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Adjustments of European Management in Japan

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Abstract: This study examines the adjustments of European manufacturing subsidiaries in Japan. A survey was carried out and extensive statistical analyses were made. The degree of adaptation was formulated for main managerial elements, such as job classification, wage system, job rotation, quality control, small group activities and job security. Although the European transplants favored mainly the adaptation of local managerial methods, it was found that they have applied their own practices in some areas. A clear picture could be achieved using cluster analysis for the classification of European transplants in Japan. Different to previous analysis also the involvement in community relations, the relationship with subcontractors and the method of introducing plant equipment were integrated into the model in purpose to examine local adjustments more in detail. Two different groups were found: application-oriented and adaptation-oriented hybrid factories. The implications of the adjustment strategies were discussed.

Keywords: European management, cross-cultural management, hybridization, FDI in Japan

I. INTRODUCTION

How do European firms adjust to local management and production methods in Japan? Which managerial elements do they try to transfer and from which areas of the Japanese management system do they try to learn from? Can we identify groups of European hybrid factories in Japan?

The dominant trends outlined in the literature on Japan indicate an economic environment characterized by an inability to attract foreign companies. Among the factors cited as contributing to the situation are: a non-transparent distribution systems, high information cost, exorbitant site and investment costs within the main metropolitan areas, and political as well as cultural reasons for the late and reluctant entry of foreign companies into the Japanese market. (KARASAWA, 1985; KHAN 1988; KUMAR et. al., 1988, 1993; BUKHARI & WURCHE, 1991; DOLLES 1991; DIHK 1991; HEFEKER 1992; BESCHORNER 1993; PREIS 1995; SCHWARZ 1995).

A review of "Western" literature on internationalization of firms reveals an emphasis on organizational structure, the international transfer of managerial resources and the basic internationalization capacity of enterprises as they pertain to Western companies -predominantly American (DORE 1973, 1986; HOOD & YOUNG 1979; RUGMAN 1980; DUNNING 1981, 1988; BUCKELY & CASSON 1985; BUCKELY 1987, STENING & HAMMER 1992; CLARKE & HAMMER 1995; SERAPIO & SHENKAR 1999). In contrast, Japanese authors have adopted a culture-based approach towards the analyses of MNEs. The other authors also emphasize the impact of nation-specific management style (YOSHINO 1972; KUDO 1992; KUMAZAWA 1993; YOSHIHARA et.al. 1990; YOSHIHARA 1992, 1994). In addition, they analyze the international transferability of production systems of foreign firms (KOIKE 1988; ABO 1991, 1994a,b; AXEL 1993; CULPAN & KUCUKEMIROGLU 1993; KENNEY & FLORIDA (1993); KUMAZAWA 1993; ITAGAKI 1997; SCHLUNZE 2000, 2002).

This study examined hybridization of European transplants in Japan following "Application-Adaptation" approach to manufacturing subsidiaries as a point of departure for extensive statistical analyses. The aforementioned Japanese researchers have emphasized that the Japanese production systems are difficult to transfer successfully. Thus, we should expect that European firms that established a manufacturing unit in Japan are facing similar difficulties and therefore may be obliged to adapt Japanese customs and systems, particularly in the area of human relations. We can assume, therefore, that mixtures of management systems exist with corresponding degrees of adjustment. These hypotheses will be examined using the data and methods

described below. The method applied in this study may provide an alternative to the common measurement of hybridization. The results may be of importance in explaining difficulties of cross-cultural management issues at foreign transplants in Japan. Further, the results of this study may suggest a broader hypothesis for further research into the “embeddedness” of foreign management systems in Japan.

II. METHOD

A survey covering the entire population of European-affiliated manufacturing companies in Japan was done. The data sets and analytical methodologies employed in this investigation differed according to the phase of the research. The questionnaire, which was originally created by the Japanese Multinational Enterprises Research Group (Abo 1994a), was modified to aid the investigation of the process of hybridization of European MNEs in Japan. Also a database for the delivery of the questionnaire was created based on the JETRO directory of foreign companies’ factories in Japan. The database consists of 96 European manufacturing companies. After pre-tests were conducted, surveys were sent out to all manufacturing subsidiaries. To confirm the information given in the questionnaire, interviews were conducted at selected plants. 49 companies responded to the questionnaire, with only one filling in the English version of the questionnaire as well. It was expected that the co-operation of the Japanese management would be better, because their knowledge of the Japanese production system is more certain. Therefore, the Japanese managers were perceived as having better ability to comment on the process of hybridization of the management system. Since the return rate was 51 percent, a generalization of the findings seems to be possible.

