Product	80%	56%	49%
Service	51	36	42
Marketing	55	35	45
Production	53	33	27
Distribution	29	8	14
Finance	31	10	14
Management	30	27	32
Social	26	16	12

Continuous improvement.

Heavy emphasis on product development may have indicated a different interpretation of 'innovation'.

Lagging characteristics of Japanese economy at the time.

Perhaps represents the late identification of marketing as an important function.

Already seen as effective and exported to most global companies at the time?

# Then [mid 1980s]: a view on innovation in a corporate setting.

Based mainly on a study by Arthur D Little Inc. and updated by White and Partners Ltd.

- Japanese industry views the academic community as a major source of both new inventions and innovations; very much more so than does industry in Europe and the U.S.A.
- Japanese industry expects much more from their in-house efforts at invention (but not innovation) than does industry in Europe and North America.
- North American companies see, much more so than either Japanese or European companies, their own industry as a source of both invention and innovation. In Japan, ideas come less frequently from one's own industry than is the case in Europe.
- Japanese industry places a much greater emphasis on the need for innovation than did similar significant corporations in Europe and North America but the likelihood of a good idea being implemented in Japan was dramatically less than in Europe and North America.
- The proportion of senior executives' time spent on the management of innovation was greater (33%) than in either North America (24%) or Europe (26%) and it was increasing at a greater rate in Japan.
- There was a perception that there would be insufficient incentives for managers to take risks in Japan and that inadequate capital and resources would be available for investing in new ideas if they were discovered – this in sharp contrast to the attitudes of corporate leaders in Europe and North America.

# Then [mid 1980s]: New Organizational Mechanisms used to Overcome Traditional Barriers.

Based mainly on a study by Arthur D Little Inc. and updated by White and Partners Ltd.

- While Japanese make use of task forces and joint ventures, they also report wide use of such mechanisms as new business start-ups, partial spin-offs, supplier partnerships, and such financial mechanisms as R&D limited partnerships or licensing agreements.
- Japanese are far less likely than other companies to use individual champions, perhaps reflecting the emphasis on group rather than individual performance in Japanese companies.
- North Americans pay more attention to financial rewards, while European and Japanese tend to emphasize personal recognition and non-monetary rewards.
- The proportion of a senior executives time spent on the management of innovation is greater (33%) than in either North America (24%) or Europe (26%) and it is increasing at a greater rate in Japan.

## A comparison; Japan then and now.

- **Then**

- Economic growth par excellence.
- A model for business practices.
- Global dominance by way of large and medium-sized enterprises.
- Heavy spending on R&D.

- **Now**

- Two decades of economic stagnation.
- Large companies losing global market share.
- Major questions about how to move corporate innovation ahead.
- Heavy spending on R&D.



# Japanese Management Culture

# Japanese Management Culture

## International Competitiveness and Corporate Size

- A Report (February, 2009) from the Information and Technology and Innovation Foundation ranks Japan as 9<sup>th</sup> in terms of its international competitiveness. The same report states that Japan led all other countries in corporate research and development when size was factored into the analysis.
- Japan has both large enterprises and smaller medium-sized firms, and the management practices can be different for each.
- Japanese industry is better known abroad for its large trading conglomerates but it also has a host of medium-sized firms that dominate specialized global markets. While major Japanese electronic companies, for example, are losing market share to rivals from China, South Korea, and Taiwan, medium-sized companies often dominate their global market.
- The technologies of the medium-sized companies are largely invisible to consumers because they supply high profile companies with products essential to the operation of their products. Often, a small priced product, with a huge impact on the performance of the product should it fail. The global technology industry depends on these products and these companies; referred to as; *chuken kigyō* (strong medium-sized firms). [The Economist, November 5th, 2009].
- The technology prowess is a reminder of the country's industrial strength – even after two decades of economic stagnation. These medium-sized companies are essential for the operation of a larger system and require continual innovation to avoid becoming a commodity. [The Economist, November 5th, 2009].

