

“JAPANESE INVESTMENT AND
MANAGEMENT IN ASEAN COUNTRIES:
IMPLICATIONS FOR LOCALIZATION”*

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1. INTRODUCTION

It is often said that Japanese companies are comparatively quite slow in transferring their management techniques and / or production techniques to host countries or local employees, particularly to local managers and engineers. But from the Japanese parent companies' point of view, it is also undeniable that it costs a lot to keep for example managers who are resident in host countries and / or to send short-stay staffs everlastingly. Of course the number of Japanese, both who are resident and who stay for a short time, decreases gradually as the operation becomes stable through time. The questions here, however, are the speed and its reasonable reasons why Japanese companies are slow in decreasing their Japanese expatriate staff. Besides local governments in host countries without exception eagerly demand technology transfer and the localization of foreign-owned and / or foreign-managed companies.

Therefore, the question of our vital interest here is why the number of Japanese employees does not decrease as quick as both local governments and the logic of the Japanese parent companies require. In other words, if they follow both their cost-performance logic and the local governments' request, shouldn't the number of Japanese employees have decreased more quickly? This paper attempts to uncover the reasons of this phenomenon on the basis of our field research which we

will touch upon in the next section.

Needless to say, the phenomenon of localization has many aspects such as the localization of capital, the localization of employees, the localization of acquirement of raw materials, the localization of technology development, and so forth. In this paper, we deal with the second phenomenon, that is the human aspect of localization.

In the next section, we will briefly describe our research procedure and take a quick look at the characteristics of the samples. In the third section we examine several indices of the localization. Here we confirm that the speed of localization apparently slows down drastically at some point. In the fourth section, we point out several characteristics of the human development in Japanese companies which operate in the foreign setting. In this context we search for the reasons why that slowdown of localization happens. The sixth section will conclude this paper by referring to the rather general implications of this study.

2. RESEARCH PROCEDURES

In this paper, we confine our discussion to the case study which we conducted in Indonesia in 1983. We have studied how Japanese companies work especially in the field of the human resource management in ASEAN countries since 1979. Untill now we have published the reports on the research results about such as Singapore, Thailand, and Indonesia in japanese. As far as localization is concerned, the essence of the Indonesian case which we discuss later can be more or less applicable to other countries as well.

In principle, our study is based on the interview with Japanese managers who are resident in host countries. Before the interview we send our questionnaire, and on the basis of the filled questionnaire we interview the Japanese managers. As our study is heavily rely on the me-

thod of interview with Japanese managers, it is inevitable to have these two qualifications.

(1) Before asking the cooperation with our research from parent companies, we consider the distribution of the industrial classification of Japanese companies in every country respectively. Nevertheless the bias should still remain inevitably. To overcome this weak point and to get more general conclusion, we are conducting mailing survey on a much larger scale.

(2) In the field of human resource development, we do not know exactly how the indigenous companies or American companies or European companies are managing so far. So we must be modest when we talk about what is Japanese way of doing. Whenever we refer to this aspect, it should be only tentative.

The case considered in this paper is Japanese manufacturing companies which operate in Indonesia. We take up 15 companies, out of which 4 belong to iron & steel, 5 belong to textiles (which include a fastener maker), 2 belong to electric machinery, and 4 belong to automobile (all companies produce parts only). The table-1 shows the composition of companies by the scale of local employees and by industry. Electric machinery contains larger companies, on the other hand iron & steel contains smaller companies. The length of operation is shown in the table-2. Two electric machinery makers have been operating as long as 13 years. On the other hand, one iron & steel company has experienced only 4 years operation. Generally speaking, electric machinery has the longest length of operation period. In other words, in around 1970 they invested and began to operate. Average length of operation is about 9 years, which is not so long as that of Thailand's case (as of 1981 it was already 14.4 years), but nearly as long as that of Singapore's case

(as of 1979 it was 6.7 years). Average ratio of Japanese investment is 64%.

3. THE INDICIES OF LOCALIZATION

How can we measure appropriately the degree or extent of localization? One of the simplest methods is to count the number of foreigners, in this case Japanese. Figure- 1 shows the number of Japanese, who are resident in Indonesia, per company. From this bar graph, we know that the absolute number of Japanese decreases to some extent as the operation period becomes longer. Even after ten years operation, however, there remain about ten Japanese. But this graph is in a sense misleading, because there should happen the growth of the companies. We must take this aspect into account. Figure-2 is drawn for this purpose. Obviously the number of local employees per one Japanese grows sharply, in other words the number of Japanese relatively decreases along with the operation period. This tendency is most clearly observed in the automobile industry.

