



Innovating Japan through Globalization of Human Capital

By Sakie T. Fukushima

As a human capital consultant who has been working in Japan for nearly two decades, I have become increasingly concerned about Japan's shortage of global leaders. This "global leadership deficit" will almost certainly impair Japan's ability to compete in the global marketplace of the 21st century.

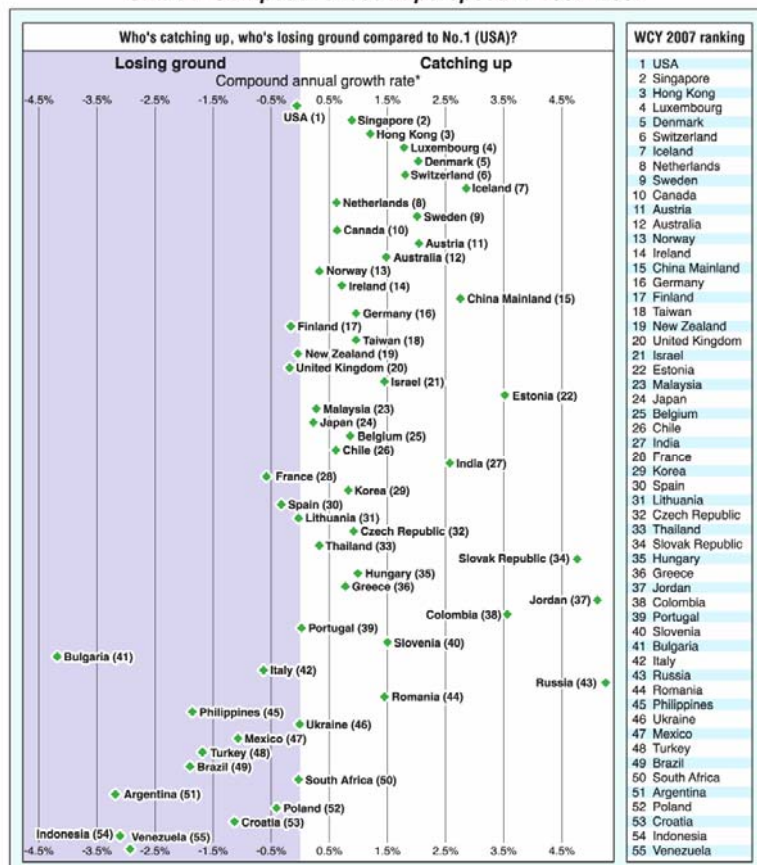
Japan's overall competitiveness, which was considered strong in the 1980s and early 1990s, has made some modest recovery in recent years after plummeting during the "Lost Decade" of the 1990s. However, the rise of the BRICs poses a challenge not only to Japan's relative competitiveness but also to its 40-year status as the world's second largest economy.

One indication is Japan's overall decline in competitiveness as reported in the IMD World Competitiveness Yearbook 2007, ranking Japan 24th, behind China at 15th (See Chart 1). In addition, Goldman Sachs predicts that by 2016, the GDP of China will overtake that of Japan.

Signs of Decline

A number of indicators can be cited to underscore Japan's unfavorable position in facing international competition. One is the insularity of Japan, as exemplified by the consistently low scores achieved on the TOEFL (Test of English as a Foreign Language). Japan's total mean score of 497 (July 2005-July 2006), the same as Mongolia's, places Japan at the bottom among the 33 Asian nations that use this examination, far below China (557) and South Korea (538).

Chart 1 Competitiveness in perspective 1997-2007



Note: *Compound annual growth rate shows long-term trends based on the evolution of overall competitiveness drawn from the IMD WCY database.

Source: IMD World Competitiveness Yearbook 2007

A second indicator is the low productivity of Japan's white-collar workers. According to the OECD, Japan ranks 19th in labor productivity over the last 11 years, the lowest among the G-7 countries. Given projections that the productive population of Japan will decrease by 12 million by 2025, the increase in labor productivity, in particular of white-collar workers, is critical for Japan's survival in the global economy. Productivity can be improved by either raising the productivity of individual workers or by increasing the number of workers. The recovery of the US economy in the 1990s is usually attributed to the increase in labor productivity per employee resulting from aggressive investment in and utilization of IT. At the same time, the United States accepted foreign engineers, particularly from India, and enhanced productivity by outsourcing to India and other countries. Although this raised social and political issues, including concerns about American workers losing jobs, the increase in productivity has been regarded as key to the US regaining long-term competitiveness.

