

Effect of Changing Governance System :

Result of Western Style Management Adoption to Japanese Culture of Ambiguity

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ABSTRACT

This paper considers the difficulty of management style change through observation of the management style of Company-A, one of the biggest Japanese IT companies.

Japanese economy grew after World War II until the early 1990's. During that era, Ba or SECI process worked in Japanese organizations very well. Further, there was an ambiguous culture in the background of such characteristics. Some kinds of ambiguity or adhocracy made positive effects for Japanese organizational activity, or ambiguity played an important role for Ba activity. There were nested Ba's in each organization with ambiguity. Ambiguous descriptions of roles for each organizational unit activated nested Ba's and generated hot groups.

After the economic crisis, Company-A changed its governance and gave clear targets for each organizational unit and for each employee. This change gave new difficulty and diminishes its competence. The change denied the ambiguity in the organization but it was the basis of the competence.

Adopting a new system of governance is not a simple activity. Systems must be adjusted to the culture of the organization. Company-A should study competitors in different cultures and adjust the methodology for its culture.

Keywords: Management Style, Ambiguity, Adhocracy, Nested Ba, Hot Group

1. INTRODUCTION

After the Japanese economic crisis of early 1990's, many Japanese organizations have tried to change their corporate governance systems to survive and grow again. Lots of organizations have tried to adopt western style management, and they are now still facing difficulty.

Company-A, one of the biggest Japanese IT companies, is also struggling in the change process of its management. In this change, the company is trying to implement lots of western styles of operation. It is felt that the Japanese style is old fashioned and wrong and that the "modern" western style is the only solution. But the change of governance has made other problems especially in the operation of its front line.

We can study a way of change thorough Japanese success in quality management started in 1950's. The change was led by Dr. W. E. Deming. He introduced the result of Dr. W. Shewhart's work and carefully implemented it into Japanese organizations. It was not just an imported method that had already been widely used in many foreign countries. Rather, the method came from the US but was implemented and has grown in the Japanese environment.

This episode teaches a way of adoption of new methods. Because culture is different between western and Japanese societies, Japanese organizations could not simply implement western ways without modification for its environment.

This paper first reviews the characteristics of Japanese organizational governance. It is the basis of understanding Japanese organizations. In the next section, the reason for the dramatic growth of Company-A after the Second World War is

reviewed. The company must have had its own characteristics of cooperate governance that enabled this growth. In the third section, the way Company-A has changed its governance is analyzed. The change resulted some problems to solve.

After this review of situations, analysis of the difference between before and after the change is done. Comparing this growth and the current struggling status will help us to clearly understand the situation.

Today, we need to reconsider the adoption of the western style. Comparing before and after the change, we can see the relationship between culture and corporate governance.

2. CHARACTERISTICS OF JAPANESE ORGANIZATIONS

In this section, Japanese management systems are reviewed using two typical examples. The specific systems are “Employee evaluation systems” and “Job description” .

Employee evaluation systems

Usually, the relationship between Japanese employees’ evaluation and the performance that each employee achieved was ambiguous. The amount of salary depended on how long an employee had continued to work for the organization. Promotion was basically related to seniority also. This system supported “the lifetime employment system”, one of the characteristic of Japanese companies.

Performance of each employee was reflected. But the reflecting formula or system was ambiguous and the amount of reflection was limited.

High salary for an employee who contributes much is straightforward. But Japanese companies look at another side for determining salary. It is one of the examples of the ambiguity of Japanese culture.

Job description and organization with adhocracy

The job description in companies is also ambiguous in Japan. Especially, who has responsibility for each item is ambiguous. Because no one knows who has responsibility, the company’s decisions are made slowly. Because no one wants to take risk to make a mistake with his or her decision, the responsibility is passed to the senior manager.

But the ambiguity of responsibility makes for smooth operation of the organization and also promotes teamwork in it. If there is an unpredictable problem, anyone who has the ability to cope with it will take care of it, regardless of formal responsibility of each employee. If someone is delayed in his or her work, lots

of colleagues do overtime work without complaint and help their colleagues.