This is the first time, to the author's knowledge, that the framework introduced by Abo et al (1994a,b) was ever applied to non-Japanese manufacturing subsidiaries. The framework was modified in order to investigate hybridization of European transplants in Japan. The following table shows the questionnaire items by group as they appear in the questionnaire sheet. Four types of questions for each item were used:

- 1) I began by asking for the opinion of plant manager, whether a particular practice is closer to European- or Japanese-style management system.
- 2) Then, I asked how the management practice had changed since the start of the operation.
- 3) Further, I asked about details of the actual implemented management practices.
- 4) Finally, I investigated the source of the applied method or practice.

Instead of creating a long inventory list of hybridization degrees, improvements of the approach introduced by Abo et al. were achieved by applying multivariate statistics. I used data showing the actual implemented management practices (3) for the classification analysis and for discriminant analysis of the data showing the source of practice (4). A set of variables (see *Italic* in Table 1 below) were used for classification that shows the managerial methods at the transplant. All variables were dichotomized, to determine if a particular method exists or not.

Table 1 Managerial elements used for classification analysis

Work organization and administration	
1. <i>Job classification</i>	Labor relations
2. <i>Wage system</i>	13. <i>Hiring policy</i>
3. <i>Training and education ((Job rotation))</i>	14. <i>Job security</i>
4. <i>Promotion of the first-line supervisor</i>	15. Labor unions
5. <i>Maintenance</i>	16. <i>Grievance procedures</i>
6. <u><i>Training for engineers and factory workers (OJT)</i></u>	Parent-subsidiary relations
Production control	17. Ratio of Japanese expatriates
7. <i>Quality control</i>	18. Delegation of authority
8. <u><i>Equipment</i></u>	19. Managerial position of Japanese and Europeans
Procurement	Community relations
9. Local content	20. <u><i>Participation in local economic organizations</i></u>
10. <u><i>Relation with suppliers</i></u>	21. <u><i>Donations and volunteer activity for local community</i></u>
11. Procurement method	22. <u><i>Competition with local companies</i></u>
Group Consciousness	
12. <i>Small group activities</i>	

*Variables added to the previous model are underlined.

In order to clarify the research questions, the data base was analyzed in two steps. First, managerial practices were clustered into groups. In the second step, discriminant analysis was conducted to prove the quality of the classification. 90 dichotomy variables, showing if a certain management method was applied or not, were subjected to a hierarchical cluster analysis by SPSS for Windows V11.0.1J. The average linkage method was applied. The distance measure for clustering cases was specified with shape. This coefficient is useful to investigate the relative share of common characteristics between objects with a binary variable structure. This appeared the most appropriate method for examining the groups of hybrid factories with a similar profile of managerial practices. The results can be seen in the dendrogram (Appendix1). percent of the entire population is classified as Japanese-oriented hybrid factories and 33 percent as European-oriented hybrid factories.

Discriminant analysis was used to build up a predictive model of group membership based on the observed sources of each managerial element. The observed proportions of cases in each group served were estimated of the prior probabilities because the sample

was considered representative of the population. 50 binary variables showing the source of managerial practices were selected. The eigenvalue showed a good quality and the Wilks' Lambda that a significant discriminant function has been obtained. 80 percent have been predicted correctly by the model. The confusion matrix shows the number of correct and incorrect classifications (Appendix 2). The results indicate that hybrid factory types can be distinguished by the source of managerial practices.

The purpose of these analyses was to investigate types of European management systems in Japan and to determine differences by organizational characteristics of the management.

III. RESULTS

Due to limited space, I will confine the discussion to the adjustment of European production systems in Europe. Although there are other items, I will discuss only the following items: job classification, wage systems, job rotation, education and training, promotion, quality control, maintenance, small group activity, job security and grievance procedures. I selected these key characteristics for comparison because work organization, production control and labor relations are seen to be at the core of the Japanese management system (ABO et al. 1994b, p.40).

