Knowledge Organization(s) in Japan – Empirical Evidence from Japanese and Western Corporations

Abstract: With the recognition of knowledge as an essential resource of organizations as well as a company’s only enduring source of competitive advantage in an increasingly dynamic world, knowledge management (KM) seems to have become a ubiquitous phenomenon both in the academic as well as in the corporate world. This paper presents insights from a current research project on knowledge transfer, creation and sharing in a cross-cultural context. Applying a case study research design, an empirical study using qualitative interviews with managers and other corporate staff was conducted in Japan in 2005 and 2006. I will look at critical recent issues in the context of knowledge organization(s) in Japan and try to identify and analyze differences in Japanese and Western approaches to knowledge management, transfer and creation. This paper also highlights relevant factors of influence on the knowledge transfer process within multinational corporations and points to the crucial issue of knowledge retention which has emerged recently in Japan.

1. Knowledge Management and Knowledge Creation

With the recognition of knowledge as an essential resource of organizations as well as a company’s only enduring source of competitive advantage in an increasingly dynamic world, knowledge management (KM) seems to have become a ubiquitous phenomenon both in the academic as well as in the corporate world. In fact, it has turned into one of the most prominent and widely discussed management concepts of the post-modern era. Publications on knowledge management are legion, and business practitioners do not fail to stress its importance for the competitiveness of their corporations. Even though KM has also been analyzed and discussed as a management fad and within the framework of management fashion models (cf. e.g. Scarbrough et al., 2005; Scarbrough & Swan, 2001; Skyrme, 1998) to explain its diffusion and “strong rhetorical appeal” (Alvesson et al., 2002: 282), no management scholar or practitioner is likely to disagree with Newell and fellow researchers’ (2002: 2) pronouncement to the effect that “[m]anaging knowledge and knowledge workers is arguably the single most important challenge being faced by many kinds of organizations across both the private and public sectors in the years to come”.

Emerging from Japan, Ikujiro Nonaka’s publications and his theory of knowledge creation (e.g. Nonaka, 1994; Nonaka & Takeuchi, 1995) have drawn the attention to Japanese firms as knowledge-creating companies, a feature that supposedly has helped them to create the dynamics of innovation and to become world leaders in the automotive and electronics industries, among others, in the 1980s and the beginning of the 1990s. The difference, it was argued, between Japanese and Western firms, lies in the focus on tacit knowledge of the former and explicit knowledge of the latter (Hedlund & Nonaka, 1993; Nonaka & Takeuchi, 1995; Takeuchi & Nonaka, 2000) and this Japanese firms’ particular ability to create knowledge has also been received and acknowledged by Western scholars (e.g. Davenport & Prusak, 2000; Holden, 2002; Leonard, 1998). In fact, this is also closely related to two different paradigms in organizational theory and management practice: the information-processing paradigm which led to a rather technical concept of knowledge management focusing on information technology (IT) and implicit knowledge and the
knowledge creation paradigm which emphasizes intellectual capability and human creativity and tacit knowledge (Ichijo, 2002, 2004). Wiig (2004, p. 338), for instance, defines knowledge management as „[t]he systematic, explicit, and deliberate building, renewal, and application of knowledge to maximize an enterprise’s knowledge-related effectiveness and returns from its knowledge and intellectual capital assets.”. In contrast to that, Nonaka and Takeuchi (1995, p. 3) mean “the capability of a company as a whole to create new knowledge, disseminate it throughout the organization, and embody it in products, services, and systems” by organizational knowledge creation and develop a dynamic model of this process.

2. International and Cross-cultural Dimensions

Scholars and practitioners around the globe have identified the capability of multinational corporations (MNCs) to create and efficiently transfer and combine knowledge from different locations worldwide as an increasingly important determinant of competitive advantage, corporate success and survival (cf. e.g. Asakawa & Lehrer, 2003; Bartlett & Goshal, 2002; Doz et al., 2001; English & Baker, 2006; Gupta & Govindarajan, 2000; Schulz & Jobe, 2001). Indeed, the process of knowledge transfer between business units is an essential aspect of KM (Bresman et al., 1999) and knowledge transfer capability is one of the most important advantages of MNCs as it is “[t]hrough the transfer and adaptation of knowledge, subsidiaries of MNCs build and develop their competitiveness over local firms” (Tseng, 2006: 121). According to Schulz (2001), the management of knowledge flows is especially important for MNCs because they operate in geographically and culturally diverse environments. Since strategically important knowledge is geographically dispersed in the business environment of most global firms (Asakawa & Lehrer, 2003), MNCs can derive great competitive advantage by managing knowledge flows between their subunits with differences between local markets requiring adaptation of products and operations to local conditions (Haghirian & Kohlbacher, 2005; Schulz & Jobe, 2001). Doz et al. (2001: 219) point to the important fact that MNCs will have to shift from merely being global projectors of knowledge to so-called metanational companies, which means “exploiting the potential of learning from the world by unlocking and mobilizing knowledge that is imprisoned in local pockets scattered around the globe”. Nonaka (1990: 82) terms the cross-border synergistic process of joint knowledge creation as ‘global knowledge creation’ and sees it as the key process of globalization. Here again, “[t]acit knowledge, embodied in individual, group and organizational routines, is of critical strategic importance because, unlike explicit knowledge, it is both inimitable and appropriable” (Al-Laham & Amburgey, 2005: 251; Spender, 1996).

