

Some Human Management Aspects of M&A in Japan—Obstacles and Opportunities Offered to Foreign Companies

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ABSTRACT

Out-in mergers and acquisitions activities in Japan have gradually increased but stay at a level extremely low compared with the situation in the Western World. Regulatory aspects remain important to explain this, but despite rapid changes in the socio-cultural environment, some idiosyncracies resulting from the concept of company remain.

Japan is undertaking rapid socio-cultural changes and we should avoid being dragged into past perceptions far away from the modern reality. Nevertheless, as these characteristics lead, even today in a period of transition, to different management rules and labour attitudes and behaviour, they should still be considered with great care when doing business in Japan.

KEY WORDS

Corporate governance, Familist analogy, Out-in merger and acquisition, Internal labour market, Management practices, Socio-cultural barriers, Multiple stakeholders, Structural and ideological norms, Organizational commitment, Hostile takeover, Psychological contract, Interaction rituals, Meritocratic appraisal, Organizational culture, Task-oriented approach, Transition groups, Level of integration, Counter-culture groups, Group identity, Management control

REALITY AND MYTH OF THE SOCIO- CULTURAL BARRIERS TO THE ACQUISITION OF A JAPANESE FIRM BY A FOREIGN COMPANY

*Separate the Structural and Ideological Aspects of the
Socio-cultural Norms*

The scarcity of M&A deals in Japan, especially involving foreign concerns¹, is often explained by so-called "cultural values", supposedly inherent in Japanese society and which restrict immutably acquisition activities. Deeply ingrained in the socio-cultural fabric, cultural values belong to an untouchable realm, and thus cannot be changed as rapidly as day-to-day laws and regulations. They can thus be understood but not challenged. Therefore, if a Japanese company can be considered as an

extension of the family, it cannot be separated from the people who belong to it. In such a context, any attempt to dispose of a company for money would be akin to a "sale of human beings".

Despite these considerations, it cannot be assumed, however, that barriers cannot be overcome. Numerous examples show that social values were used to develop and perpetuate business practices and ideals in factories, farms and offices in Japan before, during and after the second world war. However, if it cannot be denied that they reinforce the strength and rationale of the forces in the management and labour which could oppose acquisitions, it is nevertheless an insufficient and unconvincing explanation on its own to explain the difficulty of proceeding with acquisitions in Japan. Japanese history,

when dealing with the reasons why it was at one point in time a priority to have the workers linked emotionally to their firms or institutions, shows that the analogy is rooted, rationalized in and perpetuated by economic considerations, rather than pure ideology. It was clearly identified a long time ago (Taira, 1963) that life employment, for instance, is not a direct product of the ethics and values of traditional Japanese society. The practice was originally developed with an ethical connotation in order to legitimize it; in Boissevain's words, it is a "pragmatic action dressed up in normative clothes to make it respectable" (Boissevain, 1974). The fact that it disappears progressively, at least in its most traditional form, is just the reflection of changing socio-cultural and economic conditions. If the fear of losing stable employment is a legitimate worry in Japan as elsewhere, evolution of the system is accepted by most (and requested by many) salaried people.

It is therefore important to separate 2 issues to avoid confusion. The socio-cultural context can lead to human management problems in the case of a change in ownership. This is something hardly unique to Japan. They may have a sound basis and have to be taken into full consideration. At the same time, socio-cultural values have often been used with an ideological overtone which could lead to misconceptions. The supposed "immorality" of the sale or purchase of a firm is a typically ideological problem blurring the issue and liable to cause the failure of a sound deal for undue reasons.

Quite a number of examples show that the obstacles can be overcome if the acquiring company is sensitive to shifts in management which would disrupt the group structure and the traditional ranking system. This is not inherently out of reach of foreign concerns. Problems can be solved in rational terms by economic factors, effective use of information and careful efforts to find the proper combination of incentives and insurances.

Therefore, that foreign firms in Japan still emphasize the existence of a mental blockage against foreign acquisitions in Japan, reflects an abuse of the ideological side of the socio-cultural argument in many Japanese business and non-business circles.

Socio-cultural values are of course not only a matter of slogan. Japanese organizations are not based on familism whatever the official view may pretend. Nor are their authority relationships of coordination and control. However, their organizational characteristics are very important in allowing or not allowing the introduction of new systems of management. Moreover, if interpersonal relationships and ownership relations are crucial anywhere in the corporate world, the group in Japan has probably a broader basis. The relationships have a more functional nature and thus a more direct influence on business.

