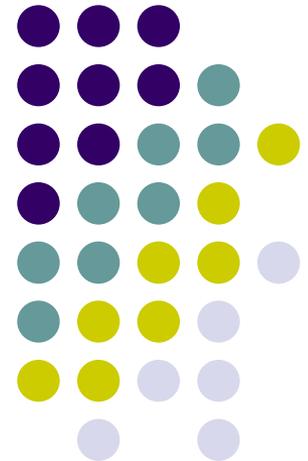
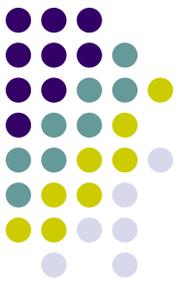


Challenging Time for Japanese Management Style

JICA BULGARIA SEMINAR 2010

Prof. Osamu Iiyama

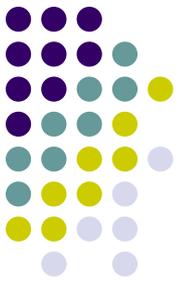




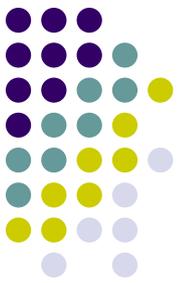
Presentation Outline

1. Overview of Japan Macro Status
2. The so-called “Japan Problem”
3. Nature of Global Transformation since 2000
4. Challenges to JMSP (Japanese Management Style and Practice)
 - a) Marketing
 - b) Production
 - c) Personnel
 - d) General Management
5. Concluding Positive Remarks

1. Macro Environmental Status: Economic

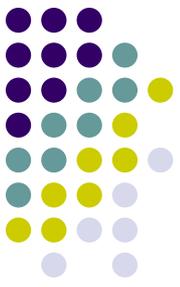


- **GDP** 1987: \$5.15 Trillion vs. 2009 \$4.75 T (\100/\$1 constant), 8% decline. Global share in 1987 15% vs. now 8%. No growth in the last 20 years. Deflation
- **Per capita income**: No. 3 in 1991, No. 17 in 2009
- **National Debt**: almost 200% of GDP
- **Yen Crisis** at about \80 to \$1
- **Unemployment**: Over 5% (used to be 2%)



Macro Overview: Political

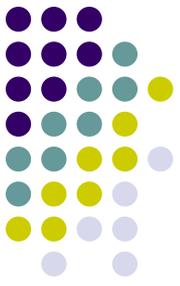
- Political **paralysis** created by leadership problem
- 5 prime ministers in 3 year
- Cannot control, direct, and manage the **national bureaucracy** to focus on national interests rather the interest of each ministry
- **Lack of leadership** coupled with traditional aversion to change and incrementalism resulting in Japan to pay high prices (exchange rate, Kyoto protocol, overall competitiveness)



Macro Overview: Social

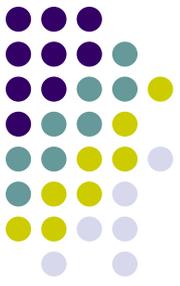
- **Fast aging:** 20% of population over 65 in 2005, expected to be 32% in 2030-high cost of health insurance cost plus cares for the elderly (75 year old daughter taking care of 92 year old mother)
- More than **30,000 suicides** a year for over 10 years
- **Loss of confidence:** Only 13.8% of adults say they have knowledge, ability, and experience to start a new business vs. about 50% for most of advanced countries
- **10 million people** (mostly young) below the poverty line of annual income less than \$20,000
- Average **pay for public servants** is now **higher** than that of private sector. One of new college graduates aspirations is to become a public servant, a better pay, job security, easy pace of work, etc.

Macro Overview: Higher Education



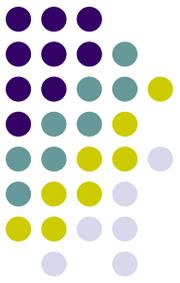
- University of Tokyo, Japan's the best is No. 28 in world ranking
- TOEFL Score: Japanese ranked 248 out of 259 in 2003. Will start teaching English from the 5th grade from 2011. (Share a comment from my students at APU)
- No. of students studying in the US graduate schools (a barometer of Global smart power). Japan 33,000, Korea 69,000, China 81,000, India 94,000 (Japan in 1998, 47,000 and was more than these countries)

Macro Overview: Higher Education cont.



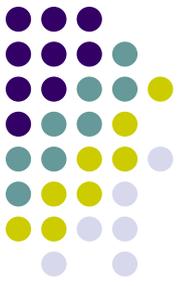
- No. of colleges now is 850 for 2.8 million students, but no. of 18 year old entering colleges are now only 1.2 million (an example of what's good for the Ministry than a national interest). Everybody now goes to college, resulting in a large volume, low quality education
- Japanese firms are now going to Korea, China, Singapore to recruit students because of English proficiency and more aggressive attitude toward being successful in business

Macro Overview: Business



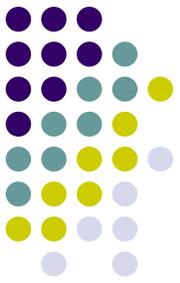
- Strong yen, low stock price
- High corporate income tax at 45.6%
- No new breakthrough innovation for over 20 years (Walkman was the last)
- Ranking in global competitiveness in 2010 is NO. 27 (was No. 17 in 2009)

Macro Overview: Business cont.



