Global acquisition and knowledge transfer —
a case study of company D

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Abstract

Knowledge transfer, acting through capital, technology and people, is typically accompanied by globalisation. This paper examines a case of such transfer, paying attention to some theoretical implications of the political economy of Japanese business. It looks at the corporate culture, production systems and industrial relations of a British firm (herein ‘D’) which was taken over by a Japanese textile trading company (S), and in particular at the change from a line system to a flexible group system in production, representing a paradigmatic change from Fordism. Under Japanese ownership, managerial control increased, though without degrading working conditions; how far this ‘miracle’ will go remains to be seen. This paper thus examines the dialectical process of capitalist knowledge transfer, suggesting that it will provide opportunities for innovation in management, but within the strictures of capitalist development. © 2000 Elsevier Science Ltd. All rights reserved.

Keywords: Globalisation; Knowledge transfer; Production systems; Industrial relations; Fordism; Ownership; Corporate culture; Dialectical process; Line production; QRS (quick response system)

1. Introduction

To date, transfers of Japanese management and production systems have been discussed from three broad points of view: the “Japan model”, with an explicit or implicit assumption of its competitiveness (Womack, Jones & Roos, 1990; Kenney &
Florida, 1993; Aoki & Dore, 1994), “Japanisation”, a UK and Japanese approach whose focus is to identify area and degree of managerial transfer (White & Trevor, 1983; Oliver & Wilkinson, 1988; Bratton, 1992; Abo, 1994), and “Globalisation”, which sees the transfer of Japanese management in the context of an international production and globalisation process (Dunning, 1986; Morris, 1991; Strange, 1993; Elger & Smith, 1994). The first and second approaches share a basic assumption that institutional arrangements are related to “competitiveness”. From this assumption emerge various views, ranging from the realistic, such as “learn from” or “compete with” concepts, to more academic objective analyses, as in Aoki and Dore. The third group focuses upon foreign direct investment (FDI) and its impact upon economic and corporate relations. Elger and Smith, however, unlike others in this area, suggest a labour process approach for Japanese globalisation.

This paper differs from the above three in two ways: first, in regarding the transfer of management as a transfer of innovative knowledge, and second, in linking three important areas — globalisation, transfer of management and industrial relations — as one issue and examining them as a single integrated phenomenon of the political economy of Japanese business. More specifically, I seek to locate the case study in a context of pro-active and reactive globalisation (Hasegawa & Hook, 1998), and consider the transfer of management (capital, production systems, and industrial relations) as a manifestation of a dialectical process3 of capitalist knowledge transfer. Pro-active globalisation means an economy which promotes globalisation by active foreign direct investment (FDI) (e.g. Japan in the early 1990s). On the other hand, reactive globalisation means an economy which promotes globalisation by inviting inward investment from abroad (e.g. the UK in the 1980s and early 1990s; DTI, 1994; Dunning & Narula, 1996).

2. Acquisition and knowledge transfer4

In the mid-1970s, the burgeoning Japanese economy began to slow down and shift to low growth, influencing corporate strategies from goals of quantitative growth to qualitative, high-profit development (Hasegawa & Hook, 1998). A Japanese company S, established in 1920, which was successfully expanding as a textile trading company during the high growth period, also responded to this change, adopting a new strategy for high profitability. This resulted in the purchase, in the early 1970s, of a licence from a British company D to both sell and manufacture their expensive UK-made products in Japan (Senken Shimbun, 1994a; Baring Brothers Ltd, 1996).

D, at the time of acquisition, was a family firm owned and managed by its third successor, but it was suffering sales decline in both domestic and continental European markets (The Times, 1991). This stemmed mainly from a drop in product qual-

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3 Management is seen as reality which manifests as a process of change, interrelationships and contradiction, thus transforming itself as an evolutionary process by human choice.

4 This section is based upon the interview made at head office of company S in Sept. 1997.
ity and inappropriate marketing. With its innovative energy apparently exhausted over the previous few decades, it came to rely on the licence business in Japan, with sixty per cent of its income deriving from there. When domestic economy is not growing and entrepreneurship has for too long shown low innovation, management attitudes tend to become complacent — the cause of failure is explained as if it exists somewhere else rather than “at home”. It is often found that entrepreneurship in a company tends to decline when its management enters the third or fourth generation.

It is not easy to recover once a company has started on a downward course, unless radical change takes place; this, however, rarely comes from within the firm itself. D was in just such circumstances, with profits falling from £6.2m in 1988 to £5.3m in 1989 and even further to £4.2m in 1990 (Investors Chronicle, 1991). It was against this background that the Japanese company S was offered the opportunity of acquisition.