In the Japanese context, an interrogation on the global legitimacy of an M&A deal beyond purely economic considerations is a preoccupation that cannot be simply discarded. As many groups in society are materially involved with the corporation through different types of transactions, the potential effects of the disposal on the corporation's reputation in the Japanese business community and among the firm's customers must be thoroughly considered. Rather, it is obvious that a company wishing to capitalize on the advantages of acquisitions and mergers as a way of entering the Japanese market must deal within the framework of a structure which has a number of idiosyncracies, cultural bias not found in any Western environment, or at least not to the same degree, and which cannot be changed at will.

It is noticeable that Japan is currently undergoing major changes, from industrial structure to culture. Intercompany ties are changing in nature and intensity and there are deep changes in the bargaining and business transaction patterns. It would not be adequate, therefore, to apply a certain vision or pre-conception of the past to present day-to-day business activities. Many old management and business practices are at the centre of much controversy and it is especially important to be aware of recent developments taking place today.

Nevertheless, it is perhaps all the more important because the situation is fluid that extra-care is needed. There is considerable anxiety concerning jobs and employment security, especially among white collar workers. Therefore, if the acquiring firm is planning

for example to replace the target company's management after the acquisition, it must confront the fact that it could cause shocks and uncertainties of such an intensity that it could wreck the deal from the beginning if not handled with extreme caution.

It is of course a question of degree. Structural problems related to labour and human relations, if of a different nature, exist in any country as proved by the sometimes painful history of M&A deals in the Western world. Shocks, grievances, perception of loss of identity, hostility and retreat are attitudes and behaviour not unknown in the West either (Buono & Bowditch, 1989). However, it cannot be denied that it might be particularly difficult in Japan for Western firms due to the cultural distance. In contrast, in Europe and the United States, it is the regulatory rules pertaining to the employees and the managers which can become institutional impediments to corporate restructuring. Problems can be precisely all the more difficult to overcome in Japan in that they are generally not of a regulatory nature.

The idiosyncracies of a labour market still largely internalized are such that special care must be given to factors linked to the employee's expectations and their concept of a company. This would be considered as largely irrelevant in a Western context or could be dealt with almost mechanically through institutionalized channels. It is often stated that, at the macro and micro levels, the group identity and structural organization in Japan can have a deterrent effect on the entry of an outsider into the group. Both between companies of the same group and within a given company, personal relationships develop in such a way as to increase further this effect on outsider involvement.

Professional relationships can still be considered of a vertical nature, reflecting the durability of the dominant paradigm. This is despite gradual changes in the nature of the organizational and occupational commitment which increase the scope of horizontal links. In the company, it is still true that horizontal relationships are almost never formed between equals, because in a seniority system those who enter the company at the same time and at the same age naturally become rivals. Big companies largely maintain their traditional practice

of recruiting. Every year at the same time they still take in a number of new graduates coming from the same specified universities and keep the same career planning patterns. Therefore, in such a context, success or failure naturally tends to end up depending on adequate connections with the people directly above and below in the organization. The drawback has been clearly identified: this verticality leads to endemic factionalism, a factor which adds to the negative effect on mergers.

The merger of two groups can take place only if one absorbs the other, or in the rare case of the emergence of a leader acceptable to both parties. Many examples of "mergers" (*de facto* acquisitions) between Japanese companies have shown that the first possibility can lead to tremendous insecurity on the part of the weaker faction whose members end up completely dominated by the stronger one. It can be expected that fear would be present to a greater extent in an attempted acquisition in Japan by a foreign concern. Merging with another Japanese company is difficult enough but it is perceived that it could only be worse with people supposedly inherently insensitive to the balance in the Japanese group structures.

However, in this respect, a counter-argument to the cultural norm can be made (and actually is by a number of small family-owned companies claiming their openness to a deal with a foreign concern). It appears that in certain situations, reliance on a foreign company may be desired precisely because of the cultural and social factors which make dominance by other Japanese the basis of fear of discrimination after the deal. The case of the unfortunate fate of the Prince employees after the "merger" with Nissan is still in many memories. So, that fear of the dire consequences of a merger could translate into obstruction, is understandable. Thus, by escaping the Japanese social norms, a company might be more free to base its decisions purely on economic factors.