Can Japan's productivity be improved using the same recovery model as that of the United States? The relatively modest investment in IT infrastructure in Japan between 1992 and 2003 of roughly 9% to 16% of total non-residential fixed capital formation in Japan, compared to around 23% to 32% in the United States (See *Chart 2*) suggests that Japan is unlikely to follow the US recovery model.

Chart 2 Shares of ICT investment in non-residential fixed capital formation
(As a percentage of total non-residential fixed capital formation, total economy)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	18.3	18.4	18.7	19.1	19.8	21.0	20.9	22.5	26.0	24.7	23.9	22.9	21.6	..
Austria	11.0	11.8	13.0	12.4	11.8	11.9	13.8	14.3	13.7	15.1	14.0	13.2	..	..
Belgium	18.8	15.9	16.9	18.0	18.4	19.4	21.5	21.7	24.2	23.3	20.3	19.9	..	..
Canada	16.1	16.9	16.4	16.8	18.0	17.5	18.8	19.9	20.6	20.2	19.2	18.6	18.2	17.0
Denmark	17.6	19.3	17.5	19.1	19.1	19.6	19.1	20.2	19.5	18.8	19.4	19.6	..	..
Finland	18.5	22.9	25.7	25.8	20.2	25.1	25.2	26.4	26.3	25.9	27.6	26.6	..	..
France	10.5	10.9	11.7	12.5	13.8	15.8	17.0	18.2	17.7	18.8	17.8	17.3	16.4	16.4
Germany	13.1	13.2	13.0	13.3	14.1	14.5	15.3	16.6	17.5	17.8	17.0	15.4	14.9	15.3
Greece	9.3	13.2	11.7	10.0	10.9	11.0	12.4	11.7	12.8	14.3	11.5	10.8	..	..
Ireland	5.7	5.8	6.7	9.6	8.7	8.2	9.6	10.9	14.2	11.4	9.6	8.1	..	..
Italy	14.2	14.3	15.1	14.8	15.1	16.3	15.9	15.4	16.1	16.9	15.7	15.8	..	..
Japan	9.1	9.3	9.3	10.5	12.7	12.9	13.8	15.1	15.9	15.8	14.5	15.6	15.9	..
Korea	..	..	..	12.2	12.7	13.5	15.2	18.1	20.8	20.0	18.8	16.4	15.5	..
Netherlands	13.0	13.7	13.5	13.1	14.0	15.5	17.1	17.6	17.7	17.7	16.8	17.8	..	..
New Zealand	17.7	15.8	16.0	14.9	15.3	16.2	18.9	18.1	21.0	19.5	19.6	..	..	..
Norway	8.4	8.4	9.3	9.9	9.8	10.0	9.6	10.9	11.8	12.5	12.6	..	..	..
Portugal	10.6	10.7	11.4	12.2	12.2	12.0	13.0	13.4	12.4	13.1	11.9	13.6	..	..
Spain	11.6	12.6	12.9	12.5	14.6	14.5	14.7	14.9	14.7	13.5	12.4	11.3	11.6	..
Sweden	19.4	24.6	23.8	23.5	22.7	24.2	26.3	27.9	30.5	27.8	25.5	26.6	..	..
United Kingdom	15.6	17.2	19.1	21.7	22.7	21.3	24.3	23.7	25.0	23.4	22.0	21.8	..	..
United States	24.0	23.8	23.8	24.7	25.6	27.1	27.6	29.8	31.7	30.4	29.4	29.1	28.8	27.8

Source : OECD Factbook 2007, Economic, Environmental and Social Statistics (Science and Technology, Investment in ICT, p. 155)

A third indicator is that despite the shortage of workers resulting from Japan's aging population, there is an underutilization of women and foreigners in the workplace. Although an increasing number of Japanese companies have introduced various measures to utilize women through promotion, flexible work hours, e-work systems, the benefits of these measures will only be realized after several years. According to a study conducted by Corporate Women Directors International (CWDI) in 2007, there were only five women sitting on the board of directors of the 27 Japanese companies listed in the Fortune 200 global companies, constituting only 1.3% of the total board membership in these 27 companies. The same study conducted in 2004 found only two women (including myself at Sony), so the growth rate from two to five is welcome compared, e.g. to the growth rate of 17.6% in such countries as the United States, but the absolute numbers are still unimpressive.

