

***From The History of Mitsubishi Corporation in London:  
1915 to present day - Pernille Rudlin, Routledge,  
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**9. The 1990s and beyond**

**Representing Japan in a globalising world**

Mitsubishi started operations in London in 1915 in order to fulfil a very specific need: the procurement of steel and other resources for shipbuilding in Japan. There was a larger agenda behind this initial step, however, which was to bring Japan into the world of international commerce, acting in her own right and not through foreign merchants. Since 1915 the London operation has changed to fit the businesses it undertook, but the underlying objective remained, of representing Japan overseas. Long-standing relations with non-Japanese customers and suppliers have evolved, but to this day most of Mitsubishi Corporation's business can be traced back to Japanese clients. This objective has also strongly influenced the degree of localisation of the London operation's personnel and its 'knowledge management'.

Mitsubishi Corporation thrived when nationalism, profitable growth and Iwasaki Koyata's Fabian-rooted idealism worked in harmony. As Iwasaki Koyata, the fourth president of Mitsubishi Corporation put it 'of course a company must aim to be profitable, but the foremost aim should be to contribute to the prosperity of the country and the happiness of the people.'<sup>1</sup> Now that profitability is no longer a given for Japanese companies, Mitsubishi Corporation (and other Japanese companies struggling to globalise), accept intellectually the business sense in having a wider, international client base, and the need to lessen their

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<sup>1</sup> *Nihon Keizai Shinbun*, May 24<sup>th</sup> 1999, p.23

dependence on the Japanese economy. This has been a stated aim of Mitsubishi Corporation since the 1970s. Indeed, Iwasaki Koyata's corporate precepts of 1934 have been widened, at least in the English translation, from 'contribution to the nation' to 'corporate responsibility to society'. By implication this means contributing to whatever society Mitsubishi is operating in.

Yet business has remained stubbornly Japan-oriented. The proportion of transactions unrelated to Japan has remained under 20% of Mitsubishi Corporation's total turnover. At least four reasons can be identified for the lack of success in shifting to a globalised operation. Firstly, there is less concrete appeal for Japanese managers in the idea of contributing to 'the world' than there is in contributing to the 'nation'. Secondly, the appeal of nationalism has been reinforced not only by the legacy of the Meiji Restoration philosophy of catching up with the West, but by the need to recover after the devastation of World War II, and then the successive oil crises which heightened the Japanese sense of vulnerability. Thirdly, it was perfectly justifiable in terms of profit to concentrate on serving the Japanese nation when the Japanese nation was growing so fast in the 1960s, 1970s and into the 1980s. Fourthly, even when the growth rate began to slow, natural apathy meant that adhering to servicing Japanese companies, and relying on language and cultural barriers to retain customers was the more appealing choice.

The importance of this final point is based in the fact that Mitsubishi Corporation is a service company, not a manufacturer. Service companies gain their competitive advantage through their close understanding of their customer, rather than through the technological innovations of a manufacturer.<sup>2</sup> When

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<sup>2</sup> Of course manufacturers will not remain in business for long if they do not respond to the needs of the customer. They can, however, gain at least some advantages not open to service companies, through technological innovation and patents.

there was an attractive customer segment from a culture as different from the rest of the industrialised world as Japan, it was a safe and appealing option for Japanese trading companies to base their business on knowing the requirements of other Japanese companies. They knew that other non-Japanese intermediaries would not understand how to offer the absolute best to a Japanese customer. Mitsubishi Corporation's natural advantage when competing as a middleman was in anticipating the needs of Japanese clients. Therefore, it should not be surprising that Mitsubishi Corporation has concentrated on servicing Japanese companies.

Whilst Japanese clients were growing and were inexperienced enough to need Mitsubishi Corporation's services, this was adequate for Mitsubishi Corporation's own profitable growth. Even when the profitability of servicing Japanese customers declined, it was still an easier option to find new ways of supporting them rather than trying to acquire a non-Japanese business base. Adjusting the service provided by a company like Mitsubishi Corporation to the needs of non-Japanese clients is perhaps more difficult than it is for a manufacturer such as Sony, Toyota or Honda to tweak their products to suit different national tastes. Without the cultural uniqueness of Japan to fall back on as their selling proposition, Japanese trading companies would have had to compete with other intermediary companies by having lower costs, or superior logistics or cheaper financing services.

'Language' in particular has trapped Japanese trading companies into their cultural niche market. Service sector companies are by nature more knowledge-based and information intensive than companies in the manufacturing sector. The delivery of the service product has to be individually tailored and involves a high degree of personal interaction. To a much greater extent than for a manufacturer, a service provider therefore immediately comes up against the barrier of language in trying to diversify its client base. When the home country language of the service company and of its original clients is a language as uncommonly spoken as Japanese, the temptation is to cultivate a niche position by focusing on Japan-related business. The barrier of language may seem too simple a reason for the non-globalisation of a company, but when information is as key to a company's business as it is for Mitsubishi Corporation,

the consequences of the corporate language legacy are profound. This will be examined in greater detail in a later section.