# Japanese Management Culture

## How do the strong medium-sized firms innovate?

[The Economist, November 5th, 2009]

- Invest handsomely in R&D.
- Keep the wraps on the ‘high-end’ stuff so that the knowledge does not get out of the company.
- Often own their own supply chains.
- Some make their own manufacturing machines – to control costs and remain independent from their suppliers.
- Maintain a deep understanding of their technology.
- Listening to the demands of their customers for higher quality and reliability, customers who demand strict standards and upward change. Customization – demands from customers – cements the relationship with the customers (trust is the basis) becoming a significant barrier to entry.
- Knowledge about the technology is accumulated over decades and resides with the employees over the long-term employment by the company. The belief that ‘the strength of the company is stored in the collective mind of employees-rather than in the share price of the moment – explains why Japanese companies disdain mergers, acquisitions and takeovers.

# Japanese Management Culture

## Japanese, large-sized companies have the following attributes.

Source: Wikipedia,

- Life time employment but a weeding out (based on contributors versus non-contributors and issues of potential for senior future executive roles) takes place at the senior level a decade or two in advance of 'normal' retirement.
- Permanent employment is the norm – for those who make the cut.
- Seniority is a major factor in deciding promotions.
- A heavy emphasis on the 'schooling' in ones background to even get on a short list on graduation.
- An emphasis on uniformity and conformance to past traditions.
- Rewards; salary increases, at least for the early part of a career, are more or less uniform – outstanding individual performance is not recognized early on.
- Management (and the Board) take a long term view and are not as prone to meeting quarterly targets as are executives in NA and Europe.
- Unions, or their equivalent, are not adversarial to management and there is little rocking of the boat by these organizations or their - information flow is from the bottom up with middle management acting as the facilitator
- .Maintaining harmony and building consensus is the chief role of management members (all employees are required to joint the union).
- Workers well being is given a high priority in management decision making.

# Japanese Management Culture

## Permanent Employment and Hiring Practices.

Source: Wikipedia,

- One of the prominent features of Japanese management is the practice of [permanent employment](#). Permanent employment covers the minority of the work force that work for the major companies. Management trainees, traditionally nearly all of whom were men, are recruited directly from colleges when they graduate in the late winter and, if they survive a six-month [probationary period](#) with the company, are expected to stay with the companies for their entire working careers. Employees are not dismissed thereafter on any grounds, except for serious breaches of ethics.

**Comment: Guaranteed employment no matter what, must have an impact on an individual's attitude to risk and the negative consequences of failure. To make a mistake and know that one has to spend a lifetime in the same company must act to deter risk taking.**

- Permanent employees are hired as generalists, not as specialists for specific positions. A new worker is not hired because of any special skill or experience; rather, the individual's intelligence, educational background, and personal attitudes and attributes are closely examined. On entering a Japanese corporation, the new employee will train from six to twelve months in each of the firm's major offices or divisions. Thus, within a few years a young employee will know every facet of company operations, knowledge which allows companies to be more productive.

**Comment: a traditional approach which recognizes that intelligence and other key employment attributes are often the best criteria for hiring can also contribute to low job mobility of both specialists and managers. This 'traditionalist' approach to hiring and training was the bed rock of the apprenticeship systems of Western Europe and the U.K. – decades earlier. Hiring of 'mavericks' is likely discouraged by this approach.**

# Japanese Management Culture

## Promotion, reward, benefits and evaluation.

Source: Wikipedia,

- Another unique aspect of Japanese management is the system of [promotion](#) and reward. An important criterion is [seniority](#). Seniority is determined by the year an employee's class enters the company. Career progression is highly predictable, regulated, and automatic. Compensation for young workers is quite low, but they accept low pay with the understanding that their pay will increase in regular increments and be quite high by retirement. Compensation consists of a wide range of tangible and intangible benefits, including housing assistance, inexpensive vacations, good recreational facilities, and above all the availability of low-cost loans for such expenses as housing and a new automobile. Regular pay is often augmented by generous semi-annual bonuses. Members of the same graduating class usually start with similar salaries, and salary increases and promotions each year are generally uniform. The purpose is to maintain harmony and avoid stress and jealousy within the group.

