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Japanese Management in Malaysia

Hideki IMAOKA*

Introduction

The number of Japanese subsidiaries or joint-ventures in Malaysia has significantly increased in the past decade. The aim of the present study is to identify their pattern of management adaptation to the specific environment in Malaysia. The underlying hypothesis is that the style of business management originating in one country adapts itself to the foreign environment when it must be practiced abroad. For our purposes it is desirable to have a conception of Japanese enterprise management and understanding of the relations between the Japanese management and the special business environment in Japan. There are many works on this subject, but they are rarely based on empirical findings, so that no established body of knowledge on the real practice of Japanese management in Japan is available. Thus, the present author has chosen several characteristics of Japanese style management, as described in most business management books, and examined how these were practiced in Malaysia.

Malaysian joint-enterprises of Japanese origin can hardly be regarded as independent business concerns in the sense that they are able to control various factors of production and scarce resources under the control of their own top management. It may be more appropriate to see them as integrated into the central control system of the parent companies, which usually control capital budget, distribution of technological know-how or patents, expatriate administrative staff, the supply of raw materials and the destination of sales. Therefore, the degree of freedom of management left to the Malaysian subsidiaries is very limited.

The process of adaptation to the local environment may be divided into two stages. The first stage is the parent company's own adaptation of its international business strategy, and the second the adaptation of Malaysian subsidiaries or joint-ventures to the local environment given their limited degree of freedom in management. The first stage of adaptation to Malaysia is quite limited, because the parent company's strategy must be adjusted to the local conditions in host countries all over the world. In addition, the parent company must optimally allocate its management and economic resources throughout its network of subsidiaries abroad. Overall efficiency requirements sometimes make the parent company sacrifice adaptation to some local conditions.

* 今岡日出紀, Institute of Developing Economies, 42, Ichigaya-Hommura-cho, Shinjuku-ku, Tokyo 162, Japan

The present study is concerned mainly with the second stage of adaptation. Nevertheless, it is important to understand the first stage from the Malaysian point of view before dealing with the problems associated with the second stage. Since our questionnaire survey does not cover the problems of the first stage, we rely upon previous studies on the first stage problems. The second stage of adaptation, however, can be examined on the basis of our questionnaires, administered to Malaysian subsidiaries or joint-ventures of Japanese origin in 1982 which covered all those companies in the manufacturing sector of the JETRO Kuala Lumpur Representative Office list. Three sheets of our questionnaire schedules were sent to each company, one for the Japanese top manager (in Japanese) and two for local middle managers or supervisors (in English). The questionnaire for Japanese top managers asked how, to what extent, and in what fields they were trying to adjust their management practices to the Malaysian environment. On the other hand, the Malaysian middle managers or supervisors were asked how they saw the management practices in their companies and how they are responding to those practices.

For the purpose of the present study the information collected has been processed simply to tabulate the responses. An advanced statistical analysis has been left for the future.

I The Organizational Relations between Japanese Parent Companies and Their Malaysian Subsidiaries

1. *Three Phases of Organizational Evolution in Transnational Corporations*

Within the framework of international business strategy, various functions of management are usually divided between the parent companies and their subsidiaries. This allocation pattern changes as the organizational structure of the parent companies evolves. On this subject there are three important contributions by Stopford and Wells [1971], Yoshino [1979] and Sim [1978]. Stopford and Wells [1971: 29] demonstrate in their study of 187 US-based multinational corporations that there existed three clearly identifiable phases in the evolution of the organizational structure of these companies in relation to their international investment. In the first phase, when international investment is still small, their foreign subsidiaries enjoy a considerable degree of autonomy. The second phase is one of organizational consolidation, usually accompanied by the creation of a specialized unit in the parent company to serve specifically the needs of international business. In this second phase, the parent companies' control over subsidiaries is tightened and systematized. If, however, international business continues to grow and becomes so important to the parent company that it can no longer entrust control solely to the international division, there will be increasing pressure to dissolve it, and eventually the international business will be integrated into the mainstream of the parent company's activities. This is the third phase, where the relationships between parent companies and their subsidiaries will be more complicated and refined.

M. Y. Yoshino [1979: 148] found that Japanese corporations had followed a closely parallel pattern up to a certain point. According to his study of 35 large Japanese manufacturing corporations that had been active in developing manufacturing abroad, five were in the first phase of organizational development, and the remaining 30 in the second phase; none had reached the third phase.

The initial stage of overseas direct investment is usually a response to import substitution programs in the host countries. It is often *ad hoc* or a reluctant response to a specific threat. It is rare, therefore, for such activity to be undertaken as a part of grand corporate designs or strategies at this stage. The organizational responses of Japanese parent companies are also *ad hoc* or arbitrary. Simply because the export department is considered to have the necessary skills, or because foreign direct investment is considered to be no more than an extension of export activities, the responsibility for international business is assigned to the export department. Sometimes the corporate planning division is chosen instead, if the export department is deemed inappropriate for this function. According to Yoshino [*ibid.*: 149], at this stage foreign subsidiaries enjoy a considerable degree of autonomy, granted not by conscious design but as a result of indifference and lack of knowledge on the part of the parent company. The relationship between the subsidiary and the parent company is likely to rely heavily on personal ties.

