Japan’s Leadership Challenges in Globalization

Part 1: The Race is on for Japanese Global Leaders

BY DHR INTERNATIONAL TOKYO OFFICE
Introduction

The population of Japan has declined since 2011, a trend that will likely continue into the foreseeable future. Consequently, Japanese companies have responded to the shrinking market by expanding into areas outside of Japan through subsidiaries, capital partnerships and M&As. Additionally, these companies, ranging from large enterprises to SMEs, have extended manufacturing bases to reach overseas while a variety of different industries, including the service and IT system development sectors, plan to aggressively tap into the rapidly increasing purchasing power of Asian countries. Today, almost every type of business enterprise seeks opportunities outside of Japan—a clear indication that global business deployment by Japanese companies has intensified. This was not always the case. In the past, it was the established major players and manufacturing giants who led the way in international expansion among Japanese companies.

Another noteworthy change involves the meaning of “global market,” which had previously referred to the business opportunities available in major markets occupied by developed countries in Europe and the United States. Today, the global market has expanded to include South America and Muslim countries in addition to fast-growing Asian countries where politics, economics and culture are entangled in complex ways, requiring a more flexible business model.
Japanese companies face challenges in responding to the expansion of the global market. These challenges involve the recruitment and training of leaders who will implement Japanese business strategies and lead the way into the global market. In the past, Japanese companies focused on markets located exclusively in Japan, but now the target is more globalized, as it extends outside of the country. This target presents several key questions regarding leadership—how do Japanese companies effectively train their employees to assume global responsibilities and play a leading role in expansion? What are the necessary qualifications of such leaders and who will be capable of achieving the desired expansion goals?

DHR International is ready to answer these questions. As one of Japan’s best executive search companies, DHR has been engaged for the past 10 years in recruiting and utilizing CEOs and other top-level Japanese executives from various multinational corporations.

In discussing a company’s most important asset, our clients frequently mention the urgent need for capable and effective leaders. We agree with that assessment; nothing is more important to a company than finding and retaining the right leaders. Even if a company has abundant resources, solid products and available markets, without the right leaders, the company risks incurring unnecessary costs. Worse than that, it can lose its competitive edge, and ultimately lose its place in the global market. We have seen this happen several times, where a lack of leadership within a Japanese company eventually resulted in its downfall.

Focusing on the theme of leaders, we interviewed CEOs and executives of Japanese companies that have successfully expanded into markets outside of Japan. Our conclusions and recommendations are based on the results of these interviews, which will be helpful in producing effective leaders in the future.
The Race is on for Japanese Global Leaders

The interviews focused on the theme of “Recruiting Effective Leaders for Global Business Management.” The following questions were asked during each interview:

1. Who is exercising leadership in the global business environment?
2. What are the differences between leaders in Japan and leaders outside of Japan?
3. How do Japanese companies recruit and nurture people with the best leadership abilities?

Although the best global strategy will vary for each company, depending on its specific activities and current position in the marketplace, we identified several qualities of successful leadership that are applicable within any company. We explored which changes should be made within Japanese companies to foster a competitive advantage on a global scale, and also which changes should take top priority. Following, you will find our strategies for recruiting, developing and retaining the best people to compete on a global scale.

Developing and Retaining Leaders—the Top Priority for Globalization

Interview results reveal a strong commitment from Japanese companies to expand their global business efforts through improved recruitment and leadership training. An overview of the interview results is listed below.

1. The key to global expansion is picking the right person for the right job by selecting candidates based on credentials and skills, rather than personal connections.
2. Once chosen, these candidates must receive comprehensive leadership training before traveling to work in other countries.
3. If necessary, local employees from other companies are recruited, or local employees are sent to other countries by their headquarters.

The following are excerpts from select interviews:

1. **Case of a Leading Japanese Home Electric Appliance Manufacturer**

We interviewed Mr. A, general manager of the HR department of the manufacturer’s headquarters. Mr. A joined the company after graduating from a Japanese university and has been working in the HR department for more than 30 years. He travels back and forth between headquarters and offices outside of Japan, leading the globalization efforts of the company.