Negotiations began in 1989, and D was finally taken over on 22nd February, 1991. The purchase price was £6.5 million, inclusive of all assets both tangible and intangible. The family shareholders, led by Mrs S, Mrs S’s daughter Mrs A, and half-brother Mr M, accepted the bid from S, which as we have seen had had a long licence association with D (Financial Times, 1991; The Times, 1991).

This acquisition took place in the climate of the 1990s, when Japan was still in a period of pro-active globalisation and the UK in reactive globalisation (JETRO, 1995, 1997). In effect, the takeover meant that D’s hallmark of British tradition was purchased by a Japanese company who needed to invest in order to survive and develop in the maturing economy of Japan. It was thought that if S had not purchased it, some other company, a competitor of S, would have done so (The Times, 1991).

The acquisition of D by S was not then a case of green-field investment as seen by Sony and Toyota, but regeneration of an existing corporate culture and tradition in order to tackle global competition. For S there were two important objectives: to maintain the brand image of D products, and to regenerate the organisation of company D. This implied that S would regenerate the management of D, while maintaining its brand image. In the next section we will investigate what changed in the management of D after this process.

2.1. The transformation of corporate culture

Corporate culture is the ethos of a business organisation. It manifests in the mind and attitudes of employees and is translated into the style of management and organisation of a company. It influences how employees think and behave in the company.

Table 1 compares management style before and after acquisition. It is a summary of a questionnaire given to two directors of D Group Plc., two directors of D’s plant in Larkhall in Scotland and a union leader in the plant. One group director and one plant director are Japanese personnel dispatched from S. These are the people who took the initiatives to change the old management style. The other recipients of the questionnaire are British personnel with long service prior to acquisition, who remained with the company after the event. The unionist has an extensive history
Table 1
Comparison of management style: before and after acquisition*

<table>
<thead>
<tr>
<th></th>
<th>Management-style before acquisition</th>
<th>Current management style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate culture</td>
<td>Personal management. Board to comply with family shareholder</td>
<td>Professional management. Collective decision-making but all to be agreed by shareholders in Japan</td>
</tr>
<tr>
<td>Strategic behaviour</td>
<td>No strategy</td>
<td>Development and innovation</td>
</tr>
<tr>
<td>Organisation</td>
<td>Fragmentation of organisation</td>
<td>Integration of production, merchandising and marketing</td>
</tr>
<tr>
<td>Production system</td>
<td>Line production</td>
<td>QRS production system</td>
</tr>
<tr>
<td>Approach to human resources</td>
<td>Wage/job index system</td>
<td>HRM and behavioural science</td>
</tr>
<tr>
<td>Wage/salary</td>
<td>Wages and salaries were average for area; top standard in same industry</td>
<td>Wages and salaries were average for area; top standard in same industry. No significant change in wages and hours, except “money purchase” appeared for pensions and profit-related pay introduced</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>Management/union conflict (union dictatorship)</td>
<td>Co-operative industrial relations</td>
</tr>
<tr>
<td>Working conditions</td>
<td>Working conditions reasonable but workers had no involvement in determination of conditions</td>
<td>Conditions improving e.g. humidification, temperature, training and job satisfaction</td>
</tr>
</tbody>
</table>

* This is a summary of a questionnaire to two directors of D Group Plc and two directors of the Larkhall plant and one union leader at Larkhall. Source: Questionnaire to the above people in June 1997.

of union activity, both in the plant and in the national organisation, of which he was once leader.

Corporate culture was the biggest of the initial changes to occur with the takeover. The present management is professional in nature, rather than a descendant of its founder family. Management style has thus moved from “autocratic” to “democratic”, and the business now serves not a family but the company itself. Previously, the Group had been under the highly personalised control of Mr J, related to the founders, who had served as chairman for forty years (Financial Times, 1992a). Personalised control was also exercised at the Larkhall plant in Scotland, under Mr K, an appointee of Mr J. Corporate culture in the plant was characterised by employees as “Do as K says” (Interview, 1997). Thus, both in company and plant, a typical owner/personalised management ethos existed; worker autonomy was very limited, and there was no incentive for innovation or input from employees.

After acquisition, management was appointed from within the company. Mr. F became Chief Executive of D (Financial Times, 1992b) and a director of S (Senken Shimbun, 1994b). External recruitment was used when suitable personnel were not available (Financial Times, 1993). Larkhall plant therefore acquired a new management team with internally promoted as well as externally recruited managers.
An element of democracy has thus entered the corporate culture and employees can listen, speak, think and respond to management, in marked contrast to the previous “Do it because I say so” style. Good communications within the organisation are now a key element of management and other changes were to follow, based on this. Two institutional factors feed into a management system based upon “democratic” principles: a management committee and localisation.