The same study [*ibid.*: 153–158] found that the second phase of organizational development in the Japanese parent companies is also characterized by the establishment of a specialized division: Kaigai Jigyo Bu (Department of Overseas Business). Initially it tends to primarily serve other divisions and plays only a very limited role in policy and strategy formulation. The relationship between the international division and the subsidiaries at this stage is not based on the organizational system and tends to remain static. The former has no power to impose and orderly relationship, and the latter feel no compelling need to establish a formal and exclusive relationship with the former. The managers of overseas subsidiaries are likely to continue to communicate with various departments in the parent company through the informal relations they have developed prior to the creation of the international division.

Yoshino points out, furthermore, that the next stage is likely to evolve in the second phase with the growth of international business. The international division strengthens its position and standardizes the procedures for regularly obtaining operating data from the subsidiaries. Then it openly discourages direct communications between the subsidiaries and other divisions but can not yet devise strategies for international business. New investments are still made without specific policy guidelines and evaluation criteria. The relationship between the subsidiaries and the international division is closer than in the first stage and gradually becomes fluid, unstable and ambivalent, because conflicts and power jockeying increase among the various departments as they attempt to gain a greater influence on international business.

The third stage of the organizational development of the international division is characterized by its stable relationship with subsidiaries and other departments of the parent company. The international division is able to exert a strong influence in shaping policies and decisions, in the evaluation of new investment opportunities, and the management of established subsidiaries. The division can now openly claim to be the focal point of communications between the subsidiaries and the parent company and may establish a system of planning that reflects the views of both the division and the subsidiaries. Now it must be the main agent for transferring and managing corporate resources.

Yoshino found that only three of the 30 companies with an international division had reached this third stage of maturity, and that the remaining 27 were at various points in the second stage. International operations are still a recent phenomenon even in leading Japanese manufacturing corporations.

2. *Organizational Relationships in Japanese Joint-ventures*

Sim Ah Ba made a comparative study of the organizational relationships between Malaysian subsidiaries and their foreign parent companies [Sim 1978: 60]. He examined the degree of decentralization of authority in decision-making in Malaysian subsidiaries of American, British, and Japanese parent companies. According to his study,[1] there is less decentralization in the Japanese subsidiaries both from the parent company or joint-venture board and within the subsidiary company itself. This pattern of centralization in Japanese enterprises is thought to reflect their way of controlling the subsidiaries by means of *operational control* rather than equity ownership.

One of the major characteristics of Japanese direct investment is Japanese companies' willingness to accept a minority position in joint-ventures.[2] In fact, among the Japanese manufacturing joint-ventures listed on the Kuala Lumpur Stock Exchange as of the end of 1982, the highest

1) Twenty sample firms were selected for the study using a careful matching method. Seven British and American firms were selected with six Japanese firms. For each sector (consumers' products I, consumers' products II, pharmaceutical, chemical, transportation machinery, electrical, electronics, and textiles) it intended to include at least one firm originating from each of the three countries, though this was not possible where suitable companies could not be found. Information appears to have been collected using intensive interviews lasting six to seven days for each company from April to November, 1974. Although the latter half of the study on the relationship between decentralization and the performance of subsidiaries, is rather scanty and crude, many interesting findings, though they are not well organized, are contained in the first half of his study.

2) See K. Yoshihara [1978].

Japanese equity share, including that of Japanese trading or financial partners, was only 49 percent [The Kuala Lumpur Stock Exchange 1983]. Although overall comparative and recent data are not available on the Malaysian side, one could say that Japanese companies seem to accept, or even prefer, the minority position in their subsidiaries or joint-ventures in Malaysia as well as in other Asian countries.

Sim's study [Sim 1978: 33–60] further examines the practice of *operational control* by Japanese parent companies over Malaysian subsidiaries. First of all, he finds that as far as the financial functions are concerned, irrespective of the nationality of the parent company, very little authority is delegated to the Malaysian subsidiaries. The financial functions here include, capital expenditure, budgeting, target-setting, dividend policy, and reinvestment and financing policies. In any joint-venture these are critical decisions and tend to be retained by the parent companies. Control is particularly tight over capital expenditure. The executives' perception index, using which Sim measures their perceptions of the degree of autonomy in the area of finance, averaged 5.0 for American, 4.57 for British and 5.17 for Japanese executives of Malaysian subsidiaries. This index uses a 7-point semantic differential-type scale, ranging from one indicating a high degree of autonomy to seven indicating little or no autonomy. Thus, Japanese executives feel less autonomy than US or UK executives.

It is quite interesting to note that the executives in the Japanese subsidiaries feel less autonomy in financial policy decision-making in spite of a great deal of consultation with their parent companies. An executive at a Japanese subsidiary in the electronics sector told Sim that the sales and profit targets were set by the head office after consultation with him; then, the subsidiary prepared the budget for six months following a standard format. The managing director usually takes this opportunity to visit the head office and discuss the budget. At the same time he can keep in touch with colleagues and superiors and assess the climate at head office. Sim says that this kind of interaction is particularly important to the Japanese executive because of the premium placed on personal contact, discussion and group consensus.