A. Self-evaluation of the degree of adaptation

To avoid technical problems concerning statistical parameters, questions were added asking the plant management to state the degree and process of adjustment for each managerial element. The manager had to choose a rank on a scale between one and five. However, from a European perspective, it was interesting to score the adaptation to the Japanese environment. A high score indicates that an item is close to the local-style management, a low score shows that European-style practices were applied. Initially, it was expected that the Japanese managers would best know the stage of hybridization. Therefore, the first step was to investigate their opinions. As Table 2 shows, in the opinion of most managers, most transplants are adapting to local management practices rather than applying European methods. Most managers stated that the localization process is advanced. According to their opinion the degree of adaptation was strong in all areas. However, at some European subsidiaries, quality control, job classification and the wage system were seen as less localized.

It is also important to consider who is applying a certain management practice at the transplants. It is likely that the involvement of European managers indicates a greater application of European practices, while the domination of Japanese managers indicates

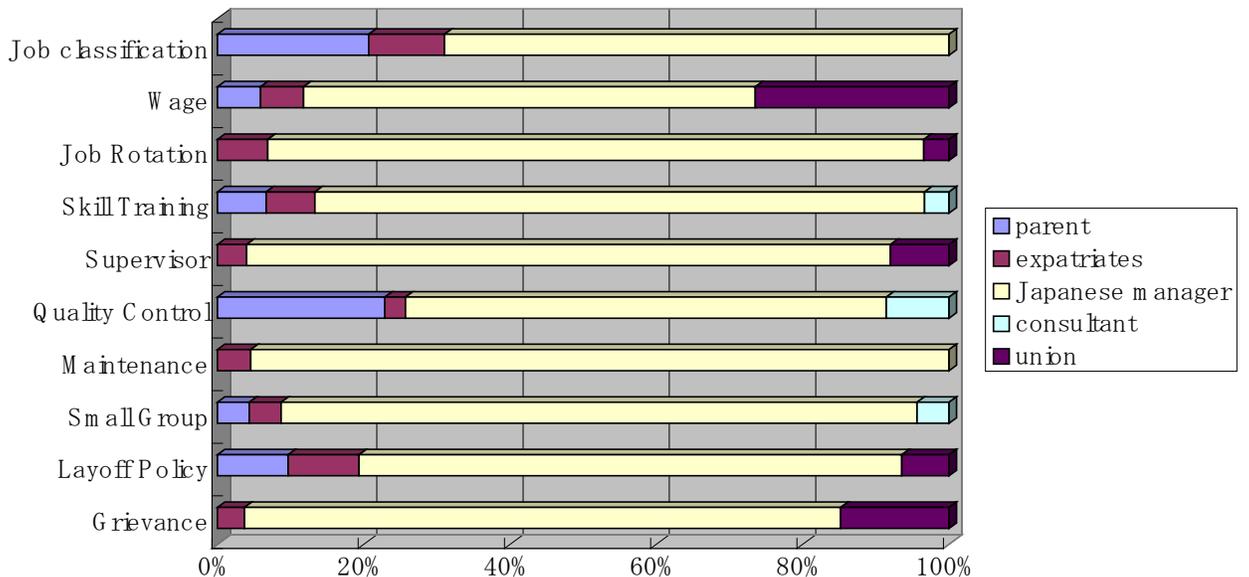
the application of Japanese-style practices.

Table 2: *The Rate of Adaptation for each managerial element*

	European-style (1)	(2)	(3)	(4)	Japanese-style (5)	Total
subcontractors		1	4	9	33	47
wage system		3	5	10	30	48
training	1	1	7	10	29	48
first-line supervisor	1	1	5	11	27	45
maintenance			6	9	29	44
skill training			7	7	31	45
quality of products	3	6	4	8	26	47
machines	1	5	10	6	23	45
job security		2	7	5	33	47
small group activity	1	2	4	7	27	41
job classification		5	4	8	27	44
grievance			8	4	31	43
community relations		1		12	31	44

Figure 1 shows scant influence of the European managers on the transplants. Thus, management practices were mainly introduced by Japanese managers, or typically followed the trend of Japanese firms in the corresponding industry.

Figure 1: *Sources of managerial practices*



Only up to one fifth of the transplants' European management initiated the management practices used. Consultants and labor unions have a minor influence on the decision making process. However, it was found that in some cases the European contribution was not only important for quality control but also for job classification and employment termination.