The more important aspect of this tendency is that the relative decrease of Japanese is quite different from division to division. Figure- 3 shows this aspect. According to the graph, the relative decrease of Japanese, which is measured this time by the ratio of the number of Japanese divided by that of local employees, is drastic in several years, mainly because of the decrease in the production / design / engineering division. At the same time, it should be noticed from the same graph that the decrease in the production / design / engineering division becomes on the other hand sluggish after 6 or 7 years of operation. After 6 or 7 years of operation, it seems to be very tough to make the Japanese ratio decrease through time. Here we should inquire into the real reasons hidden behind.

Before moving into next section, we had better examine one more aspect of localization. Table- 3 and table- 4 shows the localization ratio, that is the ratio of the number of the posts which local employees occupy divided by the number of the posts available, at every division and at every section. Usually the posts of lower management or equivalent (usually they are called section chief) and those of foreman or equivalent (usually foreman or mandor) have been already localized at 100 %, so it is enough for us to examine upper posts. From table- 3 , we can understand these several points. First, the posts of middle management or equivalent (usually section manager) are localized at 80 % and those of upper management or equivalent (usually factory manager or division manager) are localized at 43 % when the length of operation is 9 years and less. But when the operation period become 10 years and more, the localization ratios rise to 97 % and 70 % respectively. Second, the tempo of localization varies greatly from division to division and section to section. For example, look at the localization ratios of upper managers or equivalent. After 10 years and more operation, in the clerical division 88 % of the posts are localiized, but in the production division only 50 % are localized. However the localization ratios of the companies, whose operation period is under 9 years and less, are 56 % and 30 % respectively. Thus here also we can observe the advancement of localization in each division and section along with the length of operation.

Table- 4 shows how Japanese are distributed among divisions and sections. Two point can be read from this table. First, most of Japanese are distributed in the production division. The longer the operation period becomes, the stronger the tendency becomes. That is, when the operation period is 9 years and less the composition ratio of the pro-

duction division is 62 %, but after the operation period reaches 10 years and more, the same ratio becomes more than 70 %. Second, when we add the number of advisors to these figures, the composition ratios change quite a lot. Advisors mainly consist of productivn advisors (technical advisors), but accounting advisors also should not be neglected. When the length of operation is 9 years and less, the composition ratio of advisors is 22 %, but when it reaches 10 years and more, the composition ratio of advisors become as high as 55 % which is even impressive.

So we must investigate these three points in the next section. First, why doesn't the rerative share of Japanese decrease in direct proporsion to the length of operation ? Second, why should Japanese advisors remain or why are they needed even after quite a long period of operation ? Third, what is the role of these advisors amongst many local managers ?

4. JOB COMPETENCE OF LOCAL MANAGERS AND FOREMEN

So far we have analysed how many official posts are filled by local employees, and in connection with this we have discussed about the observed trend. In other words, we have focused our viewpoint on the quantitative or official aspect of localization rather than the qualitative or unofficial aspect of localization. Here we consider, so to speak, the qualitative aspect of localization.

For this purpose we inquire into the job competence of local managers and foremen. More specifically, we inquire these two points.

- (1) how Japanese managers perceive the present condition of the job competence of local middle managers and foremen with respect to production control and personnel management, so that we get the information about the present condition of role structure of the local employees.

- (2) how Japanese managers consider the ideal condition of job competence of local middle managers and foremen with respect to the same field, so that we know the expected condition of role structure of the local employees. The standard of the ideal condition of job competence for local managers and foremen is supposedly nearly as high as the level of job competence for Japanese counterparts.

For our analytical purpose, the gap, if any, between the present condition and the ideal condition would be an indicator for the difficulty or the distance for the attainment to substantial localization. In other words, if there remains the fairly large-sized so-called gap in these field, we think that we cannot expect the substantial localization with a bright future. We should pay attention not only to the quantitative aspect of localization but also to the qualitative aspect of localization.

Figure- 4 and figure- 5 show the job competence of local middle managers and foremen in the field of production control and personnel management respectively. Needless to say, these figures depend on the appraisal of Japanese managers. If Japanese managers appraise, for example, that as to a particular job local managers can decide by themselves and they inform superior authorities of the decision afterwards only, we regard the competence of this job is quite highly transferred to the local managers, and for the sake of making some indicator we count this level of competence transfer as 5 points. In this way we add the all points by each job respectively, and in the end we divided the total points by the number of companies concerned. Thus, the higher the points obtained, the more progressive the transfer of job competence.

Go back to figure- 4 . First, for middle managers almost all jobs in

(78)

the field of production control, except (4) formulation of equipment investment planning, are to be transferred in the future, because the points obtained are at least nearly 4 and over. Second, for foremen, on the other hand, those jobs which are concerned with daily operation, such as (9) request for needed tools, (11) determination of individual assignment of work, (12) check of the progress of operation, and so on, show high marks for both the present condition and the ideal condition. In these jobs they have already reached the situation where there is quite limited room for them to get more job competence, even if their ability would improve much more.