Compared with US or UK firms, the budget in Japanese subsidiaries usually tends to be less rigid and can be changed if circumstances warrant [*ibid.*: 37]. Usually, direct costing methods, instead of standard costing, are imposed on the Japanese subsidiaries and the use of the budget as a tool for appraisal of performance is rather loose. For capital expenditure, no formal authority levels are imposed on the Japanese subsidiaries, while the executives in US and UK subsidiaries complain about the low formal authority levels they are given by their parent companies. All this suggests that the Japanese subsidiaries in Malaysia enjoy a greater degree of freedom, at least in a formal sense. However, in the real decision-making process, informal consultations and negotiations are far more important. Describing the decision-making process behind the *ringi* system, Yoshino [1979: 158–166] also stressed the importance of informality in Japanese management. One must say, therefore, that the financial policy of the Malaysian subsidiaries of Japanese origin is still controlled by their parent companies.

According to Sim's study [Sim 1978: 39–44], personnel policy, including (a) appointment of top management executives, (b) personnel policies and practices and, (c) training, in the Malaysian subsidiaries of foreign companies tends to be decentralized to the subsidiaries, except for the appointment and salaries of expatriate personnel and key local executives. Since, however, manpower is largely governed by the budget, the subsidiaries have to obtain the approval of the head office to increase their staff.

In all the Malaysian subsidiaries of UK or US origin (14 firms) surveyed by Sim Ah Ba, the chief executive officer's position was occupied by personnel from the parent companies. Most Malaysian subsidiaries of Japanese origin are minority Japanese joint-ventures. Their parent companies do not emphasize the position of chief executive in controlling Malaysian subsidiaries. According to Sim's survey, however, the average number of expatriate personnel is largest in Japanese subsidiaries; in 1973, 5.5 persons for Japanese subsidiaries, and 2.57 and 2.86 for British and American subsidiaries respectively. This finding is also confirmed by our own survey in 1982. According to Sim's survey, the Japanese expatriate personnel are concentrated in technical/production positions and, to a lesser extent, in top financial and administrative positions, while in UK and US subsidiaries they are mainly found in the positions of chief executive and marketing officer. Sim believes that this is due to the Japanese collective approach to management [*ibid.*: 40] and asserts that emphasis is placed on *operational* rather than equity control.

In the procurement of imported machinery and equipment Malaysian subsidiaries of Japanese origin do not show any difference from US and UK subsidiaries. Nor is there any noticeable difference in the degree of decentralization of marketing policy except pricing between Japanese subsidiaries and UK or US firms [*ibid.*: 49–53]. Although many of the Malaysian subsidiaries have general guidelines on pricing from their head office, there seems to be considerable degree of decentralization in the pricing of final products. However, Sim noted that British subsidiaries are the most decentralized, and the Japanese subsidiaries are the least in pricing [*ibid.*: 51]. Decisions on sales promotion and distribution are decentralized to the Malaysian subsidiaries irrespective of their national origin. On the other hand, export policy is a centralized function, with the parent company retaining authority. Decisions on organizational policies, like hierarchy, span of control, type of organization, use of committees, and organizational changes seem to be decentralized to a high degree in the Malaysian subsidiaries of Japanese origin as well as in US or UK subsidiaries [*ibid.*: 54–56]. In the remaining policy areas, including personnel policies toward local staff, policies on production planning and inventory, policies on promotion and distribution, and policy on organizational matters within the subsidiaries, the Malaysian subsidiaries of foreign origin have the authority to make their own decisions.

Usually a multinational corporation regards its own operation as if it formed an internal market centered on the parent company, with its network of foreign subsidiaries. But this internal market must operate under the centralized system of optimal management because the mechanism of the market is not through price adjustment. In this sense, policy decisions, particularly related to the allocation of capital, technology and management resources, must be centralized at the center of such operations, namely the parent company. On the other hand, decisions on the management of immobile economic resources are left to the authority of foreign subsidiaries.

Management of the internal market (or the internal division-of-labor) by Japanese corporations is not different in substance from that in US or UK corporations. Although Sim Ah Ba gives collective or team management as the central characteristic of international business in Japanese enterprises, the features he mentioned, such as the importance of informal consultation and exchanges of views in the decision-making process, a large number of Japanese personnel in foreign subsidiaries, the importance of personal contact in communication and frequent visits from and to the parent company, are not necessarily associated with the essence of Japanese international business operations. They may be simply associated with the premature stage of organizational evolution in Japanese firms in relation to their international operations.