Need for Global Leaders

Since the end of the Cold War, as symbolized by the fall of the Berlin Wall in 1989, we have seen a major shift in the global market for human capital. What used to be a "war for talent" confined primarily to the advanced industrialized countries has now spread throughout the world, so that we now see this "war" taking place in nearly every market, including especially the BRICs.

In Japan, the labor market also changed significantly during the last two decades, mainly due to the increase of foreign direct investment (FDI), which grew 42 times (from 51 to 2,142 cases) between 1989 and 1999. This growth in FDI resulted in part from the declining competitiveness of Japanese companies during the 1990s and from the revitalization of the US economy during the same period. One of the major changes on the demand side was the increasing number of Japanese companies that started to hire senior executives from the outside. This had not been a common practice for traditional Japanese companies, whose success had been attributed to the “three pillars of Japanese management,” namely, lifetime employment, seniority-based pay, and enterprise unions. The new development resulted in part from the increasingly competitive challenge from foreign companies operating in Japan that forced traditional Japanese companies to accept the fact that they could not afford to take the time to develop all the expertise from within and instead needed to recruit experts, such as a chief information officer, from the outside.

The supply side showed signs of change sooner than the demand side. The bankruptcy in 1997 of Yamaichi Securities Co., Japan’s fourth-largest securities firm, had a profound impact on the psychology of Japanese executives, who were shocked by the collapse of a traditional Japanese company that was thought to be invincible.

Changes on the demand side accelerated changes on the supply side. As Japanese companies started to introduce non-traditional employment practices such as performance-based pay and restructuring, Japanese employees came to see lower opportunity costs to leaving Japanese companies that were no longer guaranteeing lifetime employment. As they became less reluctant to change jobs, labor mobility started to grow.

The speed of change, however, has not kept pace with the speed of change in the global labor market. Many of my clients – predominantly major US and European multinational corporations – assume a plentiful supply of Japanese global business executives who can be recruited to lead their operations in Japan. Many of these clients are astounded to learn that the number of truly global Japanese executives is still small and that those who qualify are not easily persuaded to leave their current employment to join another company, in particular a foreign company. Thus, we still see a huge mismatch in Japan between the demand for, and supply of, global talent.

Japanese leaders have increasingly come to understand the importance of producing global leaders. So far, however, little has been done to develop them. A good example of the recognition of the issue can be found in a Keidanren Opinion Paper entitled “On the Development of Human Resources in a Global Era,” dated March 28, 2000. The report recognizes the need to create a “Global Country with Vitality” that will be attractive to the outside world. Interestingly, my first book, entitled *The Global Marketable Executive*, was published in the same year.

The globalization of human capital is recognized by Japanese business leaders as a top priority for the future, but not as an immediate priority. In a survey conducted by the Japan Management Association (JMA) in November 2006, one question asked respondents to “choose the most important management issues you face today.” Japanese business leaders rated “globalization of management” as 17th in priority for 2006, but they projected it would rank 3rd in 2015. Reality, however, calls for immediate action. Seven years after the publication of the Keidanren Opinion Paper, we still face a paucity of global Japanese leaders who can compete effectively in the global marketplace.

Global Change Agents

What kinds of executives are sought after by multinational corporations to lead their operations in Japan? The answer, to put it simply, is “global change agents.” As indicated in Chart 3, the qualities of such an executive can be shown to comprise “professional attributes” (experience and skills) and “personal attributes” (basic competencies and personality). A successful global leader is a professional who can work effectively across national and cultural borders, who possesses a high level of professional skills that transcend a specific organization, and who is a change agent and problem solver. In other words, the global executive most sought after by our

clients is a professional change agent, regardless of nationality or gender, who is best suited to achieve the client's corporate strategy and objectives.