According to Holden (2002: 81), “[o]ne of the problems in the knowledge management literature is that authors give the impression that knowledge management operates in a kind of unitary vacuum, in which diversity in terms of language, cultural and ethnic background, gender and professional affiliation are compressed into one giant independent variable, which is in any case pushed to the side”. In fact, it is obvious that cultural differences and the cross-cultural context play an important role for and influence global knowledge creation and management (cf. e.g. Holden, 2001, 2002; Holden & Von Kortzfleisch, 2004). Zhu (2004: 74) for instance questions the popular claim that KM is becoming a universal management concept and correctly notes that such a universal concept would not only be unrealistic but even counterproductive and thus undesirable as well. However, the problem how cross-cultural differences influence KM has received too limited research attention so far (Edwards & Kidd, 2003; Ford & Chan, 2003; Zhu, 2004) and “the literature is almost silent on knowledge management in its cross-cultural dimensions” (Glisby & Holden, 2003: 29).
3. Aim and Scope of the Paper

This paper presents insights from a current research project on knowledge transfer, creation and sharing in a cross-cultural context. Applying a case study research design, an empirical study using qualitative interviews with managers and other corporate staff was conducted in Japan in 2005 and 2006. The cross-cultural context is given by the work settings in MNC with either headquarters or subsidiaries in Japan. As a matter of fact, KM experts have frequently pointed to Japanese companies as role models of knowledge organizations for their Western counterparts and Japanese scholars play a leading role in the development and advancement of empirical research and theory in the fields of knowledge creation and KM (see above).

Therefore, the empirical study underlying this paper aimed at identifying and analyzing differences in Japanese and Western approaches to knowledge management and in the process of sharing and transferring knowledge in corporations. This paper highlights relevant factors of influence on knowledge transfer within corporations and points to the critical issue of knowledge retention which has emerged recently in Japan.

4. Research Methodology

In order to analyze the process of knowledge creation and transfer in MNCs, this study adopted an exploratory research strategy. Indeed, qualitative research, rather than traditional quantitative empirical tools, is particularly useful for exploring implicit assumptions and examining new relationships, abstract concepts, and operational definitions (Bettis, 1991; Weick, 1996).

One important objective of this study is to conduct an analysis of different patterns and ways of knowledge creation and transfer within MNCs that helps to develop new hypotheses and build theory on how companies can efficiently and successfully do so and thus contribute to the theory of knowledge creation in an international context and to develop constructs that facilitate future hypothesis testing. As case studies have an important function in generating hypotheses and building theory (cf. e.g. Eisenhardt, 1989; Hartley, 1994, 2004; Kohlbacher, 2005), I chose a case study research strategy.

The research was conducted over a period of more than one year and involved triangulation among a variety of different sources of data including the conducting of both formal and informal on- and off-site interviews (Kvale, 1996; Rubin & Rubin, 1995) with manager as well as scholars and other experts in the field, analysis of archival materials such company internal documents as well as articles in the business media (Forster, 1994; Hodder, 2000), and an evaluation of existing case studies and other relevant literature (Yin, 2003). In total, qualitative interviews with more than 70 top executives, middle managers and selected employees in more than 20 different MNCs – Japanese, European and US American – have been conducted in 2005 and 2006 in Japan. Where necessary and appropriate, supplementary interviews were conducted at headquarters or subsidiaries in Kolín, Czech Republic, Vienna, Austria, and Munich, Germany. For the research on two companies, I used participant-observation (Waddington, 2004; Yin, 2003) in addition to interviews with key persons and worked on the researched project as a part-time employee for several months in Tokyo.

Unless no permission was given or unless it seemed inappropriate for other reasons, all interviews were recorded and authentically transcribed. In the course of the qualitative interviews, semi-structured questions in accordance with the theory of organizational knowledge creation within firms were employed. The interview-partner could nevertheless answer openly and lead the interview mostly. After transcription, the interviews were coded and analyzed according to Mayring’s qualitative content analysis, which "an approach of
empirical, methodological [sic] controlled analysis of texts within their context of
communication, following content analytical rules and step by step models, without rash
quantification" (Mayring, 2000, [5]; cf. also Kohlbacher, 2005). Finally, as Kohlbacher
(2005) has shown, there are synergy effects of using qualitative content analysis in case study
research and he argues strongly in favor of this combination.