**Comment: dramatically different from NA and European practice today - and two decades ago. The motivation for the better managers in Japan is to stay around long enough to get to enjoy the perks of higher office – perhaps to not take risks which could jeopardize promotion.**

- Individual evaluation, however, does occur. Early in workers' careers, by age thirty, distinctions are made in pay and job assignments. During the latter part of worker's careers, another weeding takes place, as only the best workers are selected for accelerated advancement into upper management. Those employees who fail to advance are forced to retire from the company in their mid- to late fifties. [Retirement](#) does not necessarily mean a life of leisure. Poor pension benefits and modest [social security](#) means that many people have to continue working after retiring from a career. Many management retirees work for the smaller subsidiaries of the large companies, with another company, or with the large company itself at substantially lower salaries.

**Comment: Weeding out – but with a ‘safety blanket’ - at mid-age is the general practice and not the wide-spread use of severance packages or early retirement options so common in NA. Reinforces the idea of a ‘cradle to grave’ corporate benevolent relationship.**

# Japanese Management Culture

## Changing human relations practices and the role of unions.

Source: Wikipedia,

- A few major corporations in the late 1980s were experimenting with variations of permanent employment and automatic promotion. Some rewarded harder work and higher production with higher raises and more rapid promotions, but most retained the more traditional forms of hiring and advancement. A few companies that experienced serious reverses laid off workers, but such instances were rare. This changed dramatically with the collapse of the [Japanese asset price bubble](#), when several large Japanese companies went bankrupt and others merely survived struggling. Emergency measures, often only introduced after managers from western countries took over, included larger reductions in the work force of several companies. Since then, the Japanese [unemployment rate](#) has been on the rise, even though official figures are still low by international standards.

**Comment: Circumstances are forcing a reevaluation of the approach to employment and reward mechanisms but important to note is that it is the desperate nature of the situation which is calling for a new approach and not an inherent culture driving the change.**

- Another aspect of Japanese management is the [company union](#), which most regular company employees are obliged to join (see [Labor unions in Japan](#)). The workers do not have a separate skill identification outside of the company. Despite federations of unions at the national level, the union does not exist as an entity separate from, or with an adversarial relationship to, the company. The linking of the company with the worker puts severe limits on independent union action, and the worker does not wish to harm the economic wellbeing of the company. [Strikes](#) are rare and usually brief.

**Comment: Unions have been a driving force in Europe and N.A. and have often been viewed as inhibiting or slowing innovative practices. None-the-less, the friction generated from the relationship has been something that both management and labor have dealt with and led to an openness and transparency which is non-existent in Japan.**

# Japanese Management Culture

## Leadership differences; Japan versus N.A. and Europe.

Source; Wikipedia.

- Japanese managerial style and decision making **in large companies** emphasizes the flow of information and initiative from the bottom up, making top management a facilitator rather than the source of authority, while middle management is both the impetus for and the shaper of policy. Consensus is stressed as a way of arriving at decisions, and close attention is paid to workers' well-being. Rather than serve as an important decision maker, the ranking officer of a company has the responsibility of maintaining harmony so that employees can work together. A Japanese chief executive officer is a consensus builder.

**Comment: Harmony is not one of the characteristics of many C.E.O.'s of western companies, rather the emphasis is on leadership and taking initiatives which are often initially seen to be against the grain of the organization, its culture and traditions; often referred to as 'exercising leadership', which can be viewed as a positive characteristic of innovative companies.**

# Japanese Management Culture

## The role of medium-sized firms in innovation and economic well-being.

Source; The Economist, November 5<sup>th</sup>, 2009,

- In smaller companies, an entirely different corporate culture developed. Similar to the *Meister* system of Germany, new recruits are placed under skilled senior specialists and spend years learning every technique that they have. They are trained to develop deeper understanding of specific areas of skills instead of the broader and less deep training that those in a larger corporation receive. They learn to produce work of higher quality using few simple tools and few or no advanced industrial tools. Country has a host of medium-sized firms that dominate specialized global markets. The technologies and the companies are largely invisible to consumers because they supply high profile companies with products essential to the operation of their products. Often, a small priced product, with a huge impact on the performance of the product should it fail. The global technology industry depends on these products and these companies; referred to as; *chuken kigyo* (strong medium-sized firms).

