Impact of Japanese Traditional Cultures on Global IS Management

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Abstract

In order to re-establish a prominent position in Global Trade Competition, Japanese enterprises need to undergo some cultural changes. The real question is whether and how much cultural change can be brought about. The Japanese Banking Industry benefited from protectionism following World War II but this has led to weakness in the internal structures and inefficient practices. Whilst investment banks have been transferring capital across national boundaries since the 18th century recently through the deployment of global Information networks the small streams have become large rivers. A Grounded Theory of global strategic IS management has been emerged through a rigorous coding process of data from a Japanese multinational investment bank. Attempts to externally validate the theory against authoritative works in wider arenas are promising. This paper reveals the external validation strengthening the cross-cultural comparison model for global strategic IS management from the view of Japanese traditional cultures.

Keywords: Global IS, Cross-cultural, Investment Banks, Japanese Culture, Grounded Theory

1. Introduction

Investment banks originally emerged with establishing cross-border information network to transfer capital beyond national borders in Europe. They have utilized the advances of technology to provide real time networks among global financial markets after 1980s. Japanese banks were historically protected at the center of the *Zaibatsu* and *Keiretsu* relationships. They experienced a number of bankruptcies after the burst of the financial bubble in the late 1980s (Schaede, 1999). They are now facing the difficulties to survive in the global competitive financial market. Japan was the best performer in the 1980s and became the worst performer in the 1990s in the global economic world (Thurow, 2003).

> *"Systems that don't work have to be changed, and the changes don't happen automatically. Solutions demand a change in Japan's culture, and only Japan can change its own culture. Easy to say, but how is it done?"(Thurow, 2003).*

> *"Today, Japan must move beyond just quality competition to competing on strategy and innovation. Genuine innovation not only in products but also in approaches to competing will be required" (Porter et al., 2000).*

> *"The Japanese system was singular. It was not Buddhism and it was not Confucianism. It was Japanese - the strength and the weakness of Japan" (Benedict, 1946).*

From these views, the research recognizes the importance to identify cultural mechanism in Japanese multinational investment banks through analyzing the following question.

"What are the Japanese traditional cultures which impact on global strategic IS management in Japanese multinational investment banks?"

