American Industries Teaching Japan a Few Lessons in Management

In an ironic turnaround, some U.S. companies are doing better than their Japanese counterparts in implementing new management practices in America, while some Japanese transplants are falling back on an old-style Yankee management approach that is rapidly becoming outmoded

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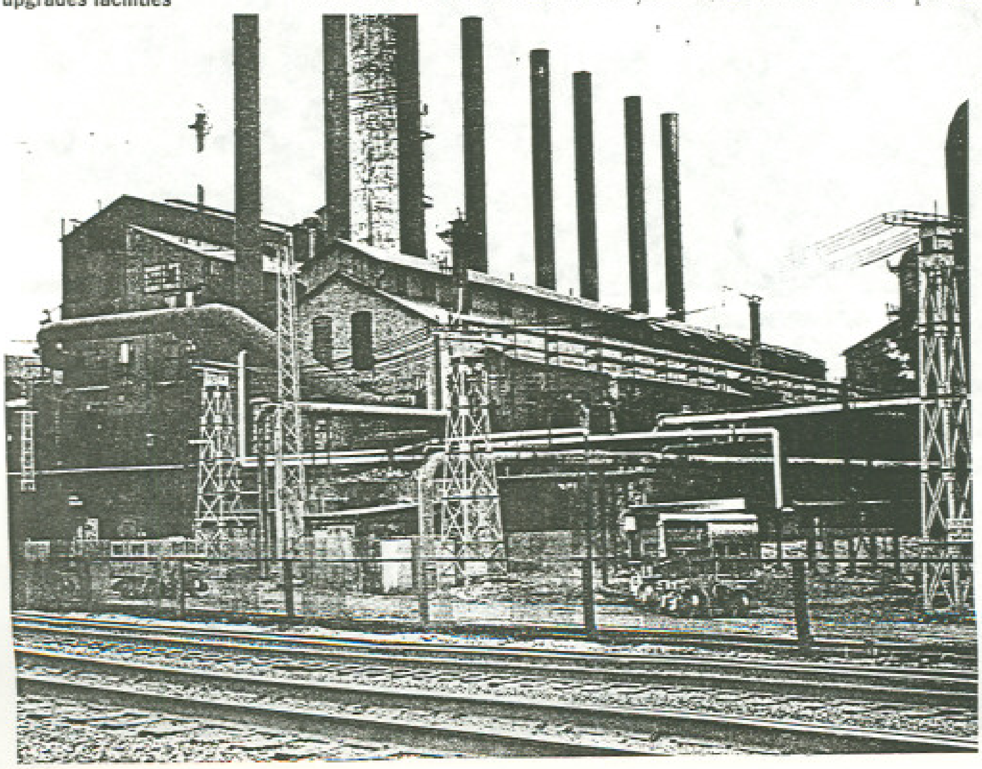
Believe it or not, some U.S. companies are doing better than their Japanese counterparts in implementing new management techniques and production systems in America. Despite the tremendous success of transplant factories set up by Toyota and Honda, a number of Japanese transplant operations—in the electronics and steel industries in particular—are finding themselves trapped by the same kinds of management problems that have long vexed American industry. Moreover, a growing number of American companies have learned from their (Japanese) competition, and are rapidly moving to do what it takes to turn themselves into world-class competitors.

In recent months, Japanese executives in charge of U.S. transplant operations have privately voiced concerns about their seeming inability to replicate their company's management and production systems in America. Japanese steel executives complain that it is difficult, and sometimes impossible, to reduce and combine job classifications, institute more flexible work systems, or enlist the cooperation of unions in their efforts to increase the productivity and performance of their joint venture mills with American steelmakers. Japanese television transplants look more like traditional American plants than television factories back in Japan. In response to these trends, some Japanese companies are cutting back their investments in America, and, in a few extreme cases, even reducing their U.S. workforces.