In the figure-5, it is shown that there are many job competences in the field of production control which Japanese managers want to transfer to local foremen and managers, but at the same time this is not realized. More specifically, for foremen Japanese managers consider that their ability is not enough in these jobs such as estimation jobs (1 , 2 , 3), improvement jobs (5 , 10), (4) formulation of equipment investment planning and (18) check of monthly performance of shop. Similarly local middle managers are considered to be weak in the field of such as improvement jobs (5 , 10), (4) formulation of equipment investment planning, and (18) check of monthly performance of shop. Thus foremen and middle managers are considered that they are weak in those jobs which require so to speak the knowledge of engineers.

Can we observe similar phenomenon in the field of personnel management? From figure-6 and figure-7, we can understand these points. First, generally speaking, the gap between the ideal condition and the present condition here is much narrower than the gap which we observed in the field of production control. Second, however, there are

quite big gaps for foremen in the jobs such as (20) implementation of improving proposals, and the jobs related to education (6 , 8). Third, for the middle managers we can see only one big gap in this field, that is, (20) implementation of improvement suggestions.

5. CONCLUDING REMARKS

As the operation period becomes longer, official posts especially in production division are occupied by local employees. At the same time, in the same division the ratio of Japanese staffs (advisors) on the contrary becomes higher. From our analysis concerned with job competence of local employees, we know that Japanese managers highly appraise their local employees ability in the field of daily operation. But at the same time Japanese managers still think that their middle managers and foremen are weak in the field such as estimation of costs (especially foreman), improvement jobs for both machinery & equipment and job design, and basic planning jobs for investment. Local managers and foremen cannot fully satisfy the Japanese managers yet, and to bridge these gaps Japanese technical advisors for example are sent.

However we should not emphasize too much on this situation, because the situation is quite dynamic and changing everyday. In this paper we didn't refer to the aspect that Japanese managers tend to seek such a manager who has these abilities and attitudes.

- (1) ability of planning.
- (2) ability to solve troubles.
- (3) ability to coordinate divisions.
- (4) attitudes not to be too sticky to their own jobs.
- (5) ability to be versatile.
- (6) attitudes to act as a pioneer.

In order to adjust the companies properly to the changing environ-

ment, and to increase the management performance totally, it is true that the manpower who has those abilities and attitudes is desperately needed. But as a matter of course, it takes quite a long time. We cannot jump over this phase.

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The paper was written on the basis of research results of *Group For Asian Industry & Labour Studies* whose members are Koichiro IMANO, Narumi YAHATA, Minoru ITO, Hiroki SATO, and I. More detail information is for example included in our report, *The Personnel Management and Industrial Relations of Japanese Companies in Indonesia*, March 1985 (published by The Institute of Economic Research, Kyoto University).

table— 1 . composition of companies (by the scale of local employees,
by industry)

	(the scale of local employees)					average (persons)
	total	<500	500— 1000	1000— 1500	1500<	
total	15	4	5	4	2	838
iron & steel	4	3	1	0	0	338
textiles	5	0	2	3	0	975
electrical machinery	2	0	0	0	2	1524
automobile	4	1	2	1	0	710

table— 2 . composition of companies (by the length of operation, by
industry)

	(the length of operation)					average (years)
	total	<5	5— 7	8—10	10<	
total	15	1	5	5	4	8.9
iron & steel	4	1	1	1	1	8.5
textiles	5	0	2	2	1	8.8
electrical machinery	2	0	0	0	2	13.0
automobile	4	0	2	2	0	7.3

table— 3 . localization ratio (by division, by section, by the length of operation, by rank)

	upper manager	lower manager
total	70.0 (29.6)	96.9 (79.5)
clerical division	87.5 (55.5)	93.1 (83.3)
accounting	100.0 (16.6)	100.0 (80.0)
purchasing	100.0 (50.0)	100.0 (—)
general affairs & personnel	100.0 (83.3)	100.0 (100.0)
business & sales	100.0 (20.0)	100.0 (81.8)
others	0.0 (100.0)	75.0 (—)
production division	50.0 (29.6)	97.2 (76.2)
the number of posts	30 (54)	64 (39)

notes: (1) The numbers indicate the localization ratios of the companies whose length of operation is 10 years and more, and the numbers in parentheses indicate the localization ratios of those whose length of operation is 9 years and less.

(2) For the sake of cross-sectional standardization, the medians of paid wages for each rank are used. For example, if the median of some rank falls between 350,000 and 500,000 rp., then the rank is classified as upper manager or equivalent.