Yoshino points out that international operations are still a comparatively recent phenomenon even in leading Japanese manufacturing companies. Organizational development in relation to international business is still to come. Thus, we should understand that the *operational control system* of Japanese corporations, as characterized by Sim Ah Ba, is almost exclusively associated with the characteristics of management at the present stage of the organizational evolution in Japanese handling of international business. As international business increases, organizational structures and control systems will change. In the process, the so-called operational control system may become less and less characteristic of typical Japanese international business management. In the mean time, the degree of centralization may be further increased until most Japanese manufacturing companies enter the third phase as defined by Stopford and Wells.

II Business Management in the Malaysian Manufacturing Subsidiaries or Joint-ventures of Japanese Origin

1. *Malaysian Manufacturing Subsidiaries of Japanese Origin*

As Table 1 shows, the average paid-up capital of the Japanese subsidiaries or joint-ventures surveyed is four times as

Table 1 Information on the Japanese Subsidiaries or Joint-ventures Surveyed[1)]

Items	Japanese Subsidiaries or Joint-ventures Surveyed (Manufacturing)[2)]	Manufacturing Firms in Malaysia[3),4)]
Paid-up Capital (Million M$), per Company	25.03	7.83
Japanese or Foreign Equity Share (%/Year)	62.4	47.2
Total Sales Value per Company (Million M$/Year)	43.12	32.54
Rate of Profit on Sales (%/Year)	6.6	7.2
Average Number of Employees per Company	353.6	377.7
Male	170.4	199.8
Female	183.2	177.9
Average Wage Paid (M$/Month) per Employee	—[5)]	387.5[6)]
Administrative Personnel (M$/Month)	1396.0	—[5)]
Worker (M$/Month)	390.0	—[5)]

Notes to Table 1

1) All figures are simple averages.
2) Total Sales Value and Rate of Profit on Sales for Japanese firms are for 1979. Other figures are those for 1981.
3) The figures for Malaysian manufacturing firms are those for the end of 1979.
4) Data source: Malaysia, Department of Statistics. 1982. *Report of The Financial Survey of Limited Companies Malaysia, 1979*. This report covers the manufacturing companies with total sales value of five million M$ per year or more.
5) Data are not available.
6) Simple average per employee (including both administrative personnel and workers).

large as that of all Malaysian manufacturing firms. On the other hand, the average number of employees per firm is almost the same for both. Thus, the capital-labor ratio is much higher in the companies we surveyed than in most Malaysian manufacturing firms. In terms of gross sales values, too, the former are larger. It may be that our sample is biased toward capital intensive and large scale firms, but this does not seem to distort the following analysis.

Japanese manufacturing subsidiaries seem to pay the average wage prevailing in the Malaysian market for unskilled workers but a slightly lower rate for administrative staff. Although the figures for sales profit rate are crude, our Japanese manufacturing subsidiaries seem to be earning almost the same rate of profit on sales as all Malaysian manufacturing firms.

Since the early 1970s, the New Economic Policy has been intensively implemented in Malaysia. One of its important objectives is to balance the employment of the different races. Thus one declared objective of the policy is to achieve the following composition of employment in the manufacturing sector by 1990; 50 percent Malays, 40 percent Chinese, 9.6 percent Indian and 0.4 percent other, miscellaneous races. In this respect, as Table 2 shows, the respondent joint-ventures of Japanese origin seem to have over-responded in terms of total employment of Malays.[3)]

Finally, the average year of establishment

Table 2 Racial Composition of Employees

	Malay	Chinese	Indian	Others
Malaysian Manufacturing Companies 1) (%)	36.1	56.3	7.0	0.6
Japanese Subsidiaries or Joint-ventures Surveyed 2) (%)	62.5	19.3	14.0	4.2

Notes to Table 2
1) Data Source: Malaysia, Department of Statistics. 1980. *1976 Report of the Labour Force Survey*. August. Therefore, all figures for Malaysian manufacturing firms are those for 1976.
2) Figures are those for 1981.

for the companies we surveyed was 1971. Compared with the Japanese manufacturing subsidiaries or joint-ventures in other ASEAN countries, only those in Thailand were established, on average, earlier. Thus the Japanese subsidiaries or joint-ventures in Malaysia have accumulated more than 10 years of experience to adapt their management practices to the local environment.

2. *Basic Policy Stance*

A localization policy seems to be the basic management policy of most Japanese manufacturing subsidiaries or joint-ventures. Eighty-seven percent of Japanese top executives say that their general policy is localization, while only 13 percent describe their policy as a common one which may be applied all over the world irrespective of local conditions. The latter group seems to consist of highly export-oriented firms located in the free trade zones.

3) In fact, this racial composition is required by the plan at all levels of status.

According to our survey, the Japanese equity share averages 62.4 percent. In Malaysia, the Government controls ownership of firms through guidelines which require at least 51 percent domestic participation in equity. There are exceptions, however, depending on the nature of the enterprise. Enterprises whose products will all be exported are allowed to be wholly foreign owned. Since there are many Japanese manufacturing subsidiaries which export all of their products, the average equity share is higher than that set by the government guidelines. It must be pointed out, however, that many Japanese manufacturing joint-ventures outside the free trade zones have a far lower Japanese equity share than the guideline level. Here Japanese firms' preference for a minority equity share reveals itself. Since equity share is usually determined at the parent companies it may have something to do with the localization policy Japanese executives in Malaysia are instructed to follow.