On the whole, however, there is an increasing number of M&A deals among Japanese firms and most of them are concluded smoothly. It is also true of those involving foreign companies. The majority of the deals are between companies with existing relationships: joint venture partners or distributors².

A trend towards an increase in “unfriendly” takeovers is very unlikely because of the characteristics of the capital market and the structure of the shareholding. The Japanese business community would certainly not cheer at the institutionalization of unfriendly takeovers. In fact, in the rare significant attempts so far, reactions have not differed in nature from that of the typical Western company’s management confronted with the issue. In a number of recent cases of M&A among Japanese companies and also some involving foreign concerns (see for example the *Trafalgar-Minebea-Sanko Seiki* aborted deal in the 1980s), the “cultural” barriers argument was used *ad nauseam* in the media as a defence term to demonstrate the negative aspects of an ownership change. However, the strategy actually followed was generally far more down-to-earth. The companies relied almost entirely on a number of structural barriers (legal and non-legal) such as the strength of cross shareholdings links, dilution of the shares value and other elements not uncommon in the Western world.

CHARACTERISTICS OF THE JAPANESE COMPANY STRUCTURE AND MANAGEMENT PRACTICES RELEVANT TO THE UNDERSTANDING OF M&A

Management Control

As in the European countries, especially those close to the German “wholistic” approach of management, the opinion held by the majority in Japan is that a corporation is a cooperative system of employees, managers, customers, suppliers as well as stockholders. This opinion is held by prominent businessmen such as Akio Morita:

In Japan we believe one of the most important things in a company is the worker’s morale; if the workers lose their enthusiasm for the company, the company may not survive. The employees view loss of retained earnings as a threat to their job security. We feel a company that sells its assets has no future. It seems to be difficult for some Westerners to understand this idea we have in Japan that the company belongs not only to the shareholders and managers. (Morita, 1986)

There is a separation between management and ownership as in Western concerns. For example, although it is formally a shareholder’s right, in-house statutory auditors and independent accounting auditors are chosen generally by the representative director. In such conditions, loyalty on the part of such appointed auditors goes naturally first to the director and not to the shareholders. Hostile takeovers could be opposed directly by the parties which have the most to lose because the directors are not likely to accept a proposition eliminating themselves from the company or betraying the officers who appointed them.

However, this last point should not be overestimated. Indeed, the Japanese multiple-stakeholders management system appears to be still relatively freer from direct shareholder interference than in continental Europe. This is liable to have an impact on mergers and acquisitions. Nevertheless, it does not mean that shareholders do not try to protect their investment and are not active. The large shareholders of Japanese firms are often also large debtholders. Knowing what they represent for the target company and understanding the objectives of ownership in this country also helps to understand the potential barrier of management control. There is in Japan a great deal of pressure to keep the system stable. The legal institutions of corporations, for instance, general meetings of stockholders and the board of directors are systems working according to rules different from those in the Western (especially the Anglo-Saxon) world. The board is more an assembly of high level managers in charge of the operation of the company. They do not meet to check on each other but to discuss the firm’s strategy. The shareholders appear to prefer informal ways to gather information and exert an influence on the management. It could be done in a smoother way through President’s Club meetings or other gatherings rather than through the formal structures of the board and the general assembly.

True, times are changing. More and more dissenting voices of disgruntled shareholders are expressed. Changes in the commercial code require large companies to hire outside auditors and allow shareholders with at least 3% ownership (previously 10%) to

have access to company confidential documents. It also makes it easier and cheaper for shareholders to bring derivative lawsuits against company directors and top executives who have allegedly harmed a company's financial condition. This clearly empowers shareholders to request more accountability from the corporate executives³. When fully implemented, they could change drastically the relations between the company and the shareholders. Moreover, the economic slowdown and the structural adjustment of Japanese industry force companies to reconsider their allocation of resources and notably their portfolio of shares, including those of associated companies.

Nevertheless, for the time being, no really strong pressure on the companies is observed coming from the shareholders for a higher ROI. The big shareholders' interest remains fundamentally that of a business partner. Even if growing, there is still too little incentive to dispose of their shares. The stakes seem to be still on the side of helping to resist the acquisition, if it is requested by the target's management. In a way, this is not very different from the situation in continental Europe. Despite a growing trend towards an increase of hostile takeover bids in France, there are still very few cases compared with the United Kingdom. In Germany, Holland and Belgium, in most of the stock exchange companies, the majority of the shares are not on the market, but held in secure hands.