The Japanese market is a high cost market environment, with rigid governmental restrictions and strong entrepreneurial competition. Thus, foreign investors must adjust to Japanese practices if they do not want to lose competitiveness to their local counterparts. Further, the opinion or self-evaluation of the Japanese managers is likely to be influenced by the strategic consideration to look more advanced in the process of localization, especially they need to overcome the image that foreign companies can not be trusted to have local persistence. To achieve a clearer picture, the actual managerial practices and sources were investigated. Thus, the next step was to discuss and classify the actual methods found at the European transplants.

B. Actual managerial practices and sources

1. Job classification

Whereas in Europe the basic wage rate depends on job classification, in Japan the work content, wages, and promotion are not directly related to each other. Although the assignment of a job appears to be the same, the content of work might be different. Therefore, I investigated the number of job classifications. A high number of job classifications can be seen as a prerequisite for the existence of a traditional European-style work organization, whereas a small number of job classifications may indicate a Japanese management style.

The method of job classification on the shop floor was close to the local style. Half of the entire population applied less than five and 92 percent less than ten different job classifications. Only 8 percent of the European affiliate companies applied a highly differentiated job classification. Precisely, the European-style job classification at European transplants is negligible. This is reflected in the fact that in most cases the Japanese managers decided on the method to be applied. Thus, Japanese managers usually introduce the practice of job classification at the transplant; the involvement of the European managers or consultants is rather small. While most European managers did not change the practice once implemented, the Japanese managers simplified the job classification after the start of operation, so we can notice a significant trend towards Japanese management style concerning the practice of job classification. Comparing

these findings with the rate of adaptation given by the Japanese managers, we can conclude that the adjustment to the local management style was actually highly favored.

2. Wage system

While European wages tend to be based on job grades, Japanese wages are usually determined by seniority and merit. Again, Japanese managers evaluate work performance of their workers according to a rigid system.

The majority of transplants stated that the wage system for blue color workers is closer to the local style management system. The majority of transplants also increase wages based on seniority and the length of service. Further, 20 transplants stated that they apply a merit system involving personal performance evaluation, and 22 businesses implemented a bonus system of profit sharing. Consequently, most transplants conduct practices typical of local plants in their industry. The local managers at 27 transplants utilized a wage system based on their own judgment, while union contracts define the wage system at 3 businesses. There are only seven cases where the parent company and three cases where the European expatriates introduced the wage system. The majority did not change the wage system once it was implemented. Recently, even European companies have become more eager to apply flexible wage systems. Thus it is not astonishing that 80 percent of European transplants implemented the local-style management practices in Japan.

3. Job rotation

In Japan there is no notion of a fixed job that establishes specific work tasks and salary. Job rotation is practiced in order to produce multi-skilled workers and to prevent work from becoming monotonous. Job rotation is conducted within a team or beyond the team. In Europe, similar activities like job trading may occur among workers, but its aim is to prevent monotony rather than to train versatile workers. Job duties of individual workers in Europe are rather fixed. Work tends to be subdivided and specialized under the traditional mass production system borrowed from America.

Usually European affiliated plants in Japan utilize job rotation across different work groups for selected employees capable of handling a variety of work assignments. This practice was implemented at 21 transplants. At twelve transplants, job rotation is required of all employees within the work group, though this was not systematically conducted. Only eight transplants conduct job rotation systematically across different work groups for all employees. This correlates with the opinion of most managers that the training and education system on the shop floor is predominantly Japanese style.

Only six of them said that the methods of training and education had shifted towards European-style practice. However, it is remarkable that most transplants conduct job rotation across different work groups for all employees, a practice not often successfully applied even in Japan. Japanese managers usually initiated this process.

Only six transplants hardly ever implemented this management element. Job rotation is a useful invention of the Japan management system, but usually it is less pervasive and less intensive in the transplants. European transplants do practice job rotation in the same ways as their Japanese counterparts. We noticed that there are European transplants that implemented job rotation successfully.

4. Training and education

For a successful adjustment it is essential to learn about Japanese work ethics. The Japanese management system requires that an employee be able to carry out an operation precisely, be mindful of what is happening around the task, and to develop a sense of group togetherness in order to improve their work attitude. In Japan it is seen as important to develop technical skills when necessary for the manufacturing operation process. Therefore, workers should become capable of conducting quality control, performing maintenance, and improving activities.