If there is a strict job description of each employee or each organization unit, it is hard to collaborate in such situations. Because of ambiguity, Japanese can manage the organization smoothly and establish teamwork.

Ambiguity, the basis of Japanese systems

Watching these two systems, we can notice that ambiguity is the basis of Japanese organization systems. Japanese people lived in its culture of ambiguity. Ambiguity fostered Japanese organizational systems and without such culture, these systems were not available [1].

3. COMPANY-A, GROWING ERA

So, how could the Company-A grow until 1990? Studying the company’s period of growth, we can see “Hot Groups” that contributed innovative work and we can get some hint as to how to grow again [2].

Company-A also has an ambiguous culture to explain not only the situation now but also in the time it was growing rapidly.

In the 1970’s and 1980’s, Company-A had a slogan of “In Any Case, Try It!” and the company culture was very active. In this period, there were lots of investments for mainframe computers in the market and Company-A was an innovative company.

Clear target

Before reflecting on the situation, it is necessary to examine the environment. In this time frame, investment in main frame computers was huge and Company-A was growing.

In the market, Company-A had a big target, IBM, that it had just caught up with in the Japanese domestic market in 1979. But IBM was still the biggest computer company in the world. It was a big target and Company-A could just chase the back of IBM.

And in those days, there were no choices of computer systems except mainframes. There were no PC’s nor UNIX workstations in the market.

Because of these two reasons, existence of IBM and limited variety of computer systems, making decisions was much easier than now. It was possible to focus on one target.

A big and clear target made it easy to encourage employees to achieve. All members could easily agree the direction in which the team was going and follow the leader. This

environment helped them and pushed Company-A to the No.1 position in the Japanese computer market.

Nested Ba grew up to be hot groups

In the company, there were Ba's of engineers in the front line and also there were "higher Ba's" in each level of the organizational hierarchy.

Ba is place of mutual interaction among members. Through the interaction, knowledge is created [3]. So, the active Ba's are the basis of competence of Japanese companies.

The activity of the "nested Ba" was flexible throughout the company. The characteristics of the nested Ba are the same as the "Hot Groups" of Lipman-Blumen and Leavitt.

These Ba's had extra attributes in addition to the usual ones. Each of the members had his/her "own" target of activity. And each target was "coincidentally" the same as the others [4].

The strong Ba in the front line

The working style of engineers' teams was not so effective at that time. But engineers worked very long hours and the offices were called "Sleepless Castles". And the front line teams collaborated well with each other. The long working time and the collaborative working style compensated for the relative lack of efficiency. Even though they were not efficient, the result was positive. Hard work compensated for the any non-efficiency.

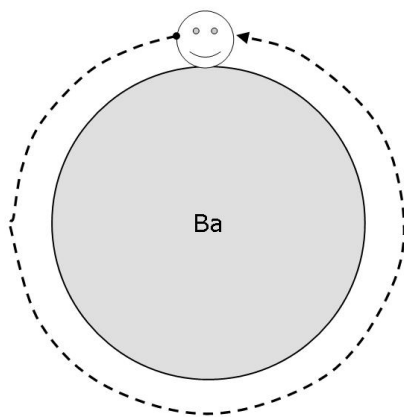


Fig.1 The Ba manager as a channel or a sheep dog

The reason why they could collaborate or work long was :

- "It-is-my-pleasure-to-work" mindset
- Dedication to the task, not to the company.
- Respect for engineers' effort, not for performance.
- Trusting each other (Among the members of the team, Between the manager and the members)

- Sympathies with the target

Further management was not so difficult, because the goal of the team, Ba or the company was given by the environment and shared by the members.

One of the managers' important roles in such a Ba environment is to encourage Ba and to control it not to move in a wrong way. Another role was to be an I/O channel of the Ba. Sometimes the manager needs to protect the Ba from disturbance by outsiders. The manager ran around the Ba like a sheep dog for this role.