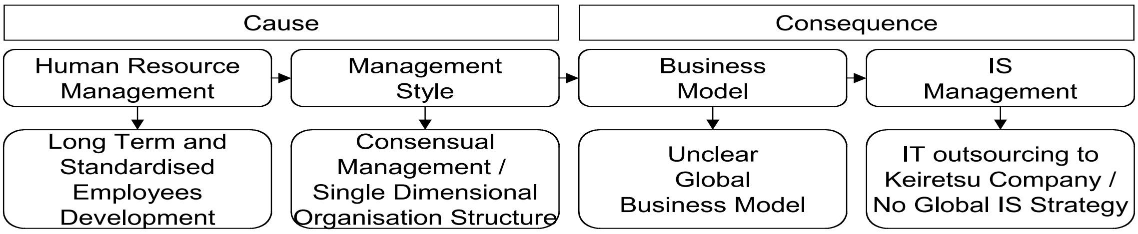
2. Context of selected case

Because the objective of the research is to examine the cultural mechanisms which impact on the global strategic IS management in Japanese multinational investment banks, the research selected a Japanese traditional *Zaibatsu* bank as a research case. The Japanese traditional *Zaibatsu* bank (JPZB) was established in 1880 by a key player of the Japanese industrial revolution in Meiji period. The banking division in the shareholding company (JPZGH) succeeded the banking business of JPZB in 1895, and the founder of JPZB established the *Zaibatsu* group (JPZG). Though JPZG companies have historically maintained cross shareholdings scheme and frequently organize gatherings of their chairman and presidents, they have been managed and operated independently. More than twenty of JPZG companies, which conduct a wide range of business including banking, insurance, manufacturing, trading, natural resources, real estate and transportation, are publicly listed in the Japanese stock exchanges. JPZB plays a role of a main bank for JPZG companies within the *Zaibatsu* and *Keiretsu* relationships. The origin of the Japanese traditional foreign exchange bank (JPFB) was the traditional foreign exchange bank (JTFB) that was established in 1880 to deal with special foreign exchange in Yokohama, Japan. After the World War II, since the Japanese government needed to establish a special financial institution to deal with foreign trade financing, JPFB established in 1946 as a successor to JTFB. JPFB became the only bank licensed under the foreign exchange bank law of 1954, which was linked to the foreign exchange and foreign trade law of 1949. JPFB received special consideration from the Japanese government in establishing the overseas offices because of the special license and many other aspects of foreign exchange and international finance. JPFB had established the most extensive worldwide network of the Japanese banking industry. The worldwide network of JPFB enables to conduct full range of commercial banking activities throughout the world. One of the Japanese largest banking business corporations (JPCB) was formed through the merger of JPZB and JPFB in April 1996. The shareholding company (JPFG) is one of the largest financial groups in Japan and provides a broad range of banking services in Japan and around the world. The investment banking business unit of JPFG provides a broad range of investment banking services which are corporate advisory capital markets, derivatives, structured finance, and securities, and the global service through investment banking subsidiaries in Hong Kong, Singapore, New York and London. Because of recent deregulation, increased demand of cross border transactions and direct financing in Japan, the investment banking unit implemented the new management system, which assigned global heads for each particular business categories, and aligned all subsidiaries and affiliates to them. JPFG has changed the shareholding scheme and transferred the investment-banking unit from the banking business corporation (JPCB) to the securities business corporation (JPSC) which was established in 2002 to promote a global securities and investment banking. JPSC acquired four overseas subsidiaries in Hong Kong, Singapore and New York in 2003, and a subsidiary in London in 2004 (From the web site of JPFG).

3. Emerged Theories

Following *"theoretical sampling" (Glaser and Strauss, 1967; Strauss and Corbin, 1998),* data were collected from JPFG through various routes. By analyzing the data through the formalized Grounded Theory coding procedure (Matsumoto and Wilson, 2005b), the research discovered *"the cross-cultural comparison model for global strategic IS management (CCCM-GSISM)" (Matsumoto, 2005).* It was compared with other frameworks (Matsumoto and Wilson, 2005a) to reinforce objectivity, consistency and transferability (Gasson, 2004). Figure 1 describes the global IS management of JPFG. Traditional consensual management style is applied and no global business model is clarified. IT activities are outsourced to *Keiretsu* companies without any global IS strategy.

Figure 1: CCCM-GSISM: No global strategic IS management for JPFG



4. Brief Review of Japanese Ideologies

Japanese ideologies seem to come from the four philosophical religions, which are Buddhism, Confucianism, Taoism and Shinto (Hotta, 2004). Buddhism, which was originally established in India during the B.C. 6th century, teaches reaching the spiritual enlightenment. Confucianism, which was originally established by Confucius in China during the B.C. 6th century, teaches maintaining of social harmony. Taoism was originally established by Lao Tsu in China during the B.C. 6th century. Tao in Chinese is same character as *"DO"* in Japanese. Shinto is an indigenous local religion in Japan that worships various parts of nature as gods or the Japanese emperor as a god (Mason and Caiger, 1997; Varley, 2000; Davies and Ikeno, 2002; Hotta, 2004).