In Japan, there are no holding companies as in France, Belgium or Italy, even if a debate launched by the MITI has started on the subject. Thus, the situation may change in the near future but for the time being, even if a company decides it would be in its interest to dispose of its shares at a tender price, it remains difficult, in a system created to provide mutual support and guarantee of stability, to give an open priority to purely personal interests. Laws exist which give the right to a shareholder to sell all of its shares freely but the impact on the company's members must be considered with priority. Regulation, corporate control and the structure of capital markets are considered to reflect more fundamental considerations, i.e., the nature of the contractual and implicit relations between

different parties with a firm, in particular investors, managers and employees.

In Japan, many people have interpreted that company profit does not belong to stockholders but to the employees and the company itself. In Japanese companies market share goals, long-term strategies and lean production systems, etc., have been developed not for the sake of the shareholders but for the employees and the company itself.

These same factors may also explain why the management itself is under pressure, even if there are obvious advantages to make a deal. Allowing outsiders to enter into the group by way of acquisition or merger is liable to upset the balance of the group structure and should be resisted.

This would be all the more the case if foreigners were involved because of the persistent fear that foreign management would disrupt the business and industrial order. Despite the growing foreign presence, there is still a strong feeling that foreigners are not able to run a business in Japan because of a lack of sensitivity to a context which can only be developed through a long personal relationship built up over years of reciprocal favours and interaction.

An important source of ex-post conflict comes from a misunderstanding in this respect. Many Japanese managers do not yet seem to believe that the foreign owner really wants to be involved in the daily management of the company, including the human resource management and the external relations. This opinion is also often shared by the previous owners in the cases of acquisition of family-owned businesses. They often retain a minority share or even a temporary majority, the shares transfer being made in several steps, and they are still involved in the running of the company in one way or another. In fact, they just tend to expect that the foreign firms will not interfere in the management so that they can run the company as before. They are not at all ready to give the reins to outside people whatever the shareholding changes.

Employment System

Trends towards externalization in the Japanese labour market are appearing as well as new

methods of management of human resources. Even if it is still premature to predict the outcome, there is a growing mobility and a change in the mutual expectations of companies and workers *vis-a-vis* each other. Japanese companies are trying to erase the socio-cultural connotations that some business practices have taken over time. Even if it is justified by the need to rationalize their operations, it is also a response to the socio-cultural evolution in Japanese society towards a limitation of the level of work and organizational commitments.

On one hand, companies declare that they do not want anymore "*kaishaman*" devoting all their life to the company. They are looking for a more contingent occupational type of commitment from the workforce. On the other hand, codification and standardization of the company rules are requested because the younger generation does not consider relevant anymore the complex rites of interaction that were traditionally the cement of the management system assuring the cohesion of Japanese firms. Those practices based on unwritten, informal and diffuse rules governing the appraisal, promotion and reward system were traditionally accepted implicitly by all members, but are now considered as cumbersome, inefficient and unfair by many. Therefore, a management based on indirect control including the use of more objective and explicit systems can be adopted to some extent. More and more Japanese companies are successfully using Westernized systems of job classification, appraisal and reward (MBO, Hay system, etc.).

Nevertheless, despite those moves, the overall system is far from crumbling and the employment system remains of considerable stability and durability. Although it is clear that workers do in fact leave Japanese companies, even the larger ones, in larger numbers than before, and even if there is an expressed yearning for changes in management, Japanese workers remain overall deeply conservative in their career patterns (Sakakibara, 1991), attached to some form of job security and to a long term mutual commitment. There is more mobility but the choice of a company is certainly not becoming a purely utilitarian one in a Japanese context and there is still a stigma attached to a too-high job mobility.