Higher Ba

There were "higher Ba's" that were constituted of lower (front line) Ba's. Usually the members of lower Ba's belonged to the same organizational section. But the member Ba's of the higher Ba needed not belong to a same organizational department/division.

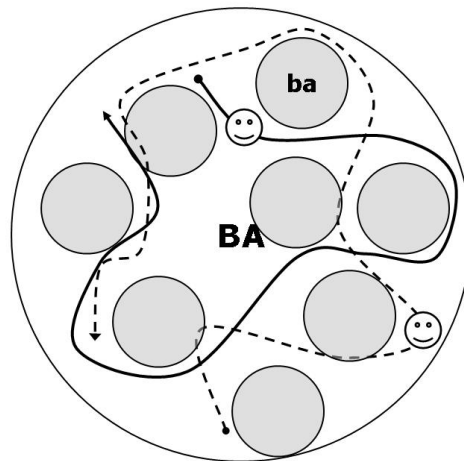


Fig.2 Managers as a glue to bind small ba-s into a larger Ba.

In that time, the concept of "business unit" was ambiguous and the members of higher Ba's could pursue the same target. They just needed to work for the company.

Each member Ba has different official role, different skill of technology and different mindset. Front line managers acted like electrons in a molecule. Diversity of member Ba's can be energy of this activity. Or they acted as glue to bind small Ba's into a larger Ba. The sense of exchanging favors formed strong bonds. Respecting diversity, they make basic vector of higher Ba.

In such a higher Ba, the front line managers had the role of diplomat, subtly monitoring the balance of exchange of favors. In the Japanese business situation, if someone gives a favor, the other will give some favor in some time. Such a type of "undocumentable relationship" works very well in this context.

When the whole company had a clear target, each member of higher Ba's shared the same target and the combined power of the higher Ba could be strong. A nested Ba would be activated and would become a "hot group".

Strength and weakness of Ba dominated organization

So, what was the strength and weakness of "Nested-Ba style organization" that Company-A used to have?

Strength: Ba's, especially higher Ba's, were a big team to pursue one target of business. The individuality or benefit of each member was sometimes limited for the common target.

The biggest strength of the Nested-Ba was the flexibility of the organization. They could try anything and did not hesitate to help each other. To achieve the target they did not always follow the official rules of the organization. Thus, administrators were not so happy and tried to interfere.

The concentration of ideas and efforts into a big issue was also the strength of the nested Ba. When they had a big issue, naturally every member of the Ba recognized the target and the power was spontaneously concentrated.

Each member of the Ba did his/her effort to achieve his or her own target. This effort formed a positive cycle to strengthen the Ba. This Ba is naturally formed but each member was implicitly forced to act as a good member.

Weakness: The ambiguity of the role of each organization is one of the weaknesses of the nested BA oriented organization.

The nested BA did not have an official leader. And they sometimes did not have an actual leader in the higher BA. No-one knew who had responsibility to solve the problem. As a result, they risked pitfalls because decisions were delayed.

4. CHANGE OF GOVERNANCE

After Company-A hit the double crisis of the "down sizing" trend of computer systems and the Japanese economic crisis, it changed its organization and management dramatically, like a revolution. To be a profitable company is, of course, an unchanged target of the company. But before this time, employees were not clearly aware of this target. The company redefined and announced this target of that time.

In this section, this "change" and Company-A's way to proceed is reflected.

Every company's final target is a profitable organization. To survive in the crisis, Company-A needs to compete not only with IBM, but also with Silicon Valley start-up companies in the international market.

And for this purpose, it has tried to be an "international company" that has a Western style of management. Company-A tried to change the previous "old fashioned" style into new "international" one rapidly.