2.2. Management committee

Before acquisition there was no regular and systematic institution in which mid- and long-term corporate strategies could be drawn up. Development and innovation were dependent on an individual, namely chairman Mr J. This situation was more or less arbitrary and short-term.

After acquisition, a management committee was established and sits twice a year, once in Japan and once in Britain. These meetings discuss global strategy, mid- and long-term planning, issues of larger investments, long-term contracts and personnel matters relating to top management, and other topics such as the acquisition and renovation of the London store owned by D (Interview, 1997). This management committee decides the framework of corporate strategies and policies within which other more specific policies are made. Much of its strength lies in its combination of British and Japanese ideas, perspectives and analyses of current conditions for future strategies.

Under this framework it has become possible to integrate all sub-organisations into one coherent set of mid- and long-term management objectives. Until then they had existed fragmentally, as shown in Table 1, and there was no common and shared corporate objective, resulting in organisational inefficiency.

2.3. Localisation

The democratic principle was put into practice by localisation, which took place both in the top management of D and the plant. There is only one Japanese adviser to D in London and another in Larkhall. The degree of localisation reflects the level of local autonomy. Localisation implies that employees work with management under the same culture and also implies internal promotion. Japanese staff exist at the intersection between the top management in Japan and that in Britain.

However, this does not mean there is no Japanese influence; as shown in Table 1, all corporate-level important issues have to be agreed by the parent company in Japan, which is an implicit limit to local autonomy (Financial Times, 1992b). Localisation may be a means for realising autonomy, but only within the limitations of the overall global strategy of the Japanese parent company. Nonetheless, autonomy at company and plant levels is a new framework made possible by the acquisition.

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5 “Democracy” in the sense that employees are given more freedom and flexibility to contribute to the objectives of the company.
The top management of D currently consists of a part-time Chairman (Japanese), CEO (British), Finance (British), Secretary (British), Sales (2 British) and one Japanese adviser (Price Waterhouse, 1995).

2.4. Total quality management (TQM)

Before acquisition, TQM was not a particular concern for D. After acquisition an external consultant was hired to investigate problems within the organisation in order to assess benefits from TQM. Against the criteria of TQM, the results of the survey showed shortfalls (as of 1995), and listed the following points (D, 1995).

1. Organisational culture: need to eliminate remaining influence of autocratic management and to integrate values in different organisations
2. Management: need for long-term objectives
3. Communication: need for open communication within institutions
4. Indirect departments: need to solve problems influencing production
5. Customer-led management: need for flexible response

The above points correspond to the responses shown in Table 1. The present management has succeeded in eliminating the fragmentation of values in the different organisations, thus integrating values in production, merchandising and marketing organisations. As is shown in the next section, production methods are changing from the old line production to a Quick Response System (QRS), which means the adoption of a flexible human resource approach.

2.5. Production systems

The biggest change after acquisition was in production, from line to U-shaped team production, which is a focal point in the “post-Fordist” discussion (Bonefeld & Holloway, 1991; Kato & Steven, 1993; Shiomi & Wada, 1995). Workers are now no longer used by the machines, but use them, effectively removing stress deriving from the speed of line production. The flexible team production now in operation is a process in which productivity and quality can be determined. This type of production system is generated by market requirements. It is itself a product of technology and social relations, which become apparent in various rules and practices.

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6 This includes the following points used for assessment of quality management: customer led quality, leadership of top management, continuous improvement, participation of employees, quick response, quality in designing, long term approach, management based upon facts, partnership and corporate citizenship (D, 1995).
Table 2 shows how these two systems differ in various respects. Currently both are running in parallel, but management seeks to change the remaining line production to the team system. Of the various changes in the new system, the most important was the introduction of the team concept and the multi-skilling of workers, which has been effective in raising efficiency, quality and worker satisfaction.

The serious problems of worker satisfaction and management efficiency under the old system were removed by the new mode, which also registered improvements in quality and productivity, thus a typical phenomenon of post-Fordism. The old system placed workers in false synthesis with their machines, leading to problems, such as in toilet breaks, line maintenance during absence (average 5% absence, which creates difficulties), the assumption that workers have equal ability, flat pay structures, unhealthy work postures, and the need for more inspectors as problems increase. With the new system, workers are trusted, use the machine themselves, are recognised as different in ability, know all the processes, and do not have to stop in case of absence; also, work integration is effected, inspection and maintenance are in one team, unskilled workers can be included, work is done standing up as workers operate more than one machine, pay differentials exist based upon ability and workers have pride and confidence in their products, suitable for a small-multi market. The new system has resulted in improvement in quality (0–3% default rate, customer’s satisfaction), decrease in absence and improvement in productivity (30–40% up).