(3) Others section of the clerical division includes the manager whose function is unspecialized and covers more than a single section.

table— 4 . distribution of Japanese among divisions and sections (by the length of operation)

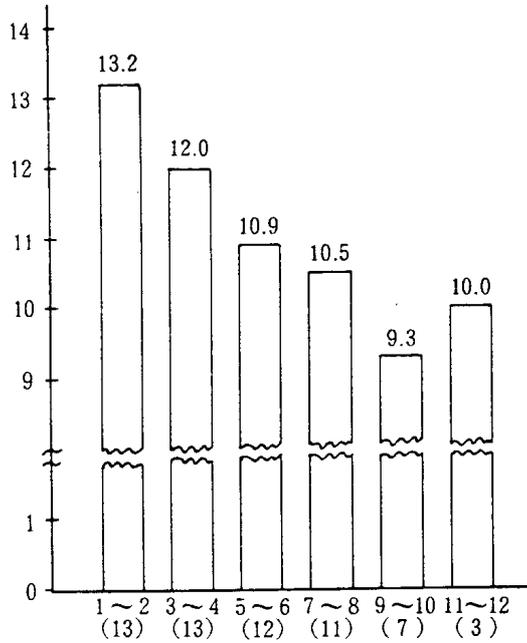
	(the length of operation)	
	9 years and less	10 years and more
total	100.0 (100.0)	100.0 (100.0)
clerical division	38.5 (30.0)	27.3 (9.8)
accounting	15.4 (12.0)	0.0 (0.0)
purchasing	2.6 (2.0)	0.0 (0.0)
general affairs & personnel	5.1 (4.0)	0.0 (0.0)
business & sales	15.4 (12.0)	0.0 (0.0)
others	0.0 (0.0)	27.3 (9.8)
production division	61.5 (48.0)	72.3 (25.8)
accounting advisor	— (0.0)	— (9.7)
production advisor	— (22.0)	— (54.8)
the number of posts	39 (50)	11 (31)

notes: (1) The ratios in parentheses show the ratios when we include the number of advisors.

(84)

figure— 1 . change of the number of Japanese per company.

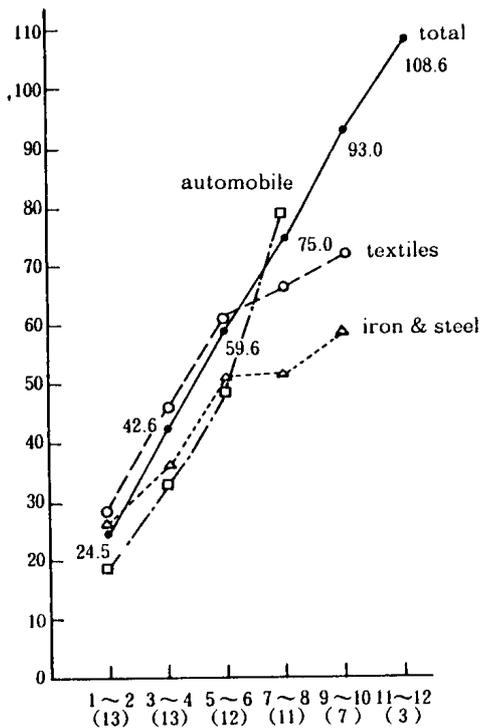
(persons)