5. Human Resource Management and *"DO"* spirit

Many researchers (Takeuchi, 1990; Gross and Hews, 1997; Gross, 1998; Ornatowski, 1998; Porter et al., 2000; Gross and Tran, 2003) identify that the traditional Japanese style of human resource management is constituted by the two major elements, which are lifetime employment and seniority system. Similarly, the first box of Figure 1 for JPFG indicates the long term and standardized employee development. Many Japanese companies have studied theories and practices of human resource management from U.S and have adopted some of them, but differences still exist (Takeuchi, 1990). Human resource policies in the Japanese companies emphasize creation of a strong community within the company, establishment of employee loyalties, and orientation of a long term managerial decision making (Takeuchi, 1990; Gross and Hews, 1997; Gross, 1998; Ornatowski, 1998; Porter et al., 2000). Although the Japanese companies have a well educated, bright and hardworking human resources (Thurow, 2003), Porter et al. (2000) criticize that the unsuccessful and low performing industries including finance have a shortage of trained talents and effective specialists. Human resource management style is closely integrated with culture (Takeuchi, 1990). Davies and Ikeno (2002) emphasize that *"DO"* spirit continues to pervade cultures in Japan. The concept of *"DO"*, which is deeply rooted in the Japanese traditional and modern way of thinking, illustrates important insights into the Japanese way of thinking, and provides the most significant Japanese cultural values (Davies and Ikeno, 2002; Hotta, 2004). The origin of *"DO"* can be found in Buddhism and Taoism. Japanese people are seeking to acquire spiritual satisfaction after perfection in basic patterns in their lives (Davies and Ikeno, 2002; Hotta, 2004). The meanings of the Kanji character *"DO"* are way, path or route in English. The word of *"DO"* is applied to various kinds of activities, such as *"Kado"* (flower arrangement), "Shodo" (calligraphy), *"Sado"* (tea ceremony), *"Kendo"* (swordsmanship) and *"Judo"*. The concept of *"DO"* spirit contains *"Shogun-Samurai"* relationship (Nitobe, 1938; Varley, 2000; Davies and Ikeno, 2002) and *"Sempai-Kohai"* relationship (Davies and Ikeno, 2002; Hotta, 2004).

5.1 Lifetime Employment

Although Porter et al. (2000) describe that lifetime employment in Japan is not a culturally ordained relationship but culture of post-World War II, many similarities can be found in the mechanisms between a traditional *Shogun-Samurai* relationship of *Bushido* and a modern Japanese lifetime employment system. Nitobe (1938) introduced *Bushido* as a symbolic identity of the Japanese culture to the Western world. It is ethics established among *Samurais* in the *Kamakura* period, not only sprits and skills for weapons, but also absolute loyalty to lord, devotion of duty, and strength of personal honor and courage (Davies and Ikeno, 2002). Traditionally, loyalty is a distinctive value of feudal period in Japan, because historically the obligations and service between lord and vassal were recognized as one of the most important factors from the *Kamakura* period. The economical life of *Samurais* is based on fiefs which the lord possesses, and the lord assigns the territory for each *Samurais* according to their achievements in weapons (Nitobe, 1938; Varley, 2000; Davies and Ikeno, 2002). Similarly, the Japanese lifetime employment guarantees male employees to assign positions to create generalist type workers with multiple skills, which promotes employee loyalty (Takeuchi, 1990; Gross and Hews, 1997; Gross, 1998; Ornatowski, 1998; Porter et al., 2000; Gross and Tran, 2003). The Japanese lifetime employment system works both directions, Japanese employees expect to stay for whole life in a single company for their working life, and Japanese employers expect these employees to remain for their working life (Takeuchi, 1990; Gross and Hews, 1997; Porter et al., 2000). Every three to five years, employees receive new position assignments to expand the range of job knowledge (Takeuchi, 1990; Gross, 1998). They are less resistant to change their position and more loyal to their companies than most Western managers (Porter et al., 2000). One of the interview records indicates that; *"Regarding the lifetime employment and seniority based system in Japanese multinational investment banks, he replied that it is very difficult to change these systems, which are well suited to the Japanese people's spiritual condition and culture" (from the interview manuscripts).* Ornatowski (1998) emphasizes that the disadvantage of the system in terms of fixed labor costs could be manageable through a number of mechanisms, including early retirement and transferring to group companies. However, Porter et al. (2000) criticize the difficulty to control the size of workforce in the short term, and the costs which are more expensive than the benefits that come from increased trust and cooperation of employees. Another interviewee explained that; *"The large sized IT developments sometimes are used as a "New Deal Policy" to absorb excess internal human resources. Because the Japanese large banks fundamentally hired employees based on lifetime employment, the senior management needed to think about human resource allocation not only from the view of profit making but also from the view of the creating enough jobs for the excess employees" (from the interview manuscripts).*