An old-style U.S. factory: catch them now, because they're being replaced rapidly as American industry upgrades facilities

Don't Blame American Workers

The easy answer to this dilemma is to place the blame on American workers and their unions—and that is precisely what many commentators on both sides of the Pacific have done. American workers, so the story goes, have a great deal of trouble adapting to the demands of Japanese-style production and management. For others, the culprit is American unions, which are said to actively resist efforts to upgrade and restructure the workplace.

These "blame-the-victim" arguments miss the point. American workers have consistently shown that they can meet the test of new production systems—doing so in both union and non-union factories. Transplant factories like NUMMI, the joint venture between Toyota Motor Corp. and General Motors, have proven highly successful using an existing United Auto Workers (UAW) workforce. The LSE joint venture steel finishing line between LTV and Sumitomo Metal Industries Ltd. has restructured the workplace, reduced the number of job classifications from 100 to three, instituted self-managing work teams, put all workers on a monthly salary rather than hourly wages, and given them traditional management responsibilities, from scheduling vacations to overseeing training programs and job promotions. National Steel's sprawling Great Lakes works has reduced job classifications for craft workers from 86 to 16, and established a flexible system for work assignment. In both cases, Japanese management has committed considerable resources and worked closely to enlist the cooperation of American workers and their unions.

White Collar Insecurity

When all is said and done, the problems some Japanese transplants are experiencing in America are the province of management. It is management—not workers—that constitutes the biggest obstacle to the transfer of the Japanese production system and the flourishing of best-practice production systems around the world.

American management is a large part of the problem, particularly middle-managers who have found it much more difficult to adapt to Japanese-style production than workers or unions. The traditional world of American management is essentially a caste system of white-collar bosses in offices and blue-collar workers who toil on the factory floor. Its hallmarks are centralization of authority and command-and-control. American managers, who have learned from experience to protect their own power and authority, frequently feel threatened by new management systems which view workers as a source of new ideas and productivity improvements. In transplant after transplant, company after company, American managers have had difficulty adapting to new ways, and have in some cases actually worked to undermine such efforts.

Management resistance is particularly acute in existing "brownfield" plants with a long legacy of adversarial labor-management relations. In some industries, like steel, extensive systems of job classifications and seemingly arcane work rules are the product of decades of labor-management struggles. Any disruption of these deeply entrenched relationships can be extremely threatening to workers as well as management.

Thus, resistance to change is frequently quite severe and can come from any number of quarters—shop-floor workers, union representatives, and middle management, all of whom have stakes in the existing system. There is little doubt that a number of Japanese companies have been "trapped" by this historic management culture—unaware of its depth, paralyzed by its persistence, and unable to develop a strategy to overcome it.

Yet Japanese management must also share part of the blame. Unwilling or unable to commit the required managerial resources to effectively recreate their world-class production systems in America, a number of Japanese transplants are suffering the consequences. A few have even turned to traditional American approaches to increasing productivity and performance, hiring U.S. execs who are known for their hard-line positions toward labor.

Recent studies of Japan's global factories in the United States, Europe, and throughout Asia have found that the ability of Japanese companies to transfer and replicate their management systems turns crucially upon the level of managerial resources and effort they apply. Japanese transplants can transfer their management and production systems in different environments around the world, but to do so requires distinct strategies and different levels of resources. And, since Taylorism is deeply embedded in American industry, a greater level of effort and managerial resources is frequently required to transfer Japanese management and production organization to America.

"When in Rome" Management

Some Japanese companies have not really tried to transfer their management and production systems to America. Japanese