**Comment: At the root of the success of any large or small corporation is the ability of the organization to be ‘on top’ of its skill, trade, science, knowledge of whatever it does. This has received less emphasis in Japan due to the dominant ‘trade’ and branding activities of the large Japanese conglomerates.**

# Japanese Management Culture

Source; The Economist, November 5<sup>th</sup>, 2009.

- Japanese firms resist cooperating with other firms – due to their inward looking attitude.
- Japanese tax law discourages the formation of partnerships from forming.
- Vertical integration, while ensuring quality and reliability, also leads into non-core areas where work could be better done by others.
- The long-term focus can lead to a relaxed approach to cut ‘doomed projects’.
- Lifetime employment keeps knowledge in-house but firms lose flexibility, employees lose labor mobility and fresh ideas are stifled.
- Japanese have tradition of resisting outsiders – whether domestic or foreign.
- Once the expertise is lost, it is hard to regain.

Japanese culture is closely tied to; monozukuri (making things) and kaizen (continuous improvement).



Score Card.

## How Does Japanese Management Culture Support or Detract From an Innovative Culture?

**Color code:**

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

No opinion.

Reference is made to Factor #'s. More information on each Factor can be found at <http://www.corporateinnovationonline.com>

**Color code:**

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

No opinion.

# An Innovative Corporate Culture is Based on Four Management Themes

**How does Japanese management culture score?**

Built on a base of trust and respect for diversity, beliefs, values, traditions, language, behavior, geographic location, history, governance, social habits, attitudes, training, education, timing, threats, and for change.

# An Innovative Management Culture is Based on Four Themes

## Theme 1 – Management providing motivation by;

- aggressively seeking innovation.  
Factor #2.

- focusing on identifying opportunities.  
Factor #4.

- emphasizing people management.  
Factor #6.

- having rewards for innovators.  
Factor #14.

- encouraging loyalty.  
Factors #17/25.

Reference is made to Factor #'s. More information on each Factor can be found at

<http://www.corporateinnovationonline.com>

**Color code:**

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

Orange – No opinion.

# An Innovative Management Culture is Based on Four Themes

## Theme 2 – Management demonstrating a tolerance for;

- mavericks.  
Factor #3.

- failure.  
Factor #5.

- differences  
from the norm.  
Factor #8.

- risk taking.  
Factor #9.

Reference is made to Factor #'s. More information on each Factor can be found at <http://www.corporateinnovationonline.com>

### Color code:

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

Orange – No opinion.

# An Innovative Management Culture is Based on Four Themes

## Theme 3 – Management encouraging communication by;

- seeking openness and transparency.  
Factor #10.

- having an appropriate level of informality. Factor #10.

- putting in place a clearly-understood organization structure.  
Factor #6.

- seeking participation,  
Factor #12.

- maximizing delegation with accountability and responsibility.  
Factors #13/18.

- showing an open attitude to mergers and acquisitions.  
Factor #16.

Reference is made to Factor #'s. More information on each Factor can be found at

<http://www.corporateinnovationonline.com>

**Color code:**

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

Orange - No opinion.

# An Innovative Management Culture is Based on Four Themes

## Theme 4 - Managing the corporation's economics with an emphasis on;

- profit, but with a 'mid-term' horizon, not always short-term.  
Factor #1.

- having an acceptable risk profile for new investments.  
Factor #9.

- planning but with targets established for innovation.  
Factor #2.