Japanese mid-career workers and students also remain suspicious of foreign companies. They are often perceived as lacking a long term commitment in Japan. Moreover, they are also suspected of trying to impose management practices alien to the Japanese workers' way of mind. There is a reluctance to accept a complete instrumentalization of the company. Average Japanese workers do not feel at ease in a system where interactions are too functionally oriented. On the contrary, a number of surveys show that many workers in foreign companies complain of the too functional and dry type of human relations imposed on them⁴. So, the vestiges of the ideal established by the role of interpersonal relations, the practice of life-time employment and seniority by the mainstream Japanese companies, even shaken and contested, appear to be liable still to block acquisitions and mergers or become impediments after the deal. It is all the more true because the foreign acquiring company would inherit Japanese workers who had never considered entering a foreign company.

Even now, employees may have quite different expectations than their Western counterparts (Debroux, 1993). Convergence with the West has occurred to some extent but not completely, and it is likely that it will remain as such because of the differences in the socio-cultural context.

In the case of a takeover, it is considered in Europe that managers and employees may be denied the benefits of their firm-specific investments by changes in ownership. Therefore, faced with that risk, employees may be unwilling to incur the costs of investments in firm-specific training and managers may be unwilling to forego current earnings for long-term R&D projects.

Similarly, in Japan too, the negative consequences of their commitment to acquire company-specific expertise due to the career uncertainties caused by an acquisition are often expressed by local managers.

In mainstream Japanese organizations, the top levels of the employee ranks still expect to be in control of the company one day. This is a deeply ingrained way of thinking borne out of tradition, of years of devotion to the company, and more often to direct bosses who

now could be in a position to propel their "disciples" into positions of power. The advent of outside control would put this expectation into jeopardy and can naturally be expected to be resisted. It may not be so true in family-owned small and medium sized companies which are the natural targets of foreign firms but, in view of the current restructuring of Japanese industry, an increase of deals of subsidiaries or division of larger concerns will probably occur. Therefore, foreign companies will have to cope with the issue if they acquire part of a large company. Thanks to the growing mobility of experienced managers, it is easier to bring in personnel from outside, to dismiss ineffective managers and promote capable ones. It is all the more true in new companies in high technology industries whose workers are comparatively mobile and more prone to consider favourably foreign interests. However, even in those firms, any of these acts could easily create a feeling of insecurity and be viewed as a breach of the natural obligation and psychological contract which flows from the dedication and loyalty shown by employees.

With the exception of persons with technical skills in newly developed industries or in the small firms, there seems as yet to be little lateral mobility among most occupations. Once a person joins a company, the expectation of the vast majority of the workers is still that they will stay until retirement age.

Foreign companies in Japan have always been overly cautious in this regard because of the fear of losing their reputation with their customers and putting into jeopardy their recruiting capability. Now, in most of them, there is a local acceptance of the necessity of dismissal in order to retain competitiveness. No more than Japanese firms can foreign companies afford to provide fictive executive positions just to keep intact the material and psychological contract. The request comes often from local managers who believe that the firms should be less lenient with subpar performers even if they have had a long career in the company. Nevertheless, any attempt to terminate abruptly a member of the management group would be met with fierce opposition and anxiety on the part of all employees. It must proceed very cautiously after exhaustion of all other means, i.e., a

period of probation, opportunities of retraining and, in the end, consideration of an adequate alternative in another company to those dismissed, not such an easy task at a time of scarce job opportunities for a wide range of occupations.

It is also easier to hire from outside or promote rapidly the brightest person. For instance, it is now more widely acceptable for younger managers to supervise an older one. But the process could also put the whole structure into jeopardy if not dealt with adequately, in a strictly limited manner and explained thoroughly. A large European electronics company will long remember the trouble caused by the attempt to impose a new local vice-president from outside without enough consultation with local executives and their approbation. It led to physical violence, the loss of precious managerial resources (including the very person that the management wanted to impose) because of the resignation of the managers involved and a loss of reputation on the labour market.

RESULTS OF A FIELD SURVEY BASED ON INTERVIEWS OF A NUMBER (25) OF FOREIGN AND JAPANESE MANAGERS IN JAPANESE COMPANIES (8) ACQUIRED FULLY OR PARTIALLY BY A FOREIGN CONCERN

Field of activity	Number of employees
Pharmaceutical products: (3)	250 300 850*
Trading and retailing: (3)	50* 65 125
Consumer goods maker: (1)	320
Machinery: (1)	900*

*Indicate companies which were Japanese subsidiaries of a foreign firm before the acquisition.

↔ The interviews were conducted at least one year after the transaction. In three cases, the acquisition had been made more than five years before.