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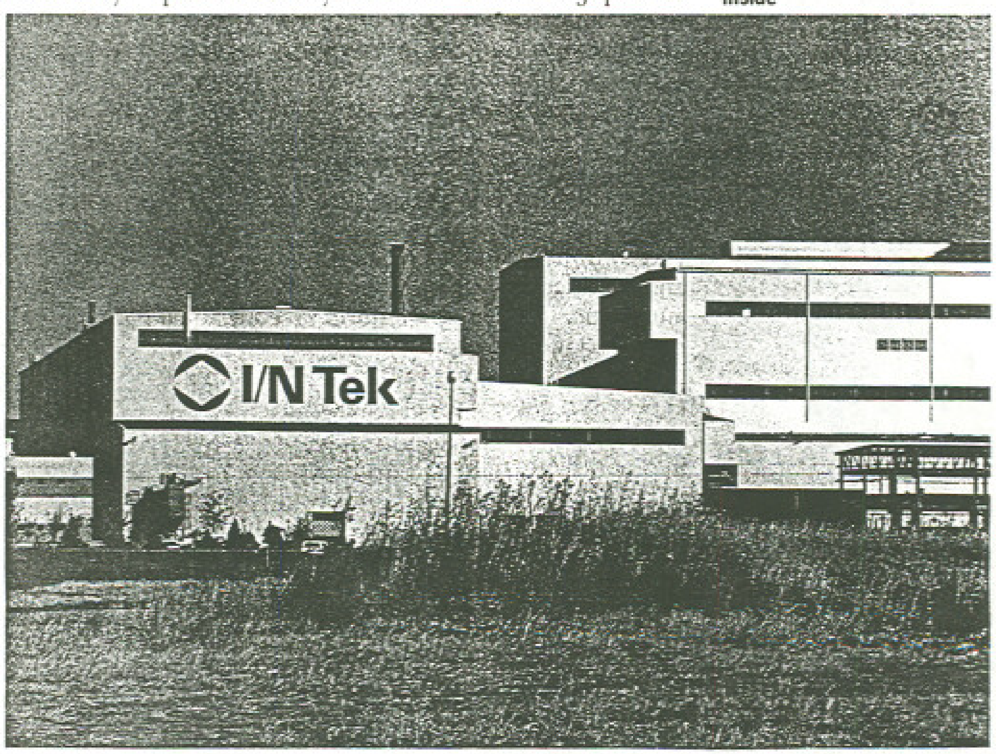
Coast to coast, corporations are building new, modern plants. The challenge for management is to be as advanced as the technology inside



This steel plant has successfully cut worker classifications by 80% and instituted flexible work assignments—all part of the ongoing restructuring of U.S. industry

television plants are a particularly good case study of this kind of managerial "benign neglect." Established mainly during the mid- to late-1970s, Japanese companies faced considerable pressure to get American plants up and running quickly, and made little effort to transfer what they did in Japan, preferring instead to give American managers near total leeway in designing job classifications and human resource systems. A number of them simply purchased existing American plants, leaving their existing organizational systems and management virtually intact. The result is that many of these original television transplants look more American than Japanese in their style of operation, having large numbers of job classifications, and making little use of quality circles, suggestion systems, or other forms of continuous improvement. In fact, one Japanese transplant is only now moving to implement an American-style "Total Quality Management" program.

The bottom line is basic: the ability of companies to become world-class competitors and to transfer aspects of their management and production systems is neither natural nor automatic. Rather, it requires a conscious managerial effort, an effective and well-organized strategy, and a considerable expenditure of resources to achieve.

Interestingly, while some Japanese affiliates in America find themselves trapped, many U.S. companies have made remarkable turnarounds and are performing at or near world-class levels. The automotive division of Johnson Controls provides a compelling example of what can happen when companies make the investments required to become world-class. In its efforts to improve productivity and quality and to increase its global market share, the company decided in the early 1980s to learn from the best practices in the business, sending both engineers and management personnel to benchmark some of the leading companies in Japan.

Johnson Controls has since become a key supplier to Toyota's transplant operations, investing heavily to upgrade its plants which supply Toyota facilities in Kentucky, California, Canada and now, England. It has done so not only to gain new business, but to deepen its understanding and use of the Toyota Production System.

Turning Around

A large and growing number of American companies are turning around, making the investments required to become world class. This restructuring process extends far beyond the usual examples of Xerox, Motorola, Hewlett-Packard, and 3M, penetrating the broad manufacturing infrastructure of suppliers and small and medium-size enterprises. A recent survey of the use of best-practice management by American industry conducted by Paul Osterman of MIT's Sloan School of Management found that more than a third of American companies are making the transition to world-class or "high-performance" organizations.

