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Japanese companies should localize leadership in India

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Japan, second largest foreign employer in India

While Japan has long had a presence in India, the spike in its investment activities and influx of new companies can be attributed more to the recent ten years. Japanese companies across the sectors of manufacturing, services, banking, healthcare and technology have invested more than 300 billion USD in India between 2000 Apr.-2014 Feb., according to India NIC. They have set up large manufacturing facilities, logistics hubs, R&D centers and employ thousands of local talent.

A rough estimate of the number of Japanese companies operating in India is in excess of 1500. Some of the big Japanese players in India include the usual suspects of Toyota roughly employing 10K staff; Suzuki – 25K; Toshiba – 8K; Hitachi – 9K; Honda – 15K; Panasonic – 8K and so on (these staffing numbers include the payroll + temporary staff + those employed in the JVs and ancillaries).

Japan crowns itself as the second biggest foreign employer in the Indian market after USA. It is also a known phenomenon that Japanese have been quick to establish assets, scale up revenues, build brands as household names and sustain their business growth comparable if not better than local Indian competition or for that matter as compared to other global players operating in India.

Japan seeks newer avenues of growth in investment in India:

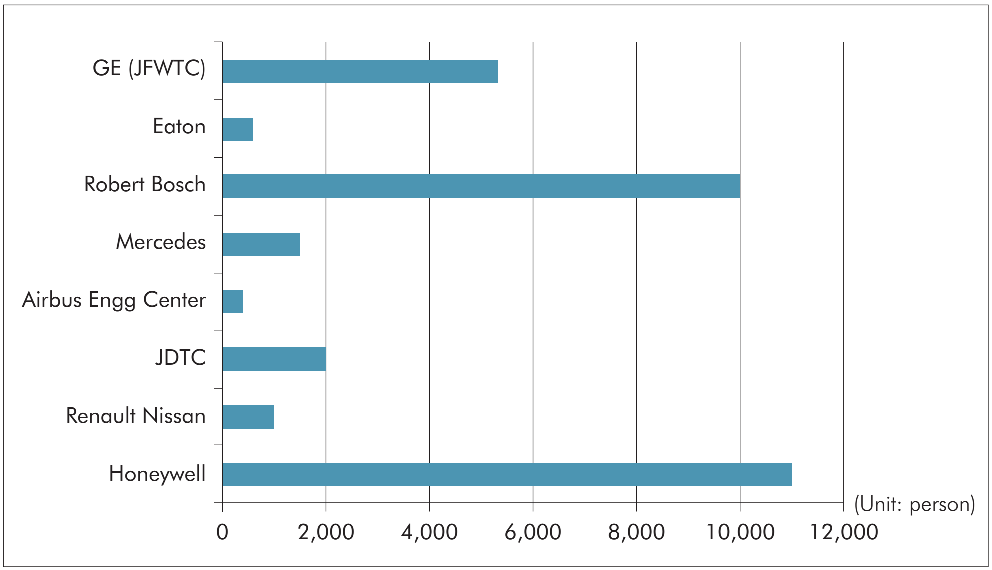
In the year 2013-2014, the total FDI pouring into India was 35 billion USD, out of which Japanese investments alone was roughly 4 billion USD (Source: India NIC).
Japan targets newer areas for investment which are supporting infrastructure growth and sourcing technical strengths.

Infrastructure growth: They are co-promoting along with local institutions some large infrastructure projects such as smart cities, special economic zones, freight corridors, mass transport, power & transportation infrastructure amongst others. DMIC (Delhi Mumbai Industrial Corridor), an apex holding company will set up the largest freight corridor between two of India's biggest commercial cities Delhi & Mumbai.

Sourcing technical strengths: The second avenue which Japanese companies are exploring or will explore will be tapping into the vast technical prowess of India. India adds '1million' workforce every month, it has to find employment opportunities to such a large population. While the bulk of the talent is at best befitting for carrying out non-technical activities, what is noteworthy is 200K engineers produced annually by Indian engineering colleges. India has achieved the status of being the design & engineering capital of the world. Honeywell, a leading aircraft technology company employs more than 11K highly qualified engineers in India for their global product development mission. There are similar outfits set-up by Boeing and by automotive companies such as GM, Ford, Mercedes, Caterpillar, John Deere and the list goes on to well over 100 companies. These engineering centers provide the cost arbitrage but more than cost, they bring in superior technical capabilities.