In addition to the cultural and language barrier or trap, there were undoubtedly external barriers, erected by government industrial policy and a persistent national reversion to viewing trade as bilateral and mercantilist in both Japan and the UK. This was particularly true in times of crisis, as described in the next section. When the Japanese economy has been under threat, for example after the two oil crises, focusing on business in Japan's interests has proved to be a reasonable policy for Mitsubishi Corporation. It is still open to question whether this the best solution to the most recent crisis, the bursting of the bubble economy in 1990, followed by what has been characterised as a 'lost decade' for Japan, which in turn has been succeeded by a series of crises in other Asian economies. Japan has spent ten years trying to weather these economic storms, more by passivity than action. An unfortunate alternative to passivity for many Japanese companies, given the crises which followed, was to invest more resources in Asia at the beginning of the 1990s. As the situation in Japan and the rest of Asia has worsened towards the end of the decade, many of Japan's commercial and financial companies are rethinking their global ambitions, withdrawing from Europe and concentrating on Japan or Asia-based business alone.

#### THE EFFECT OF REPRESENTING JAPAN ON MITSUBISHI CORPORATION'S BUSINESS DEVELOPMENT

This is not to say that Mitsubishi Corporation's development has been entirely different from the evolution of Western multinationals, at least up until the beginning of the 1990s. As outlined in the Introduction, the development of Mitsubishi's business in line with the industrialisation of the Japanese economy meant that Mitsubishi's organisational structure followed many of the standard theories of the development of multinationals. Between the wars Mitsubishi Goshi changed from a large national corporation to a multidivisional corporation in which various parts were spun off into separate companies. The Banking and Sales Divisions split into different entities in 1919 (1921 in London), when the export sales side was growing sufficiently to become an autonomous business. New companies such as Mitsubishi Electric Co. Ltd. and Mitsubishi Aircraft Co.

Ltd were formed in the 1920s as Japan's industrialisation progressed and in 1937 Mitsubishi Goshi was reorganised as a joint stock corporation and re-named Mitsubishi Sha.

By the 1930s, Mitsubishi Shoji London branch's support in terms of raw materials and technology was no longer automatically required by Mitsubishi's increasingly autonomous and self-sufficient new companies and product divisions. Furthermore, very few of their manufactured products were available to be sold in Europe via London as most were destined to fuel Japan's militarisation and expansion in Asia. Instead, Europe continued to be a key market for Mitsubishi Shoji for Asian oils, fats and marine produce, with London as a broking centre.

The London branch continued to be a major importer to Japan of steel in the 1920s but by the 1930s, Japan's military presence in Asia had given Mitsubishi even more access to new supply sources of oils and fats for the European markets. These businesses started to dominate London's operations. Conversely, London's role as a resource provider diminished during the 1930s, partly because Japan was becoming self sufficient in iron and steel and partly because Japan preferred to acquire its technology from the United States and Germany. The shift in emphasis of the London branch's function from resource procurer to market window, as described by the literature on location theory, therefore holds for the pre-war period.

Ostensibly, by the 1930s, the Mitsubishi Shoji London branch's business was less and less to do with representing Japan in terms of exporting its products or providing it with the means to industrialise. Mitsubishi Shoji could be said to have become a global trading house, just like any other international commodity broker, with its London branch specialising in Asian foodstuffs. Characterising Mitsubishi Shoji thus would be to ignore the political tensions of the 1930s, however. Trade friction had become so severe by the mid 1930s that even the internationalist Mitsubishi Shoji president Iwasaki Koyata was having to accept that his company would need to become more involved in domestic business. No matter how Japanese businessmen and politicians protested that their

actions in colonising Asia, selling Japanese textiles there and exporting the region's primary products around the world were no different to the actions of Britain and other European countries, Mitsubishi Shoji's sales of oils, crabmeat and salmon to Britain were seen as a Japanese threat to the British nation. This view was linked to the fact that Japanese trading companies and other members of their zaibatsu were seen as supporting the militarisation of Japan through the production of military hardware and the resource exploitation of Japan's Asian colonies.

When Mitsubishi Shoji's London operations restarted in 1954, Japan had lost all her colonies, her zaibatsu had been dissolved and the productive capacity of the country was in ruins. The branch reverted to its post war function as market window in order to earn much needed foreign currency for rebuilding Japan. This foreign currency was not used to buy British exports, however. The wrangling over the Commercial Treaty and Britain's own post-war weakness had allowed the United States to gain an even more dominant position as Japan's main manufactured import source. The sterling earned from exporting to the UK was instead used to buy sugar, corn, copra and cocoa beans for Japan from Sterling Area countries such as South Africa, Kenya and Australia.

Again, although Mitsubishi Corporation's 'global' intentions were clearly visible in the way that offices were set up simultaneously in all major trading centres in 1954, the underlying objective for these offices was to obtain resources for Japan or to export in order to gain foreign currency to buy those resources. Thus Mitsubishi Corporation, instead of becoming a horizontally global company in the way of many post-war Western manufacturing multinationals, continued to be part of the pre-war pattern of global trade. Rather than having self contained, full service operations in each country, it was continuing to act as a link in the vertical supply chain for Japanese manufacturers.

Although the Sterling Area was not to last, the business that arose from it was indicative of the new role the London branch was beginning to find for itself as regional coordinator; the second level described in the location theory of multinationals. This role took some time to be fully realised, and at the end of

the 1990s, it is being revised once more. Initially it was the European Supervisory function, as distinct from the London branch, that looked after the European offices, but not the African or Middle Eastern operations. The European Supervisory function moved around Brussels, Paris and London before finally settling on London. It has remained there to this day, undergoing various changes in name, constitution and regional jurisdiction and often sharing staff with the London operation.

Before the final move of the European Supervisory function to London, the London Branch acted, in any case, as an informal support to the offices that were opening in the 1960s in Europe, Africa and the Middle East, through the Advisor and Co-ordinator system. The London Branch was the only operation in the region that had developed the full range of Mitsubishi Corporation businesses, through its commodity broking and machinery sales activities. It therefore had personnel with expertise in machinery, fuels, foods, textiles, iron and steel by the end of the 1960s, to enable the ADCO system to work.

