How to Lift Corporate IT in Japan Out of Surprisingly Desolate Condition

A Ginkgo Management Consulting Publication 2011

GINKGO
MANAGEMENT CONSULTING

HAMBURG | SHANGHAI | SINGAPORE | ZURICH

Introduction

Much to the surprise of both first timers to Japan on IT-related missions as well as Japanese IT professionals themselves, the state of corporate IT in Japan comes nowhere close to the country's overall reputation for innovativeness, quality, and efficiency.

Operation and maintenance of corporate IT is comparatively expensive and new concepts that help boost IT efficiency all over the world often aren't introduced until years after their conception. What's more, the eventual introduction also takes significantly more time, people, and money than comparable projects in most other countries.

In this note, Ginkgo identifies a number of major shortcomings typical of Japanese corporate IT, investigates their root causes, and proposes practical action items designed to help Japan's CIOs close up to the rest of the world in terms of IT efficiency.

Lars Godzik,

Founding Partner, Ginkgo Management Consulting

Shortcomings of Japanese Corporate IT

Measured against global standards, corporate IT in Japan appears surprisingly disorganized and inefficient, if not lethargic. This is the verdict of many years of practical experience in consulting Japanese enterprises and multinationals with presence in Japan on IT-related business issues.

Far from claiming universal validity, Ginkgo believes that the following shortcomings are symptomatic of many Japanese IT organizations: exuberantly grown IT environments, excessively customized systems, strong vendor dependency, sluggish adoption of innovation, and ineffective project management.

In the following, each of these shortcomings will be analyzed with respect to its significance and respective root causes.

I. EXUBERANTLY GROWN IT ENVIRONMENTS

Lack of IT Strategy & Governance. In Japan, as opposed to the rest of the world, developing a compelling IT strategy, i.e., a clear and comprehensive master plan for all of corporate IT, is not seen as the first duty of every CIO.

In fact, it's hardly seen as a major duty at all, and neither is establishing effective IT governance, the rules and policies of IT management. Lacking a common goal and clear guidelines, managers are forced to make decisions based on intuition rather than plan.

In consequence, the IT environments of many Japanese companies have been growing organically – which is not to say chaotically – ever since their inception.

Collection of Island Kingdoms. Moreover, the fact that IT staff in Japan – despite an often proclaimed end of lifetime employment – shows very little turnover and rotation leads to the development of corporate IT environments that not only lack clear architecture, but also are heavily fragmented.

And since the individual fragments, or infrastructural islands, hardly ever need to be handed over, they are even less documented than their counterparts in countries with higher staff turnover, a fact that renders any endeavor aimed at introducing effective enterprise architecture standards significantly more difficult.

Consensus Leaning Management Style. Making things worse, Japanese management style favors decisions based on consensus over decisions based on recommendations of individuals assigned to a certain topic. IT, however, prefers strong decisions – zero or one – over weak compromises. On a similar note, Japanese CIOs don't feel the urge to 'change everything' upon their appointment, an urge that is so common in Western corporations.

Instead, they rather leave their marks by slowly and steadily kneading corporate IT through an eternal series of compromises.

This isn't bad only. For instance, it keeps the risk of service disruptions at a minimum.

Yet, the merits of a complete overhaul should not be underestimated – provided it follows a clear, effective, and effectively communicated overall IT strategy.

Naturally, an exuberantly growing IT envi-ronment is costly to operate and maintain, almost impossible to standardize, and increasingly complex to understand for new hires and outsiders, and thus not only drives down efficiency, but also poses mounting business continuity risks. The longer a CIO allows his corporate IT to sprawl, the harder its eventual transformation into a state-of-the-art enterprise architecture.

Background Information

"Too Customer-Focused – How is that Possible?"

It is an accepted best practice to organize business and corporate IT in a customer/ service provider relationship. Doing so has proven beneficial to the alignment of business and IT and, thus, overall efficiency.

Japan, however, appears to have taken this concept too far: corporations not only have made business units customers, they have made them Japanese customers, i.e., gods, not kings. And while kings – though powerful – still are receptive to advice, gods are not.

Japanese customers order, service providers deliver, exactly as ordered. Of course, this usually isn't a problematic but enjoyable practice, also for the service provider – for Japanese customers know they are expected to pay handsome compensation for good service.

In the context of corporate IT, however, this corrective element is missing. IT departments obediently fulfill each and every request without ever passing a bill, let alone discussing a request's consequences for corporate IT, no matter how disastrous. If business and IT engaged in an open dialogue at eye-level, compromises that optimize business value could be identified and requests prioritized.