Reference is made to Factor #'s. More information on each Factor can be found at

<http://www.corporateinnovationonline.com>

**Color code:**

Red – Japanese management culture does not support innovation – based on research into innovative global companies.

Green – Japanese management culture encourages innovation.

Orange – No opinion.



## A Change in Management Practices and Culture? In Which Directions?

What are the management practices which might be changed?

Can – should – Japanese management (and government) recalibrate their management culture to increase innovation and economic development?

# A Change in Culture? Is the management culture in Japan one of the major contributors to lack of economic development?

Major differences with innovative practices elsewhere.

- **Risk taking, tolerance to failure [Factors #5 & #9].** **Comment:** long term employment guarantees can have negative effect on management's willingness to take risks. Upsetting (i.e. having a failure) the system or the norm can mark a person for his/her career and impact potential for promotion. The easiest course of action is to go along with the majority, the norm, but this is also likely to inhibit taking risk decisions. Most innovative companies have a very open approach to failure – expecting failure and when it occurs it becomes a learning opportunity. P&G set targets for their failure rate – and below a certain level management believes that they are not being sufficiently adventurous.
- **Financial incentives [Factor #7 & #14].** North Americans pay more attention to financial rewards, while European and Japanese firms tend to emphasize personal recognition and non-monetary rewards.' Career progression is highly predictable, regulated, and automatic. Compensation for young workers is quite low, but they accept low pay with the understanding that their pay will increase in regular increments and be quite high by retirement. Compensation consists of a wide range of tangible and intangible benefits, including housing assistance, inexpensive vacations, good recreational facilities, and above all the availability of low-cost loans for such expenses as housing and a new automobile. The purpose is to maintain harmony and avoid stress and jealousy within the group. **Comment: dramatically different from NA and European practice today where innovators are generally singled out for reward. See 3M and John Deere.**
- **Individuals versus groups.** Japanese are far less likely than other companies to use individual champions, perhaps reflecting the emphasis on group rather than individual performance in Japanese companies. **Comment: how to reconcile this with the need to reward or award individuals is a cultural dilemma.**

# A Change in Culture? Is the management culture in Japan one of the major contributors to lack of economic development?

Major differences with innovative practices elsewhere.

- **Mergers, acquisitions and restructuring [Factor #16].** Japanese firms resist cooperating with other firms – due to their inward looking attitude. Vertical integration, while ensuring quality and reliability, also leads into non-core areas where work could be better done by others. The Economist; November 5<sup>th</sup>, 2009. **Comment: structural industry change is unwelcome in Japanese business but could be a strong determiner of competitiveness over the longer term.**
- **Links between academia and industry.** Japanese industry views the academic community as a major source of both new inventions and innovations; very much more so than does industry in Europe and the U.S.A. In the U.S.A. 80% of researchers work for private industry whereas in Japan it is 67%. **Comment: in the U.S.A. innovation is seen as being ‘done by industry’.** Peter Senge in his book, *The Fifth Discipline* states that ‘business is the locus of innovation in an open society’ because they (business) has the freedom to experiment – not available in the public sector.
- **Job mobility and ‘tenure’.** Tenure is a term that is never used in N.A. business (it is in academia) where there is a high incidence of job mobility. Less so in Europe. **Comment: job mobility is one of the mechanisms for introducing rapid change in industry since it accelerates the flow of new ideas and increases competitive intensity.**
- **Female participation rate.** The female participation rate is significantly higher in N.A. and in Europe than in Japan; the result of concerted actions over the last two decades. Women make up 49% of U.S.A.’s work force and 51% of professional workers. **Comment: McKinsey has recently published research which argues that ‘woman apply five of nine “leadership behaviours” that lead to corporate success more frequently than men. In Japan, employee rates are more than 20% points higher than those for women.**

## A Change in Culture? Is the management culture in Japan one of the major contributors to lack of economic development?

Major differences with innovative practices elsewhere.