the length of operation (years)
the number of companies

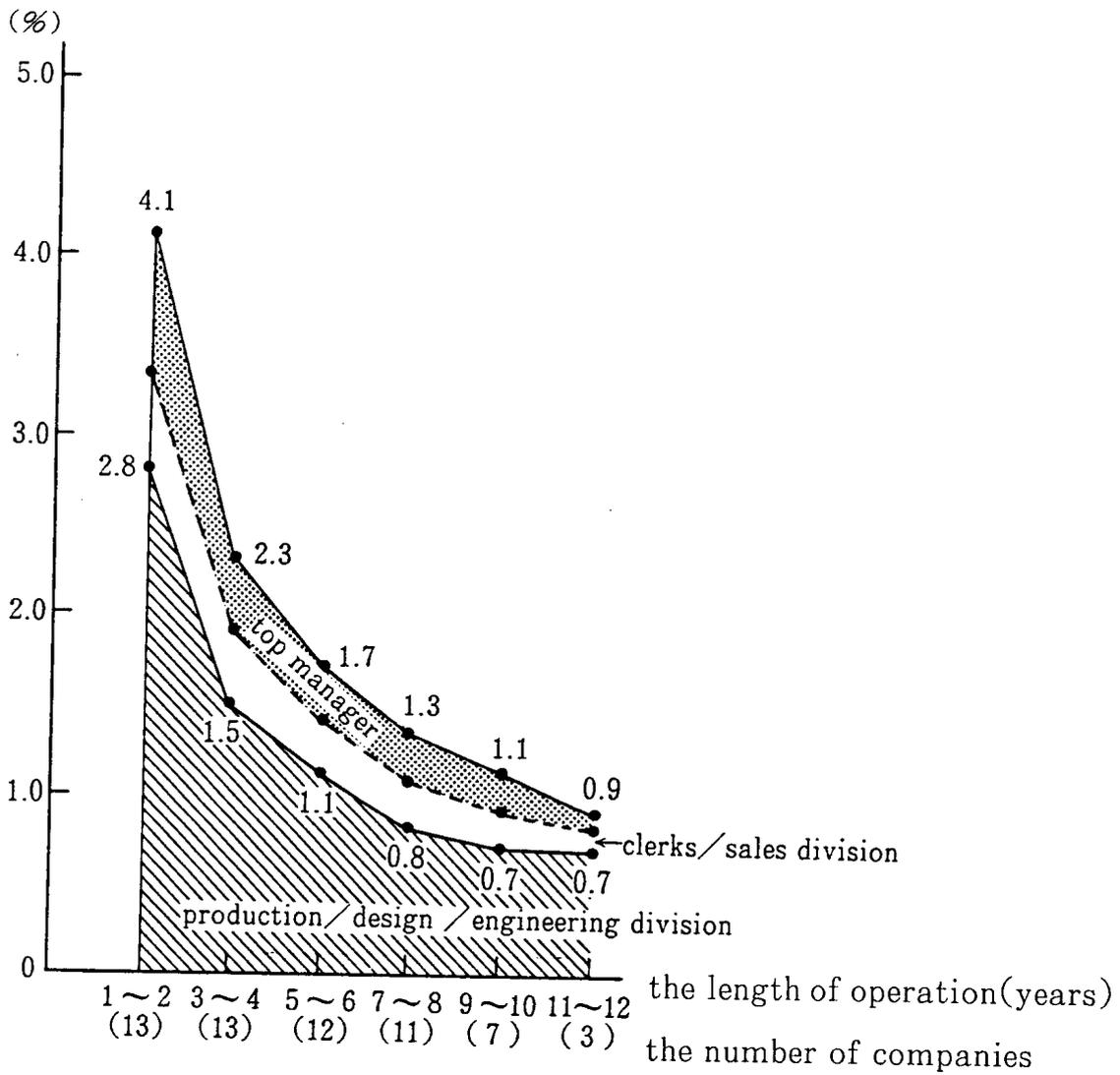
figure— 2 . change of the number of local employees per one Japanese

(persons)