Ongoing research conducted jointly between Carnegie Mellon University and the Council of Great Lakes Governors which represents the eight states bordering the Great Lakes, indicates that between 50-60% of small- to medium-size companies in the industrial Midwest are trying to make the transition to become world-class companies by doing these things. While these companies have not completed the journey, they are clearly on the path to world-class performance.

What has changed? Simply put, these companies have made the effort and the investments required to become world-class. This, in a nutshell, is what distinguishes the successful from the unsuccessful companies—American, Japanese, and others.

The New Capitalism

Much of the debate over U.S.-style management versus Japanese-style management misses this fundamental point. It is not the country of ownership that determines success in the global economy. Rather, it is the capacity of organizations to create value by using their entire workforces as sources of constant innovation and the continuous mobilization of knowledge.

Indeed, capitalism—as management guru Peter Drucker and Hitotsubashi University management theorist Ikujiro Nonaka point out—is entering into a new age of knowledge-creation and continuous innovation. This new system of "knowledge-intensive" capitalism is based upon a synthesis of intellectual and physical labor—a melding of innovation and production. The main source of value and economic growth in knowledge-intensive capitalism is human intelligence, or what Xerox CEO Paul Allaire refers to as the "group social mind."

Knowledge-intensive capitalism represents a major advance over previous systems of Taylorist scientific management or the assembly-line system of Henry Ford, where the principal source of value and productivity growth was physical labor. To compete in this new age of capitalism, all corporations—Japanese, American, and others—must develop focussed strategies and must commit the managerial resources required to harness both the minds and intelligence (not just the physical labor) of their workforces.

There is little doubt that successful Japanese transplants have played a critical role in bringing this new age of capitalism to America. The ability of Japanese transplants such as Toyota and Honda to establish state-of-the-art production complexes provides a dramatic demonstration of what can be done in America, creating a powerful source of organizational learning for others. According to a recent study by McKinsey's Global Competitiveness Institute, transplants increase productivity by accelerating the transfer and diffusion of international best-practices such as self-directed work teams, continuous improvement, just-in-time inventory control, and the involvement of suppliers and customers in the development of new products and processes, and also place pressure on domestic industries to adopt those best-practices. And Japanese transplants have played an important role in the economic resurgence of the misnamed Rustbelt, helping to spur the diffusion of new management practices, increase regional output and productivity, and position the region for success in the global economy.

Japan's American Challenge

There are several things Japanese management can do to improve its odds for success in America.

First and foremost, management needs to make investments which are up to the task. This means ensuring that sufficient management personnel, particularly human resource managers, are transferred from established plants to the new transplant enterprise. Management also needs to establish firm ground rules for the organization of work and production, and make sure that local managers understand and implement those ground rules. The recruitment process must be geared to selecting managers, as well as workers, who work well in teams and can actively engage in continuous improvement.

Management cannot afford to skimp on training and socialization programs which provide a vital mechanism for preparing both management and workers for new production systems. Successful transplants have sent teams of managers and workers to offshore sister plants to become immersed in new work systems. Some have moved large delegations of trainers from established plants into transplant factories to deepen and enhance this learning process.

Furthermore, Japanese management must establish direct lines of communication to their American workforces. In too many instances, existing American middle management has ignored workers' concerns or distorted those concerns to Japanese management. Japanese transplants would certainly benefit from developing their management from within, as successful transplants such as Toyota, Honda, and LSE have already done. And all of this needs to be reinforced by an incentive system which encourages and rewards working in teams and engaging in continuous improvement.

The key to success lies with management. It is up to Japanese management to decide whether or not it can devote the resources required for the successful transfer of its management and production systems to America. T

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Nissan's plant in Smyrna, TN is a symbol of the Japanese influence on American manufacturing