

What We Can Learn From The Japanese Organizational Design And Leadership Model

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Innovation has not been stifled at Japanese companies. In fact, the rigidity of leadership functions has led to the management by objectives (MBO) style of leadership decision-making. MBO, while criticized for rigidity, works. Look at Chrysler under the leadership of Lee Iacocca, who led the way in the automotive industry during challenging times. Japanese companies have strongly relied on the expertise-based management that has led them to achieve amazing success. In these companies, leaders must learn to adapt to the local awareness and

authentic leadership style necessary to meet the needs of customers worldwide. Our practice of training executives has led to applying management theories that work and abandoning theories that do not. Management fads come and go, but we feel that authentic leadership remains the heart of successful Japanese companies, and this must manifest itself worldwide to help organizations reap success. In this opinion article, we will look at Japanese companies' organizational designs and leadership models and examine their advantages and disadvantages.

Japanese companies such as Sony, Panasonic, Honda, and Toyota remain leaders in leadership development and process management. The structure and leadership model of these companies is unique among many other large and international companies.

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Japanese companies are known for their innovations in the design of efficient products with lasting durability (Camuffo & Wilhelm, 2016; Feng, 2019). Japan is a leading contender in many industries (Wimmer, 2012; Jacobs, 2017; Yamauchi, 2021; Schulz, 2020). Japanese companies' organizational design and leadership model play an important role in these companies' success (Schnellbacher & Heidenreich, 2020; Tipurić, 2022a). The design of their structure maintained the expertise-based management and the MBO leadership model. In comparison with expertise-based management which is based on the full delegation of authority to the functional units, MBO is a management system for leaders to measure employees' performance against a set of key goals (Islami, et al., 2018). These key goals are considered to be employee roles, which means employees need to achieve these goals to score high on their overall performance in their roles (Cardona & Rey, 2022; Conlon & Molloy, 2022).

Although many of these companies such as Toyota, Honda, and Hitachi have grown more than 300 times larger and more complex since their inception, their organizational structure and leadership model are still influenced by a board of directors and no other general managers. Much of what we share in this article comes from our experience and observations as senior management consultants in more than 30 large Japanese companies in a wide range of industries located in Australia, Japan, the US, and the UAE. These findings can provide practical contributions to managers at all organizational levels across the globe.

Organizational Design

Organizational design in Japanese companies is based on expertise and full delegation of authority to the units responsible for each function. We see the Management-By-Objectives, once proposed by Lee Iacocca at Chrysler, shifted to more of an expertise-based organizational design. Japanese companies' ultimate goals are to provide products and services to the market that make people's lives better, safer, easier, and more enjoyable. At Toyota, this goal can only be achieved through continuous innovation, such as the handcrafted Model Urban Cruiser Hy Ryder. In fact, this innovation (i.e., Urban Cruiser Hy Ryder) at Toyota is the result of joint discussions, deep design expertise, and great attention to detail, which can only be achieved because of organizational design based on the best expertise in the world. Unlike MBO, expertise-based organizational design relies on the principle of delegating decision-making authority to the most specialized people. After this initial decision-making expertise, the torch is passed on to the next expert and the next one, like a torch in a champion race to the finish line. Since many Japanese companies such as

Toyota, Honda, or Mitsubishi compete in a market where the rate of change and disruption is very high, intuitive decisions, based on the experiences of the most expert employees, play a vital role. Hence, relying on specialized technical experts instead of general managers has greatly increased productivity in these corporations. The experts make the decisions, and the general managers carry out these decisions without adding any changes.

On the other hand, the same problem with MBO exists in expert-knowledge-based decision-making in that the structures where the general managers of each department are the final decision-makers of that department, the commitment to short-term profit and reduction of operational costs is usually the main priority. Thus, carrying out the expert decision from senior management may lead to losses at the department level which the managers are then questioned but cannot answer. This rigidly sheds its ugly claws that spread from department to department barely meeting cost deferment and revenue generation. Why? Because the awards for best managers are usually based on financial numbers. Thus, the manager that can follow the expert knowledge and still cut costs or maintain efficiency in the budget is rewarded, and those that cannot are punished or rethreaded in management training. This constant pressure on the general managers of each department is a big obstacle to the development of innovation. Therefore, in an expertise-based structure, general managers have been removed from the structure, and teams consisting of the most specialized technical experts under the supervision of the most experienced specialists are responsible for final decision-making. The tadpoles that turn into frogs succeed and leave the rest of the fish behind. This does not mean that cost and income parameters are not considered. These companies go to great lengths to teach this knowledge to managers, but the corollary is that they still must meet and exceed the expert opinion of their leaders.

Leadership Model

After working at the Industrial Bank of Japan for many years, we can say that Japanese leaders are tantamount to the world stage. They set up libraries in offices, think globally and act locally, and follow the Al Deming Total Quality Management (TQM) model. TQM is an integrative and organization-wide effort to continuously improve employees' capabilities and the quality of products or services by various methods, such as Six Sigma, Lean manufacturing, and ISO 9000 (Natarajan, 2000; de Lancer Julnes, 2018).

Managers at every level are expected to include three important qualities in their leadership (Gao & Low, 2014a; Gao & Low, 2014b). As mentioned earlier, deep expertise means that managers go to all lengths

to study, learn, and develop their craft. Authentic leadership is their second trait as they are aware of details in everything they touch (Adarves-Yorno, 2018; Johnsen, 2018; Demont-Biaggi, 2019; Tipurić, 2022b). Through collaborative discussions, they pry into decision-making before accepting the optimum choice. When working at the Industrial Bank of Japan, the Japanese executives drilled down to a penny when reporting profit and loss. One time at an executive meeting, one of our colleagues threw a twenty-dollar bill on the table of a bar with a Japanese executive and said “Here is a twenty-dollar bill to eliminate your search for pennies when we close a business transaction. The Japanese executive did not like that comment and our friend did not make Vice President. Thus, deep expertise refers to the assumption that training specialists as managers is much better than hiring a general manager from the competition. Technical experts oversee the staff of each department (Ishigame, 2020; Conlon & Mollo, 2022). Only experienced technical professionals should manage. This leadership characteristic provides an expertise-based structure delivering innovative products to customers (O’Regan & Ghobadian, 2006; Kabir, 2019; Badir, Frank & Bogers, 2020; Abdalla & Nakagawa, 2022; Buchholz & Knorre, 2023).