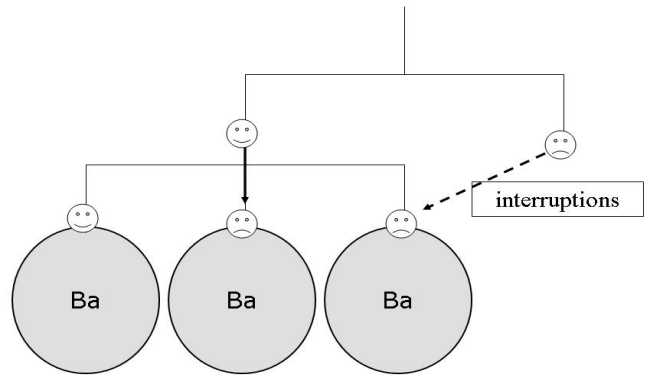


Fig.3 Manager as a channel or a guard person of his/her team (Ba) in the organization.

This activity especially targeted the ambiguous part of management. It has tried to remove ambiguity. Roles of the organization units are well defined and employees are evaluated by their performance.

Business unit

In the "revolution", the company emphasized the concept of "business unit" for each of the organizational units and each of the managers.

To be a profitable company, the company forced each manager of the organization to make a profit in his/her organizational unit. At the same time, responsibility of line managers became clear.

The basis of managers' decisions became clear because of this change. It was always based on the profit of his/her own division. They diminished their consciousness of the whole company.

In the past, in the "happy growing story", they did not have a clear sense of a business unit. They were just a member of Company-A. But after the change, the business plan is focusing each department, each official organizational unit. And sometimes this mindset becomes a barrier to collaboration among internal organization units if some of the units cannot make a profit in it.

Evaluation by performance

To penetrate this concept to individuals, the HR system has also changed. The company gave up the compensation system based on seniority, and started performance evaluation. The president also announced that "Performance is everything. Effort is not valuable."

The change of the evaluation system is a big revolution for a Japanese company.

Before the revolution, the salary was basically determined by the years each employee has worked. Usually older employees got more salary than younger ones and the boss was older than subordinates were. Further, the effort that each employee has exerted was evaluated, even though in ambiguous way. For example, collaboration with colleagues that does not make any performance of his/her own is also evaluated.

But a "Western style" evaluation system is suddenly in operation. Officially, they do not think about age. They do not evaluate the effort that each employee has done. Only performance is an important official factor.

In this system, employees tend to work only in a shortsighted way. They like to get easy jobs and get results. Risky work is not preferred. Because the bosses' skill of evaluation is not matured yet, it is difficult to avoid this situation. We need to evaluate taking into consideration the long term vision of the company.

The result of the revolution

Company-A, both managers and engineers, is struggling in its revolution. Now, the revolution is not successful yet. Emphasizing organizational roles has weakened the power of higher Ba's and hot groups, especially. And it has deactivated the power of innovation, as a result.

Diminishing the energy of a nested Ba:

Regardless of the revolution, Japanese have strong mindset to respect working effort. But evaluation by performance diminishes the incentive for effort. Now, the "Sleepless Castles" have disappeared, even though, such effort made its success in 1980's. The working hours are shortened. And the concept of the emphasis on the business unit destroyed nested Ba's. As a result, Company-A's competence becomes weaker now.

Destruction of "Higher Ba": When employees did not mind so much about the profit of each organizational unit, it was easy to collaborate with each other inside the company. But after emphasizing the business unit concept, it becomes

difficult. The power of higher Ba's becomes weaker and weaker.

Evaluation of the change

In the past, collaboration among Ba's was available by informal agreement of the front line managers. But now, there is the "business unit" mindset and higher managers tend not to permit such activity if the higher manager is not involved with the project that the front line wants to collaborate on. Every activity of every organizational unit (it corresponds to Ba) must be "profitable" by itself. It needs to have a clear benefit now. Contribution to the higher Ba is not profitable for the members. So, they have lost flexibility. They are forced to obey lots of rules that were defined on this "change".

