

SJCC After Work

Abenomics 2.0 – How can the productivity revolution proceed?

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Line of reasoning

- The Japanese economy has been underperforming over the last 20 years. It has not fully exploited the potential of its productive resources. I call this the “**performance puzzle**”.
- A core institution obstructing the effective use of resources are “**institutionalized in-house careers**”. They imply that board and top management positions are filled by company grown managers.
- It is necessary to develop an **external market for managerial skills** that offers external career options for employees and external hiring options for companies.

Outline

- 1) Japan's performance puzzle
- 2) A resource allocation problem
- 3) Institutionalized in-house careers
- 4) In-house careers and performance
- 5) How change can happen?

1) Japan's performance puzzle

Japan has excellent resource conditions when compared with other leading OECD countries.

Technology	R&D/GDP ratio	rank 3
Technology	Share in global patent applications	rank 1
Labour	Adult population with tertiary education	rank 2
Capital	Real long term interest rate	rank 1

But Japan's performance in terms of productivity and global presence has been among the weakest.

Labour productivity	GDP per hour worked, PPP	rank 17
Capital productivity	Average annual growth rate	rank 17
Multifactor productivity	Average annual growth rate	rank 12
World exports	Relative change in world share	rank 19
Stock of outward FDI	Relative change in world share	rank 17

Comparison of 19 OECD countries over the period 1994-2013

2) Resource allocation problem

- The performance puzzle suggests deficient resource allocation mechanisms.
- Resource allocation occurs at three levels
 - Company level through management decisions
 - Industry level through competition
 - International level through global division of labour

3) Institutionalized in-house careers (1)

- In-house careers – promotion to upper hierarchical managerial ranks occurs in the same company
- Other countries: In-house careers very common. But they are the outcome of choice as they are embedded in an external labour market
- In Japan: In-house careers are institutionalized. They are not a free choice, as managerial careers cannot be successfully pursued by moving from one to another Japanese employer.

3) Institutionalized in-house careers (2)

Empirical evidence:

- End: Executive directors with a 30 year in-house career dominate Japanese boards
- On the way up:
 - Very low turnover rates among managers in Japan (1% compared to 4-5% for other employees).
 - Loss of income for people who change employers.
- Entry: Time consuming selection of core employees among university graduates (shuushoku katsudou, 就職活動)

4) In-house careers and performance (1)

Worked well during economic and technological catch-up

- In-house careers support willingness of corporations to invest in training
- In-house careers support organizational learning
- As technological follower
 - relatively easy to formulate strategy,
 - reduced risk

4) In-house careers and performance (2)

- Today, after successful technological and economic catch-up and in a dynamically changing environment, Japanese companies need
 - faster decision-making
 - higher risk taking
 - further globalization
- Downsides of institutionalized in-house careers become apparent.

4) In-house careers and performance (3)

Institutionalized in-house careers obstruct resource allocation at all three levels

- Company level - management decisions
- Industry level - competition
- International level - global division of labour

4) In-house careers and performance (4)

Company level – strategy formulation

- Risk aversion,
- Consensus orientation,
- Entrenchment of top decision makers,
- Lack of diversity

4) In-house careers and performance (2)

Industry level - Lack of mobility of resources across companies

- best manager do not move to best companies,
- high post-merger integration costs,
- entry/growth barriers for start-ups and SMEs

4) In-house careers and performance (2)

International level

- separate domestic and international human resource systems
- not attractive to global talent,
- entry barriers for foreign subsidiaries,
- also obstructing import penetration

5) How can change happen? (1)

- The key to Japan's revival is the introduction of market based careers for higher managerial positions
- The introduction of market based careers confronts fundamental barriers as in-house careers are deeply embedded in the Japanese socio-economic system
 - Career ownership
 - Education
 - Recruitment
 - Decision making

5) How can change happen? (2)

- Possible channels through which change may be brought about:
 - globalizing Japanese companies,
 - foreign subsidiaries,
 - young or new successful Japanese companies
- Success cases are needed!