

LEADERSHIP DISRUPTED

The challenge for
multinationals in Japan.



ODGERS BERNDTSON

Introduction.

Multinational companies (MNCs) are facing huge disruption related to rapid technological advancement, changing client expectations, regulatory pressure and a constantly shifting competitive landscape.

In Japan, these shifts can be even more destabilising for MNCs trying to find their footing in this unique market. Across a wide range of industries, Japan is too big a market to ignore, and too important not to get right. For many MNCs though, after many years of investment, success in Japan remains elusive.

So what are the keys to succeeding in business in this, at times, inscrutable environment?

Odgers Berndtson interviewed Japan-based executives from 20 multinational companies to ask them what they see as their biggest challenges and opportunities in the Japanese market, and to share their winning leadership strategies for the future.



Setting the scene.

Ranked the third-largest global economy by GDP, the Japanese economic powerhouse has attracted MNCs for decades due to its market size, purchasing power and growth potential. The consumer base is sophisticated, knowledgeable, and has a deep understanding and appreciation for premium/luxury brands – as long as the quality is truly superior.

While many – even the majority – of MNCs see Japan primarily as a stable, slow-growth but highly profitable market with extremely sophisticated consumers, there is a growing number of companies that are realising that Japan indeed can offer opportunities for high growth and further market penetration (or market creation) while continuing to enjoy hefty margins.

As one insurance executive put it, “niche markets in Japan are still much bigger than entire smaller emerging markets.” In addition to its size and wealth, Japan is also described by many of the executives we spoke to as a trusted, reliable and profitable place to do business due to its fair and transparent market, legal, and regulatory environment.

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Another financial services executive pointed out that at least some of the broader potential for MNCs in Japan to make progress in the rest of Asia stems from the massive amount of “capital in-country that really needs to be deployed offshore to make use of it appropriately”.



Growing complexity.

Following the global financial crisis, the Abe administration has focused on reviving the Japanese economy through a mix of monetary and other policies. The Financial Services Agency has taken a progressive, industry-friendly approach and is widely seen as a fair and transparent regulator.

While Japan is politically stable, there has been increased volatility in the region related to North Korea's nuclear threat and the US government's "America First" rhetoric related to trade deficits.

One fundamental change, and major theme amongst business leaders, is the growing geopolitical complexity of Japan within the region. The prevailing post-war bilateral focus on Japan/US relations over the past decades has evolved into "Japan within the context of the two Koreas, China, SEA." These new complexities require a more sophisticated strategic view, but at the same time add many new opportunities.

Pressures and challenges.

In addition, with its stable currency and political leadership, Japan is viewed as a good place to hedge against the volatility of the larger APAC market. And while Japan's regulators are fair and transparent, they can also be bureaucratic and slow.

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An insurance company executive concluded simply, the Japanese market “is critical for global growth”. An executive at a professional services firm concurred: “there are great business opportunities in Japan if the right talent and leadership are in place.”

Still, doing business in Japan is not without its challenges. An issue at the top of all of the executives' minds is Japan's rapidly ageing population and declining birth rate that are contributing to a challenging labour environment.

“Japan is a fast-aging society, although nobody yet truly grasps exactly what this will mean in 20 years,” one fintech executive commented. A professional services executive added that Japan's restrictive labour immigration policies are impacting labour availability and forward planning. He noted that to address this issue, Japan will have to liberalise its strict immigration policies and that companies will have to invest in labour-reducing technologies.

Keys to success.

The executives we interviewed across several different industries commented that future success depends on adapting to drastically-changing consumer preferences and values. There was a clear message that Japanese consumers now expect quality service at a much faster speed, regardless of industry.

No matter what the product, the service, or the sector, building rock-solid brand equity and trust is paramount. The Japan CEO of a major luxury retailer explained that, in his market, especially with digitalisation and the rise of ecommerce channels, the core to success remains relationships centred on the customer experience.

Historically, the Japanese have demanded attentive, hands-on customer service, but attitudes are slowly changing. A financial services executive commented, “In the past, Japanese customers favoured face-to-face service. Recently, we’ve found more Japanese accept and even prefer non-face-to-face interaction. We expect this change in preferences to accelerate more dramatically in the near future.”

The younger generation is also more interested in how companies manage their environmental, social and governance factors. A luxury fashion brand executive explained, “Millennials are more concerned with a company’s ethical business practices, while older customers are more focused on the customer service experience.” He shared his insights that it is crucial to cater for the needs of Millennials to attain sustainable demand. While current spending power lies with non-Millennials, Millennials will become our core customers of the future.

Customers still expect to receive products and services of the highest quality, but now they want them faster. In a related point, a professional services firm executive observed that Japanese customers are becoming more accepting of Western tools and solutions, including digital technology.

An executive in the life sciences industry agreed, noting that patients are relying less on their doctors and expect faster treatment. “The market is going to be almost entirely digital and social network-driven in the future.” His company is investing heavily in adding a direct to consumer/patient dimension to their traditional B2B digital communications platforms.