5.2 Standardized Employee Development

Many similarities can be found in the mechanisms between a traditional *Sempai-Kohai* relationship and a modern Japanese seniority based system which is one of the unique characteristics of the Japanese labor market. Historically, human relationships in Japan are quite different from those in the west. *Sempai-Kohai* relationship represents the vertical hierarchy and comes from the teachings of the Confucianism (Davies and Ikeno, 2002; Hotta, 2004). *Sempai* who is older than *Kohai* is considered to be superior in ability because of their longer experiences. *Kohai* who is younger than *Sempai* is considered to be inferior to *Sempai* because of their lack of experiences. The *Sempai-Kohai* relationship exists not only in most of Japanese corporate, educational, and governmental organizations (Davies and Ikeno, 2002; Hotta, 2004). The *Sempai-Kohai* relationship influences the seniority base system, which technically aims to improve long term company performance by eliminating competition among individuals, fostering group unity (Takeuchi, 1990; Gross and Hewes, 1997; Gross, 1998; Porter et al., 2000). Gross and Hewes (1997) emphasize the Japanese society generally respects authority, command chain and senior persons, seniority system is favored for Japanese people. Even if younger employees have greater knowledge or experience in specific areas, the Japanese people are uncomfortable when the younger employees are promoted beyond someone older. Therefore, even if younger employees have unusual ability beyond senior employees, the employers often refrain from increasing the title, salary and responsibility until the employees gain more seniority and age (Gross, 1998). Young workers are underpaid relative to their contributions (Porter et al., 2000). One of the interviewee emphasized that; *"Because of 'Lifetime Employment' and 'Seniority Based Salary System', the performance amount and the appraisal result still do not match each other", and "historically, the appraisal mechanism for salaries is equality based and seniority based. A scheme to identify the exact performance for each staff member does not exist" (from the interview manuscripts).*

6. Management Style and *"WA"* spirit

The second box of Figure 1 for JPFG identifies the consensual management and single dimensional organization structure. Davies and Ikeno (2002) describe that the geography of Japan has greatly influenced many aspects of the Japanese cultural values and custom. Japan is an isolated country. Japanese cultures were developed in relative isolation, because Japan was separated by the dangerous seas from the continent and free from the threat of invasion from the other Asian countries (Davies and Ikeno, 2002). Japan is a mountainous country. Japanese people had to live in small communities with good harmony to grow more rice with another's support in a small inhabitable land (Davies and Ikeno, 2002). The concept of *"WA"* implies a group harmony and Japanese version of democracy, which come from the Confucianism (Mason and Caiger, 1997; Varley, 2000; Hotta, 2004). The origin of *"WA"* can be found in the first sentence of the seventeenth articles, which is the first constitution of Japan organized by Prince Shotoku in A.D.604 (Mason and Caiger, 1997; Varley, 2000).

6.1 Consensual Management

"WA" spirit continues to pervade cultures in Japan (Hotta, 2004). Culturally, Japanese people tend not to be against groups direction because they fear to be excluded from the group. The groups are more important for Japanese people than their personal characteristics, traits and abilities. It is very difficult for the Japanese people to say *"No"* in contrast to Westerners, who present conflicting interest to reach a conclusion (Davies and Ikeno, 2002). Contextually, the Japanese companies apply the consensual decision making mechanism through involvement and participation at various level of management (Gross and Hewes, 1997; Gross, 1998; Porter et al., 2000). Decision making process takes much longer in Japanese companies than in Western companies. Typical mid-career managers are involved in the process of consensual decision making as one of many participants such as different levels of managers, general manager and directors. Consequently, they generally don't have as much experience in making decisions as typical mid-career Western managers (Gross and Hewes, 1997; Gross, 1998). Thurow (2003) identifies that Japanese consensual management is strong when problems occur from outside, but is weak when problems occur from inside. The interview manuscripts identify the weakness of the consensual management. *"The senior management will have a big problem, if the new appraisal system is implemented. Because they made a big loss during the collapse of the bubble economy", "not so many staff members want to implement the new appraisal system, because if they have the confidence to make a profit in the financial market, they have already moved to the foreign companies, which adapt*