- ↔ Five transactions involve European companies (German 2, French 1, Belgian 1, Swedish 1); three involve US companies.
- ↔ The deals amount to sums of between \$1 million to \$26 million.
- ↔ In all cases, the foreign firm has either the majority or is the dominant shareholder.

General Comments

According to Japanese managers, foreigners had a reasonable knowledge of the situation at the time of the acquisition. Nevertheless, local managers recognize that the willingness to close the deal has limited very drastically the consideration of ex-post integration issues. In fact, many human resource issues could not be effectively resolved or even dealt with before the acquisition was actually consummated for reasons of time and necessity of secrecy. This is hardly unique to Japan as it is considered an important cause of failure in the Western world. In our cases, in 2 companies, the consequence was a massive resignation of key employees (specialized salesmen in one case, key managers and salesforce in the other)—because of leaks leading to disinformation and misunderstanding in one case; and in the other, because of a campaign orchestrated by the previous owner in view of achieving its future objective, which is to create a rival company in the same field. There was thus often a neglect of the wider environment in which the company was operating. It was stated in several cases by Japanese managers that “bad surprises”, including cases of an abrupt change in attitude of the Japanese management just after the signing of the deal and smooth negotiations, could have been prevented through research on the historical background of the company. That is why it could be useful to know the organizational background of the target company to diagnose its culture beforehand. This is all the more important when it is realized that most acquisitions are family-owned companies often managed in an autocratic way.

Some unpleasant surprises were discovered after the acquisition, making it impossible to meet the expected performance. Disap-

pointing or declining performance was not accepted readily by the new management. However, taking into account the characteristics of the labour relations, for instance the difficulty in securing adequate salespersons, especially in the countryside, no drastic reductions in staff or other moves to enhance the short term performance were undertaken.

The Processes of Change

Almost without exception, the senior local executives declare that they have retained their authority and independence to run the business. Most had negotiated formal agreements establishing the authority and responsibilities as a precondition to staying with the company after the acquisition. Strategic plans and investment objectives were developed together by the Japanese firm and its new owner; however, there has been little interference from the outside in daily operations after the deal.

In several instances, top management initiated changes just after the deal to strengthen what was considered to be an inadequate local management team. But, the emphasis was always on maintaining Japanese control either through the promotion of a Japanese executive from within the acquired firm or through the recruitment of an experienced senior executive from another Japanese firm (or a senior executive coming from a large institution). Subsequent management changes in the lower levels of the organization were mostly implemented by the new Japanese team. Usually, only minor modifications were made, but there was no push to reduce management ranks or employee head count. Local executives were vested with a large degree of authority in this regard. The human resources management systems were retained for a while and little indication was provided from the new owners on human resources policies and procedures. External consultants were contacted afterwards to harmonize the system, in collaboration with headquarters specialists, and to introduce new procedures.

There is a large recognition of the fact that the foreign owner needs local representation and that the involvement of expatriates is inevitable. Usually, in such cases, the parent company has sent individuals to act as top-level

liaison personnel or technical experts (including management know-how such as accounting or finance expertise). This was generally at the request of the senior Japanese managers to facilitate communication with the new owner. The relative smoothness of the integration was in some part attributed to this staffing strategy.

The use of external consultants seems to raise mixed feelings among local managers. On one side, they are perceived as useful to introduce new management tools (appraisal and compensation methods, etc.). On the other end, they are too often utilized to deal with general problems of management which could be solved or discussed beforehand with local managers. This raises the question of trust between the parent company and local management.

Financial systems were generally revised with new formats, targets and accounts. In this respect, some foreigners were amazed at the high sensitivity of local managers to changes, even in minute details of the organization. This included technical changes such as accounting methods or procedures to facilitate the merger related changes. Efforts to impose seemingly rational requirements may nevertheless be resisted because of threats to the existing culture.

Compensation

The level and composition of remuneration of the top-level Japanese executives continue to be the subject of frequent discussions. On the whole, the Japanese executives receive remuneration comparable with or greater than levels prior to the acquisition. We have not met any Japanese who suffered a decline in income.

