Partnering with Japan, Inc.

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Summary
This report presents findings from a series of 25 interviews conducted in February 2020 on the recently established strategic partnership with the goal of joint client prospecting and servicing between the Tokyo Office of a global player (GPTO) and a traditional domestic Japanese firm (TDJF). The aim of the interviews was to identify the challenges and risks that may arise due to a variety of cultural differences.
Consistent with our hypotheses, we find that, even though the overall strategy is not challenged, GPTO’s perception differs from that of its global and APAC headquarters in terms of market assessment and business opportunities. In addition, potential differences in incentive systems and time horizons employed by GPTO and TDJF may limit the potential of joint marketing and sales efforts. On the operational level, GPTO employees’ greatest concern is the potential impact of the strategic partnership on their working environment.

1 This case study is part of a larger project on co-operations between Swiss and Japanese firms.
1. Introduction and study background

As part of their international growth strategy, a global player headquartered in Switzerland (GP) has been running and successfully growing a business in Japan during the last decade (GPTO). In order to realize a more substantial share of the Japanese market potential for one of its core businesses, in mid-2019 it concluded a strategic partnership with a traditional domestic Japanese firm (TDJF).

The research undertaken in the preparation of this report aims to identify challenges and risks that could potentially arise from various dimensions of cultural differences.

1.1 Methodology
We conducted a series of 25 interviews with members of the GP’s APAC/global HQ (3), GPTO employees (18), TDJF employees (2), and external consultants (3). The interviews aimed at collecting and synthesizing opinions and observations, both general and those specifically pertinent to particular project phases. Results were then mirrored against our hypotheses.

1.2 Limitations
This study is largely based on information obtained through interviews with GPTO employees and may therefore only afford an incomplete reflection of the views of TDJF. For a more nuanced view, especially with regard to joint activities such as joint client prospecting, and cross-selling, as well as the outlook and perspectives, a further series of interviews with TDJF is indicated.

1.3 Structure
Section 2 derives a number of working hypotheses building on stylized facts described in the research literature. Section 3 presents findings, subsequently mirroring against our hypotheses in Section 4, which also concludes.
2. Stylized facts and working hypotheses

Prior to conducting our series of interviews, we derived a number of working hypotheses from the research literature.

2.1 Reactions to change processes at employee level

It has long been established in the scientific literature that uncertainties related to change processes cause strong psychological reactions resulting in positive or negative behaviors of the employees (Bhal et al., 2009). Employee reactions to organizational change typically differ along two dimensions: active or passive; and constructive or destructive (Bourantas and Nicandrou, 1998). More often than not, organizational change is associated with reduced employee wellbeing (Bamberger et al., 2012; Benach et al., 2014).

\[ H1: \text{Reactions to the GPTO–TDJF cooperation are mixed.} \]

If our observations would not confirm this, respondents were either catering to desired answers, or subject to wishful thinking.

2.2 Cultural differences

While research has shown that resistance is a default human reaction to change, how an employee actually resists and what that resistance looks like may be moderated by culture and values (Schoenberg, 2000; Cartwright and Schoenberg, 2006; Rees and Edwards, 2009). Research on the role of national culture and institutions on employee reactions in change situations, however, is rare and more recent (Gunkel et al., 2015). In turn, attempts to measure and operationalize culture date back to the mid-20th century (for an overview see Taras et al., 2009), but it was with Hofstede (1980) that the interest in measuring culture exploded. Although it is only one of 121 instruments identified in a recent review of attempts to measure culture (Taras et al., 2009) and its use is not undisputed (see, e.g., McSweeney, 2002; Ailon, 2009; Karolyi, 2016), it remains by far the most pertinent approach.

Cultural differences also have been identified as an important factor moderating the headquarter-subsidiary relationship.\(^2\) While there may be a number of cultural differences

\(^2\) Conflict has been a recurring theme in studies explicating the headquarters-subsidiary relationship. Foreign subsidiaries must be responsive to integration demands inherent in being interdependent with or part of a multinational organization; at the same time, a foreign subsidiary must also respond to the local context. Thus, the headquarters-subsidiary relationship often
between Japan and Switzerland when measured by Hofstede’s dimensions of culture, differences are smaller than those between Japan and the United States (see Figure 1).  