For personnel administrative, general administrative and supervisor's posts, local staff are recruited intensively (see Table 3). At the supervisor's level in particular, more than 90 percent of the positions are

Table 3 The Composition of Local and Japanese Personnel at Administrative or Supervisory Levels

	Personnel Administration Staff	General Administration Staff	Supervisors
Local Personnel (%)	67.7	70.1	91.6
Dispatched Japanese Personnel (%)	32.3	29.9	8.4

occupied by local people, while the percentages of local recruits at personnel and general administrative staff level are slightly lower. Nevertheless, the average number of expatriate Japanese staff is 9.4 persons per subsidiary according to our survey. This figure is higher than Sim's figures of, 2.86 persons for US manufacturing subsidiaries in Malaysia or 2.57 persons for UK subsidiaries, and even his 5.50 persons for Japanese subsidiaries or joint-ventures in 1973. Note, though, that Sim's study showed a declining trend in the average number of expatriate personnel in the Malaysian manufacturing subsidiaries of foreign origin. Although both sets of figures are not directly comparable, it is surprising that the Malaysian manufacturing subsidiaries or joint-ventures of Japanese origin still have a higher ratio of expatriate personnel in international comparison. This is contradictory to the localization policy in recruiting middle management and administrative personnel. Since policy on sending Japanese personnel abroad is centralized at the parent company in most Japanese firms, this contradiction might reflect a conflict between the international business policy of the parent companies and the localization policy of the local subsidiaries. As we have already stated, it may require an organizational evolution of Japanese firms to reduce this contradiction.

As part of their localization policies, Japanese top executives seem to emphasize the local procurement of components and parts. About 58 percent of the respondents are not satisfied with the present level of local procurement (47 percent), while the remaining 42 percent are. Sim's study showed that the policy decision on procurement of components and parts, particularly of import procurement, was highly centralized at the parent company. Therefore, top executives' responses should be understood to reflect the parent companys' strategy in this area of international activity. Our finding is somewhat opposed to the usual accusation that Japanese direct foreign investment is largely motivated by the desire to increase exports through direct investment [Hirono 1969: 88].

Localization policy in the areas of technology and management ability transfer is implemented mainly by in-company training systems, including the sending of local staff to the parent company and on-the-job training. About 61 percent of responses to this question concentrate on in-company training, but the recruitment of local engineers and management staff is also understood, in some cases, to be a kind of technology and management skills transfer (19.4 percent of total responses). Another 15.5 percent of total responses refer to the establishment of a technical department or research and development department as a technology or management skills transfer policy. Since implementation of these policies involves capital expenditure, the final decisions are in the sphere of the parent company's authority, even though consultations and discussions between parent companies and their subsidiaries or joint-ventures precede them.

Japanese top executives seem to consciously apply Japanese style management to their Malaysian subsidiaries or joint-ventures within the sphere of their authority. Japanese style management may be interpreted as consisting of two major management policies. The first is associated with long-run remuneration policy; emphasis is given to stability of employment, a seniority-merit wage system, a seniority-merit promotion system, and job rotation and multi-skilled workman schemes (see Table 4). The second is related to organizational policy; indoctrination of management philosophy, collective decision-making, human relations policy, minimization of status differentiation between labor and management, collective responsibility and the *ringi* system (see Table 4). It has to be stressed that these two types of policies are jointly considered by most Japanese top executives to compose the Japanese style of management.

Table 4 Management Policies which Japanese Top Management Executives Advocate and Implement as Japanese Style Management

	Percent of Total Responses[1]
Securing Stable Employment	16.5
Stressing the Philosophy and Aims of Management	10.7
Giving Emphasis to Human Relation Policy	8.3
Seniority-merit Wage System	7.8
Collective or Team Decision-making System	14.1
Seniority-merit Promotion System	5.3
Job-rotation and Multi-skill System	9.2
Minimization of Status Difference between Management and Workers	3.4
Elastic Management System	12.1
Application of *Ringi* System	3.9
Collective or Team Responsibility System	6.8
Others	1.9
Total	100.0

Note to Table 4

1) Since the multiple answer system is used in the questionnaire, total answers are more than the number of respondents.

To implement Japanese style personnel management, it is essential to keep the local workers and staff as long as possible. For this purpose, Japanese subsidiaries emphasize in-firm promotion systems, seniority-merit wage systems, emphasis on the human relations between workers and management, long-term oriented on-the-job training, commendations for long service, and personnel welfare policies (see

Table 5 Personnel Policies to Retain Personnel

	Percent of Total Responses[1]
In-company Promotion System	18.1
Seniority-merit Promotion System	12.2
Reconciling Human Relations between the Management and Workers	11.8
Officially Commending Long Service	10.9
Continuous Training System	10.4
Building up Personnel Welfare Facilities	10.0
Retirement Benefit System	6.3
Wage Incentive Scheme	5.9
Job Rotation	5.0
Small Group Activities	5.0
Housing Scheme	2.3
Others	2.1
Total	100.0

Note to Table 5

1) The multiple answer method was used in the questionnaire.