Thus, the transplants mainly use On-the-Job-Training (OJT) because it is the best way to secure production and to achieve product quality demanded by the Japanese market. To promote OJT, only five of the parent companies send European trainers to the transplant, maybe because it is a financially costly practice. However, three transplants sent engineers and technicians and factory workers to Europe for training, and another three companies sent engineers and technicians to Japan to train factory workers at the local plant. External facilities to educate workers are not so frequently provided by state and local governments in Japan as in Europe. Nevertheless, 40 percent of the transplants make use of outside schools and training institutions. One third of the companies have established a training department or center within the transplant.

We should not conclude yet that the main training method of European affiliated plants in Japan is by conducting OJT using training facilities in and outside of the factory. We should keep in mind that mostly the local managers initiated OJT practices. To conduct OJT successfully, it is essential to adapt and therefore learn about the local training methods. This happens in more than half of the companies.

5. Promotion of the first-line supervisor

European supervisors have the disciplinary function for the labor management. They do

not necessarily promote internally. Thus, four transplants hired supervisors from other companies. However, in the Japanese system first-line supervisors have two main functions: first, to manage team work on the shop floor and second, to provide technical supervision. Their work has coordinative functions and promotes flexible trouble shooting. Therefore, nearly all other transplants selected the supervisors from production workers on the basis of ability. Only in one case the person to become a supervisor was hired separately from production workers and trained. Thus, we can conclude that European transplants in Japan prefer to experience the Japanese style of educating a first-line supervisor. Here, the influence of the Japanese managers is great, but the European managers role is insignificant.

6. Quality control

European companies are expected to be eager to learn about the strength of the Japanese manufacturing management: the efficient production of high quality products. The Japanese slogan "Quality is built-in as the manufacturing process proceeds" has been key to realizing this high standard. Japanese workers are responsible for quality themselves. Workers are supposed to be carefully engaged in the production process. To avoid defects and ensure the high quality of product, workers must pay attention, make decisions, and cooperate with co-workers. We presume that workers are engaged in this "quality built-in" process at a Japanese-style transplant.

The Japanese management-style prevails at most of the transplants, and has not changed since start of operation. However, there is more diversity. At nearly one third of the transplants, inspectors are involved in the process to ensure high quality of products. Workers take care of quality, but quality control inspectors are part of the production organization (there are quality control inspectors on the line who are engaged in quality control). Most companies let workers take care of quality process without assistance of quality inspectors. This can be seen as a high adaptation. It was noted that the local management frequently proposed quality control measures without the input of inspectors. The involvement of local management in general decision-making is relatively low, but the practices concerning quality control have usually been proposed by the Japanese managers. Most of the respondents mentioned a change towards Japanese-style practices.

7. Maintenance

Nowadays, the application of advanced technologies such as computers in production has become a standard. Therefore, Japanese plants also cannot fail to recruit personnel

with special knowledge in the field of production technology. Thus, European transplants in Japan are likely to employ graduates from technical high schools as local manufactures tend to do. The majority trained ordinary workers to become maintenance workers on the shop floor based on ability and desire. Such an in-house training of experienced workers is seen as Japanese style maintenance. The maintenance differs only at a few European plants. Here, it is carried out by a special department with experienced workers hired from an external labor market. Different to the Japanese system, workers including the supervisor rarely participate in maintenance activities. In five cases European-style management is noticed: they hire experienced workers from other plants first, and second, they also select inexperienced workers separately from ordinary workers and train them to perform maintenance. However, the trend is towards the Japanese-style practices.

8. Small group activity

Can European firms achieve the "sense of togetherness", which is a fundamental characteristic of the Japanese management system? Is it possible for European engineers to participate voluntarily in group-oriented activities that improve work processes? In Japan, such activities are also known as small group activities (SGA). These activities produce synergy effects by cultivating managerial tools for group consciousness, sense of participation, and improvement activities.

The majority of Japanese managers stated that the practice of small group activities is closer to the local management style and was not changed at all. If anything, SGA has continued to move more and more towards the Japanese-style. However, if we look at the adapted SGA practices we see that the majority of the transplants have implemented this particular Japanese managerial element to an extent that exceeds expectations. 17 companies stated that they did apply SGA for all workers voluntarily, while 16 transplants indicated that all workers are required to attend group activities as an important part of work. At eleven transplants the participation in activities is voluntary and involves more than 50 percent of all workers. Only eight companies stated that SGA has not been introduced.