Table 3 shows the process of increasing the number of QRS teams. The two groups, A and B, are in the same work organisation, concerned with the production of jackets. A was formed in April 1996 and B was introduced to reproduce A, in

<table>
<thead>
<tr>
<th>Concept of system</th>
<th>Old line system (1996)</th>
<th>QRS team system (1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Man as part of machine and individual work</td>
<td>Man using machine and team work</td>
<td></td>
</tr>
<tr>
<td>Single function</td>
<td>Multi-function</td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td>Flexible and constantly improving</td>
<td></td>
</tr>
<tr>
<td>Line style, 120 people</td>
<td>Team style (U shape), 12×2 groups</td>
<td></td>
</tr>
<tr>
<td>One or two processes</td>
<td>10 processes</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Grade based upon job</td>
<td>Grade based upon skills and team performance</td>
<td></td>
</tr>
<tr>
<td>Grading in wage is seven</td>
<td>Grading in wage is only four</td>
<td></td>
</tr>
<tr>
<td>Low (faulty rate 30%)</td>
<td>High (almost perfect)</td>
<td></td>
</tr>
<tr>
<td>Quality inspectors</td>
<td>Each worker</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>High (30% higher)</td>
<td></td>
</tr>
</tbody>
</table>

* Source: Interview at the plant in Larkhall (1997).
Table 3
QRS jacket production: A and B groups in the same team

<table>
<thead>
<tr>
<th></th>
<th>A group (started April 1996)</th>
<th>B group (started October 1996)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age</td>
<td>Length of service</td>
</tr>
<tr>
<td>1</td>
<td>25</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>40</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>45</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>54</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>24</td>
<td>3</td>
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<tr>
<td>6</td>
<td>27</td>
<td>9</td>
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<tr>
<td>7</td>
<td>25</td>
<td>9</td>
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<tr>
<td>8</td>
<td>53</td>
<td>19</td>
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<tr>
<td>9</td>
<td>29</td>
<td>13</td>
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<tr>
<td>10</td>
<td>46</td>
<td>9</td>
</tr>
<tr>
<td>11</td>
<td>34</td>
<td>12</td>
</tr>
<tr>
<td>12</td>
<td>37</td>
<td>21</td>
</tr>
<tr>
<td>Average</td>
<td>36.6</td>
<td>12.2</td>
</tr>
</tbody>
</table>

* Source: D wage rate, 1997 (D, 1997).

order to create a second QRS work team. The workers in B are involved in on-the-job training, learning from the employees in A. It is interesting to note that the average age and length of service of A are both higher than B. When the management first formed the experimental team for QRS they felt that experienced workers would be more suitable to organise a team, but that younger workers with less experience would be better in setting up a follow-up team, both in terms of team co-operation and training as multi-skilled workers.

Currently these twenty-two people are working together under one supervisor and with one supplementary worker, carrying out 110 processes, 5 processes per worker. Two-thirds of the processes are sewing, and one-third pressing. Four factors of labour are required in these processes: work determined by the rhythm of the machinery; work affected by experience and natural dexterity; knowledge of the whole process; and concentration and commitment. Work efficiency is secured as a successful combination of these factors (Interview, 1997).

3. Industrial relations

Workers in the QRS teams demanded a pay increase in 1996 in accordance with the productivity increase. However, they were refused on the grounds that it would be unfair to do so while the majority of other workers remaining on the old line production would not have an equal opportunity for a pay increase. Whether QRS is a genuine combination of humanisation of work and increase of productivity remains an issue of industrial relations. The issue is also related to working conditions such as working hours, wages and other conditions. QRS is an innovation
emerging from a management response to increased global competition; thus, “humanisation” of labour can be taken as a mere by-product of managerial response.

Workers in the QRS are now graded in four levels from A to D, while in the old line there are seven grades, from A to G. In the QRS, sixty per cent of the workers are graded at either B or C. Weekly wage levels of B and C are lower than the maximum rate of B and C grades on the old line; the highest grades in the existing system, E, F, and G, do not exist in the QRS grading. The B group composition of QRS in age and length of service and the new grading system indicates that the period of experience required for sewing and pressing has been reduced, partly due to technical progress and partly due to skills being socially degraded. Workers in the QRS teams are thus relatively graded lower than in the old system, demonstrating a rationalisation in labour costs from the old line production. The main reason for a lack of dissatisfaction among the QRS workers seems to be that those workers currently in QRS were recruited mainly from the same or lower grades in the system.