In this space, Japanese companies such as NTT, NEC, Toshiba and the likes are showing initial interests to tap into engineering capabilities in India for their global product development & technology innovation requirements. Japanese companies are investing in Indian R&D centers and soon will integrate India into their mainstream product design areas.

Number of Staff employed at
Engineering & product development centres in India (as of 2014 Nov.)



(source:RGF)

It's time for Japanese companies to relook at their India-management structure

Japanese corporates conducting business in India are perceived as highly centralized with all dictates coming from Tokyo. They are locally headed by Japanese expats who collect data, gather and interpret the local insights and relay to the headquarters almost on a real time basis. Information flows upwards to Tokyo and decision advice flows downwards from the headquarters. This centralized control system has worked so far when the scale of Indian operations was relatively small, now things are changing for the Indian subsidiaries and time is ripe for localization of leadership and decentralization of decision making. In this context, Japanese companies are revisiting the following management structures they have created before making permanent changes:

1. Two in a box stands archaic:

Japanese companies in India seem to have cultivated the luxury of dual leadership in positions at CXO levels. Be it COO, CMO, CFO and sometimes head of treasury, risk and other functions with higher commercial quotient. The way it works is: the dual leadership consists of one Indian manager who manages the local interface with external & internal stakeholders and a Japanese expert who consolidates all information and works with headquarters. The trend now is to dispense with this mode for faster and more economical way of functioning in an enterprise. The Japanese are gradually beginning to realize that certain functions can be handled by local Indian managers better, even though Indian managers cant speak Japanese (BTW it's almost impossible to get Japanese speaking Indian management staff). They will be best placed if this trend fast converts into a widespread reality.

2. Local CEOs to replace expat CEOs:

Looking at our partners, almost 90 to 95% of Japanese companies in India seem to have Japanese expats as CEO. Typically, the expat CEO come into India for a fixed tenure of 3 yrs and then are replaced by a new expat. This policy is bringing discontinuity and instability in leadership. As one Japanese expat CEO put it, we should either employ local CEO or have a longer timeframe for the expat CEO in India, as India is too difficult to understand and consequently for the CEO to make a strategic impact in 3 yrs. The popular argument in favor of local CEOs is, when global corporations such as Pepsico, Microsoft, VISA, Citibank can be run by Indian educated Indian origin CEOs, why can't the Indian subsidiaries of global corporations be run by them?

3. Japanese are institutionalizing best practices before decentralizing & localization:

The reason for Japanese to prefer Japanese expats over Indian managers is simple. It is the management style. Japanese executives wherever they operate, they function as per global operating manuals and templates, they are data driven, pursue KPIs and business plan is sacrosanct. Indian managers are creative, they ideate a lot, come up with innovative ideas for diversification & expansion. Indian managers are often impulsive, driven by short term individualistic achievements. The best combination therefore seems to be having an Indian CEO, tightly monitored by a local board & it's Chairman who could be Japanese. If the Indian CEO has prior Japanese experience, it would be ideal.

Conclusion

To conclude, Indo-Japanese collaboration in India is successful because of continued Japanese investments, adaptation of Indian managers to Japanese requirements and increasing reliance of Japanese headquarters on local leadership. One day sooner than later, there will be more local CEOs and leadership staff in Indian subsidiaries of Japanese companies than expats resulting in cost savings, better management focus and sustainable business model.

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R Suresh (RS) has become the Managing Director of RGF India, responsible for all RGF practices in India. RS has more than two decades of experience in the search industry, primarily in India and a multi-faceted background in consulting, manufacturing, sales & distribution, supply chain and projects, which enables him to relate to candidates and clients in diverse sectors. He is an Engineer and a Master's Degree holder in Industrial Engineering from NITIE.

Profile

This column has been posted to the website of Recruit Works Institute.