As for sampling, I opted for purposive sampling and theoretical sampling. The former is
essentially strategic and entails an attempt to establish a good correspondence between research
questions and sampling, as the researcher samples on the basis of wanting to interview people who are relevant to the research questions (Bryman, 2004). Theoretical sampling entails sampling interviews until your categories achieve theoretical saturation and selecting further interviewees on the basis of one’s emerging theoretical focus (cf. Bryman, 2004; Glaser & Strauss, 1967; Strauss & Corbin, 1990). Hence, both the sample companies as well as the interview partners were chosen on the basis of their potential to contribute insights to the research questions – e.g. according to extant literature, studies, and the evaluation of experts such as the MAKE (Most Admired Knowledge Enterprise) award (cf. e.g. English & Baker, 2006) – and because they offered a variety of different approaches to knowledge creation and transfer (Eisenhardt, 1989).

5. Findings

This section summarizes the most important intermediate findings from the explorative empirical study. The expert interviews and the in-depth case studies of the companies helped to generate essential hypotheses on KM and knowledge organization(s) in Japan. These hypotheses are presented in the form of research propositions on the following topics:

1) **Knowledge organization in Japan**
   1.1. Japanese knowledge organization seems to be more people-centered with a focus on tacit knowledge and face-to-face communications, while its Western counterpart concentrates more on IT tools and explicit knowledge
   1.2. as the majority of foreign firms’ employees in Japan are Japanese, theses differences are less obvious and significant and the Japanese way dominates

2) **Transfer of knowledge in MNCs in Japan**
   2.1. transferring knowledge between headquarters and subunits is an important issue for both Japanese and Western MNCs
   2.2. in addition to the transfer of existing knowledge, creating new knowledge locally and then disseminating the knowledge globally becomes more and more critical for companies
   2.3. language and cultural differences seem to be the most decisive factors of influence on knowledge sharing in a cross-cultural context

3) **Aging workforce and knowledge organization in Japan**
   3.1. possibly huge loss of knowledge due to mass retirement in firms in Japan in 2007 (*nisennananen-mondai*, year-2007 problem)
   3.2. knowledge retention and the passing on of tacit knowledge from elderly experienced employees to their successors has become a critical issue in Japan

6. Discussion

In this section, I will briefly discuss the research propositions in the context of the extant literature.
6.1. Knowledge organization in Japan

The two research propositions here seem to be in line with the extant literature on knowledge organization in Japan. Takeuchi and Nonaka (2000) for instance, summarize the fundamental differences between the Western approach to knowledge (KM) and the Japanese approach to knowledge (knowledge creation) as follows:

– how knowledge is viewed: knowledge is not viewed simply as data or information that can be stored in the computer in Japan; it also involves emotions, values, hunches;
– what companies do with knowledge: companies do not merely “manage” knowledge, but “create” it as well;
– who the key players are: everyone in the organization is involved in creating organizational knowledge, with middle managers serving as key knowledge engineers. (p. 184)

Indeed, while “the focus in the West is not on knowledge per se, but on measuring and managing knowledge”, the Japanese emphasize on the cognitive dimension of knowledge and see organizations as living organisms rather than machines for processing information (Takeuchi, 2001: 317, 321). Furthermore, in contrast to the Western predominance of intensive reflection at the individual level, in the Japanese firm, the primacy is at the organizational and group level: quality circles, ring systems, long working hours followed by collegial after-hour talk and drinking are all mechanisms to encourage sharing of knowledge (Hedlund & Nonaka, 1993).

6.2. Transfer of knowledge in MNCs in Japan

As Hansen and Nohria (2004: 22) correctly note, the ways for MNCs to compete successfully by exploiting scale and scope economies or by taking advantage of imperfections in the world’s goods, labor and capital markets are no longer profitable as they once were, and as a result, “the new economies of scope are based on the ability of business units, subsidiaries and functional departments within the company to collaborate successfully by sharing knowledge and jointly developing new products and services”. Indeed, the interviews confirmed that both Japanese and Western MNCs in Japan are well aware of the importance of transferring knowledge between headquarters and subunits and vice versa – as well as between subunits.