These experts were in position to facilitate the next phase of Japan's international economic expansion, foreign direct investment. The characterisation of Japanese trade as a threat had continued well after the war. It severely impeded the normalisation of Anglo-Japanese trade relations to the point that it took until 1962 for the Anglo-Japanese Commercial Treaty to be concluded. During the 1970s, with oil shocks and currency crises, Japanese ships, cars and televisions were not welcomed as cheap, high quality products for British consumers but as an attempt by Japan to win the war by economic rather than military means. Fearing that Europe would turn into a closed market, Japanese manufacturers began to open manufacturing facilities in the region.

This could have been the moment for the London branch to move to the next level of activity as a multinational operation, from regional coordinator to a regional headquarters, autonomous and self-contained, profiting from its own investments. Almost all the investments made in the 1970s, however, were by the manufacturers themselves. There was some equity participation by Mitsubishi Corporation but by the Japanese headquarter business groups,

rather than by the London operation or European supervisory function themselves. The London operation was still a branch of the Tokyo headquarters, and the European supervisory function was simply subcontracted by the headquarters to carry out the monitoring of operations in the area. Therefore, under corporate rules, neither the London branch nor the European supervisory function had any capital or authority to invest on their own behalf. Thus, the London branch's role as merely a link in the vertical supply chain, connecting Japan to overseas markets, continued.

This situation has not changed to this day, even though Mitsubishi Corporation (UK) PLC and Mitsubishi Corporation International N.V. have been formed. The UK subsidiary has minority shares in less than ten companies in Britain and the European holding company has minority investments in less than half a dozen companies in Europe, other than the seven main Mitsubishi Corporation European subsidiaries. Even in terms of total European investment by the Japanese parent company and the European subsidiaries, Mitsubishi Corporation only ranks fourth amongst the major Japanese trading companies in the late 1990s. Recent comparisons show that Mitsui Bussan has a total investment of Y49.4bn in 25 companies in Europe, Marubeni Y43.4bn in 35 companies, Itochu Y30bn in 94 companies and Mitsubishi Corporation Y20.4bn in 43 companies.<sup>3</sup>

By the 1980s the London branch had little to do with linking Japan to the British market in terms of exports and imports of goods and instead was acting as a link for Japan to the global trading centres for commodities ranging from cocoa to copper to oil. It also acted as a co-ordinator for major 'one off' projects or contracts such as oil pipes for North Sea oil pipelines or plant projects in the Middle East and Africa using Japanese steel and heavy machinery. The City of London's increasing global importance as a financial and professional services centre in the 1980s reinforced the branch's role in financing and project co-ordination. This role was formalised by the establishment of Mitsubishi Corporation Finance in London by the Tokyo headquarters Finance Department,

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<sup>3</sup> *Brains*, February 17<sup>th</sup> 1999, p.8

in 1984.

In the 1990s, the City of London continues to have a global competitive edge as a cluster of financial services, regional information sources and traditional commodity markets. It is undoubtedly this factor rather than access to Britain's markets or technology which maintains London's position as the chosen location for Mitsubishi Corporation's regional headquarters. A key question is whether Britain's continued non-participation in the European Economic and Monetary Union will jeopardise London's competitive edge and cause companies such as Mitsubishi Corporation to rethink the location of their regional headquarters.

Kaku Tsuneaki chaired a committee of the Japanese Chamber of Commerce in the UK which investigated this issue in the early 1990s. Kaku had worked in London for Mitsubishi Corporation both in the European Supervisory function in the 1960s as the European Economic Community was evolving and then from 1992-1995 as Chairman and Managing Director of Mitsubishi Corporation (UK) PLC and Mitsubishi Euro-Africa. He commented on the committee's conclusions thus:

'We asked Japanese banks, insurance companies, securities companies, shipping companies and manufacturers if they would move out of Britain if it did not join the European single currency. Almost all said that there was little probability that they would. The reasons they cited were:

- There are no other cities in Europe which offer the same range of functions as the City of London
- The deregulated environment in the UK is very attractive to companies
- For the manufacturers, the workforce available is high quality and hard working and there is little industrial conflict
- Laws are more easily understood as they are in English
- There is good education available for expatriate children

However, for manufacturers, many of their parts are imported from the

continent and their products are exported to the continent, so if the UK did not participate in the single currency, currency risks and economic risks would be incurred. Therefore it seemed likely that they would build any further European factories on the continent. As I understand it from recent comments from Mr Blair and the British Ambassador to Japan, Sir David Wright, this situation is much the same today.”<sup>4</sup>

Certainly there is very little likelihood even now that Mitsubishi Corporation’s London operation or the European holding company will be closed down or transferred elsewhere. Although numbers of both expatriate and locally hired staff are declining, in some ways London and the European holding company are stronger than ever before. Each operation in Europe has started to specialise in particular business areas and all the non-business functions such as accounting, human resources, finance and corporate planning are being concentrated more and more in the European holding company.

In 1999 the implementation of the MC2000 mid term plan has meant that the European holding company lost its jurisdiction over the African and CIS operations. At the same time, under the plan, the European holding company, Mitsubishi Corporation (UK) PLC and the other subsidiaries in Western Europe have been designated mature operations which should concentrate on becoming autonomous and self sufficient. Whether the Tokyo headquarters will grant these operations the authority and capital to make investments in businesses unrelated to the Japanese operation’s clients is not yet clear. Nor is it yet clear whether the staff in these Western European subsidiaries are willing and able to become autonomous, self sufficient and independent of Tokyo headquarters to that degree.