“Through the interviews, there was a clear message that Japanese consumers now expect an ever-increasing quality service at a much faster speed, regardless of industry.”

For a highly technologically-advanced society, Japan is surprisingly slow to innovate, and a conservative corporate and investment culture has hampered tech start-ups. Slowly, though, thanks to globalisation and demographic change, the Japanese market is beginning to place more emphasis on productivity and efficiency.

Seeing the world differently.

Japan's unique culture poses a number of challenges for multinational corporations. These include hidden cultural rules on running a business, and cultivating commercial relationships, that can trip up foreign businesses.

Interestingly, while most of the world – and overall Japan itself – is becoming more international, a countervailing trend shows certain segments of the Japanese consumer market are actually becoming more local and insular. A luxury automobile executive stated, “Unfortunately, nowadays among many Japanese, an increased shift to insularism (in some cases nationalism) can be seen. Even in radio programming, one can recently detect stronger emphasis on playing Japanese, rather than foreign tunes.”

We were also reminded that there is another rapidly-growing “polarisation” in Japan. This is between dynamic, high-energy Tokyo, and, with the possible exception of Osaka, the rest of Japan. The former is, within the Japanese context, vibrant and forward-looking, whilst the latter is generally static and more inclined to favour the status-quo.

One fintech executive summed up the Japanese by saying, “They love the tea ceremony. Clear, concise rules that can be memorised and do not change.” Most of

the executives we spoke to echoed this sentiment, noting that Japanese society values harmony, stability, peace and tranquillity, in both business and personal relationships.

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A professional services executive expressed “Japanese people prefer to use ‘us’ more than ‘me’.” As such, the Japanese are generally perceived as risk averse, hierarchical and perfectionist. Putting greater emphasis on safety and peace partially explain why change is difficult and takes a long time in Japan. A cultural insight from an insurance executive: “The things that make Japanese culture wonderful also make running a business here very different.”

The Japanese MNC leader.

The executives we spoke with agreed that to successfully run the business of an MNC in Japan, a leader must be able to understand both worlds. Many companies hire a mixed team of Japanese and non-Japanese managers, and look for leaders who are either “westernised” Japanese or locally-adapted Westerners. Either way, the leader must be able to interact effectively with global and regional leadership, as well as with the domestic Japanese organisation.

Adaptability, agility, critical thinking skills, self-initiation and self-awareness are necessary for effective leadership. As one fintech executive pointed out, “transformative change requires the full support of the firm’s senior global executive team and a leader close to the local market who also really understands the company.”

Obviously, for expatriates, Japanese language ability is a plus, as is sufficient time in the country. An executive at a professional services firm explained that gaishi (foreign companies in Japan) tend to rotate presidents from their headquarters for three-year assignments. In his opinion, this is too short for the Japanese market and executives should stay for at least five years.

As one banking executive noted, “it’s difficult for expats who only spend a few years in Japan to build a cohesive local team. Local workers tend to reject an expat leader who is only focused on short-term successes and building their own legacy.” If an inspiring and innovative leader comes to Japan with no cultural awareness or local insight, his or her success will be limited.

A senior professional services executive noted that there is a long, but steady cycle of “pendulum swings” in MNC preference for local vs Western country heads. In his judgment, either can work. In either case, there is a critical need for a “balance of a global vs local perspective”.



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The Japanese employee.

Japanese workers have a well-deserved reputation for being well-educated, reliable, disciplined, hardworking, loyal, and good team players. According to a banking executive, they are known as “silent deliverers” who are better at execution than strategy. They tend to prefer working within a clearly defined role and are not always comfortable taking on broader responsibilities. As one fintech executive commented, they “wait for orders and then execute really well.” But, as an executive in an industrial MNC pointed out, “following process strictly is not always good in a rapidly changing workplace.”

A life sciences executive explained that Japanese over the age of 50 want to stay in their comfort zone and tend to be extremely brand and employer loyal. Those below the age of 30, however, are better at adapting to change and separating their work life from their private life.

Japanese employees may be seen as more introverted, less comfortable embracing change and less efficient than their Western counterparts. Two of the executives we spoke to noted that they wished their Japanese workforce would speak up more and be more comfortable working outside of a strict hierarchical structure. One tech executive said, “Japanese workers tend to over-deliver on quality, which means slower speed.” An insurance executive added, “Once you understand how to have a better dialogue with the Japanese local team, you will get the most committed team in the world.”

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Why some MNCs have succeeded and some have failed.

There's no question that succeeding in Japan takes an investment of time and resources and a high level of cultural awareness and sensitivity. One banking executive noted, "No successful global strategy can be implemented here without serious thought about how to adapt it to the local market."

“It is very important to get someone with local expertise involved from the beginning in formulating the global strategy at HQ.”

An insurance executive went even further, commenting, "It is very important to get someone with local expertise involved from the beginning in formulating the global strategy at HQ." Other executives stressed the importance of a long-term strategy that focuses on building partnerships, creating mutually beneficial relationships, and gaining trust.