Besides, more and more companies realize that they need a new approach for their global business development which includes learning about unique local needs and requirements, adapt to them while doing global coordination for the operational excellence, and shift responsibility to local staff. This need to unlock the potential of globally dispersed knowledge has been called ‘the meta-national imperative’ (Doz et al., 2001) and the term ‘front-line management’ has been used to describe a form of management, where “the workplace is recognized and valued as the center of knowledge creation and in which knowledge-creation resources […] and processes […] are concentrated at the front line of the company” (Yasumuro & Westney, 2001: 178). The fact that in basically any company, “critically important knowledge resides in the workplace – on the factory floor, within sales and service organizations that deal directly with customers, at the “bench” in the R&D lab”, in short at the “front lines” of the company (Yasumuro & Westney, 2001: 178), underscores the importance of tacit knowledge and the need for involving local staff in the process of creating and disseminating local knowledge globally.

Moreover, a recent study on the transfer of knowledge from Japanese MNCs to their subsidiaries abroad revealed the following three factors as especially influential on the
knowledge flow: the experience of having lived in a foreign country by the knowledge receiver (negative), a high proficiency in Japanese (positive), and a low perceived cultural difference towards Japan (positive) (Haghirian & Kohlbacher, 2005). While the former two aspects can be seen as rather neglected factors in prior research (see e.g. Marschan-Piekkari et al., 1999 for language), the latter aspect has been treated extensively (e.g. Hennart & Larimo, 1998; Shenkar, 2001; Williams et al., 1998). However, results and conclusions on the actual impact of cultural distance vary greatly (e.g. Brouthers & Brouthers, 2001; Manev & Stevenson, 2001), with the mainstream arguing for a negative influence, even though some also make a strong claim for a positive impact (e.g. Morosini et al., 1998). Cultural distance has been defined as “the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to knowledge flow and hence also for other flows between the home and the target countries” (Luostarinen, 1980: 131-132, cited in Barkema et al., 1997: 427-428). Johanson and Vahlne (1977: 24) use the term psychic distance and define it as “the sum of factors preventing the flow of information from and to the market”, with examples being “differences in language, education, business practices, culture, and industrial development”. Especially in Japan with its unique culture, the cultural and psychic distance as well as the fairly high language barrier play an important role for doing business and sharing knowledge.

From the above, it has become clear that internal knowledge transfer is not an easy task for MNCs and that “[they] need to apply different organizational mechanisms in order to facilitate knowledge transfer and depending on the specific characteristics of the knowledge” (Foss & Pedersen, 2002: 65). This might also be one of the reasons why many MNCs face difficulties in implementing proper KM structures and in coordinating their knowledge flows successfully (cf. e.g. Haghirian & Kohlbacher, 2005; Kasper et al., 2005a, 2005b).

6.3. Aging workforce and knowledge organization in Japan

In 2005, Japan’s aging population was shrinking for the first time, and so is its labour force (The Economist, 2005). By 2024, more than a third of the population will be over age 65—one of the developed world’s largest proportions of elderly citizens, and as a result, during the next 20 years, the financial wealth of Japanese households will stop growing and begin to decline (Farrell & Greenberg, 2005; McKinsey Global Institute, 2004). In fact, Japan is experiencing the fastest demographic changes among the leading industrial nations, and these changes have obvious impacts on labour markets and employment practices (Dirks et al., 2000). As particular features of the Japanese employment system – such as ‘lifetime employment’ and ‘seniority based promotion’ e.g. – have also been relevant in the context of knowledge creation and sharing (cf. e.g. Dirks et al., 2000; McCormick, 2004; Pudelko, 2004), the significance of an aging workforce for knowledge management (KM) issues such as knowledge retention is obvious (DeLong, 2002, 2004; Parise et al., 2005; Tempest et al., 2002).The possibly huge loss of knowledge due to mass retirement in firms in Japan in 2007 has been termed ‘nisennanannen- mondai’ (year-2007 problem) and as a result, knowledge retention and the passing on of tacit knowledge from elderly experienced employees to their successors has become a critical issue in Japan.

7. Limitations and Need for Further Research

Although carefully researched, documented and analyzed, the findings from my study are subject to some limitations. First of all, the insights gained were derived and concluded from an exploratory study adopting a case study research design and are thus based on single – each probably rather unique – cases, even if this is exactly what case study research is all about (Stake, 2000). Indeed, the common limitations of generalizability of such field research
are well documented (cf e.g. Eisenhardt, 1989; Hartley, 2004; Yin, 2003), though analytic
generalization – in contrast to statistical generalization – is possible (Hartley, 2004; Yin,
2003).

Moreover, the findings presented in this paper are only first – albeit essential – results
from an empirical study which is in its final stage of research and analysis but is still to bear
more insights and more detailed analyses. Last but not least, due to the exploratory nature of
the study, there is need for further evaluation and testing of the gained insights and generated
hypotheses.

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