Table 5). The short-sighted, high-wage policy is not emphasized.

To squeeze the full merit from the organizational policy mentioned above, many Malaysian subsidiaries or joint-ventures of Japanese origin utilize small group activity systems such as bottom-up suggestion schemes, QC (quality control) circles and ZD (zero defect) movements.

Needless to say, conflicts exist between Japanese subsidiaries or joint-ventures and their local partners in business management. As Table 6 shows, for each area of management policy, conflicts have occurred rarely. However, conflicts whether serious or not, do cover all areas of management policy. Serious conflicts are mainly found in policy areas such as dividend policy, marketing policy, procurement policy, investment plans and pricing policies, decisions on which are within the sphere of the parent company's authority. Similarly, half of the minor conflicts are concentrated on policies within the sphere of the parent company's authority. Therefore, it could be said that more serious and frequent conflicts occur with local partners in relation to the international business policy of the parent company.

Table 6 Conflicts with Local Partners over Management Policies[1)]

Type of Management Policy	Serious Conflict	Slight Conflict	No Conflict	No Answer
Personnel Policy	1	7	27	17
Promotion Policy	0	6	27	19
Wages and Salaries	0	7	26	19
Bonuses and Welfare Facilities	0	3	30	19
Directors' Remuneration	1	3	27	21
Dividend Policy	2	4	21	25
Investment Plans	1	7	23	21
Technology Transfer	0	2	30	20
Marketing Policy	2	8	23	19
Pricing Policy	1	4	26	21
Procurement Policy	2	1	30	19
Others	0	1	19	32

Note to Table 6

1) Figures show the number of answers to each item.

3. *The Remuneration System in Japanese Subsidiaries or Joint-ventures*

Among Malaysian manufacturing subsidiaries or joint-ventures of Japanese origin, incentive-based wage systems are not so popular as fixed wage systems for workers. Only six percent of the companies we surveyed use incentive wage schemes as the basic wage system. Seventy-eight percent use a fixed wage scheme as their basic wage system. The remaining 16 percent use a combination of incentive and fixed wage schemes. Although directly comparable data are not available, the degree to which incentive-based wage systems are used in Japanese firms seems to be in line with the prevailing practices in Malaysia. According to the Occupational Wage Survey for 1974 [Malaysia, Department of Labour 1976], 15 percent of the workers employed in establishments employing 50–100 persons or more used incentive wage schemes.

In determining wage scales for workers, 70 percent of our Japanese firms depend upon the ambiguous evaluation system; that is, the synthetic evaluation system. Personnel evaluation records are utilized, however, even in periodic wage increase schemes.

Regarding fringe benefit schemes, the practice in Japanese subsidiaries seem to be in line with the legal employment regulations in Malaysia. Only about six percent of our Japanese firms seem to have their own pension schemes. This is simply due to the legal regulations which include the nation-wide employee provident fund schemes. Instead of having their own schemes, most Japanese subsidiaries give their obligatory share of the contributions to these employee provident fund schemes. However, about 42 percent of our firms have their own, once-and-for-all, retirement schemes. In this respect, Malaysian subsidiaries or joint-ventures of Japanese origin follow the typical Japanese remuneration system, although the amount paid under this scheme may or may not be in line with Japanese practices. Most Japanese subsidiaries are paying bonuses of 1.8 months' wages per year for administrative and supervisory staff and 1.5 months' wages per year for workers. In Malaysia bonus payments, particularly year-end bonus payments, are quite a common practice. According to government regulations companies that paid more than two months' wages as year-end bonus must pay tax on the excess amount. Prior to the introduction of this regulation, some companies are reported to have paid workers year-end bonuses equal to six months to one year's wages. Bonus payments in Japanese subsidiaries or joint-ventures in Malaysia are not directly related to short-run incentive schemes. Bonuses are paid to workers under the name of income supplement and allocation of over-all performance merit, and/or a combination of these. According to Thong's study [Thong 1981: 99], some companies are successfully using bonus schemes based on merit rating, while other companies are only partially successful in doing so. One can not be sure, therefore, whether bonuses are based on merit rating in Malaysia or not.

As for welfare facilities, our Japanese subsidiaries and joint-ventures are providing the following facilities: staff cafeterias, company housing and dormitories, commuter buses, medical treatment and examination office, sports facilities, locker rooms and company uniforms. In addition, athletic meetings and annual banquets are held by Japanese firms.

In the field of long-run remuneration policy connected with promotion and training systems, the typical features of Japanese management seem to have been adapted to local conditions. For example, only 8.3 percent of the Japanese firms surveyed rely exclusively on seniority-merit systems for promotion. On the other hand, achievement or ability-merit systems are exclusively used by 45.8 percent. In 52.1 percent both systems are combined. Furthermore, in only 45.8 percent of our companies is an in-company promotion system used exclusively. In 54.2 percent, on the other hand, an in-company promotion system is given equal weight to recruitment from outside. Thus, in this respect too, typical Japanese style management has been modified in Malaysia. In-company promotion systems are quite closely related to in-company training systems in the management of Japanese firms. In training local workers and administrative or supervisory personnel, more emphasis is placed on on-the-job training (48.5 percent of all responses) and sending staff and workers to Japan for training (28.9 percent). Off-the-job training and job rotation are also utilized to a limited extent (12.4 and 8.2 percent).