## THE EFFECT OF REPRESENTING JAPAN ON THE LONDON OPERATION’S INFORMATION AND COMMUNICATION FUNCTION

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<sup>4</sup> Private correspondence with Kaku Tsuneaki, 1999.

In addition to acting as global trader and co-ordinator, the task frequently mentioned in descriptions of job assignments for the branch's staff is to collect information on local markets and products. One of the main services offered to clients by Mitsubishi Corporation is the information that it can gather from all around the world. The importance of information and the contacts needed to gain that information to Mitsubishi Corporation's business is therefore also reflected in the way that staff are evaluated. In order to be regarded as an effective member of Mitsubishi Corporation, it is important to be able to gain and give information and also to build up an effective network of contacts within and without the organisation.

This information is almost always gathered at the request of Tokyo headquarters, who may then pass it on the Ministry of International Trade and Industry or some other government arm. These information flows from private to public sector, across borders and with the explicit intent of helping the Japanese economy have led to accusations that trading companies engage in industrial espionage, by commentators such as the American political economist Pat Choate and the American journalists Peter Schweizer and Bob Woodward.<sup>5</sup> It is unclear whether any formal espionage arrangement exists between the Japanese private and public sectors, but certainly the degree of mutual identification of both sectors with 'the national interest' and protection of the 'commanding heights' of the Japanese economy makes this an area subject to all sorts of interpretation.

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<sup>5</sup> Pat Choate, *Agents of Influence: How Japan's lobbyists in the United States manipulate America's Political and Economic System*, Knopf, New York, 1990, pp 36-37, Peter Schweizer, *Friendly Spies: How America's allies are using economic espionage to steal our secrets*, The Atlantic Monthly Press, 1993, p. 93 and pp 88-90, Bob Woodward, *Veil: The Secret Wars of the CIA 1981-1987*, New York, Simon and Schuster, 1987, pp 368-371

Despite the 'nationalist' nature of this information gathering activity, locally hired staff have played an important role in helping this process. Many are evaluated almost entirely on their ability to gather useful information and communicate it to Tokyo headquarters. The advance of information technology is beginning to diminish their role, however. Now that information is more globally and quickly available than ever before, the pressure is on locally hired staff to add value to the information. But communication of complex information requires sophisticated language skills and a greater degree of mutual trust built up through face to face meetings. As staff in Tokyo know, trust and understand the Japanese expatriates more than the locally hired staff, the burden of providing in-depth local information is shifting on to Japanese expatriate staff again.

The development of information and communication technology has enabled Tokyo staff to ask for and Japanese expatriate staff to provide instant, one-to-one Japanese language information. Paradoxically, although information technology is usually seen as one of the key drivers of globalisation, in this case it has actually served to reinforce a Japanese monoculture. When Mitsubishi opened its office in London in 1915, it took several weeks for both people and mail to sail between London and Tokyo. Cables had to be written in standard commercial code in sets of five numbers. Anyone, Japanese or British, with a code book, could read these cables. Thus the frequency and intimacy of communication between Japanese staff in Japan and the UK was low. This would have resulted in a degree of day-to-day autonomy and a greater sharing of communications amongst British and Japanese staff.

After the war, as travel restrictions were lifted, air flights became cheaper and faster and telephonic communication became more cost effective and efficient, so the amount of communication and contact with Tokyo headquarters increased. Even in the 1960s, however, Makihara remembers that 'during those eight years [from 1959 to 1967], I returned to Japan only once, and made an international phone call to Japan just once a year.'<sup>6</sup> This changed gradually

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<sup>6</sup> *Asahi Evening News*, 29<sup>th</sup> April 1999, p.5

through the 1970s and 1980s, and traders around the world became more and more intimately involved with day to day communications as the point of message input moved closer and closer to their desks. Initially cables had to be sent to a cable company to be typed into the transmission system, then Mitsubishi Corporation got its own line and machine, then there was a terminal in each department and finally, a terminal on each desk. In the 1990s, the telex terminal was gradually replaced by e-mail and in April 1999, the telex system was officially abolished.

While it was still in existence, the telex system helped information sharing between Japanese staff and locally hired staff, as they were meant to be written in English, for ease of transmission and reading. Many Japanese employees ignored this and sent them in phonetic Japanese written in English characters, but it was generally agreed this made them difficult to read, even for Japanese recipients. All department terminals were set up so that several copies of a telex were printed off and all relevant team members could have a copy. Increasingly, through the late 1980s and 1990s, however, Japanese staff resorted to faxes, either handwritten in Japanese or typed up using Japanese laptop computers. As a result, even though faxes could be picked up by anyone passing by the fax machine, very few locally hired staff could actually understand what was written in them.

With e-mail, Japanese staff can and do write e-mails in Japanese characters, with copies only to other Japanese staff. Most locally hired staff have English environment rather than Japanese environment operating systems on their computers, with the result that even if they wanted to see them, the Japanese characters in any Japanese e-mail would not appear on the computer screen. This causes problems with Lotus Notes databases which are meant to be read by everyone in the company, but which come out garbled on the screens of locally hired staff, the majority of whom have not been given access to Lotus Notes anyway.