The compensation of retiring directors and the pension system are the hidden costs most frequently stated. Thus, information gathering on the compensation system before the deal is very important because the amounts can be extremely high. The pension system is so complex that the use of a specialist is highly recommended. One of the "bad surprises" was that sometimes the compensation system scheme presented during the negotiation had been made up especially for the deal. It did not fit with the reality of the labour situation. In 2 cases, the company chart mentioned a

rather elaborate hierarchical structure. However, the company was *de facto* run by one man. All employees were actually almost on the same footing without hierarchical ranks.

Organizational Culture and Communication Patterns

The organizational culture of the newly acquired firm is in almost all cases distinctly Japanese, although the decision making process at the very top level is often altered.

The role of an external consultant was crucial in one case: that of the acquisition of a US company by a French one. The Japanese subsidiary which was used to US management had difficulties in communication and harmonization with Japanese subsidiaries of the French group. It was considered that only a third party could develop a scheme to harmonize the situation.

Despite the apparent acceptance of the presence of expatriates, lingering doubts on the capability of foreigners to run a Japanese company are still expressed in several companies. Conversely, a number of Japanese executives also have doubts about the willingness of foreigners to exercise effective control. Their hands-off attitude creates an uncertainty in the way (and by whom) the company should be managed. On the contrary, foreigners (sometimes in the same companies) have the impression that the Japanese side is unwilling to discuss the post-merger situation. They have the feeling that the Japanese consider that both sides have already "overmet" over the deal and that it is better to let the dust settle down slowly without doing anything hastily.

It is recognized by both sides that it is impossible to prevent completely, people's fears, uncertainties, stresses and tensions from emerging. The present set of attitudes, values and behaviour have to break down before the organization can successfully implement the desired changes and stabilize them as a new regime. In a period of uncertainty, the temptation exists to make promises (for example concerning job security) to allay fear; the risks are big because in this situation any slight (even if only supposed) breach of the psychological contract, can lead to catastrophic results.

It was pointed out by expatriates that the Japanese side seldom takes the initiative in this respect and the foreign side must make

the proposals. Some companies have tried organizational combinations to resolve potential operating and procedural differences. This was done through the establishment of joint committees, transition teams or task-forces. The results are mixed at best. In many cases, little of real substance emerged. It was mentioned by an American expatriate that unfocused "intergroup mirroring" such as is applied in the US is almost impracticable here because of the difficulties in getting meaningful answers from the Japanese side. This partially reflects the greater importance of non-verbal attitudes and behaviour in the Japanese culture and the reluctance to express differences openly.

In some cases, if the discussions were not strictly monitored it was perceived that they could lead to the opposite result, reinforce people's awareness of the different cultural orientations and polarize their viewpoints.

There was a danger that once the cultural implications of potential changes were clarified it could deteriorate into confrontation. That is why in the process of team building, a task-oriented approach with explicit emphasis on data gathering, problem finding and solving, looks far more efficient than an outright confrontation of differences of opinion.

The transition groups should not be too top heavy because they then rapidly cease to become operational. In fact, it should include a level (*kacho*-section chief) lower than seen in a Western context (USA in this case). Reflecting the difference in the concept of enterprise, it is pointed out by foreign managers that, in the case of Japan, communication channels to explain the merger have to be extended to all levels of the company including the lowest. In general, clerical workers in the Western world are not that much concerned by the deal. It is not the case in Japan.

Some companies have seen the development of a kind of intercultural interface. This has occurred generally on an informal basis without specific instructions. The interfaces are generally Japanese people but they could be foreigners. Maintaining a balanced position is very delicate: accusations of betrayal are rapidly made even in cases of minor conflicts. Therefore, success depends very much on the

explicit backing of both sides of the top management.

Other tools utilized with success include a hot line responding to precise questions. In some cases, the responses were just stating that the merger indeed raised questions about restructuring, personnel, compensation and that these concerns would be addressed as soon as possible as the acquisition unfolded.

For that purpose, some companies have also published an information bulletin steadily on all the new developments.

Level of Desired Integration

As is most often the case in the Western world, the conclusion is that uncertainty tends to drive away the best employees. That is why it is all the more important for the psychological contract to give a realistic merger preview. At some stages, there is a necessity to maintain ambiguity but these ambiguities can create conflicts and obstacles if they are left unresolved for too long.

In one case, the company has undertaken regular attitude surveys. It took several years before positive trends appeared in the most important measures (organizational commitment: sense of pride, opinion on the place to work, level of work and employment commitment; job-related issues; job satisfaction, promotion opportunity, high rate of turnover; job security and relations with foreign supervisors). These results are however not at all out of line with those of similar surveys in the West.