II. EXCESSIVE CUSTOMIZATION

Flawed Self-conception of IT Departments. In most parts of the world, process fit and efficiency are considered well before usability and individual user satisfaction.

In Japan, where users are seen as customers and IT departments as providers of IT services, this order has been reversed. User satisfaction is held higher than probably anywhere else in the world. (See "Too Customer-focused–How is that Possible?")

Accordingly, IT design decisions are driven rather by business representatives' personal preferences than by efficiency considerations, outer appearance trumps process fit and architectural merits.

Striving to cater to each and every personal requirement, IT departments often find themselves developing costly custom solutions from scratch instead of adapting cost effective and time-tested standard solutions, the prime target of IT departments all over the world.

This practice adds to aforementioned architectural bedlam and frequently forbids the application of economically attractive product updates altogether.

Obedience to Hierarchical Authorities. Unconditional agreement to individual business customers' preferences isn't the only example of a somewhat misguided sense of duty.

Japanese vendors are equally known for striving to fulfil each and every wish an IT department articulates without ever daring to challenge any of these requests from an architectural standpoint, let alone provide the IT department with critical feedback in the case of unhealthy cost-benefit imbalances.

Pride in Own Peculiarity. Certainly, Japan as a country differs in many ways from most other countries, and the Japanese can surely be proud of their country's and peoples distinctive virtues.

Often, however, being different is presented as a virtue in itself – a virtue of questionable business value that is frequently applied to justify excessive customization. Excessive customization hinders standardization and, thus, deprives CIOs of a major means of cost reduction. It also increases the need for training of end users as well as operation and maintenance staff. Balancing the pros and cons of adaptation and customization wisely must be a major duty of IT management.

III. HESITANT INNOVATION

Natural Language Barrier. Corporations, especially those in highly developed countries, need to embrace innovation so as to retain their competitiveness. This applies to all functions, IT included.

Japan's natural disadvantage in terms of lacking proficiency in the English language, the lingua franca of IT, combined with comparatively slow progress in overcoming this disadvantage, leads to a significant delay before major innovations can be considered, let alone introduced, as all sources have to be translated first.

Distrust of Everything Non-Japanese. One shortcut to innovation for countries lacking IT engineers fluent in English is the well-managed attraction of foreign talent.

In Japan, however, prevailing management structures as well as language and culture-related communication issues prevent innovation through foreign talent from assuming any significant proportions.

Little Organizational Learning. What's more, previously mentioned obedience to authorities also impedes organiza-tional learning.

IT departments, eager to satisfy each and every request, hardly ever self-initiatively confront business units with suggestions how to benefit from newly available technologies. The same holds true for IT vendors, although to a smaller extent as the latter have a direct incentive to push innovation – the need to sell projects.

For corporations in high-wage countries, continuous innovation is mandatory. Companies that fail to embrace innovation risk their competitiveness.
As technological innovation is of particular importance, CIOs cannot afford to let their organizations fall behind in terms of IT innovation but have to plan for it actively.

Real-life Experience

"Improbably Customized SAP Modules"

A large German manufacturer ordered the CIO of a recent Japanese acquisition to gradually adopt the corporation's global standard systems. Alarmed by frequent reports of projects that exceed time and budget as well as generally sluggish performance, the group CIO asked Ginkgo to analyze the situation.

On site, Ginkgo identified excessive customization due to a misguided eagerness to fulfill every business request and weak project management as main culprits for the misery. The introduction of common SAP modules, for instance, had turned into a mammoth project that – despite its consistently green status lights – ultimately took three times as long as projected and incurred costs of similarly frightening dimensions.

Up and running, the system suffered from frequent data irregularities and maintenance costs eight times the benchmark. IT's willingness to give in to every business request led to the development of a monolithic monster so customized (on ABAP-level, mind you!) that it is difficult to recognize the standard system it is based on.

This fact is likely to prove fatal once the organization decides to upgrade its global standards as the latter – if possible at all – most certainly will not only be costly and time consuming but also require the involvement of the system's original creators – a lock-in situation likely to be welcomed by the respective vendor.

IV. LACK OF QUALIFIED, EXPERIENCED STAFF

Insufficient Formal Education. Another reason for the disappointing condition of Japanese corporate IT can be found in the lack of formally qualified staff.

The blame appears to lie in part with the Japanese education system whose universities, while strong in academic research, often do not prepare students for real life – and also aren't expected to do so.

Instead, companies consider it their duty to extensively train new hires.

The problem with this approach in the context of corporate IT is that on-the-job training does not teach new hires the formal enterprise architecture concepts required to keep an IT environment up-to-date but the practical skills necessary to operate and maintain the latter's status quo.