Since most managers state that they applied the SGA practices, we can assume that SGA practices are an important element of the European production within Japan. Further, the participation rate is high, and the adaptation of this practice seems to be advanced. SGA also seems to be an important tool for achieving high quality products and gaining competitive advantage.

9. Layoff policy

Until the Asian crisis, it was uncommon for Japanese corporations to lay off workers as easily as European companies did. The most common answer was "We have a policy of not firing employees as we provide permanent job security" and it is a written policy. Only one company has a written layoff policy. Others apply an unwritten policy. Most of the transplants have not changed their layoff practice. In the European context, it is not surprising that there are relatively more transplants that have a written policy considering layoffs as last resort. Thus, it appears that at some European transplants the Japanese management is in charge while at others the European management is in charge of layoff practice.

10. Grievance procedures

Labor relations in Europe developed formal grievance procedure promoted by strong nation-wide labor unions. The procedure can be seen as a result of collective bargaining. Consequently, the company's grievance procedure is defined in the collective labor agreement with the union at more than one third of the transplants. The purpose of these grievance procedures is to resolve labor disputes. Therefore, four European plants have established a special written procedure to handle grievances.

In Japan, disputes are mainly resolved at the workplace. Here, the supervisor has a central function. He helps to resolve the problems related to job assignment or promotion. Thus, at three-fourths of the European transplants the supervisors play an important role to resolve problems at the shop floor level. This, and the fact that two thirds openly discussed grievances, indicates an adaptation of the Japanese management style. At most transplants procedures exist that help to resolve problems at the shop floor level as is typical followed by Japanese firms in the same industry. The impact of the Japanese managers is significant, but the influence of the European managers and the labor union is insignificant.

11. Community relations

Most of the transplants joined local economic and industrial organizations. More than half of the responding firms reported that they participated in meetings and had been accepted as local business. Even one company managed to become the main player in the local community. No case of rejection was reported. There is only one company that had no intention to join as a member but four companies could not find a corresponding organization. However, one third experienced problems. They stated that they joined as

a member but keep only relations of courtesy taking negative stance.

European transplants do participate in local and social activities. More than half the transplants stated that they do participate in local events and that they give financial aid. One third gave donations and one fourth of the subsidiaries' employees were engaged in volunteer activities in purpose to heighten the involvement with the local community. European companies noticed that a successful involvement in local cultural and social affairs is a good tool to ensure the long-term support of local community for their overseas operation in Japan.

The question of weather friction between Japanese companies and local enterprises or communities occurred was denied four-fifth of the respondents. Only one company confessed that they experienced negative reaction against European-style management practices. Further, friction by insufficient localization from the viewpoint of management and production occurred in another case. In two case European managers experienced adverse reaction of local competing companies and also civic campaigns for environmental and consumer protection. No cases of friction due to the over presence of European companies were reported.

Most of the managers believed that they would be rather close to the local practices of dealing with community relations and did not change their practices. Some stated that they changed to the local style practices in community relations, but only one towards the European style. Thus, we can conclude that apart from minor difficulties, the majority of the European affiliated companies in Japan are adjusting to the local environment successfully.

C. Types of hybrid factories

In the previous paragraphs the self-evaluation and actual management practices at Japanese transplants were discussed. Given the variety of practices used on the shop floor a clear picture can hardly be achieved with descriptive statistics. Therefore, a hierarchical cluster analysis was used to categorize management systems at European manufacturing subsidiaries in Japan, and discriminant function analyses were used to distinguish groups. Two types of management systems have been identified: an application-oriented hybrid and adaptation-oriented hybrid. The adaptation-oriented hybrid and adaptation-dominated hybrid have many common characteristics, and differ significantly from the application-oriented hybrid. Significant differences have been

identified among various managerial elements showing the adjustments of European transplant management. An analysis of the application of various managerial practices contributes to a stringent classification of European management systems.