Furthermore, with a detailed awareness of the leadership, the technical expert managers can be fully aware of the unit under their management to make faster and more effective decisions. We found, after many years of management consulting for many American and Australian companies, that failure to pay attention to details causes the slowness and ineffectiveness of decisions. This leadership tenet of many successful Japanese companies has led to them achieving one of the best ratings in terms of customer satisfaction with their products and the lowest number of complaints. For example, at Toyota, attention to the interior design of the model Urban Cruiser Hy Ryder itself shows careful attention to all the details that a driver needs. Thus, careful attention to detail has had an amazing impact on Toyota’s leadership. The third characteristic, collaborative discussions, complements the prior two characteristics, leading to leadership perfection.

When it comes to organizational charts, Japanese companies have hundreds of departments and specialist teams. Cooperation among them is necessary to innovate even in a single car part. This requires the development of a systematic approach, and this is achieved through collaborative discussions among teams and specialists. CEOs, or their senior assistants, get involved only when necessary. Extensive horizontal collaboration requires close cooperation, and the weakening of this cooperation weakens the overall performance of the company. Professionals can express their views, but they must have strong

arguments backing up their position and be ready to change their views in collaborative discussions with other teams and departments. Our consulting experience says that one of the biggest problems in many organizations is the lack of this systematic approach. Herein, the key takeaway for executives is that they must develop a culture of collaboration. This type of corporate culture, along with the development of teams consisting of employees from different departments, requires conducting workshops for both employees and executives so that everyone is on the same page. Selecting appropriate vendors and training employees builds this systemic approach.

Collaborative discussions in Japanese companies are also very challenging but they play an important role in developing and creating new innovations (Haak, 2006; O’Dwyer, Filieri & O’Malley, 2022; Melander et al., 2022). The basic principle of leadership in these companies is the principle of “good mess.” A good mess means that collaborative discussions cause teams and specialized departments to work better to achieve a common goal. The ideas of each section can be changed and modified by the arguments of other sections. This principle is the opposite of a “bad mess,” where common goals are undermined because of competition between departments and teams, and the overall performance of the company declines.

The Challenges Facing the Leadership Giant

Despite their successes, many Japanese companies have also not been without challenges. For example, in Toyota, the increasing complexity and expansion of this company’s branches around the world have led to a lack of wheels on the ground. Selling cars at the manufacturer’s suggested retail price (MSRP) has led to a sense of unworthiness of the buyer to negotiate. The words themselves lead to a sense of reversed negotiation. Buyers feel that thousands of dollars can be added to this sticker price without consent from the customer. Recent decisions by Toyota’s top management to add machine learning and artificial intelligence to specialized areas with the aim of creating more effective structures is a confirmation of Toyota’s efforts to better respond to future threats. Have they responded to all future threats? No. Tesla technology is surpassing its rivals and Toyota must step up to meet these challenges or find itself in a smaller segment of the market share (Qin, 2022).

The second challenge is the lack of Japanese leaders overseas. Japan has always prided itself on in-grown leaders at the top and throughout its regions. However, being widespread lessens the availability to lead with this model. At the Industrial Bank of Japan, Japanese leaders trained for a few years and then left Japan. This was tantamount to success but when American leaders left, they lacked the au-

thority to lead at senior levels in America. Thus, the pressure placed on leaders (or technical managers) to understand the details of their subordinate departments is lacking. Japanese companies should have reduced the expansion and scope of activities of specialized departments or greatly increased the number of leaders. Without doing one or the other, these companies are lacking in market share. To offset this challenge, many Japanese companies such as Toyota, Honda, and Mitsubishi stepped up by using the method of succession and hiring new staff, it quadrupled the number of technical experts in different fields in a period of 9 years from 2011 to 2020. Efforts to align these newly hired technical specialists with culture and values have led to the inclusion of a new training program for them. This is yet to pan out and because of the speed of competition, skeptics feel that these companies may be further challenged in the electric car market if they do not step up further as leaders in the field of electric automobile technology (Casper & Sundin, 2021; Last et al., 2021).

Another challenge that Japanese companies are dealing with post-COVID-19 is the increasing need for time management skills. They are beginning to focus less on paying attention to all the details in the unit under their management and focusing on issues that are more important such as electric vehicle technology. They are in the process of strengthening their supervisory roles to better meet the needs of the local customers. Again, attempting to expand globally and yet, think locally. This challenge is another that is yet to pan out and skeptics feel that it will take time in the post-pandemic recovery.

Conclusions

We suggest that by adopting the Japanese approach to organizational design, the practice of leadership, and supportive collaborative discussions within organizations, executives can continue to prosper in the future. However, there are critiques of this leadership way. In fact, we feel that if Japanese companies remain to be more bureaucratic and fall victim to less innovation in the market coupled with the lack of alignment of decision-making with expertise, they will continue to lose market share. While the corporate life cycle is still vibrant in the growth stage, the leaders at the top must relinquish the carrot-or-stick MBO approach for a more authentic leadership approach. By knowing what works and what does not work and where to place emphasis, the problem of inertia will be dismissed for a more vibrant future for these companies.

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Review

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