the length of operation (years)
the number of companies

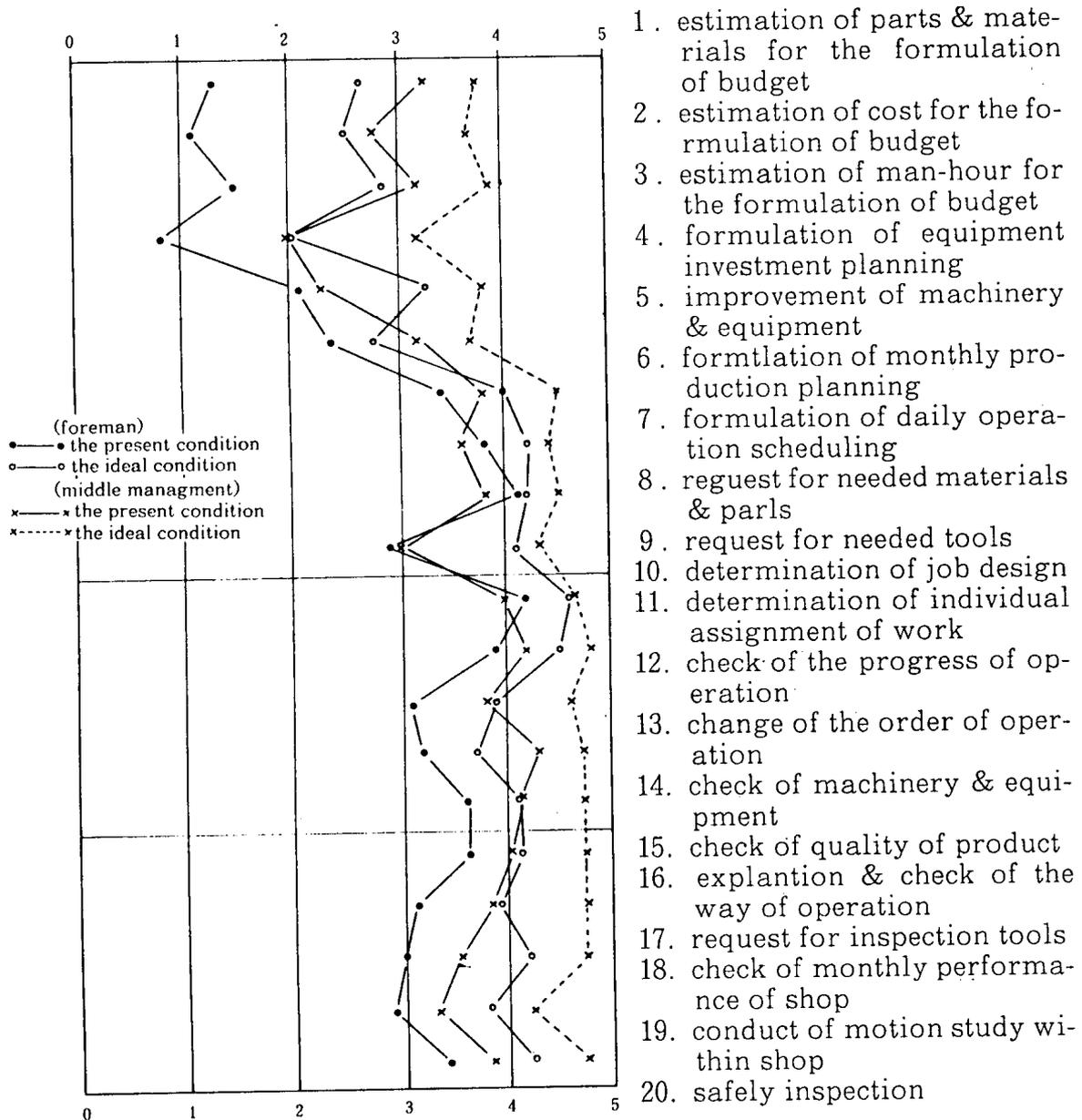
figure— 3. change of the ratio of the number of Japanese^(*)
(by division)