Few External Hires. The Japanese business tradition to hire straight from university and retain staff until retirement adds to this problem. Although the concept of lifetime employment has weakened throughout the past decade, corporations still rarely hire experienced IT professionals, effectively abandoning a promising option to learn about the approaches and best practices of IT departments elsewhere.

Little Internal Rotation. But even within IT departments there is little to no rotation and, hence, limited transfer of knowledge, and best practices between the departments' individual islands - a waste of optimization potential. An IT staff of sound and formal education, well-rounded experience, and heterogeneous background is every CIO's best weapon in his fight for corporate competitiveness.

Unfortunately, prevailing qualification gaps, once identified, cannot be closed overnight. All the more important it is for CIOs to identify such gaps and develop a solid plan for developing – or acquiring– any expertise found missing.

Real-life Experience

"Archaic New Enterprise Resource Planning"

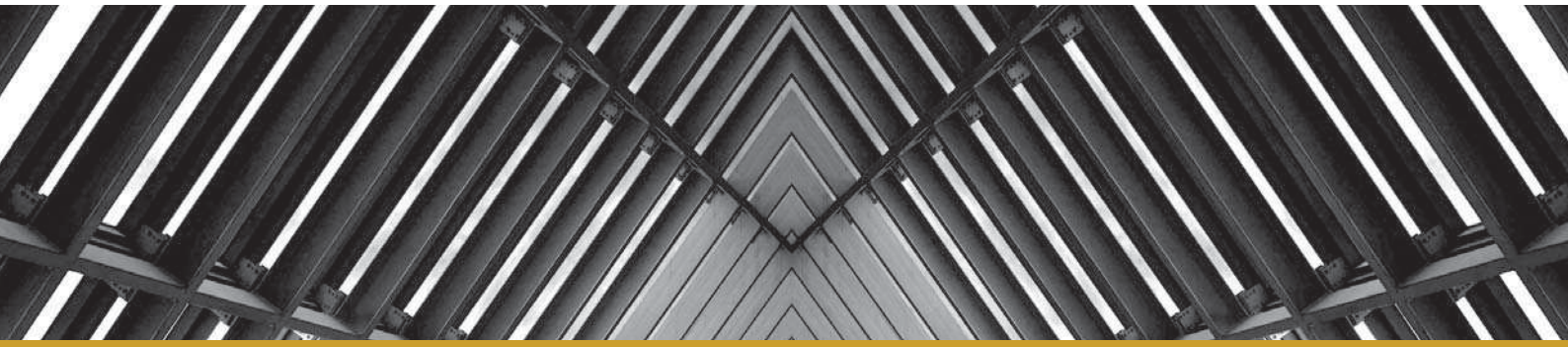
Some five years back, a large multinational decided to raise its Japanese operations' process efficiency by introducing ERP. Fatally, the project was driven by IT, not business, with the latter taking the position of a customer passively waiting for a solution.

IT didn't dare touching any business processes and brought to life a system that evasively enveloped existing processes with an additional layer of ERP related workflows.

With this system in place, business units continued to do their work exactly as before with the only difference that now they occasionally had to fill additional paper forms with ERP-related data. These forms then were forwarded to a punching unit within the company that copied the forms into the ERP system.

As a direct consequence of this rather archaic approach, the ERP system suffered from data inaccuracies due to severe time lags and data inconsistencies due to problems as mundane as illegible handwriting.

Both issues downgraded this ERP system to nothing more than a plain accounting tool instead of the originally desired effective and reliable management solution. The business case that initially justified this project clearly has not realized at all.



V. PRECARIOUS VENDOR DEPENDENCY

Perpetual Vendor Relations. Along with a clear overall IT strategy, many Japanese corporations lack a stringent IT vendor strategy. And those that have a vendor strategy in place often fail to implement it effectively.

This, combined with the Japanese tendency to build relationships carefully and to trust in them, once established, almost unconditionally, leads to the somewhat bizarre but widespread practice of renewing vendor contracts almost mechanically, i.e., without proper re-evaluation of both actual needs and available sourcing options at the time of contract renewal.

As a result, many companies unknowingly maintain contractual relationships that long have ceased to provide them with compelling business benefits.

No Vendor Management. As another consequence of the trust vendors enjoy once a relationship has been established, Japanese IT managers feel no urgency to actively manage their vendors.

Neither do they think it beneficial to monitor the quality of provided services, nor do they see a need to actively control their vendors' performance. In fact, many Japanese IT organizations would not even be able to do so as all too often outsourcing initiatives result in the complete transfer of all relevant knowledge – a common but crucial mistake that in Japan is only beginning to be acknowledged as such.