How then can such a relative decline in wage levels, without affecting working conditions, be understood? Industrial relations in the plant, where 2,300 employees are employed, have been by and large harmonious against the criterion of traditional British industrial relations. The post-acquisition management has been endeavouring to formalise this situation, as they think it is rather informal at present, and that the union influenced management too much in the past. The company intends to establish formal mechanisms such as a works council, briefing system and newsletters in order to enhance their communication channels, so that they can deflect or alleviate the direct influence of the union. An increase in education and training programmes is also planned, providing qualifications to those who attend such courses (Interview, 1997).

Industrial relations after acquisition also reflect current trends in the UK, in that unions tend to co-operate with management and work together with them as partners. Unions want to secure employment through the improvement of a company’s competitiveness, and sometimes this is even at the sacrifice of working conditions and wages. In this sense management in a company embarking on global competition, like D, may be able to utilise the situation to accommodate employees into integrated policies aiming at increased organisational efficiency. We can already see signs of such managerial attitudes in the use of workers recruited for the second QRS team. Industrial relations in D has so far been harmonious, as general wage levels and other working conditions have remained above the national average. Whether the new QRS system will remain as genuinely innovative or not will depend on the longer-term response of the workers and management and whether they can create a new concept of industrial relations based upon efficiency and corporate “democracy”.

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7 Wage levels of the line production are graded from A (£157.65) to G (£206.75), that of QRS is A (£132.17) to D (£167.25) (Interview, 1997).
4. Globalisation in Europe and Asia

With the success of conceptual and organisational restructuring, D began its globalisation in Europe and Asia (Senken Shimbun, 1995), influenced by two factors: the brand image of D products and its corporate strategy. In order for D to globalise, it has to keep up its product image, the taste and culture of the upper classes in Britain (The Times, 1991). This image manifests in design, style, texture, colour and material (Fig. 1).

Globalisation by provision of the D licence takes place mainly in East Asia, although some other goods are licensed in Europe, such as ties (Switzerland), shirts (Italy), foods (UK), sunglasses (UK) and children’s wear (UK). Asian licences can be obtained in either of two ways. One is by licence given to the Japanese parent company, then sub-licensed in Japan or other countries, such as Taiwan, Indonesia and Thailand. The other method is directly from D, and is in operation at one company in Korea and another in India (Sen-i Jyänaru, 1994). Thus, globalisation by licence provision is focused in East Asia, particularly Japan, Korea and Taiwan. Although Hong Kong is a large market, business there is conducted not by licence manufacturing but by sales of products made either in the UK or in Asia.

Company D controls marketing in both Europe and Asia and they conceive their products as smart, casual and sporty — conveying the image of British upper class culture through style, colour, material, design and quality. D exports such goods directly to continental Europe, where culture and style are closer to the British context than in Asia, where the same concept is maintained, but through products manu-

Fig. 1. Global strategy of company D and its parent company S in Japan. Source: Interview at D Group plc (1997).
factured to suit the Asian market environment, i.e. with modifications made in size, colour and material. Thus the same concept and image is tailored to meet local demand. The Japanese company is thus playing an important role as mediator and translator of the original concept into local products which can be better appreciated by potential Asian customers.

How far can this type of globalisation proceed? Is there any limit to this type of globalisation? This depends on the successful maintenance of their “high-class” image and present preferences in status expression in Asia. This potential is much greater in developing economies than in the European mature economies.

5. Conclusion

Does ownership matter for knowledge transfer? In the case under study, the change of ownership meant an opportunity for knowledge transfer — a new corporate culture, production systems, industrial relations and global strategies. If the take-over had been by a US or German concern, would things have been different? We might expect similar changes in displacing the old management, though occurring in a different way. The company S effected the acquisition through their long relationship with D, the objective impulse being the dynamics of globalisation, which accelerated the decline of D and increased the pro-active globalisation of S. For D, then, acquisition offered a chance for regeneration and globalisation.

This acquisition introduced new concepts of management and manufacturing methods, although whether this is specifically “Japanese” or just another “innovative” form of management remains to be seen. Industrial relations in future will influence the working conditions of employees, as the current favourable conditions are not guaranteed by the production system itself. We can, however, recognise at this stage that a shift has been made from an old and latterly unsuccessful autocratic culture to a more autonomous and “democratic” one. Managerial control has also been intensified without degrading working conditions, demonstrating a dialectical process of capitalist knowledge transfer. It is also the case that through this acquisition British “upper class” culture is globalising under Japanese ownership; in fact, it is a globalisation of Japanese capital in the British tradition.

References