^(*)the ratio of the number of Japanese (%)

$$= \frac{\text{the number of Japanese}}{\text{the number of local employees}} \times 100$$

figure- 4 . the job competence of local middle managers and foremen : A
(production control)



0. no connection
1. almost no participation and get one-sidedly directions and reports.
2. decided by superior authorities or other sections and get explanations only.
3. participate the decision making with superior authorities or other sections.
4. make a plan and obtain the permission of superior authorities.
5. decide by himself and inform superior authorities of the decision afterwards.

figure- 5 . the job competence of local middle managers and foremen : B
(production control)

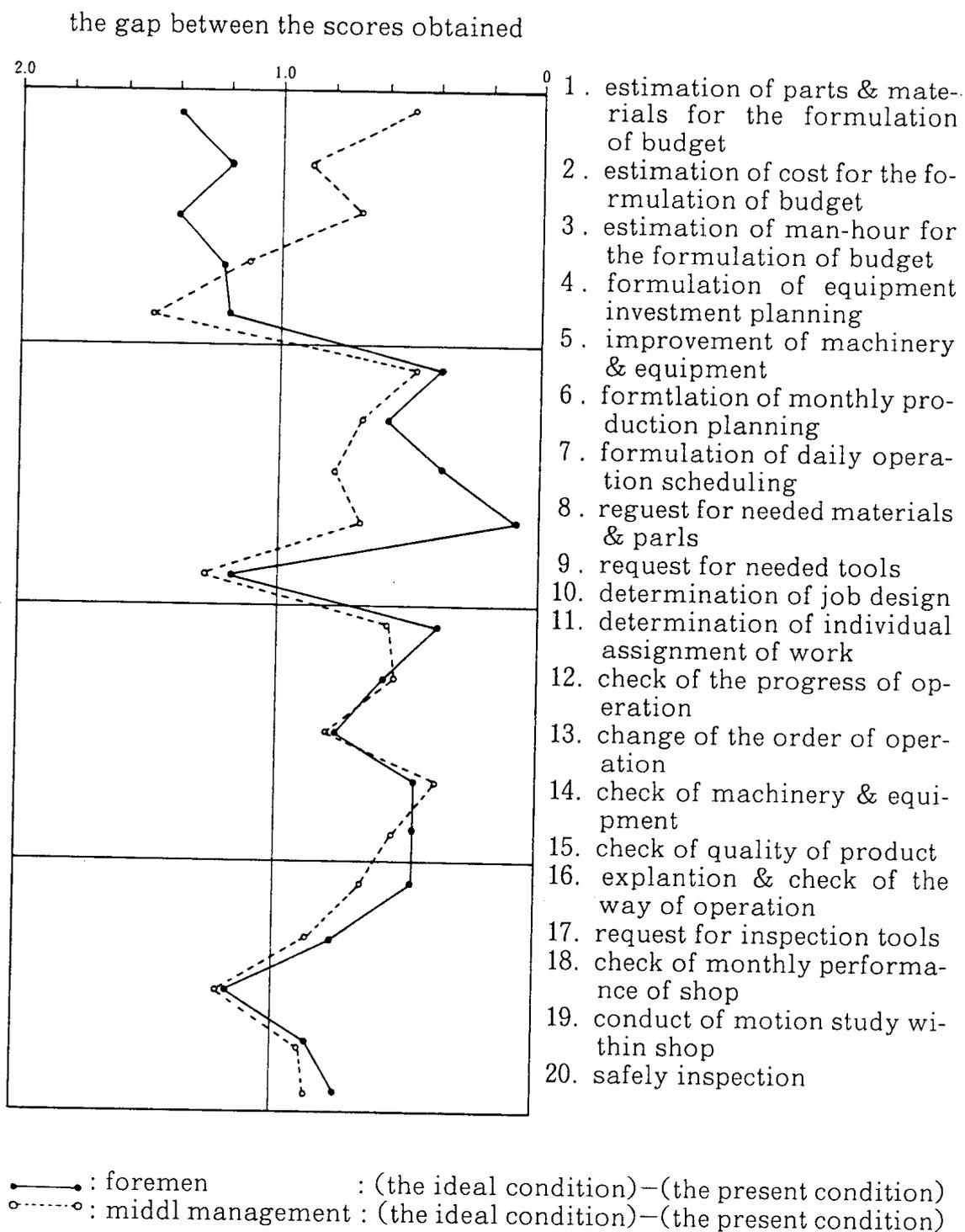
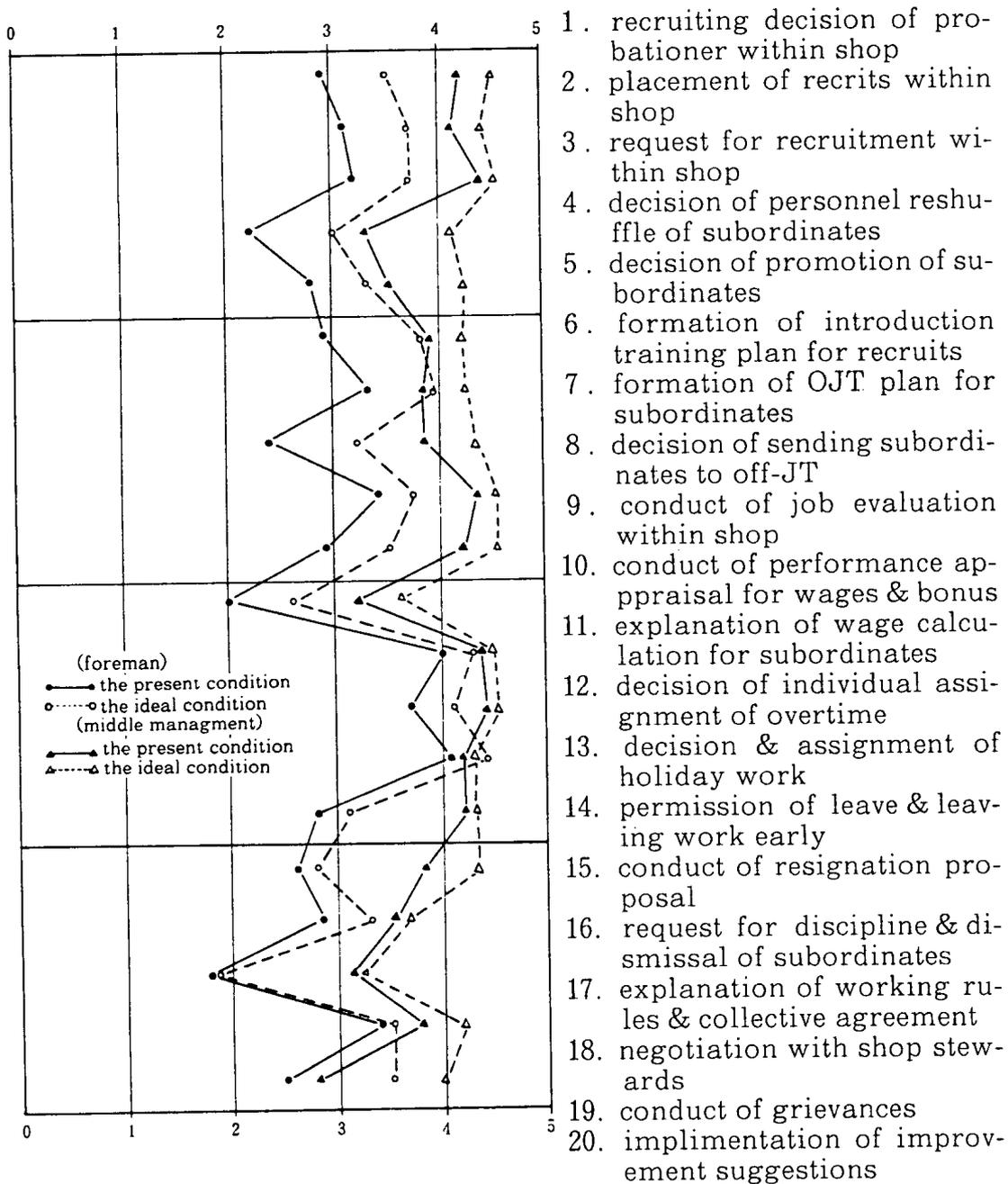