Thus, with e-mail, groupware, international direct dialling and cheap, quick air travel, the intimacy, frequency and Japanese language usage in communication

has intensified. It has become easier for Japanese expatriates to defer decisions to their colleagues in Japan, or embark upon elaborate long-distance *nemawashi* before taking any action. Intentionally or inadvertently, locally hired staff are excluded from this process.

There are some exceptions to this. Where the commodity is truly global the information flows are also more global. Markets in items such as basic chemicals, oil, cocoa, coffee and metals involve 24 hours markets with buyers and purchasers from all around the world. In such rapidly changing and competitive arenas, Japanese trading companies such as Mitsubishi Corporation have not been able to stick to their objective of representing Japan and remain profitable. If a Japanese chemical or steel product is not competitive, traders switch to South East Asian chemicals or Turkish steel. If an opportunity arises to sell cocoa to a non-Japanese customer at a profitable price, it is perverse in such a competitive, low margin market to ignore it. Market information in these areas is exchanged in English no matter what technology is used and locally hired staff, who are specialist traders, are treated on a more equal basis by Japanese colleagues.<sup>7</sup>

In addition to industry, market, political and economic information, information for internal use is a vital constituent of the blood stream of Mitsubishi Corporation. Codified corporate rules and regulations, implicit information about 'how things really get done' in the company, information on strategy and policy and last but not least, company 'gossip' are all in this category. The development of information technology has also hindered locally hired staff in gaining access to this kind of information flow, however.

No matter how globalised the business, gossip and small talk regarding the

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<sup>7</sup> It is notable that the Chemicals group has nominated the greatest number of locally hired staff to the International Staff system, which is designed to give locally hired staff equivalent status to Japan-hired staff.

company, the bread and butter of any corporate day, has become divided down language lines. E-mail and business trips provide much more opportunity for Japanese staff to exchange vital unofficial information than ever before. With the decline in joint socialising between Japanese and British staff in pubs at lunch or after work, there are less and less opportunities for private chats and casual information exchanges. This can have a damaging effect on mutual trust and also the basic 'fun' of the day. Even the lay out of the office contributes to this lack of casual chit chat. With open plan desks there are no private corners to swap news without the rest of the department overhearing. Furthermore, just when Japanese staff, as they would in Tokyo, begin to relax around 6pm, put down the phone and stop e-mailing in order to talk to colleagues, British staff are leaving for home.

At the other extreme to gossip, the most explicit information in Mitsubishi Corporation is the company's rules and regulations. Mitsubishi Corporation takes great pride in the maintenance and observance of its rules and systems. Indeed Mitsubishi Corporation is characterised in contrast to its main rival and near twin, Mitsui Bussan, as being based on its strength of 'organisation', whereas Mitsui is based on the strength of its individual 'people'. Codification of information regarding processes and structures in the company happened very early in Mitsubishi Corporation's history, and indeed, as far as rules regarding the actual process of commercial transaction were concerned, were based on British commercial practices.<sup>8</sup>

This information was also easily made 'global' in the sense of being available in English to staff throughout the company world-wide, easily understood and easily acted upon. Not only was it based on standard commercial practices but the types of business it was needed for were relatively simple: the import and export of commodities. As the company's business has become more complex and employee numbers have grown, the organisation has become more intricate and less easily encoded. Implicit rules and understanding of 'how things really work', gained through personal contacts, have become increasingly

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<sup>8</sup> See Ueno's account in Chapter 2.

important.

Although the codified rules and regulations still exist and various laudable attempts have been made to translate them into English and other languages, particularly since the 1970s, it is proving very difficult to globalise the implicit information regarding processes and structures in the company. Staff in Mitsubishi Corporation International N.V., the new European holding company established in 1996, have collaborated with the International Human Resource Development Office in the Tokyo headquarters to create a *New Employee Handbook* and a *Manager's Handbook*, in English. Announcements regarding changes to the organisation and to rules are mostly translated into English, particularly since the institution of *Global Journal* in 1994: an English language electronic bulletin board run out of Tokyo headquarters.

Corporate policy and announcements are also issued through the same routes, and more effort is made to translate them into English than before. Quite often the translation is not easily comprehended by locally hired staff. This is partly due to the fact that, unlike many of the Japanese staff, they were not involved in the debate preceding the final announcement of the policy. Japanese expatriate staff can also feel excluded from this debate, which takes place at many levels on a constant basis in the Tokyo headquarters. Japanese expatriate staff can at least try to barge their way in through e-mails, phone calls and well timed business trips. It is much more difficult for locally hired staff to know how to get involved in these covert discussions. Consequently, many policies and announcements seem remote and irrelevant.

Ultimately, the very nature of these implicit rules and processes makes the process of codification and translation into other languages difficult. These rules and processes are mercurial, fluid and nuanced. Staff hired in Japan come to understand them through a period of intense socialisation in Japan. This socialisation also enables them to participate in policy making, even long-distance. There are at least three ways in which the difficulty of codification, translation and participation can be overcome: Japanese expatriate staff can try to coach and advise the locally hired staff in how the processes work or involve

them in the debate; locally hired staff can be sent to Tokyo to undergo the socialisation process themselves; or the local operation can be granted enough independence and means to create its own set of rules and processes. Its staff would therefore have more possibility to participate in the creation of rules and processes and are more likely understand the end result.