Chart 3 Global Change Agent Executives

	Professional Attributes	Personal Attributes	
Professional Abilities	<ul style="list-style-type: none"> • Business sense/MBA • Entrepreneurship/Autonomy • Communication skills (multilingual, multicultural) • Crisis management ability • Creative, flexible problem-solving ability 	<ul style="list-style-type: none"> • Strategic mind • Logical (analytical) mind • Bright • Articulate/good listening skills • Self-reliant • Sensitivity to deal with diversity 	Basic Competencies
	Professional Experience	<ul style="list-style-type: none"> • Industry expertise • 5-10 years of general management experience • Sales & marketing experience • Overseas experience - Ability to deal with diversity		• Dynamic & decisive • Energetic & charismatic • Creative • Flexible • Positive • Risk taker	Personality

Source : Compiled by Fukushima

Chart 4 Traditional Japanese Executives

	Professional Attributes	Personal Attributes	
Professional Abilities	<ul style="list-style-type: none"> • Business sense • Organization skills • Communication skills and protocol • People management skills • Relationship-building skills • Consensus-building skills 	<ul style="list-style-type: none"> • Tactical • Empathetic • Bright • Good listening skills • Team-oriented • Conformist 	Basic Competencies
	Professional Experience	<ul style="list-style-type: none"> • Domestic industry expertise • General skills through rotation system • 10 - 15 years of general management experience • Connections in the industry ("Face")		• Modest & respectful • Mature & paternalistic • Senior presence/seasoned • Perseverance • Risk averse	Personality

Source : Compiled by Fukushima

Why are companies seeking to hire executives with these qualities? When an executive works globally, he/she encounters new and unknown situations every day. The individual is usually hired to solve problems that he/she has never experienced before. To be successful as a global executive, the executive needs to manage crises every day, solve unfamiliar problems creatively, and manage diversity in people, rules and regulations, customs, and protocol. Therefore, companies need someone with creative problem-solving ability, multilingual and multicultural skills, and a willingness and sensitivity to listen and learn from the diversity in the marketplace. At the same time, a successful global leader needs to be willing to take risks to challenge the status quo and accept accountability for his/her decisions. Everyone expects him/her to be a change agent and charismatic leader with the vision and commitment needed to lead the company to success. One good example is Carlos Ghosn, who transformed Nissan Motor Co. after coming to Japan in the spring of 1999.

It is useful to contrast these qualities with the professional and personal attributes that were most valued in executives in traditional Japanese companies during the postwar high growth period up through the 1980s (See Chart 4). In summary, Japanese companies have developed executives who excel in working in teams and as a member of an organization. Japanese business places importance on relationships with people that guarantee long-term trust and also values "face" in the industry that can open doors to exclusive sectors. Hence, their decision-making style tends to be more tactical than strategic, and focuses on consensus building rather than on individual accountability. To work effectively on a team, they are encouraged to be modest and respectful, mature and paternalistic, value perseverance, and be risk-averse by not being conspicuous. These qualities were among the key success factors that led to the phenomenal success of the Japanese economy through the 1980s. Some of these attributes of Japanese executives – e.g., being hard-working and paying meticulous attention to details – should be maintained, while others – e.g., lack of entrepreneurial spirit, risk averseness, taking group but not individual accountability, and engaging in slow decision-making – can obviously impede the ability of Japanese executives to be effective globally.

The qualities most sought after by global companies for their leaders in Japan are similar to the qualities expected for their leaders in other markets around the world. In this sense, there is a common set of characteristics for global change agents, regardless of the national market. These qualities involve (1) diversity management, (2) commitment to results, (3) accountability, (4) challenging/entrepreneurial spirit, (5) positive (can-do) attitude, (6) risk-taking, (7) humility to learn different values, and (8) uncompromising integrity.

Enhancing Competitiveness

What can be done to enhance Japan's competitiveness? A recently issued interim report (the final report was issued in May 2007) of the Japanese government's "Innovation 25" Strategy Council recommends that action be taken in three sectors to strengthen Japan's innovation in: (1) science and technology, (2) society, and (3) human resources. To innovate Japan's human resources, the council recommends (a) encouraging cultural diversity and people who think creatively; (b) fostering people with broad knowledge, expertise, and professionalism; and (c) building a society and community friendly to high-caliber experts from abroad. It is interesting that these recommendations, which appear in the interim report of February 2007, do not appear in the final report issued in May 2007.

From my standpoint as a human capital consultant, three things need to be done to develop the global leaders that Japan urgently needs.

First, as a short-term solution, Japanese companies should appoint/hire executives who are best suited to implement the strategy of the organization regardless of gender, nationality, etc. Recently, an increasing number of Japanese companies are attempting to localize their overseas operations by hiring a local CEO instead of sending a Japanese CEO from headquarters. Some Japanese companies with a long history of overseas operations have already localized their management team. Many, however, face the problem of having local executives who are either too "Japanized" to be effective in the local market or too localized and independent to be managed from the Japanese headquarters. Interestingly, foreign companies operating in Japan have gone through several cycles of "localization" (Japanese CEO) and "centralization" (foreign CEO from headquarters) of their top management.