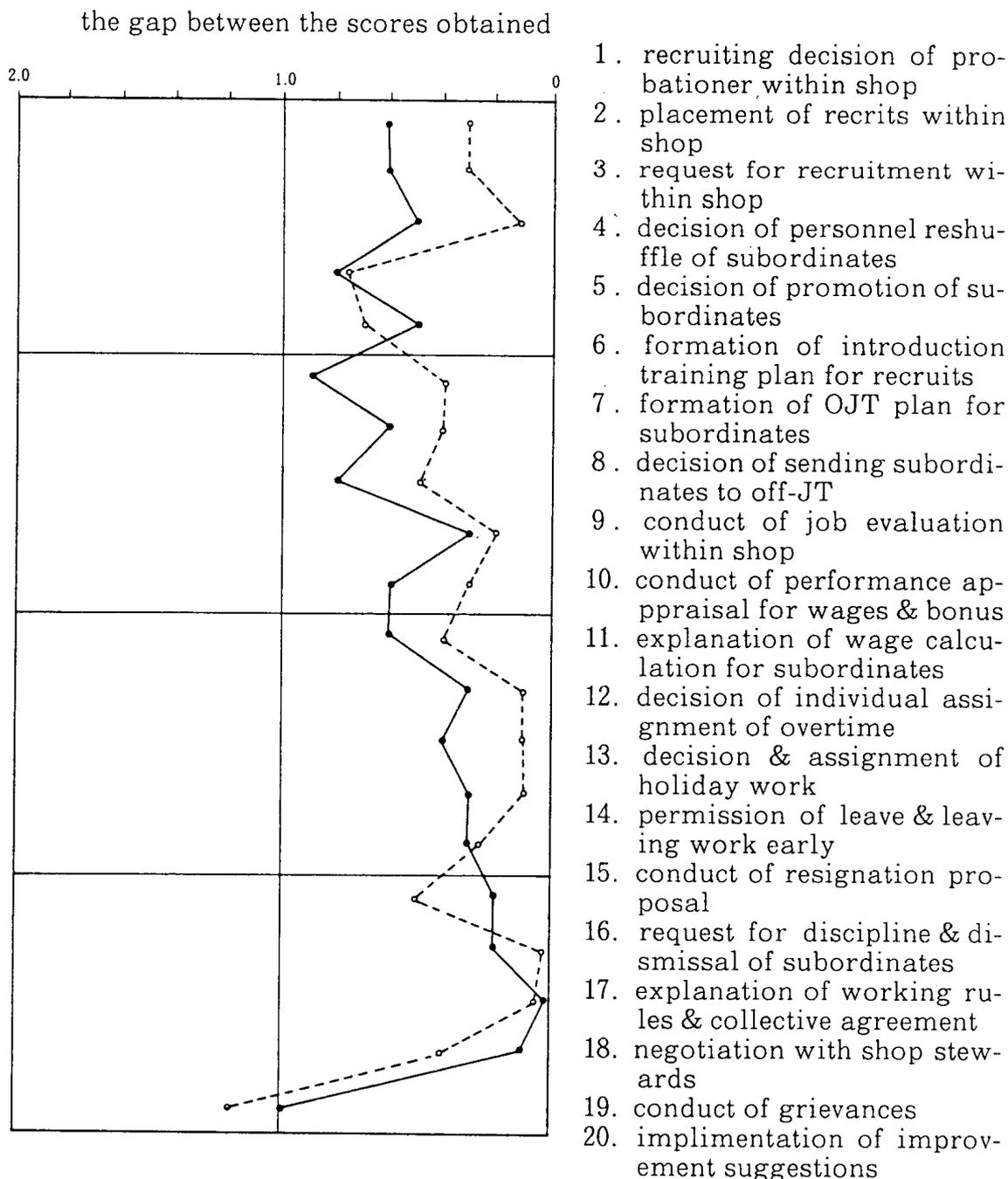


figure- 6 . the job competence of local middle managers and foremen : A
(personnel management)



- 0. no connection
- 1 . almost no participation and get one-sidedly directions and reports.
- 2 . decided by superior authorities or other sections and get explanations only.
- 3 . participate the decision making with superior authorities or other sections.
- 4 . make a plan and obtain the permission of superior authorities.
- 5 . decide by himself and inform superior authorities of the decision afterwards.

figure - 7 . the job competence of local middle managers and foremen : A
(personnel management)



—●— : foremen : (the ideal condition) - (the present condition)
-○- : middle management : (the ideal condition) - (the present condition)