With regards to the first solution, many Japanese expatriate staff have been conscientious over the years in trying to advise and explain to their staff how, for example, to get an investment proposal accepted. Investment proposal processes are the most common example of when it is necessary to know the implicit rules and processes in Mitsubishi Corporation. Explaining these rules and processes in English to locally hired staff is time consuming however, and often of no immediate benefit to the expatriate manager. In particular, such proposals tend to be for 'third country' business, which do not involve any Japanese clients, so the implicit ultimate objective of Mitsubishi Corporation, to represent Japan, is not met. Japanese expatriate managers therefore often do not gain any recognition or support from the Tokyo headquarters for such initiatives. Another frequent obstacle is that the locally hired staff, having been employed to do simple clerical and trading work, do not have the expertise or experience to propose projects which are worth undertaking.

With regard to the second possible solution, since 1990, two locally hired staff from London have been sent to Tokyo for periods of two and four years respectively. It is no coincidence perhaps that both are now engaged in trying to train and disseminate information to staff in the European region, based on their experiences in Japan. There have been very few candidates besides them, however, for expatriation to Tokyo. The socialisation process is expensive, time consuming and quickly loses its value.

As for the third possible solution, several initiatives have been launched in the London and European operations since the 1980s to create local processes and acquire authority for developing local business and personnel. The capital of the European holding company has been increased, to enable more local investment and the authorised investment limit of the Managing Director for

Europe has been raised. There have been localisation committees, two 'European Business Initiatives' designed to support new business ideas from locally hired staff and custom-made personnel systems such as the Job Profiling Scheme. A British director was appointed to the board of Mitsubishi Corporation (UK) Ltd in 1988. Local operation magazines such as *Diamond Life* and *Euro Voice* and publications such as the *Euro Voice Business Supplement* have been introduced over the past decade. Most recently, a new forum for information exchange and consultation has been created in the European Communication Forum and National Communication Fora, for Mitsubishi Corporation's operations in the EU, in response to the European Works Council legislation.

#### THE EFFECT OF REPRESENTING JAPAN ON KNOWLEDGE MANAGEMENT AND CREATION

Despite these initiatives, the common perception amongst British staff is that they are not informed of company policies or involved in business development. Information sharing is seen as a one way process, with British staff feeding information to Tokyo, but receiving very little insight in return. This presents a different side to the glowing picture of Japanese knowledge management practices painted by authors such as Nonaka Hiroyuki and Takeuchi Hirotaka in their much quoted work, *The Knowledge Creating Company*. It is worth analysing and contrasting the processes described by them as they apply to a Japanese service company overseas, rather than the domestic Japanese manufacturing operations they concentrate on.

Nonaka and Takeuchi point out how Japanese companies use insights, intuitions, hunches through metaphors, pictures, experiences instead of thinking that knowledge can be acquired or taught through manuals, books and lectures.<sup>9</sup> They also assert that the confusion created by ambiguity can be

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<sup>9</sup> Ikujiro Nonaka and Hirotaka Takeuchi, *The Knowledge Creating Company – How Japanese companies create the dynamics of innovation*,

useful as a source of a new sense of direction and a fresh way of thinking about things.<sup>10</sup>

It is questionable whether a lack of manuals and books or confusion and ambiguity is helpful in a multilingual context. It is significant that all the companies discussed in the book are manufacturers, and therefore not as reliant on intensive and abstract information exchange as a pure service company. Nonaka and Takeuchi give an example of the capturing of explicit knowledge through manuals with the Caterpillar case of turning a verbal explanation into a piece of software. This may be easier if the knowledge relates to a technical, manufacturing process than if it relates to a non-commoditised service such as Mitsubishi Corporation offers to its customers.

Nonaka and Takeuchi do acknowledge that Japan's ethnic and cultural homogeneity facilitated the sharing of rich tacit knowledge and that this has the potential of being a competitive disadvantage in the ethnically and culturally diverse world economy. They try to show that, nonetheless, Japanese organisational knowledge creation can work globally, asserting that although both cases are focused on product development, the findings may well apply to organisational knowledge creation across national boundaries in general.<sup>11</sup> No supporting evidence is provided to back up this assertion, however.

In fact, the Nissan Primera example shows the Japanese staff made all the effort in terms of cross cultural learning and adaptation, with 1500 Japanese staff sent from Nissan Japan to Europe from planning, design, marketing, testing and production. Only when the model design was finished were 300

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Oxford, Oxford University Press, 1995, p. 11

<sup>10</sup> Ibid, p. 14

<sup>11</sup> Ibid, p.197-8

middle managers sent from the UK to Japan to acquire production know how.<sup>12</sup>

Nonaka and Takeuchi believe that 'the key adjustment needed is a prolonged phase of socialisation and externalisation' in order for globalised knowledge sharing to take place.<sup>13</sup> In Mitsubishi Corporation's case, expatriates spend around three to five years in the London operation. The general consensus amongst British staff is that three years, which is the norm for someone at General Manager level, is too short a time. It takes one year to settle in and the final year is used for finishing up and securing a good position back in Tokyo. The middle year is the only chance to create new business or attend to management issues.

There are other barriers to socialisation besides length of postings, however, such as the power and social class imbalance between Japanese expatriate staff and locally hired staff and the fact that Japanese expatriate staff's market orientation continues to be Japan-skewed, rather than specifically creating business for local markets, as in the case of the Nissan Primera. These expatriate middle managers are, as Nonaka and Takeuchi point out, key in synthesising knowledge. If they are not sufficiently socialised or do not see any benefit to sharing knowledge, then the globalisation of the whole knowledge management process breaks down at a key point.