Unfamiliarity with Foreigners.
Language and culture-related barriers as well as a certain distrust of everything non-Japanese render the establishment of relationships to international IT vendors a particularly tough experience for Japanese managers.

A simple fact that adds to the latter's hesitancy against changing suppliers more dynamically. No Western company wants to find itself at the mercy of its vendors. No Japanese company, either.

There is a difference, however, in when a company feels itself dependent. As long as a vendor is considered a trust- worthy partner, Japanese managers see no risk – a practice that has proven efficient among Japanese businesses.

But since IT vendors become increasingly international, Japanese CIOs seem well advised to adopt some of the Western distrust and begin to systematically manage their suppliers.

VI. SHAKY PROJECT MANAGEMENT

No Stringent Methodology. As mentioned before, personal relationships count a great deal in Japan.

Accordingly, Japanese project management focuses on stakeholder management more than on any other aspect, e.g., project planning or progress monitoring. In fact, few Japanese project managers follow any formal framework at all, which is reflected by a relatively low number of certified project management professionals.

In consequence, projects in Japan not only take longer and incur higher cost than in countries where project management standards are followed, but also suffer from inaccurate time and cost estimations – the very estimations top management bases its go/no-go decisions on.

Unconstructive Attitude to Failure. Failure is a precious source of insight, and companies all over the world seek to integrate learning from failure deeply into their corporate culture. Yet, in Japan failure still inevitably leads to loss of face.

Accordingly, project managers habitually play down all kinds of problems and keep status lights green until catastrophe cannot be denied any longer.

Facing failure, responsible managers tend to resort to personal measures as drastic as resignation, which effectively deprives companies of the opportunity to learn from its managers' insights as to the reasons for the unfortunate results.

Obsession with Perfection. Japanese obsession with perfection, in part attributable to aforementioned obedience to customer requests, commonly leads to the rather ineffective practice of assigning almost all requests highest priority, which comes close to not prioritizing at all.

This practice – as every project management professional would agree –poses tremendous risks to projects in terms of the accuracy of budget and time projections. Even with proper, i.e., stringent and methodological, project management in place, many IT projects fail.

All the more CIOs are advised to ensure that their organizations not only apply recognized project management methodologies and best practices, but also make a point of learning from each and every failure.

How CIOs Can Close the Efficiency Gap

Despite presented shortcomings, Japan must be seen as a country with significant potential for excellence in corporate IT, most of all because of the unparalleled sense of duty, loyalty, and quality-consciousness almost invariably displayed by all Japanese staff.

In the following, Ginkgo has compiled a list of practical action items that aim at helping CIOs capitalize this potential and gradually transform their departments into state-of-the-art IT organizations.

1 Lead, don't compromise. Establish firm IT governance and devise an effective IT strategy aligned with business targets. Develop a clear roadmap.

2 Adopt Enterprise Architecture concepts (hire if necessary). Plan for the strategically sound conversion of the current corporate IT environment.

3 Formalize and document all business processes in a uniform manner and identify interfaces with corporate IT. Use as basis for all optimizations.

4 Become a proactive advisor to the business. Push back, if necessary. Regularly discuss the alignment of business and IT, evaluate new opportunities.

5 Enforce organizational learning. Rotate IT staff regularly, incentivize the study of new IT concepts, and cultivate a constructive attitude to failure.

6 Install a mandatory project management standard based on recognized formal frameworks. Train or hire certified project management professionals.

7 Develop a vendor strategy. Reduce vendor dependency by regaining the in-house competency required for effective vendor management.

8 Do not accept "Japanese Specialness." Motivate all IT staff to study English. Hire teachers and make English skills a core requirement for all staff.

In fact, many of these action items are, at least to some degree, interlinked and, thus, ought to be attacked simultaneously.

The overall effort, however, although certainly sizeable, can be expected to be outweighed by the benefits many times over.

GINKGO MANAGEMENT CONSULTING

HAMBURG

Lehmweg 17
20251 Hamburg
Germany

SHANGHAI

83 Fumin Road
#08-56
Mayfair Tower
Shanghai 200040
PR China

SINGAPORE

30 Cecil Street
#19-08
Prudential Tower
Singapore 049712
Singapore

ZURICH

Sonnhalde 15
8808 Pfäffikon
Switzerland

contact@ginkgo.com
www.ginkgo.com

GINKGO
MANAGEMENT CONSULTING

HAMBURG | SHANGHAI | SINGAPORE | ZURICH