One difference pointed out by a foreign manager is that in the USA, the appearance of "counterculture" groups of organized opposition occurs quite rapidly. In Japan, workers can identify easily the lowest level of satisfactory outcome acceptable to the Western partner. So, the problems may stay unresolved underground. That is precisely why the presence of an "interface" can be useful.

This partly reflects the fact that in the case of Japanese firms, beliefs and values are widely spread all over the organization but not clearly ordered. The relative significance of different assumptions is not widely known and there is ambiguity about which beliefs and values should prevail in case of conflict.

There is wide recognition that there are limits to what managers can accomplish with respect to cultural change and also limits to the amount and rate of change people are able to assimilate.

Indeed, in the case of Japan, few would contest that the basis of the "tacit management" (the things we consider as right and true beyond any discussion and which stay unformulated, for instance what we consider as good management), is composed from such different assumptions that it would be an illusion to think that a blending is possible. To create an organizational culture is a very long term goal and it is better to concentrate on the development of an organizational climate of a more superficial nature but allowing everybody to feel at ease. It thus requires the recognition of the legitimacy of different cultural orientations and values.

As was pointed out in the cases of Japanese companies in the USA and Europe, the socialization process is very complex. Participative feedback efforts and other integrative mechanisms are useful but it is well-known that many Japanese companies abroad have caused negative feelings among their local executives in "trying to explain Japan" (Pucik & Hanada, 1989). The same is true here. Some aspects of the managerial culture may be shared but crucial facets tend to be indigenous not only to a particular culture, but even to a particular organization. So, there is an often unformulated need for maintaining some distance.

3.6 Conclusion

It is difficult to make a definitive conclusion in view of the lack of quantitative data and the heterogeneity of the responding companies. Only indicative trends can be identified.

As stated before, the human resource policy is generally "foreign hands-off" on controversial changes such as reorganizations or relocations. However, there is no opposition to change if there is a coherent dispatching of information about the reasons for the change. Japanese managers point out that there is a growing acceptance of new systems of appraisal and rewards.

Fear exists, but also a recognition of opportunities: fears arise that unless the firm

grows or gains access to additional resources, larger companies will destroy it, and it will become less competitive or might even fail.

As attitudes change very slowly, it is better to focus on behaviour in setting explicit expectations and performance standards. This is true at all levels, from the bottom to the top.

The role of expectations is important: unrealistic expectations are a significant cause of lack of success in change programmes. Conversely, a promise of no-change would be received with considerable scepticism.

If the opinion that foreigners are unable to function in Japan is still expressed, many Japanese managers would like to see foreigners more involved in the human resource management. Some are concerned that if it is necessary to be fair in the way recruitment and dismissal are done, their company could become a dumping ground for unwanted or subpar executives if too loose an approach is adopted. The company could be saddled with an expensive, but technically obsolete labour force and there is a feeling that it could put the company into a position of extreme vulnerability in the long run if the labour market tightens once again.

NOTES

(1) There are about 40 "out-in" deals per year, all of them very small by international standards. Foreign acquisition activity in Japan declined in 1993 to 35 deals, down from 43 in 1992. The largest disclosed deal was for 3.3 billion Yen. Total disclosed volume in fiscal year 1993 was 16 billion Yen (for only 11 deals). The targets are mainly middle to small size private companies, the most popular size being in the range of 100 million to 1 billion Yen in total sales. Just one deal in 1993 involved a listed company.

(2) KPMG M&A Review 1993 in Japan, in *Restructuring in Japan M&A Opportunities? Proceedings of the Second EBC Investment Conference*, Tokyo, November.

(3) See the example of the suing of a number of executives of Hazama Corp. related in the *Nikkei Weekly* October 11, 1993.

(4) Nemoto A. *Zainichi Gaishikei Kigyō no Shinsotsu Sayo no Kadai* (Issue of the Recruitment of New Graduates in Foreign Firms in Japan) Meiji University Faculty of Commerce, Nemoto Seminar, Tokyo, 1991. See also Suwa Y. Why Students Do Not Prefer Foreign Affiliated Firms? *Labor Issues Quarterly*, Spring 1991.

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