

## Focusing on Inter-temporal Effects through Learning : A Short Note on Indigenous Perspectives on Strategic Management in Japan

Masatoshi FUJIWARA

### 1. Two major streams in the strategic management field

This short note aims to explain indigenous perspectives on strategic management in Japan. It is well known that there are two major streams in the strategic management field: the positioning school, which was introduced by Porter (1980), and the Resource-Based View (RBV), by Itami (1980), who highlighted the importance of informational resources and intangible assets. It was an interesting coincidence that both streams emerged in the same year. However, most Japanese management scholars prefer to develop the RBV rather than the positioning school, and they have started to develop the Knowledge-Based View (Nonaka, 1991) based on the RBV. The key concepts of the RBV and KBV are common: learning and dynamic interaction among firms. Their researches in Japan tend to be longitudinal and ethnographical and involve a qualitative study approach that apparently differs from the mainstream in the West. The question to be addressed is exactly why the RBV and KBV have developed in Japan this way.

### 2. Why have the RBV and KBV developed in Japan?

This development is mainly based on Japanese enterprises' indigenous phenomena in the 1980s, when the Japanese economy enjoyed significant growth. Japanese management scholars focused on determining the logic and principles behind the enterprise systems and corporate behaviors in Japan. Furthermore, they engaged in formulating new management theories that could explain Japan's experience and which are possibly different from extant orthodoxies in the West. Their three key findings are as follows: First, in-house product development is predominant among Japanese enterprises. Kagono, Nonaka, Sakakibara, and Okumura (1983) conducted a comparative analysis of managerial behaviors in the US and Japan and discovered that Japanese firms prefer to accumulate informational resources. This tendency can be observed even now. Since 1987, Japan has led other

countries in terms of the ratio of R&D investment to GDP. Second, a tendency toward diversification exists. Yoshihara, Sakuma, Itami, and Kagono (1981) investigated the diversification strategy of Japanese enterprises and obtained two points. Enterprises tended to transfer their knowledge to another business venture and prefer endogenous growth through learning rather than growth through M&A. Finally, homogeneous behaviors were observed among Japanese enterprises. These competitive behaviors unexpectedly contributed to augment their resources because they tried to develop corresponding technologies under the pressure of market competition. Numagami, Asaba, Shintaku, and Amikura (1992) recommended conceiving competition as a *dialogue*: examining the dynamic interaction process among firms.

However, as the Japanese economy started to suffer from the recession, these management systems also began to be questioned and criticized. Their major criticism is the declining profitability of Japanese enterprises over a long period. Management scholars in Japan have discovered many reasons behind this decline: the enterprises' preference to growth over profitability, weak corporate governance, the exchange rate, shorter tenure of CEOs (Mishina, 2004), organizational deadweight (Numagami, Kato, Tanaka, Shimamoto, Karube, 2007), and so on. Some scholars challenged the value of the firms' resources because performance had been declining despite the presence of many advanced technologies. Researchers have been attempting to ascertain a mediating factor between good technologies and poor performance, which led to the current research trends in Japan.

### 3. Current trends

One trend is research on the business model. Japanese firms are now attempting to pursue profitability by establishing effective business models. It can be said that there is a business model boom (almost euphoria) in Japan. However, we should reinforce that learning is again a key concept here in the sense that the design of the business model induces, stimulates, and defines human behavior afterward. Their behaviors affect the type of knowledge that firms will be able to accumulate.

The other trend is research on how to develop innovations by using the firms' resources and knowledge. The key question here is how Japanese firms that achieved innovation utilized and developed their existing resources and knowledge. By examining past influential innovations, for example, winners of the Okochi award, researchers have discovered that almost all the Japanese enterprises that won the award are big and highly diversified. It means not only that the process of legitimizing resource mobilization within diversified firms should be the key question (Aoshima, Takeishi, and Karube, 2010), but also that this finding challenges the argument of open innovation. In short, proponents of open innovation tend to insist that the source of firms' competitive advantages has

been switching from resources to the business model. However, they do not perceive any relationships between the business model and the knowledge to be accumulated in firms, as we mentioned earlier. Thus, the universally beneficial nature of openness needs to be verified.