The **adaptation-oriented hybrid** (Cluster 1) follows practices that are typical of local plants in the corresponding industry. Job classification, wage systems, training and education systems at the shop-floor level are close to the local style of management. For example, Cluster 1 companies' main methods of hiring and training of maintenance workers are to promote ordinary workers to become maintenance workers on the basis of their ability and desire. Correspondingly, the first-line supervisors were selected from production workers on the basis of ability. These promotion methods are seen as typical of local management practice. The training and education system on the shop floor and job rotation is conducted across different work groups for selected employees capable of handling a variety of work assignments. Also, maintenance of machines and equipment, training of engineers and factory workers, methods used to secure product quality and practices of dealing with layoffs are closer to the local style. Consequently, grievance procedure is also localized. At these transplants workers take care of quality control without inspectors or together with quality control inspectors assigned to the line and are part of the production organization. Adaptation-oriented hybrid factories do implement small group activities, which is a core method of the Japanese production system. Thus, they follow practices typical of local plants.

In transplants belonging to the **application-oriented hybrid** (Cluster 2) the European expatriates initiated new practices. These practices were found in such decisive areas as the wage system, job classification or labor grade determined wages. However, at the same time, seniority determined by length of service was also taken into consideration in awarding wages. In application-oriented hybrid factories, Japanese maintenance practices were achieved mostly by hiring experienced persons from other companies which is seen as a typical European practice. In contrast to local quality control practices, application-oriented plants facilitated quality control by inspectors from specific QC departments, who played an important role within and at the end of the line. In addition to OJT as the method of training engineers and factory workers at the transplants, training ranged from using external schools and training institutions to using internal training departments and sending European trainers to the transplant in Japan.

For the community level, I found that adaptation-oriented factories are frequently attending local economic and industrial organizations as a member treated as a local

enterprise; meanwhile the membership of application-oriented transplants is largely a matter of courtesy. They are not active members. Application-oriented companies also do often not try to get involved with the regional society. On the other hand, the majority of application-oriented hybrids provided financial aid to various organizations. Meanwhile they do not much experienced friction with local enterprises or the local community; application-oriented did more often.

However, the discriminant analysis showed that adaptation and application-oriented hybrid factories differ significantly in terms of training and education, small group activities and the grievance procedure. There are application-oriented companies where the European expatriates at the local plant initiated training and education systems, meanwhile Japanese management at the transplant did frequently initiated small group activities and grievance procedures.

VI. CONCLUSION

It was anticipated that the transfer of a management system would be difficult for Europeans manufacturers in Japan. Thus, the findings provide evidence that not all European transplants merely adjust to the local method but rather that there is a small group of European companies that was able to implement European-style practices in certain managerial areas that helped them to maintain their original management style. How these companies accomplished this, needs to be clarified in further interview surveys. However, for most foreign companies it seemed to be crucial to learn about the Japanese-style production practices at the spot, especially those that started their operation when the Japanese management system was evaluated as a superior one.

We can conclude that the adjustments of European management system in Japan varied mostly with regard to the involvement of local management and according to practices applied in the manufacturing process. Some European companies made an effort to transfer their HRM methods, but most have been even reluctant to bring in their own manufacturing method. Obviously, it is easier to adapt to local managerial methods than to apply European management in a culturally unique environment like Japan. European companies tend to adapt much more to local business environment than their Japanese counterparts in Europe (SCHLUNZE 2002). This is independent of the type of investment a joint venture or capital investment with local companies. European companies tend to adjust to the local management-style purposely to enable a knowledge transfer of local practices. This is true for both hybrid types identified in this study. Even the European-oriented hybrid factories adapt to the local system to a great extent. By adapting to the local methods such as quality control they are seeking

the creation of efficient manufacturing management for strengthened international competitiveness. However, YOSHIHARA (1994) believes that foreign companies can gain advantages by emphasizing their originality. Therefore, they need to be aware that a pure localization of management will not enable them to become more than an average company and as a consequence they will fail to attract excellent employees. Originally it was assumed that European companies have to adjust to local environment in purpose to stay efficient. During the interviews it was mentioned that local staff could handle local affairs best. There is a rational answer why it is better to leave the functions of production and employment management in the hands of the locals: cost reduction. The delegation of these areas to local staff alleviates friction and conflict (Hasegawa, 1998:47). However, local adjustment is not only the physical takeover of the local staff members but also a learning process on the European side. Thus, local adjustment occurs when European management adjusted to the local environment starting to do as the local does. Functional flexibility in the field of social relations will strengthen the European companies for their persistence in the Japanese market.