the self-performance based salary system and gives a salary based on the profit amount" (from the interview manuscripts).

6.2 Single Dimensional Organizational Structure

The organization chart in the official corporate information for JPFG describes the single dimensional organizational structure with a simple pyramid shape. In order to understand the real aspects of the structure, it is important to recognize the authority of the human resource department and the planning department. A hierarchy in Japanese companies has been established based on the strong belief in authority (Gross, 1998). In the hierarchy, the human resource departments in Japanese companies are highly respected (Porter et al., 2000). The human resource department conducts the salary administration. Appraisals are basically annually, sometimes more frequently conducted not only by the line managers of each business units, but also by the human resource management. The scope of the assessments includes not only the performance but also attitudes, growth in skills and way of work. Salary is conceptually paid to a person not to a job (Takeuchi, 1990), which is similar mechanism which the lord decides the territory for each *Samurais.* One of the interviewee identifies that; *"The human resource department and the planning department in the head office have stronger power than other business units in the Japanese large banks. Normally, the human resource department has a strong power to make decision for the human resource allocation, and the planning department has a strong power to make decisions for the budget and expense for the whole company as well as each department in the large Japanese banks"(from the interview manuscripts).* Another interviewee explains that; *"The human resource department has authority to mark the final appraisal of all employees based on the information from each section head. In addition, the human resource department has authority to make decisions concerning the transfer of all employees based on the requirement of human resource allocation of all section, entity and department" (from the interview manuscripts).* The interview manuscript indicates that the Takeuchi's view in 1990 has not been changed and still kept in JPFG.

7. Business Model and IS Management

The third and fourth boxes of Figure 1 for JPFG indicate the unclear business model for globalization and the IT outsourcing to *Keiretsu* companies. A global business strategy should be formulated before any sensible decision for information system (IS) strategies. After IS strategy with a business strategy is in place, information management (IM) strategy must be implemented (Earl and Feeny, 1995). However, JPFG does not have a clear business model for globalization. In order to understand the *Keiretsu* which is *"ubiquitous in Japan" (Porter et al., 2000),* it is important to recognize that the mechanism is totally different from the idea of outsourcing in the Western society from various aspects. From the cross shareholding scheme, the *Zaibatsu* had been vertical relationship with top down pyramid shaped, and the *Keiretsu* had been horizontal relationships with other group companies by holding shares each other. The banks were located in the center of the *Zaibatsu* and *Keiretsu* relationships (Schaede, 1999; Porter et al., 2000). Lambert and Peppard (1994) explain that the *Keiretsu* can coordinate strategic approaches to penetrate world markets, block foreign competition by managing supply chain and long-term investments in manufacturing and technology. But Gross (1998) explains that the Japanese employees are shifted to easier positions at subsidiaries or related companies, if performances are poor based on the lifetime employment system. In addition, because *"Amakurdari"* culture, which literally means decent from heaven, senior bureaucrats are allowed to obtain high ranking positions with private companies after retirement (Davies and Ikeno, 2002). The senior managements of the banks often obtain high position in the *Keiretsu* companies.

8. Conclusion

The paper has deeply examined the invisible traditional Japanese customs which negatively influence global IS management in Japanese multinational investment banks. The question *“what has to be done at a strategic level for Japanese multinational investment banks to compete globally through IS”* can be analyzed in further research.

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