**Figure 1:** Cultural differences between Japan, Switzerland and the United States measured by Hofstede’s dimensions of culture

![Cultural differences chart](https://www.hofstede-insights.com/product/compare-countries/)

Source: https://www.hofstede-insights.com/product/compare-countries/

Significantly, Japan has relatively a higher degree of power distance (54 out of 100) than Switzerland (34 out of 100) and the United States (40 out of 100). The concept of power distance expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. People in societies exhibiting a large degree of power distance accept a hierarchical order in which everybody has a place that needs no further justification.

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3 This confirms our findings from an earlier study on employees’ perceptions in Swiss subsidiaries in Japan (Chiavacci & Lottanti, 1999), which found that Swiss companies were perceived as being very similar to Japanese companies in terms of communication style (someone indirect), security (stable and secure working conditions), and decision-making processes.

4 Power distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally.

Individualism addresses the degree of interdependence a society maintains among its member; i.e., whether people’s self-image is defined in terms of ‘I’ or ‘We’. In Individualist societies, people are only supposed to look after themselves and their direct family. In Collectivist societies, people belong to ‘in groups’ that take care of them in exchange for unquestioning loyalty.

Masculinity indicates what motivates people, wanting to be the best (Masculine) or liking what you do (Feminine).

Uncertainty avoidance indicates the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these.
**H2: GPTO will not challenge its HQ/regional leadership strategy.**

Particular to the case of GPTO, their regional leadership plays an important role. While globally oriented, its locations in Asia (Asia 1, Asia 2) are expected to leave an imprint. Figure 2 compares the same cultural dimensions as those presented in Figure 1 for the four cultural spaces involved.

**Figure 2:** Cultural differences between Japan, Switzerland, Asia 1 and Asia 2 measured by Hofstede’s dimensions of culture

![Cultural Differences Chart](https://www.hofstede-insights.com/product/compare-countries/)

While sharing some common traits, a very substantial difference between Asia 1 and Japan – and, to a lesser but still substantial degree, between Japan and Asia 2 – exists with respect to the dimension of ‘Uncertainty avoidance’. Pertaining to the cooperation with TDJF and the ongoing and upcoming organizational changes, this suggests:

**H3: GPTO will be less positive about the cooperation with TDJF than its APAC (Asia-Pacific) leadership.**
2.3 Differences in perceptions

Headquarters and subsidiaries frequently have different perspectives on subsidiaries’ markets. Differences in perceptions may be one important factor contributing to the well-documented conflicts in the headquarters-subsidiary relationship (Roth and Nigh, 1992). Due to a subsidiary’s more intense and direct involvement in its market, contextual knowledge may cause differing appraisals of the same established facts; e.g., subsidiaries may see opportunities that are not perceived by headquarters managers, and/or assess business by differing benchmarks (Daniel, 2010; Birkinshaw et al., 2005; Prashantham and McNaughton, 2006). This may be even more relevant in the case of Japan: due to the language barrier, the amount and sources of information accessible to GPTO, as opposed to their APAC/HQ leadership, may differ considerably (Harzing and Pudelko, 2013). In addition, culture may substantially moderate perception and subsequently cognition. Kastanakis and Voyer (2014), for example, suggest that a culturally conditioned cognitive orientation may trigger a field-independent way to process information (i.e., focusing on individuated focal objects) in the West as opposed to a field-dependent, contextual information-processing mode in the (Far) East.

*H4: GPTO’s assessment of cooperation with TDJF is expected to be substantially different from that of their HQ/APAC leadership.*

2.4 Language barriers

Language barriers tend to be felt most acutely in Asian countries and are seen as least important in Anglophone countries, with Continental European and Nordic countries falling in between. More specifically, in Asian countries, such as Japan and Korea, language barriers are perceived to be almost as important as cultural barriers and more important than legal, institutional, and geographical barriers. A lack of a shared language is associated with higher levels of misunderstanding, conflict, and parallel information networks, all of which could harm the interaction between HQ and subsidiary managers. Furthermore, the lack of a shared language is associated with a significantly lower level of oral (face-to-face and telephone) but not written communication (Harzig and Pudelko, 2013).

*H5: Minimal or no issues are expected within the GP in the context of a language barrier but may emerge as a major challenge in ongoing and developing GPTO–TDJF cooperation.*
2.5 Segregated labour market for Japanese and foreign firms

The choice of a foreign firm as an employer by Japanese employees originates from a deliberate decision to do so (Chiavacci & Lottanti, 1999), and not as a result of a lack of alternatives at Japanese companies due to a sluggish labor market (Blind and Lottanti von Mandach, 2015). Furthermore, joining a foreign firm implies leaving the labour market for Japanese firms for good. Except for employees in highly specialized jobs (i.e., IT), re-joining a Japanese firm has been described as very rare in the literature.