Thus, our survey findings show that with respect to aspects of short-run remuneration policy such as wage systems, fringe benefits, pension schemes, bonus systems and personnel welfare facilities and so on, the management practices of Japanese subsidiaries or joint-ventures are highly adapted to the local conditions. In other words, it is hard to find any special Japanese style management practices in this area of management policy. On the other hand, for aspects of long-run remuneration policy, such as seniority-merit and in-company promotion systems supplemented by in-company training, our survey shows that typical Japanese management practices are maintained in Japanese subsidiaries or joint-ventures, although slightly modified and adapted to the local conditions. Japanese subsidiaries or joint-ventures in Malaysia were established on the average in 1971, and 10 years is not long enough for a long-run remuneration policy to be tested in the local conditions, so that the present modifications and adaptations may be considered only transitional.

III Local Middle Managers and Supervisors' Responses to Japanese Style Management Practices

1. *Profile of the Local Middle Managers and Supervisors*

The profiles of representative local middle managers and supervisors who responded to our questionnaire are as follows. Their average age is 36.5 years, younger than Japanese top management executives (43.5 years old on average). Forty-five percent of them are university graduates, while 39 percent are high school graduates and nine percent are polytechnic graduates. Before joining Japanese companies they had changed jobs on average of 2.3 times. They joined Japanese companies from local Chinese firms (21 percent), European companies (19.8 percent), American companies (12.3 percent), local indigenous or non-Chinese firms (12.3 percent) and government offices (11.1 percent). However, moving from one Japanese company to another seems to be very rare (6.2 percent). They have worked for their present company over seven years on average. Although exactly comparable data are not available, this seems rather long according to Malaysian standards. For this kind of jobs, job-hopping is common. In this sense Japanese companies have been successful in keeping management and supervisory personnel much longer than other Malaysian companies.

Table 7 shows the reasons why local middle managers and supervisors have

Table 7 Factors Motivating Local Middle Managers and Supervisors to Leave Their Former Company and Join Their Present Japanese Company

	Factors which Motivated the Employee to Leave His Former Company[1)]	Factors which Motivated the Employee to Join His Present Japanese Company
1. Wages or Salary[2)]	8. 5%	6. 0%
2. Management Policy[2)]	12. 0	—
3. Stability of Employment Status[2)]	10. 3	15. 5
4. Future Prospects for Promotion[2)]	26. 5	19. 4
5. Possibility of Learning New Technology[2)]	11. 1	18. 1
6. Human Relations in the Company[2)]	6. 8	—
7. Offer of Higher Status[3)]	—	8. 2
8. Good Working Conditions[3)]	—	9. 1
9. High Reputation of the Company[3)]	—	13. 4
10. Others	24. 8	10. 3
Total	100. 0	100. 0

Notes to Table 7
1) The multiple answer method was used for each question.
2) Regarding these factors, answers should be read differently in cases of "Transfer From" and "Transfer To" respectively. For example, for wages and salary items, the motivating factor is *lower* wages and salary for "Transfer From" while it is *higher* wages and salary for "Transfer To".
3) For these items, there was no corresponding item for "Transfer From".

stayed with Japanese companies for comparatively long periods. Local middle managers and supervisors left their former companies mainly because of poor prospects of advancement, inadequate management, little chance of learning new technology and unstable employment. On the other hand, they chose Japanese subsidiaries or joint-ventures mainly because of better prospects of advancement, more chance of learning new technology, stable employment, the good reputation of their present companies and better working conditions. It must be pointed out that they did not give much importance to immediate higher salary or wages and better status or position in choosing their present companies. In fact, only 12.5 percent of the local middle managers and supervisors are satisfied with their current pay. Twenty-one point two percent are not satisfied with their current pay, while the majority (66.2 percent) feel only slight satisfaction. It would seem that their current dissatisfactions are more than compensated for by their long-run prospects.

2. *Responses of the Local Middle Managers and Supervisors to Japanese Style Management Practices*

The morale of the local middle managers and supervisors appears to be high. Fifty-eight percent are very satisfied with their present job responsibility, while 39.5 percent express satisfaction. Almost all of them are either very satisfied or simply satisfied with their relationships with their chiefs and peer group. Furthermore, many of them express strong satisfaction with their prospects of future advancement in their companies (44.3 percent), or express simple satisfaction (49 percent), while only 6.3 percent expressed dissatisfaction. They are all either very proud or proud of working for their companies.

Many of the local middle managers and supervisors seem to have a feeling of participating in the management of their companies, and of commitment to them. Seventy-five percent feel definitely committed to their companies and 62 percent feel they participate in the management of their companies. Almost all the remainder also express feelings of satisfaction with their participation and commitment.