#### 4. Concluding remarks

This short note focused on the indigenous perspectives on the strategic management field in Japan. We explained the reasons behind the development of the RBV and KBV. In conclusion, we introduce three important perspectives shared among eminent management scholars in Japan. First, they attempt to understand the holistic mechanisms of their indigenous phenomena by following the ethnographical case study approach, and they prefer to use a broader framework of analysis in terms of both time and spatial horizon. They tend to conduct longitudinal analysis and take the dynamic interaction among more players into account. In doing so, they can examine the inter-temporal effects through learning. Second, since their approach of ethnographical longitudinal case analysis is directed toward factors that are difficult to quantify, it induces researchers to emphasize on plausibility rather than rigidity, by relying on logical compound synthesis (Itami and Numagami, 1992) as their methodology. Finally, they emphasize the counter-intuitiveness of their logic. It is highly valuable to ascertain the counter-intuitive mechanisms that result from dynamic interaction among many players. The above three points are not only insights from the former works of eminent scholars but also essential issues to be addressed in future research.

#### Acknowledgement

This article is based on the abstract of my presentation with Professor Hiroyuki Itami (Graduate School of Innovation Studies, Tokyo University of Science) at the AOM 2011 annual meeting. I would like to acknowledge the valuable comments I have received from him.

#### References

- Aoshima, Y., A. Takeishi, and M. Karube (2010) "Reasons for Innovation: Legitimizing Resource Mobilization for Innovation in the Cases of the Okochi Memorial Prize Winners," Itami, H., K. Kusunoki, T. Numagami, and A. Takeishi (eds.) , *Dynamics of Knowledge, Corporate System and Innovation*, Springer-Verlag Berlin Heidelberg, pp 165-190.
- Itami, H. (1980) *Keiei Senryaku no Ronri (Logic of Corporate Strategy)*, Nihon Keizai Shinbun Sha, Tokyo.
- Itami, H. and T. Numagami (1992) "Dynamic interaction between strategy and technology," *Strategic Management Journal*, Vol. 13, No. 8, Special Issue, pp. 119-135.

Kagano, T., I. Nonaka, K. Sakakibara, A. Okumura (1983) *Nichi-bei Kigyo no Keiei Hikaku (Comparison of Management Styles between Japanese and U.S. Companies)*, Nihon Keizai Shinbun Sha, Tokyo.

Mishina, K. (2004) *Senryaku Fuzen no Ronri (The Logics of Strategy Failure)*, Toyo Keizai Shimpo Sha, Tokyo.

Nonaka, I. (1991) "The Knowledge Creating Company," *Harvard Business Review*, 69 (6 Nov-Dec) : pp. 96-104.

Numagami, T., M. Karube, T. Kato, K. Tanaka, and M. Shimamoto (2007) *Soshiki no Omosa: Nihon Teki Kigyou Soshikino Saitenken (Organizational Deadweight: Re-examination of Japanese Business Organizations)*, Nihon Keizai Shinbun Shuppan Sha, Tokyo.

Numagami, T., S. Asaba, J. Shintaku, and H. Amikura (1992) "Taiwa toshiten no Kyoso: Dentaku Sangyo niokeru Kyoso Kodo no Saikaishaku (Competition as Dialogue: Reinterpretation of Competitive Behavior in Electrical Calculator Industry) ," *Soshiki Kagaku (Organizational Science)* , Vol. 26, pp. 64-79.

Porter, M.E. (1980) *Competitive Strategy*, Free Press, New York.

Yoshihara, H., A. Sakuma, H. Itami, and T. Kagono (1981) *Nihon Kigyo no Takakuka Senryaku (The Diversification Strategy of the Japanese Firm)*, Nihon Keizai Shinbun Sha, Tokyo.

## Focusing on Inter-temporal Effects through Learning : A Short Note on Indigenous Perspectives on Strategic Management in Japan

Masatoshi FUJIWARA

### ABSTRACT

This short note aims to explain indigenous perspectives on strategic management in Japan. I analyze why most Japanese researchers have been relying on the RBV and KBV, and show it is mainly because they tend to focus on inter-temporal effects through learning. This article closes illustrating some current research trends and showing three perspectives shared among eminent management scholars in Japan.