Further analysis on this data set might show that the application of management method is not only a cross cultural management problem, but also one that depends much on the socio-economic structure of location. Therefore, it would be interesting to investigate potential synergy effects between European investors and the hosting local economy in Japan.

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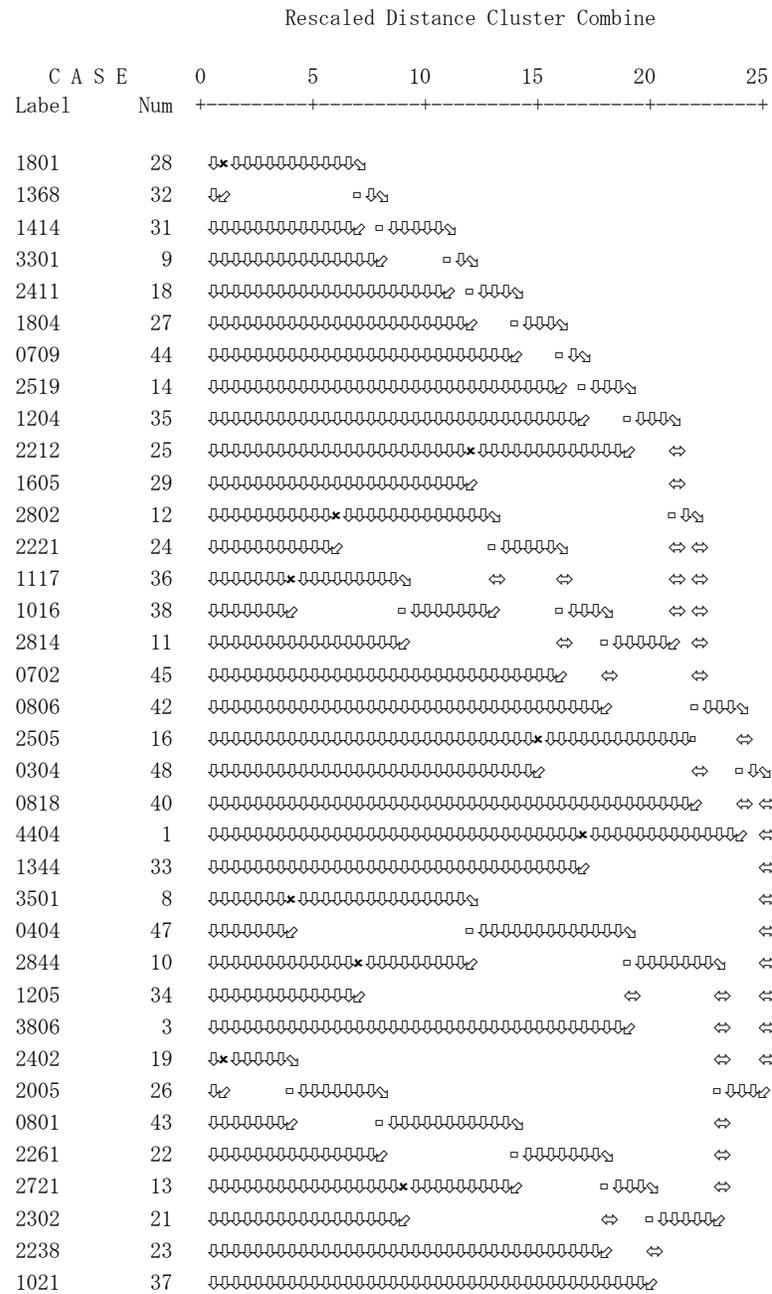
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Dendrogram using Average Linkage (Within Group)



Appendix 1 Dendrogram

Wilks Lambda

Test of Function	Wilks' Lambda	Chi-square	df	Sig.
1	.581	13.846	3	.003

Canonical Discriminant Function

	Function 1
JR expatriates	.647
SG Japanese manager	-1.256
GRV Japanese manager	.851

Classification results ^a

			Predicted group membership		Total
			adaptation-oriented	application-oriented	
Actual group	Case	adaptation-oriented	18	0	18
		application-oriented	6	6	12
		ungrouped cases	8	0	8
%		adaptation-oriented	100.0	.0	100.0
		application-oriented	50.0	50.0	100.0
		ungrouped cases	100.0	0	100.0

a. Percent of "grouped" cases correctly classified: 80.0%

Appendix 2 Classification results