A puzzling finding is, however, that the majority of the local middle managers and supervisors (63 percent) express dissatisfaction with the management practices of their companies, calling them authoritative (top-down) management. Although the remainder feel their companies practice participative bottom-up management, the majority view is contradictory to the findings summarized hitherto. Since the questionnaire did not contain any questions that can reconcile such contradictory responses, we can only speculate on the basis of the foregoing information. The organizational structure of most Japanese manufacturing corporations in relation to their international business has not evolved to the third stage where a functional division of management is made between the parent company and its subsidiaries, and standardization and systematization of management practices are not well established. Therefore, the Japanese parent companies are still *operationally controlling* their subsidiaries or joint-ventures. Thus, the local middle managers or supervisors feel that the parent companies always have the decision-making authority. Since such a decision-making process appears to be ambiguous and circumstantial with no systematization of control, local managers or supervisors may see the parent companies' decision as authoritative.

Communication barriers between Japanese staff and local middle managers and supervisors do not seem to be as substantial as many people fear; about 56 percent of the latter feel that there are communication barriers between themselves and Japanese staff. As factors contributing to these barriers, they give the following: the language barrier, the tendency of Japanese staff to form a closed and exclusive circle, no personal relations outside the work place between Japanese staff and local staff, value differences, Japanese staff's short-stay with the subsidiary company, religious differences, the tendency of Japanese management to be geared too much to the head office in Japan, and differences in customs. Chee Peng Lim and Lee Poh Ping [1983: 248] mentioned almost the same factors as communication and language barriers in Japanese joint-ventures in Malaysia. However, the language of business in Malaysia is English, and most Japanese staff sent to Malaysia are competent enough in English to make it seem that the language barrier should not be too serious. Other factors are almost equally diversified in the responses to our survey. They are just the usual barriers to mutual understanding between people with different cultural, social and historical backgrounds. It is hardly conceivable that the communication barriers due to these factors are unsurmountable in the companies where more functional human relations prevail.

3. *Their Own Management Practices in Japanese Subsidiaries and Joint-ventures*

The local middle managers and supervisors seem to recognize the merits of groupism in their own daily management practices. They usually have group meetings with their subordinates 1.5 times a month and 53 percent have such group meetings regularly. They hold these meetings mainly for the purposes of problem-solving and goal-setting, and seldom consider that they simply serve the purpose of sociability and one-way communication. The vast majority (99 percent) are trying to encourage team-work and achievement of group objectives rather than individual performance. Furthermore, they recognize the importance of groupism even among their own fellow managers. Ninety-three percent are ready to look after a fellow manager's work if he is unexpectedly sick.

As regards incentives to motivate local workers, they give good human relations, money incentives and excellent leadership encouraging team-work as important factors. It is worthwhile noting that such intrinsic factors as good human relations and leadership encouraging team-work are also recognized as important incentives in Malaysia. According to an existing study [Ibrahim and Moktar bin Haji Ibrahim 1978: 57–62], most skilled and unskilled workers in Malaysia give higher ratings to extrinsic factors such as pay, job security, fringe benefits and so on rather than intrinsic factors to motivate them. The fact that Japanese subsidiaries and joint-ventures give much more importance to intrinsic factors in their labor policy is not irrelevant to workers' remuneration systems and their future prospects in the long-run.

The majority of local middle managers or supervisors attach much importance to mensualization in their daily management practices. For example, ninety percent of them are ready to offer friendly counselling to their subordinates concerning their private affairs as well as job-related matters (4.2 times a month on average). The majority are also willing to participate in the sports or club activities, mixing with general workers, to have lunch with workers in their company canteens, and to participate in the annual dinner party sponsored by the company or the recreational committee. Most of them do not think that managers should be provided with a company restaurant separated from the canteen for workers. Fifty-one percent do not think that managers should be given their own private offices, although private offices are still a status symbol in the Malaysian society.

IV Conclusions

Malaysian subsidiaries and joint-ventures of Japanese origin can hardly be considered independent business enterprises as defined in textbooks. Decision-making authority in important areas of management policy is retained by the parent company.

Within their limited range of decision-making authority, however, Japanese subsidiaries and joint-ventures in Malaysia are consciously trying to apply typical

Japanese style management, particularly in the fields of long-run remuneration and organizational policy. These two policies must be understood to be complementary in the context of Japanese management. The essence of such a management system lies in stressing the long-run perspective for remuneration and advancement within the internal labor market.

It is rather a difficult theoretical question whether such internal labor markets will be compatible with the Malaysian labor market. To answer this question is beyond the scope of the present paper but, at least according to the responses from the local middle managers and supervisors, it seems possible to assert that they are compatible in Malaysia.

Conflicts with Japanese management can rather be found in policy areas where decision-making authority is centralized at the parent company. The characteristics of the Japanese management system in these fields may be, however, simply related to the premature stage of organizational evolution of Japanese corporations in relation to their international business. As they accumulate experience, such characteristics may disappear or change. In that sense they may be transitional phenomena.

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