Research further suggests that Japanese employees working for foreign companies in Japan change jobs much more frequently than their counterparts in Japanese companies, and predominantly move between foreign companies. Foreign firms are chosen as employers because they are perceived as the antithesis of the typical Japanese corporation: pay is higher in foreign firms than in Japanese firms, and promotion is less based on seniority but, rather, on performance. Work content and responsibilities are clearly defined. Human relationships are referred to as ‘dry’ in contrast to the ‘sticky’ human relationships prevalent in Japanese companies. Work and private life are strictly separate; one’s superior does not interfere in private matters. Less emphasis is given to the so-called ‘after five social activities’. Leaving the office after work is finished is not dependent on whether one’s superior has already left the office. In particular, foreign firms have long been considered as attractive employers to qualified female Japanese. In addition to the characteristics described above, foreign firms are perceived to be more proactive on gender equality matters. The separation of work and private life makes it easier to work if one is a parent (Huddleston, 1990; Chiavacci and Lottanti, 1999; Chiavacci, 2001).

\[H6: \text{The ongoing and developing strategic partnership with TDJF causes concerns among GPTO employees about working in a 'less foreign environment', especially for female staff.}\]

2.6 Incentive systems

Compensation schemes differ to quite some extent between Japanese and Western firms. While both include bonuses as part of compensation packages, those in Western firms are usually based on individual performance, while those in Japanese firms are based on company performance (Johansson and Nonaka, 1996).

\[5 \text{ Dry human relationships mean that relationships are limited to the essential; i.e., to work.}\]
Despite the public discussion surrounding the alleged introduction of more performance-related pay systems around the year 2000 (Miyamoto and Higuchi, 2007), the majority of firms did not overhaul their compensation systems. A recent study by Pan and Zhou (2018) on executive compensation in Japan confirms that Japanese CEO compensation practices are still substantially different from the well-known Anglo-American model: even at CEO level, base salaries across all industries and in all firm size groups account for more than two-thirds of total remuneration in Japan. Although pay generally increases with firm size, the pay–performance relationships are economically weak. Their results confirm earlier findings from studies on top management compensation in Japan, such as Kubo (2005), who also found that the link between pay and performance is weak.

\[ H7: \text{Incentives toward maximizing profitability of the JVs are stronger within GPTO management than in TDJF management.} \]

2.7 Time horizon
Japanese companies are said to adopt a more long-term perspective than Western firms, and especially US companies (Katzner, 2008). This has been attributed to the difference in corporate governance of Japanese firms and the relative absence of shareholder pressure to deliver short-term results. Japanese firms prioritize stakeholder interests and maintain long-term employment practice and seniority-based employment, whereas US firms focus on shareholder interests in corporate governance, pay for performance, and boost labour force mobility by relying on market-based employment practices. Despite persistent calls for radical change, Japanese firms have preserved their fundamental nature. This evidences the resilience of the Japanese corporate system, suggested by the theory of Variety of Capitalism (Miyamoto, 2018; Gotoh, 2020).

\[ H8: \text{TDJF questions GP’s long-term commitment to cooperation.} \]

2.8 Virtual project teams
According to Reed and Knight (2010), project risks differ between co-located teams and virtual, cross-cultural project teams. Of 55 project risk factors identified, seven factors proved significantly more pronounced for virtual projects than for traditional projects. These are, in
order of impact: insufficient knowledge transfer\(^6\), lack of project team cohesion, cultural or language differences, inadequate technical resources, inexperience with a company and its processes, loss of key resource(s), and hidden agendas.

While risks such as cultural or language differences, or lack of project team cohesion may be anticipated to increase in a virtual environment, other increased virtual risks, such as the loss of key resource(s) or hidden agendas, are not nearly so obvious. Interestingly, and contrary to prior research, the risk from insufficient communication is not significantly greater when team members are not grouped in one location. However, virtual team projects exhibited notably more likelihood of experiencing insufficient knowledge transfer. A plausible explanation is decreased implicit or informal knowledge transfer in virtual environments.

\(H9\): Challenges are expected with regard to project team cohesion and the transfer of implicit/tacit knowledge.