Mr. A stated that employees most capable of working in the global environment are those who utilize their professional skills while playing a leading role in any country. His company aims at developing such globally-capable individuals by targeting employees in their 20s and promoting programs for them to experience business outside of Japan in their specific areas of expertise. For example, an employee who specializes in production would gain experience working in his company’s headquarters and its various subsidiaries both in Japan and outside of the country. This employee will benefit from working in different countries among diverse cultures and geographical areas.
Ideally, an employee will follow this sample trajectory:

- Work at a plant in Japan → transfer to a plant in the USA → return to the production planning department in Japan → work at a plant in Europe → transfer to a plant in Japan → transfer to a plant in the Middle East → return to the production planning department in Japan → work at a plant in China

This model has an employee working in many different countries, gaining global insight and a comprehensive understanding of diversity while developing communication and leadership skills.

Mr. A also mentioned that the success of global business management lies in picking the right person for the right job. His company encourages employees in the production and administration fields to extend their business dealings outside of Japan in order to develop relationships with globally capable individuals. Conversely, the marketing department values the unique characteristics, culture and business practices of individual countries, so it recruits and hires local employees, effectively leaving the leadership of local companies in their hands. As a result, the company has increased global sales profits.

### Career Development for Global Talent at Japanese MNC

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<th>SCM Professional</th>
<th>Finance Professional</th>
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<tbody>
<tr>
<td>Join Company as New Graduate</td>
<td>Join Company as New Graduate</td>
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<td>Procurement Department at Headquarters</td>
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<td>VP, Sr. GM, SCM at US Subsidiary</td>
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<td>Manager, Business Planning at Headquarters</td>
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<td>VP, Sr. GM, Business Planning at China Subsidiary</td>
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<td>President China Factory</td>
<td>Controller, Factory in France</td>
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<tr>
<td>GM, Planning &amp; Controlling at Headquarters</td>
<td>CFO, China Subsidiary</td>
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2. Case of a Japanese Precision Equipment Manufacturer

Mr. B is the general manager of the HR department of a Japanese precision equipment manufacturer. He previously worked in the HR department of a different Japanese company and then worked at a foreign capital company before taking his current job. His job involves global business expansion and the acquisition of foreign companies.

Like Mr. A, Mr. B believes that the key to successful HR practices lies in hiring qualified people to do the jobs best suited to their abilities. Mr. B considers issues involving leadership and timeliness. Specifically, what kind of leadership is required to resolve his company’s current business issues, and how soon can he send qualified employees to the local markets where his company conducts business outside of Japan? The answers to these questions depend on specific circumstances. For example, the manager of the global business unit of the company proved to be qualified for the position because of his extensive experience doing business in foreign countries. However, Mr. B’s company recruited a top-ranked executive from another company in another country to run its unit there, since Mr. B’s own company did not have someone with the necessary skills and credentials to fill the position.

This company is committed to utilizing its own employees whenever possible to bring their globally capable talents to the markets outside of Japan. As part of this effort, the company devised the following policy: An employee relocated to a foreign country is identified by the company as an expatriate from Japan for the first two years of employment and his or her status changes to that of a local employee in the third year. The purpose of this policy is to encourage employees to deepen their understanding of the local environment in which they are employed while promoting the overall success of their foreign country experience. In addition, employees are urged to utilize their leadership skills, global and local talents with the native people that surround them.

3. Case of a Japanese Consumer Products Manufacturer

Mr. C is the executive officer in charge of HR strategy in a leading Japanese consumer products manufacturing company. Like Mr. B, Mr. C started his career in a Japanese company and then worked for a foreign capital company before joining his present employer. Mr. C’s company has launched a global business initiative 10 years ago and the local mindset of the company is steadily changing.

According to Mr. C, “The credentials, attitudes, experiences and skills expected by the company from in-house leaders are not much different outside of Japan. Besides expertise in their professional fields, employees’ expected skills must include the ability to get things done in a speedy and flexible manner, and they should exhibit both a global standpoint and strategic point of view. They must also be able to effectively display business planning and marketing management abilities.”
“However, there is, in fact, a gap between our expectations and the reality of the skills of the core people we retain in-house. We are now trying to fill the gap. For instance, we are motivating employees from different angles; we are using coaching techniques in addition to training sessions. We also assess people by comparing them with executives of the same rank in other companies to identify their competency levels as executives. This helps us analyze the competencies of a target person both objectively and systematically.