- **Immigration and multiculturalism.** Japanese have a tradition of resisting outsiders – whether domestic or foreign. [The Economist; November 5<sup>th</sup>, 2009]. **Comment: countries such as the U.S.A., Canada, and Australia have a tradition of welcoming immigrants and providing social assistance programs to assist in their assimilation. The diversity which results is seen to be a competitive advantage and a source of new ideas, new approaches, even more relevant as the working world becomes ever more global.**
- **Tax laws to encourage new company formations and venture capital.** Japanese tax law discourages the formation of partnerships from forming. [The Economist; November 5<sup>th</sup>, 2009].
- **Continuous improvement rather than invention or innovation.** Japanese culture is closely tied to; monozukuri (making things) and kaizen (continuous improvement). **Comment: latching on to an idea, a new product, a new business model and then improving on the acquisition is something which Japanese companies have been very good at. Invention may be more of an issue.**
- **Hiring practices.** Permanent employees are hired as generalists, not as specialists for specific positions. A new worker is not hired because of any special skill or experience; rather, the individual's intelligence, educational background, and personal attitudes and attributes are closely examined. **Comment: perhaps a more balanced approach to hiring is required so that specialists also can get involved in companies when they are needed. Witness P&G's hiring of 'midcareer designers' in order to tap into designers' thinking and acting, i.e. more intuitive and less linear.**

A Change in Culture? Is the management culture in Japan one of the major contributors to lack of economic development?  
Major differences with innovative practices elsewhere.

- **Culture of making things and continuous improvement.** Japanese culture is closely tied to; monozukuri (making things) and kaizen (continuous improvement). **Comment: perhaps the culture should also embrace 'invention' with the same enthusiasm?**
- **Industry-union relationships.** Workers do not have a separate skill identification outside of the company. Despite federations of unions at the national level, the union does not exist as an entity separate from, or with an adversarial relationship to, the company. The linking of the company with the worker puts severe limits on independent union action, and the worker does not wish to harm the economic wellbeing of the company. **Comment: Lack of skill identification outside the company makes for limited job mobility and inhibits the transference of ideas.**
- **Transparency.** Movement from company to company within ones industry is almost unheard of in Japan whereas in N.A. and Europe it is an accepted practice. **Comment: competition for in-industry skills and experience creates competitive opportunities for individuals and as a consequence ideas also migrate easily within an industry although competitive advantage is often short-lived.**



## Appendix

# Study of International Competitiveness

Information and Technology and Innovation Foundation  
February, 2009.

# Results of a Study of International Competitiveness.

Report from the Information and Technology and Innovation Foundation\* February, 2009.

- Results were adjusted for the size of the country – different than many other studies of this kind.
- Surprises:
  - Sweden ranked first in venture capital investment
  - Japan led in corporate research and development
  - Sweden was first in scientific researchers.
  - Singapore ranked first overall; the results being traced back to a decision years ago to embark on a national innovation strategy, investing heavily and recruiting leading scientists and technologists from all over the world.

# Results of a Study of International Competitiveness. Report from the Information and Technology and Innovation Foundation.

February, 2009

	Rank	Overall	Human Capital		Innovation Capacity			Entrepreneurship	
			Higher Education	Researchers	Corporate R&D	Government R&D	Scientific Publications	Venture Capital	New Firms
<b>Singapore</b>	1st	73.4	38%	9.7	1.4%	0.90%	0.3	0.025%	19%
<b>Japan</b>	9th	59	53%	11.03	2.6%	0.60%	0.5	0.03%	4.4%
<b>Canada</b>	16th	54.4	54%	7.75	0.90%	0.70%	1.8	0.12%	6.3%
<b>U.S.A.</b>	6th	63.9	39%	9.69	1.7%	0.80%	2.1	0.18%	13%

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Economic Policy

		Effective Corporate Tax Rates	Business Climate
Singapore	1st	13%	38.8
Japan	9th	32%	13.2
Canada	16th	26%	23.7
U.S.A.	6th	32%	29.2