2.9 Involvement of third parties

Japanese firms are generally reluctant to hire professional service firms such as management consultants. As a result, the Japanese consulting market, valued at US$1.4 billion, is much smaller than its counterparts in other mature economies such as the UK, where the consulting market is worth US$10 billion in an overall much smaller economy (Callum, 2018). As possible reasons for this reluctance, Callum (2018) muses that differences in etiquette, hierarchical structures, decision-making processes and rotation of personnel make it very difficult for international professional service firms to build strong client relationships.

\(H10\): The involvement of an external professional service firm running the project management office (PMO) is an aggravation for TDJF.

\(^6\) A plausible explanation is decreased implicit or informal knowledge transfer in virtual environments.
3. Findings
We group our findings according to the aspects introduced in Section 2.

3.1 Reactions to change process
As expected, views on the cooperation with TDJF differ between groups of GPTO employees. Generally, views tend to be more positive within management ranks than in operational employees; also, doubts are more pronounced on the business side than in middle- and back-office functions. There are no indications of resistance towards the strategic direction of the GP’s APAC/HQ leadership; however, certain doubts and concerns are raised within GPTO as to the viability of the APAC-driven approach to their cooperation with TDJF.

3.2 Cultural differences
Cultural gaps reportedly exist between the GP’s HQ/APAC leadership and GPTO, and, again, between GPTO and their new partner TDJF. With regard to the former, the GP is a hybrid of business cultures with their Swiss identity diluting toward the periphery. Some GPTO respondents mentioned that they felt less distant from GP’s HQ, but more so with regard to the GP’s regional APAC leadership.

In concrete terms, GPTO respondents reported that TDJF decisions were made no more slowly, or even quicker than their own, which they considered as being due to the organizational complexities arising between themselves, and their regional and global leadership. This stands in contrast to decision-making in Japanese corporations commonly seen as being slower than in other business cultures.

3.3 Differences in perspectives
While GPTO top management generally shares the strategic vision of their HQ/APAC leadership, local operational employees partially operate in a separate reference system. This causes a limited buy-in to the corporate strategic vision. In concrete terms, the Japanese reference system suggests lower benchmarks in terms of growth and market penetration, and the position of TDJF is evaluated as being much stronger. Put succinctly, the latter means the GP’s HQ/APAC leadership sees TDJF as a junior partner, while GPTO employees tend to see themselves as junior partners.
3.4 Language barriers
Pointing to culture being coded in language, one respondent reports that: (i) GPTO employees tend to submit more easily to TDJF requests; and (ii) TDJF staff tend to be more open, if a discussion is held in Japanese.

3.5 Segregated labour market
Few GPTO employees are fully positive about the strategic partnership, because the presence of TDJF as a powerful investor and partner raises concerns that working conditions may change towards domestic Japanese standards. This is significant, because the vast majority of GPTO employees have consciously left or avoided working for domestic Japanese corporations; this is especially true for female employees. GPTO employees note a difference in gender roles, where women in TDJF remain relegated to non-executive, non-client facing support functions. TDJF employees may be irritated by the GPTO approach to gender equality. At the same time, this exacerbates the concerns of women about differing working styles. Thus, there is considerable fear regarding the loss of a non-Japanese working environment at GPTO, especially among the female employees.

3.6 Incentive systems
Respondents voiced concerns about differences in incentive systems between GPTO and TDJF. TDJF employees are thought to focus on avoiding risks to their reputation, while GPTO employees would be more willing to risk bold moves in favour of maximizing performance. This could create some friction in joint prospecting and servicing. Differences in incentives systems might cause frictions in joint prospecting and in serving existing shared clients.

3.7 Time horizon
Respondents pointed to the TDJF practice of rotating front staff to other functions at two- to three-year intervals as an impediment to the development of trusted client relationships. TDJF’s announcement to hire additional front staff in permanent positions and to remove some of the existing positions from the rotation system are seen as evidence of their trust in GP’s commitment to the cooperation. GPTO respondents also pointed to the need to ‘go steady’ before TDJF would even consider a full-scale rollout, and voiced concerns as to whether it
would be possible to secure regional/HQ understanding for likely TDJF demands for a longer “proof-of-concept” period.

3.8 Virtual project teams
Processes within GP’s APAC and global management organizations are seen as an impediment to swift local implementation. The more frequent physical involvement of management and the temporary relocation of operational GP APAC/HQ staff is explicitly desired.

