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A Commentary on Shoichi Ito's "Japanese Management in Taiwan"

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A paper with broad coverage like this can serve many purposes. I have chosen issues that suit my own interests and offer the following comments to stimulate further discussion.

1. Did Japanese Firms Transfer Technology?

The most interesting and important part of this study is sections IV and V, which deal with the practice of management of Japanese subsidiaries in Taiwan and local middle managers' responses thereto. Many subjects can be addressed from the data presented. For example, it will be of great interest to investigate further why the general public's feeling about the performance of Japanese firms on technology transfer in Taiwan is not very good. This study shows, however, that Japanese subsidiaries in Taiwan send a higher percentage of local managers abroad for training than do Japanese subsidiaries in ASEAN countries. Furthermore, 57.1% of local middle managers agreed that Japanese staff are willing to transfer new technology or management know-how through on-the-job training. This percentage figure is also higher than those for ASEAN countries other than the Philippines. Another indicator is that the local middle managers who went to Japanese companies to learn new technology were satisfied with their experiences. These findings paint a somewhat brighter picture than the gloomy view held by the public in Taiwan.

From the survey results, the author concludes that Chinese are practical and individualistic. It may be generally agreed that this is the common Chinese behavior in daily business practice. The author believes that some of his findings are inconsistent with this view of Chinese character. For instance, if local middle managers are practical and individualistic, the author asks why they care about their subordinates. There seem to be several explanations. First, to be individualistic does not necessarily imply that a person tends to be mean or ignore other people. For the very "practical" reason of having a job done well, it is important to care about subordinates. It is one way of building up good personal relationships. Another example is the finding that local middle managers thought their companies had good reputations but were not proud of working for their companies. But to say a company has a good reputation —— it is not specified for what —— may simply reflect a majority opinion; to say whether you like it or not is a personal question.

2. The Economy and Labor Market of Taiwan

Given that labor productivity in Taiwan has increased at a higher rate even than real

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wages from 1976 to 1982, one would expect that either the quality of labor in Taiwan was high or the raise of nominal wages represented no threat to foreign investors. It also implies that established foreign firms must themselves have contributed to the general improvement of labor productivity during that period. Thus, to say that "foreign subsidiaries...may be forced to change their strategies in the near future" misses the essence of the recent development in Taiwan's labor market.

There are several other suggestions to the author.

1) The correct figures for average annual economic growth rates between 1963 and 1972 and between 1973 and 1982 seem to be 10.8% and 7.8%, respectively, rather than the 20.1% and 10.4% given in the original paper.

2) Concerning the finding, cited from Liu's article, that "labor mobility is increasing (during 1975 to 1979)," it should be clearly stated that no long-term inference should be drawn from it. The year 1975 marked the end of a recession, when a low mobility would be expected; but 1979 was a peak year, when a relatively high turnover would be the case.

3) The author did not distinguish clearly between "export processing zone" and "free trade zone" in the paper. These two terms have different meanings. Although Taiwan may have been the first country to set up export processing zones in East Asia, she probably did not initiate this system.

3. Japanese Subsidiaries in Taiwan

The statement that: "at the early stage of Japanese direct investment in the 1960s, foreign equity share was rather free but is now restricted," may not be true. Foreign investment in Taiwan before 1965 was oriented very much to the domestic market and hence was confined to the form of joint-ventures for which the foreign share was restricted. It was after 1965 that the first export processing zones were established. The EPZs have attracted a large amount of Japanese investment, and Japanese companies in the zones were completely export-oriented and permitted to be wholly foreign-owned.

Table 1 presents the equity share structure of Japanese subsidiaries in the sample. The result is biased toward majority-owned Japanese firms compared with that of the survey made by the Investment Commission. This sampling bias will have a bearing on the interpretation of results. Data on ownership structure from the Investment Commission survey should be added to Table 1.

The claim that "there are not enough qualified personnel for technology transfer" because of "the difficulties of hiring and keeping college graduates" does not seem to be supported well by the findings of the survey. First, if the reason for difficulty in recruiting and retraining college graduates, as suggested by the author, is that "Japanese subsidiaries are mainly production bases for their mother companies in Japan," then it must be the scope or essence of decision-making on production that has determined the educational level and quality of employees to be hired and the kinds of technology to be transferred. Second, even if there is not much technology to transfer in the narrow sense, the survey showed that the knowledge or know-how about production management and quality control was evaluated highly by local middle managers. Third, as was pointed out

before, Japanese subsidiaries in Taiwan appear to have performed better in trying to train employees than those in ASEAN countries. They seem to be earnest at least in trying to transfer technology.

4. The Management of Japanese Subsidiaries in Taiwan

The finding that Japanese firms in Taiwan have a higher proportion of Japanese supervisors but a lower proportion of Japanese managers than Japanese subsidiaries in ASEAN countries is interesting. The author suggests that localization on the production line level progresses more slowly in Taiwan than in ASEAN countries. This suggestion is puzzling in view of the significant development gap between Taiwan and ASEAN countries other than Singapore. The difference may be caused by differences in the industrial structure, the degree of commodity diversification in kinds and quality. An interesting comparison may be with the experiences in Hong Kong and Korea.

The lower overtime compensation paid by Japanese firms in Taiwan than ASEAN countries may be due to the different legal requirements in different countries. Another factor may be that, as the survey findings have shown, bonuses in terms of monthly salaries are higher in Taiwan than in ASEAN countries.

It may be surprising to notice that Japanese subsidiaries in Taiwan tend to provide fewer intra-firm welfare facilities, compared with local firms as well as Japanese joint-ventures in ASEAN countries. This finding may be attributable to two facts: a) there is a compulsory health insurance in Taiwan, which may not exist in some ASEAN countries; b) a large proportion of Japanese companies are located in EPZs where public dormitories, clinics and sport facilities are well provided, so that it is not necessary for them to duplicate the facilities.