Nonaka and Takeuchi acknowledge that Japanese companies need to make better use of advanced information technology to accumulate, store and disseminate explicit knowledge.<sup>14</sup> So far, in the 1990s, the evidence at Mitsubishi Corporation shows that, inevitably perhaps, Japanese is the language in which this is being done. If Japanese is the language in which knowledge is being shared, then it is not surprising that Japanese is also the

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<sup>12</sup> Ibid, p.204

<sup>13</sup> Ibid, p.222

<sup>14</sup> Ibid, p.243

language in which knowledge is being created. This knowledge creation is also mainly carried out by Japan-hired staff, who have the motivation and natural advantage to generate business which is still Japan-oriented.

#### THE EFFECT OF REPRESENTING JAPAN ON MITSUBISHI CORPORATION'S PERSONNEL MANAGEMENT DEVELOPMENT

Many of the above points regarding the exclusion of locally hired staff from decision-making and information sharing, and the accompanying exclusion of locally hired staff from managerial positions have been noted before, in studies of personnel management in UK-based Japanese multinationals (including trading companies) by Malcolm Trevor and Keith Thurley.<sup>15</sup> Very few of the characteristics observed during their research has changed in the past fifteen or twenty years.

The strong identification by Mitsubishi Corporation's Japan-hired staff with the 'national interest' of Japan was also noted by Trevor, although he takes a more psychological, cultural approach. He describes the effect of the 'Myth of Japanese Uniqueness' viewpoint on the management of the London operations of Japanese companies. 'In the managerial context, these stereotyped Platonic 'ideas' of uniqueness underpin expatriate solidarity and the exclusion of local staff from decision making, but this ideology is part of the type of control employed by companies...abroad.'<sup>16</sup> He also asserts, as argued in this history,

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<sup>15</sup> Malcolm Trevor, *Japan's Reluctant Multinationals – Japanese Management at Home and Abroad*, New York, St Martin's Press, 1983

Keith Thurley et al, *The Development of Personnel Management in Japanese Enterprises in Great Britain*, International Centre for Economic and Related Disciplines, London School of Economics, 1980

<sup>16</sup> Trevor, p.9

that the legacy of the forced opening up of Japan by the West in 1868 resulted in Japanese feelings of a threat from the West, especially the threat of trade protectionism.<sup>17</sup>

Trevor is not optimistic about the prospects for true globalisation for the Japanese multinationals he analysed. He is not convinced of the usefulness of hiring high quality staff locally and then socialising them by sending them to Japan, as has happened at Mitsubishi Corporation in the past decade. 'It is questionable how far the few [graduates] that there are can participate in, for example, decision-making, as opposed to fulfilling a specific function, for which it is not necessary to be a graduate.'<sup>18</sup> Trevor describes the bad feelings between the newly recruited graduates and the older locally hired staff. Many of the people he interviewed at one company saw graduate recruitment schemes as window dressing and as a majority of the expatriate staff were traditionalists, the scheme was dropped. 'Individual graduates were sent to Japan at different times, but the problem was less how to recruit them than how to retain them. Most eventually left for promotion reasons.'<sup>19</sup>

Trevor's observations are similar to those of Kawamura Mikio, who was posted to the Mitsubishi Corporation London branch in the 1980s:

It is very difficult to promote non-Japanese in our company. Such promotions are usually fakes. If you really want to turn Mitsubishi Corporation UK into a great company run by British people, the problem for Tokyo is who is going to control these top British managers? The Japanese staff worry about that. If I was a British person I would get a few years' experience with Mitsubishi, as an example of a very special Japanese company. You could even do a doctorate on it. Then because I would not get promoted, I'd leave. As a

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<sup>17</sup> Ibid, p.196

<sup>18</sup> Ibid, p.120

<sup>19</sup> Ibid, p.122

Japanese manager I was very dissatisfied with this, because I'd employ good staff and they would get experience and then go. Mitsubishi is a totally Japanese company - it works in the Japanese language, it has a feudalistic bureaucracy, which is very old fashioned and yet it tries to act globally so it is very contradictory. None of our 170 odd overseas offices are run by non-Japanese because they are not trusted.<sup>20</sup> But things will change because Japanese life-time employment is also going. Historically Japan did not have lifetime employment and it only applies to 40% of the workforce even now. It developed during the time of national expansion, when companies were hiring lots of people on cheap salaries, with the promise of lifetime security and better money in the future. It will take ten or twenty years to change, but when it does, it won't matter if employees are Japanese or not.<sup>21</sup>

Major changes are occurring in Mitsubishi Corporation's personnel system for Japan hired and some locally hired staff at the end of the 1990s. Seniority-based promotion has been weakened in favour of performance based

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<sup>20</sup> Since Kawamura made this comment, non-Japanese staff have been appointed as heads of some offices: Hamburg, Toronto, Atlanta and Wellington

<sup>21</sup> 1995 interview with Kawamura Mikio, who before retiring in 1995 to become a business professor at a Japanese university, was head of a committee looking into changing personnel policies for Mitsubishi worldwide. Kawamura is also a prize-winning essayist on Sherlock Holmes and has written several books, both on his experiences in London and on futures trading.

bonuses and it is proposed to reduce the number of grades from eight to four. The international staff system, which was set up in 1996 as a means of tracking and developing high potential locally hired staff, will be merged into this new system, with Tokyo headquarters taking over jurisdiction for the international staff. The heads of overseas offices will have part of their bonus decided on their effectiveness in training and promoting locally hired staff.