3.9 Involvement of third parties
In spite of TDJF not being used to working with third party professional service firms, their understanding and agreement was successfully won regarding the involvement of external consultants in a PMO function. The external consultants’ role as the PMO and as a facilitator was generally seen as positive within both GPTO and TDJF. The consultant team was reportedly predominantly domestic.
4. Discussion and Conclusion

Mirroring the above findings against our working hypotheses, we gathered sufficient information to assess eight of the ten hypotheses (see Table 1).

Table 1: Assessment of working hypotheses

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Confirmation</th>
</tr>
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<tbody>
<tr>
<td>H1</td>
<td>Reactions to GPTO-TDJF cooperation are mixed.</td>
</tr>
<tr>
<td>H2</td>
<td>GPTO will not challenge GP’s HQ/APAC strategy.</td>
</tr>
<tr>
<td>H3</td>
<td>GPTO is less positive about cooperation with TDJF than GP APAC.</td>
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<tr>
<td>H4</td>
<td>GPTO’s assessment of cooperation with TDJF is expected to be substantially different from that of their HQ/APAC leadership.</td>
</tr>
<tr>
<td>H5</td>
<td>Minimal or no issues are expected within GP in the context of a language barrier, but may emerge as major challenge in ongoing and developing GPTO-TDJF cooperation.</td>
</tr>
<tr>
<td>H6</td>
<td>The ongoing and developing strategic partnership causes concerns about working in a “less foreign environment” among GPTO employee, especially so for female staff.</td>
</tr>
<tr>
<td>H7</td>
<td>Incentives toward maximizing profitability of the two JVs are stronger within GP than in TDJF management.</td>
</tr>
<tr>
<td>H8</td>
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</tr>
<tr>
<td>H9</td>
<td>Challenges are expected with regard to project team cohesion and the transfer of implicit/tacit knowledge.</td>
</tr>
<tr>
<td>H10</td>
<td>The involvement of external consultant for the PMO aggravates TDJF.</td>
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</table>

Key:
C: Confirmed; PCR: Partly confirmed/rejected; R: Rejected; NLI: No/little information

Of the eight confirmed hypotheses, six were confirmed through our interview session:
- H1: Reactions to GPTO–TDJF cooperation are mixed within GPTO;
- H2: GPTO will not challenge GP HQ’s strategy;
- H3: GPTO is less positive about carve-out than GP APAC;
- H4: GPTO’s assessment of cooperation with TDJF is expected to be substantially different from that of GP HQ/APAC;
- H6: The ongoing and developing strategic partnership causes concerns about working in a ‘less foreign environment’ among GPTO employees, especially for female staff; and
- H9: Challenges are expected with regard to project team cohesion and the transfer of implicit/tacit knowledge.

While reactions to cooperation with TDJF are mixed, interview partners do not challenge the overall strategy of GP HQ/APAC leadership. They do, however, voice concerns over the
cooperation that can be attributed to cultural differences in terms of tolerating uncertainty, differences in the perception of the cooperation due to contextual knowledge, and fear of losing the deliberately chosen non-Japanese working environment (especially by female employees).

We could only partly confirm H5, which relates to a possible language barrier. Minimal or no issues are expected within GPTO, but may emerge as a major challenge (e.g., as dealing with local vendors reportedly requires considerable translation work to be undertaken). This may be assumed to become more pronounced as the cooperation with TDJF intensifies.

No evidence was found regarding the involvement of a third-party provider, which relates to H10 concerning TDJF’s reservations toward involving a third-party service firm. Therefore, H10 can be rejected.

Due to an insufficient number of interview partners from TDJF, neither H7 (related to the incentives towards maximizing profitability of the JVs being stronger within GPTO management than in TDJF’s management), nor H8 (which deals with TDJF questioning the long-term commitment of GP to the JVs) could be confirmed or rejected. However, since these hypotheses pertain to crucial strategic issues, we recommend further investigation.

Besides a number of operational and strategic risks inherent to any cooperation, there is a considerable risk for GPTO to lose its Japanese staff due to cultural differences between the strategic partners. This risk is more pronounced in female staff due to gendered roles and greatest among IT personnel, as this is one of the few professions in which moving from foreign businesses back to Japanese corporations is possible and frequent. Linking incentives to a successful completing of the strategic partnership and the voicing of TDJF commitment not to interfere with GPTO standards might lessen the risk of retention.
References