### Competencies and Development Needed to be Global

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<td>Expertise in the Given Role</td>
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<td>Speed, Adaptability and Track Record</td>
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<td>Global Perspective and Strategic Vision</td>
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<td>Business Planning Skill</td>
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<td>Management of Culture in the Region/Country</td>
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### 4. Case of a Leading Japanese Manufacturer

Mr. D is the head of the global sales marketing department of a leading Japanese manufacturer and part of his job requires overseeing the global business deployment of the company. After graduating from a Japanese university, he joined a Japanese company as an engineer and then moved to a foreign capital company where he worked as an engineer, marketing executive, department director and president.

When asked to clarify the differences he experienced while working for the foreign capital company compared to the Japanese company Mr. D said, “I had worked in a foreign capital company for quite a long time, and then moved to a Japanese company. Reporting lines were not adequately defined in the Japanese company and the chain of command was not clear. Who reports directly to whom? A strategy of Management by Objective (MBO) was not put in place as an index to evaluate employees. Additionally, employees were not made fully aware of their responsibilities for their own work results.”

Mr. D felt that these deficiencies resulted in the company failing to control its business establishments outside of Japan, which, in turn, produced sluggish global development. In order to improve globalization efforts, Mr. D implemented business management strategies and increased control. One such strategy was the construction and utilization of a global grading system within the HR system. This grading system not only clarified the business conditions of the company, but also strengthened employee motivation and produced results. Mr. D is confident about the positive effect of the system.
He also stressed that it is not necessary for either the overall organization or the mindset of a Japanese company to mirror those of any foreign capital company. “With Japanese style organization and a Japanese mindset, it is difficult to conduct and control business in global markets. It is necessary to raise awareness of employees on personal responsibilities for their own work results.”

### Conclusion

The top priority for Japanese companies aiming to achieve business globalization is the development of global leadership skills of existing in-house managers. It is also advisable to send young, energetic employees to foreign countries to gain international experience. Additionally, companies must not hesitate to recruit professionals from outside the company if they possess the necessary skills to resolve current business management issues.

The process of globalization embraces an attitude consistent with the phrase “When in Rome, do as the Romans do.” However, Rome is only one of many foreign places in which Japanese companies may strive to do business. Employees must be ready to face a myriad of diversified environments, many of which are constantly changing. Japanese companies are faced with the question of how many of its leaders can be allocated to important global jobs—leaders who are trained to handle diversity and make use of it. Today, every Japanese company is determined to tackle the challenges of globalization.

In this report, we focused on strategies for acquiring and developing globally capable employees for Japanese organizations. Future reports will cover the following issues:

- On-boarding of talent from outside
- Identifying the differences in mindset between traditional Japanese executives and their global counterparts
- Diversity of talent in business organization
About us:

Established in 1989, DHR International is one of the largest retained executive search firms in the world, with more than 50 offices around the globe. We conduct search assignments at the board of director, C-level and functional vice president levels. DHR’s renowned consultants specialize in all industries and functions in order to provide unparalleled senior-level executive search, management assessment and succession planning services tailored to the unique qualities and specifications of our select client base.

Contact us:

DHR International Japan K.K.
Kamiyacho MT Bldg. 16F
4-3-20 Toranomon Minato-ku Tokyo Japan 105-0001
Tel: +81-3-6758-5700

Naomi Tachibana
Managing Director
Life Science • Advanced Technology • Industrial
ntachibana@dhrinternational.com

Mike Nagata
Executive Vice President
Life Science • Chemical • Industrial
mnagata@dhrinternational.com

Kazuhiro Mori
Executive Vice President
Finance • Advanced Technology • Professional Services • Human Resources
kmori@dhrinternational.com

Ryoko Komatsuzaki
Executive Vice President
Consumer • Retail • Professional Services
rkomatsuzaki@dhrinternational.com

Kazushige Hata
Executive Vice President
Advanced Technology • Industrial • Trading Companies
khata@dhrinternational.com