#### WILL MITSUBISHI CORPORATION EVER BECOME GLOBAL?

The success of these human resource based solutions to globalisation depends on the perceived business need for management potential locally hired, non-Japanese staff. It is not clear if a sufficient number of senior managers in Mitsubishi Corporation do perceive such a need. Management theorists may argue that even if this human resources-led solution to achieving the goal of corporate globalisation is unrealistic, a natural process of business-led globalisation will unfold anyway. The very process of creating and growing businesses should necessitate a diverse customer and employee base. But with Mitsubishi Corporation's bottom-up process of business development, centred on Japanese staff and with almost all authority concentrated in Japanese hands, this may not be an inevitable process at all.

If a company is purely profit-driven, the usual logic applied by management theorists predicts that globalisation will be a natural consequence of the drive for profitable growth. When it becomes apparent that a company must acquire customers beyond its home country in order to remain profitable, it will eventually need to involve the local staff and community of the other countries in which it operates in order to become close to the new customer base. As a result, knowledge sharing and creation will become globalised, which almost inevitably means the knowledge itself will be codified in English.

As described in the previous section, quite the opposite trend is seen in Mitsubishi Corporation. Developments in information technology have enabled Mitsubishi Corporation's knowledge management to become even more Japanese-based. This inevitably means that knowledge creation and business creation is Japan-based. Therefore, it may be necessary to reverse the normal

logic of globalisation. An enforced change in the corporate language of knowledge – to English – may be necessary to globalise the business of such an information-intensive service sector company. Doing this through a senior management edict has not worked in Mitsubishi Corporation, as almost all senior management are native Japanese speakers, who do not see why they should use English to communicate with each other.

Therefore, a human resource based solution may be the only way to change the language and globalise the business after all. Once a sufficient number of senior and powerful managers have been appointed, who are not native speakers of Japanese, the common language will have to change.

Of course, non-Japanese managers could learn to speak Japanese but, as argued in previous sections, the reliance on the Japanese language and culture to create a market niche and a competitive advantage for Mitsubishi Corporation is one of the factors which has diverted attention away from globalisation. There is a strong impact on the mindset and on business in continuing with Japanese as a corporate language. When the common language has changed to a global language, then global knowledge sharing and creation can occur, and business development will globalise. This can be characterised as ‘forced’ globalisation, as opposed to the ‘natural’ globalisation process where the globalisation of business comes first, in the pursuit of profit. (See Figure 9.1).

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Imposing a group of non-Japanese people onto senior management positions is a radical step for any Japanese company. Knowledge sharing requires trust as well as a common language. It will take a while for this trust to build up between the stereotype homogenous Mitsubishi Japanese ‘gentlemen’ and any disparate group of outsiders. This difficulty is compounded when, as in many Japanese companies, profit continues to be secondary to the cultural legacy of serving the nation and therefore the business need to globalise is not strongly felt.

Does it matter if Mitsubishi Corporation continues to see its *raison d'être* as representing Japan? Mitsubishi Corporation's profitability has suffered over the past few years because of its close links to the Japanese economy and other Asian countries. 'MC2000' is the mid term plan put forward in 1998 to remedy this lack of profitability. It focuses on four business areas: energy and resource development, information services and systems, foods and food products and project development.

The geographical focus for these business areas is not specified, but it is notable that in Mitsubishi Corporation, the first three business areas have over the past few decades been geared towards the Japanese market: securing fuel, minerals and foods for resource-poor Japan and more recently, locating and licensing foreign information technology for the Japanese market. Project development could of course be undertaken anywhere in the world, but again, in Mitsubishi Corporation such projects have traditionally used Japanese equipment and Japanese overseas development assistance. It is notable that chemicals, steel and automobiles are not on the list of target areas, presumably because they are no longer seen as vital to the well being of the Japanese economy, and are highly globalised industries, in which Mitsubishi Corporation may lack a strong competitive advantage.

Similarly, MC2000 specifies three functions which Mitsubishi Corporation is to strengthen: finance/merchant banking, retailing/distribution and information technology. The first function is being developed in direct response to the Japanese 'Big Bang' liberalisation of the Japanese financial market, although it also encompasses investment funds set up in Asia and the US. Mitsubishi Corporation's retail and distribution activities are mainly Japan-focused and recent news of Mitsubishi Corporation's forays into e-commerce suggests that the information technology function will mostly be utilised in Japan too.

In a globalising world, perhaps it is not axiomatic that a multinational must also globalise to survive. But it must surely globalise if it wants to grow. Without growth it may continue to make a small profit, but it will lack vitality. Without vitality it will not be able to recruit and retain the most able people. It will be

vulnerable to attack because it lacks the skills and experiences that more globalised companies may have acquired.

There are signs that Mitsubishi Corporation may look to Asia again for growth. Indeed, the mainstay of Mitsubishi Corporation's business in Asia, the automotive sector, is beginning to pick up again in 1999. Perhaps this and the eventual upturn in the Japanese economy will be enough to revitalise the company. Maybe in less matured, less service sector oriented markets, intensive, globalised knowledge sharing and globalised management is not so vital for success.

If so, as it has in the past, Mitsubishi Corporation may yet overcome another questioning of the need for Japanese trading companies. It may even significantly contribute towards Japan's revival, allowing the country to face the next century from a renewed position of strength. For a company with a legacy and culture such as Mitsubishi Corporation's, achieving this may be satisfaction enough. For its British subsidiary, operating in the globalised City of London, the struggle to find a key role in representing and reviving Japan has begun once more.<sup>22</sup>

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<sup>22</sup> This final chapter represents the views of the author and not of any of the official representatives of Mitsubishi Corporation.