This change can be said to be reducing ambiguity of governance. As a result, front line managers have become defensive about interruptions from the outside, as collaborative work is sometimes seen. They emphasize the role of a channel between inside and outside and the role of a guard person or "gatekeeper". They have lost flexibility. And because of demands from other organizational units, they have incurred lots of overhead.

The only exception is that managers who have both competitive Ba as an official role and personal competence. They can continue to work using their personal competence (not competence of Ba) and they can build Ba.

5. CONSIDERATION: COMPARISON BETWEEN BEFORE AND AFTER THE CHANGE

Because of the economic crisis in 1990's, Company-A hurried to change the internal business style to a western style. As a result, two kinds of big difference have been born, the company values and the organization structure. The biggest difference is the values that the company defines as important. In the old or growing era, there were lots of measures of value. Each of them had different vectors and could not be compared. But after the change, it clearly defines profit as the most important one. In other words, all kinds of measure of value are calculated into money value. It means there is only one measure of value. For each organizational unit that is defined as a business unit, pursuing profit is now much more important than innovation of technology. For employees, the result that each employee has achieved is much more important than the effort he or she has done.

Another difference is that a manager's responsibility has decreased. Because of the crisis of the Japanese economy, the number of fresh employees of Company-A has decreased. The average of age of employees is getting older and older. So the company cannot form the same style of organizational pyramid as before.

The front line needs to be flexible to be able to be innovative. It should be organized as an adhocracy [5]. If the back office administrators, or support staffs, control the organization, they tend to be in a defensive position and the organization loses its adhocracy. In such a case, the organization loses its competence in the IT market field. Why do they lose adhocracy? The power over the work gets "hijacked" by the support staff. The organization needs to use its power for political battles. An IT company needs to channel its power into the development of new technology because the change of the market is rapid.

The organization needs to focus on a target. If there were a charismatic leader in the organization, the line of the organization could make decisions based on the opinions of the charismatic leader. On the other hand, the support staff tends to control the organization by political power. There is a big difference. If the organization is controlled by political power, adhocracy goes away. But if the members of the team learn from their leader, and are not forced to behave in a certain way, adhocracy can arise.

The strength of Company-A was based on its ambiguity and collaborative work. But when these changes happened in Company-A, it removed its ambiguity. Removing ambiguity caused reducing divergence, diminishing nested Ba activity and collaboration. And it lost the advantage of the Japanese style that has diversity of value and got a new style that does not match with Japanese culture. It should have changed both its culture and governance system. But because only governance system has already changed, it should invent its own style that matches culture.

6. CONCLUSIONS

This paper analyzed the Ba activity in Company-A thorough comparison before and after the change of organization governance. And it pointed out that Company-A had "Hot Groups" in its history. Hot Groups exist not only in Silicon Valley but also elsewhere, i.e. in Japan. Company-A's Hot Groups were active on nested Ba environment. Lower Ba in the front line and higher Ba across

the organizational units are active under corporate governance with ambiguity. The change of governance made clear determination of job description or target of the organizational units. Ambiguity was denied, and diversity was lost. Because these characteristics were energy of the nested Ba, the activity of nested Ba's has reduced and hot groups have become cool when they emphasized the business unit structure in the organization.

Now Company-A needs to rebuild hot groups without the traditional type of energy for nested Ba. Employees and front-line organizations will not accept rapid change of behavior. The organizational rule that encourages organizational units to collaborate and strong open communication will be the key.

In the case of Company-A, it is observed that adoption of new, maybe good, methodology is not always successfully accomplished. Adjustment of the method to the culture is necessary. The Japanese quality management system of Dr. Deming is a good example.

Reactivating "Hot Groups" will be tough for the company. As future work, I need to investigate again Silicon Valley style "Hot Groups." The back ground of Silicon Valley must be different with Japan. Comparing the two will give new ideas of adjustment of governance.

Japanese business used its ambiguous culture as an advantage. Thus, Japanese need to have their own governance on the ambiguous environment. It will be the next step of this study.

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