In the same vein, it was pointed out that the most successful MNCs in Japan have ensured their top executives in-country are highly adept at "all levels of internal networking both globally and locally". This is in order to best manage a "healthy tension among multiple points of view" ranging from global headquarters to local, customer-facing, line employees.

Still others recommended that MNCs invest in market research to better understand the unique needs of Japanese customers. A fintech executive advised that this kind of research is "very hard to do from offshore, as it is a local, iterative process", and the absence of thorough research and subsequent understanding will lead to failure.

While adapting to the local culture and market is necessary for success, two executives advised that this should never mean compromising a firm's values for the sake of achieving market success in Japan. An executive for a luxury automobile distributor noted, "MNCs that have thrived in Japan have been willing to adapt, but without compromising on their core values. Those that have struggled have either been unwilling or unable to adapt, or they might have compromised too much."

Hiring well.

So where should MNCs in Japan go from here? How can they best adapt to the changing technological, demographic and geo-political landscape, while remaining relevant to Japanese customers?

A professional services executive shared that his hiring strategy in Japan is to look for someone with the right character traits and then train them in the needed skills. He notes that some MNCs make the mistake of “hiring for English language capability, rather than real leadership or business acumen.” While the leader needn’t be overly Westernised, just being able to speak English is not enough. An international mind-set and logical problem solving skills, according to one tech executive, are of the utmost importance.

With these qualities in mind, one of the executives stated that one of the evolving challenges centres around the “huge competition for the right talent. All MNCs are looking for the same type of people”.

Another professional services executive added that a diverse workforce is becoming increasingly important: “We are transforming our business by bringing a wider variety of people into the organisation to encourage more lateral thinking and drive a mind-set change.”

Leadership in any market is about inspiring people to work towards shared goals, but in Japan in particular, cultural balance and awareness are critical. A leader who can build meaningful relationships with the local team, while also working well with the global senior leadership team is very valuable.

This special set of requirements demands a transformative leader who can think differently and communicate across borders and across cultures.

For Japanese executives, having experience of tackling multi-national business challenges, exposure to global strategy and a growth mind-set is an asset. An executive for a luxury fashion brand noted, “We hire Japanese executives with the message that we are not a Japanese company, we are an American company operating with Japanese expertise.”

Ultimately, MNCs need to have patience, realistic expectations and the right in-country leadership team to succeed in this important and unique market.

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MORE INFORMATION

This focus on Japan follows the release of a new Odgers Berndtson report, called 'Leadership, Disrupted', produced by Mark Braithwaite, Managing Director of Odgers Berndtson APAC. The report is based on 70 face-to-face interviews with APAC leaders of multinational companies. The full report is available on the Odgers Berndtson website.

ODGERS BERNDTSON IN JAPAN

Since 1991, Odgers Berndtson, Japan has been partnering with our clients addressing the business and cultural challenges identified in this White Paper. We have delivered exemplary results for Fortune 100 companies, niche players, start-ups and non-profits.

Because for many companies optimising their market share in Japan is like adding another market to the revenue stream, we believe the recipe for success in Japan lies in securing leaders with the right balance of global standards and local expertise.

In a market where there is still resistance to changing employers, and where only a small percentage of executives are truly international, identifying, assessing and enticing executives is often difficult. It certainly helps that all of our Partners have more than fifteen years of consulting experience with a focus on providing strategic management services – from executive search and assessment to organisational structure review. In addition, we are always able to call on the international reach and expertise of the Odgers Berndtson network of 58 offices across 29 countries.

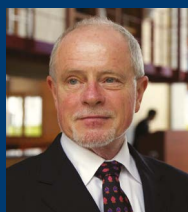
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An American who has worked in Japan since 1975, Roger helped to build and has led operations in Japan since 1991. He specialises in recruiting senior local executives to lead non-Japanese corporate entities, usually American or European companies seeking to establish a presence in Tokyo, Korea, or the Pacific Rim. He also recruits expatriate executives for Asia regional leadership positions.

Based in Odgers Berndtson's Tokyo office, Roger works with American and European companies to develop their management teams in Japan, Korea and Asia, building their business potential and formulating human resource strategies. He has exposure to a broad range of industries.

Roger was founder and president of PENN International Associates, a Tokyo-based management consulting and executive search firm. Before establishing PENN, he was Director of KPMG Consulting, with responsibility for building a practice in Japan and Korea. He began his career in various human resources consulting and management positions with international companies based in Tokyo.

A native of Pennsylvania, Roger is fluent in business and social Japanese. He holds a BA degree in Asian Studies from Sophia University in Tokyo.



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Hiroyuki has a track-record of leading senior-level and cross-border assignments for clients in the financial services, professional services, technology, and general industries.

Before joining Odgers Berndtson, he worked as a consultant for several leading executive search firms for more than eleven years. He also served as a professional coach at a Japanese coaching company.

Hiroyuki began his career with Sanwa Bank (currently MUFG Bank) where he worked for nearly 20 years in Japan and the United States, focusing on banking, corporate planning and business promotion for markets including Japan, China and the United States.

Hiroyuki received his BA from Waseda University and his MBA from the George Washington University in Washington, D.C.