Over the past two decades, I have seen that the pendulum swings between these two extremes. Japanese companies appear to be in the first phase of this cycle. Therefore, my recommendation is to appoint/hire an individual best suited to accomplish the mission of the company in that particular market regardless of gender, nationality, etc., rather than appointing a local executive as CEO just for the sake of localization or to make it attractive enough to draw local top talent.

In this connection, a significant pool of untapped talent in Japan comprising women, overseas returnees, and foreign nationals needs to be explored. These individuals can not only fill positions that have traditionally been assumed by Japanese males but also, because of their traditionally "non-mainstream" status, provide insights and experiences that may allow the organizations to which they belong to innovate and adapt quickly and flexibly to the rapidly changing global environment.

Second, as a medium-term solution, Japanese companies should consciously and systematically develop global leaders by providing incentives to their employees to: (1) develop core professional skills, (2) strengthen their strategic ability, (3) obtain experience overseas, (4) maintain an entrepreneurial spirit, and (5) be open to diversity and develop the ability to solve problems creatively.

It is often said that Japanese organizations tend to develop "generalists" through a company's regular rotation system rather than "specialists" with deep expertise in a functional area such as finance, marketing, human resources, and so on. My definition of a professional is an individual who excels in one or more core business functions but also has the ability and potential to become a general manager. That is, a professional is a person who has a high level of expertise that transcends a specific organization but also has the ability to manage a company as a CEO with vision and strategy. Therefore, before taking a generalist career path, it is critical

for Japanese executives to develop a core professional skill in a specific area of expertise that is marketable and transferable outside one's own organization.

A strategic mind for formulating and implementing corporate strategy is a rare quality among Japanese executives. This is because many Japanese corporations were successful without being explicitly strategic during the period of high economic growth in the 1960s, 70s and 80s. However, there is increasing demand for strategic executives. For example, an HR executive who can proactively formulate and implement an HR strategy that reinforces the overall corporate strategy, including reevaluation of the organizational structure, can add much more value to a company than a personnel manager who merely implements decisions and maintains the existing organization. Good MBA programs can provide analytical frameworks that can be useful in crafting corporate strategies. What is taught in an MBA program is similar to learning English because a student is acquiring an international business language that can be used across national borders.

Overseas study or work experience is also helpful to learn how to manage diversity in people, values, cultures and practices. In this era of globalization, foreign language ability, cultural understanding, and the ability to deal with diversity are essential.

An entrepreneurial spirit cannot be developed overnight. Companies can, however, encourage their employees to have the mindset of being the CEO of the organization in order to train them to look at the big picture, think strategically, and consider the long-term consequences of immediate actions. Upon joining a company, whatever the position may be, encourage them to put themselves in the position of the CEO and think what they would do if they were leading the organization. This simulation exercise will train them to view corporate issues and problems from the perspective of general management, identify alternative solutions, evaluate them, find their own solutions to these problems, and compare them to those adopted by the real CEO.

The ability to communicate effectively with people of diverse backgrounds, perspectives and values, and to solve problems creatively is also essential for a global leader. To do so successfully, it is imperative for the individual to be open to different values and practices without being judgmental about them. There may be only one "fact," but there can be dozens of interpretations of that fact. To solve a problem creatively, being judgmental and arguing over which interpretation is better is not productive. It is more effective to understand and appreciate differences, seek common areas of agreement, and work out the differences to come up with a solution.

Third, for a longer-term solution, the Japanese educational system needs to provide a more global education than at present to instill a greater ability by young Japanese to cope with the rapidly globalizing world. This would include a more effective teaching of foreign languages; a focus on teaching logical, analytical, critical and independent thinking; and a concerted effort to prepare students for dealing with a diverse work force.

Conclusions

The government economic policies, business models and leadership types that served Japan so well during the postwar catch-up phase through the 1980s have become liabilities for Japan in the post-Cold War world of the 1990s and the 21st century. To regain its competitiveness, Japan needs to make major changes to cope effectively with the forces of globalization. Among the central changes needed is a new leadership type embracing change, diversity and innovation that might best be described as a "global change agent."



About the Author

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