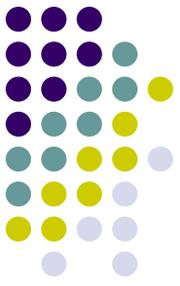
- Significant global market share decline in most industries except automobile and digital camera/copying machines. Especially notable in the electronics industry: For example, Samsung's profit is bigger than that of all Japanese electronics companies combined (Toshiba, Sony, Panasonic, Sharp, Hitachi, Mitsubishi, etc.)
- Semi-conductor chips: 40% share in 1995 vs. 20% in 2005
- LCD: 90% share in 1995 vs. 40% in 2005

2. The So-called Japan Problem



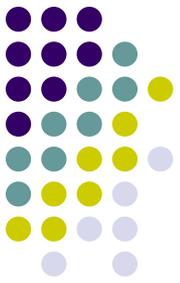
- No new exciting consumer products from Japanese companies in the last 20 years: Today, Japanese consumers line up to buy i-Phone or i-Pad, H&M or Forever 21
- Prof. Jeffrey Jones of Harvard Business School: In the 1970's and 1980's, everybody tried to learn the Japanese model. But today nobody does
- Japan Bashing—1980's (Japan as No. 1)
- Japan Passing---1990's (bubble burst in 1991)
- Japan Nothing----2000's (Japan as No. 3)
- Galapagos syndrome

3. Global Transformation of Business Paradigm



- Started from about 2000 and accelerated after the Lehman shock in 2008 as it applies to Japan Inc. in the following 4 areas:
- Export-driven with local manufacturing to Globalized marketing and manufacturing (a massive investment in Asia in the last few years as the Japanese firms finally realized that the domestic market is shrinking and to grow they have to abroad)
- Competition on a domestic territory (national athletic meets) to a global stage (the Olympics games)
Example: Cell phone and Panasonic

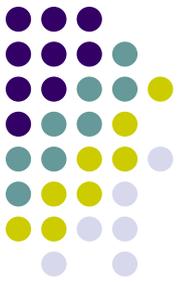
3. Global Transformation of Business Paradigm cont.



- High function/high quality/premium pricing to low function/low cost/affordable pricing to capture market share in the BOP (B to 4B) where the growth is.
- Deliberating (often procrastinating)/consensus building slow decision making to fast decision making in cases where a large risk taking involved

4. Challenges to JMSP:

a) Marketing



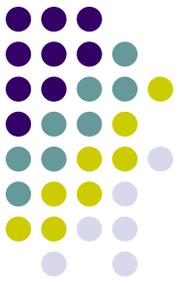
- This section is to show the challenges or difficulty of the JMSP in the following 4 areas: marketing, production, personnel and general management as Japan goes global

Japanese marketing style/practice:

characterized by high quality, high function(a lot of advanced product attributes) and high price. Sony, Toyota

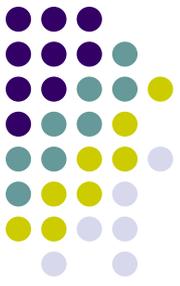
- This worked so well in the past for the export driven model with Japan production

Marketing cont.



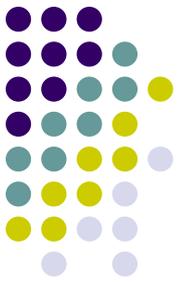
- This marketing practice does not work very well in winning global competition in the new paradigm: The **importance is not the advanced countries** where demand is shrinking and people are going cheap
- GE **global strategy priority** from 2000: (1) population rich countries, (2) resource rich countries, and others (US, EU and Japan). Used to be others which had the highest priority
- As a result of Japan Inc. **slow to transform**, Japan has **lost a lot ground globally** which can be illustrated in the following market share numbers

Marketing cont.: Market share erosion



- **DRAM:** 1. Samsung 33.6%, 3. Elpida 17.4%
- **LC/Plasma TV:** 1. Samsung 23.4%, 2. Sony 12.5%, 3. LG 12.4%
- **PC:** 1. HP 20.3%, 2. Dell 13%, 5. Toshiba 5.3%
- **Cell phone:** 1. Nokia 38.3%, 2. Samsung 20.1%, 3. LG 10.5%, 4. Sony-Erickson 5.1

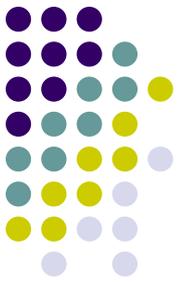
4-b) Production



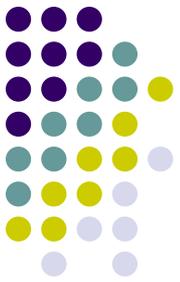
Japanese Production Style/Practice: Integral System (Suriawase Style)

- Suitable for manufacturing for high function, high quality, yet flexible manufacturing (i.e., small runs of many different models)
- Made Japanese style marketing feasible where the assumption was based on affluence and abundance (marketing in the advanced countries)
- TQC oriented and vertically integrated from product development, design, and manufacturing requiring close coordination with each functional departments within the company as well as close coordination with suppliers. (automobile production as a good example)
- Takes a long time to build the system

Japan Integral System cont.



- The Japanese integral system made Japan famous for quality (zero defect)
- But it does not work very well in the new global paradigm, especially after the Lehman shock where the affordability is of paramount importance. (Tata auto for \$2,000)
- Consumers in the BOM do not need high quality attributes (Example: cell phone). Developing products which focuses on one or two key attributes at an affordable low price has become the name of the game.
- And consumers in the advanced countries who has become frugal also like this. With increasingly shorter product life cycle in general, you need a alternative manufacturing system to cope with all of these requirements.

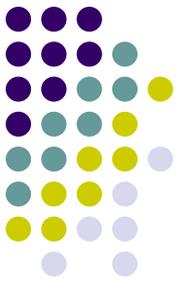


Production cont.

Modular Manufacturing System: Now becoming the mainstream of manufacturing method.

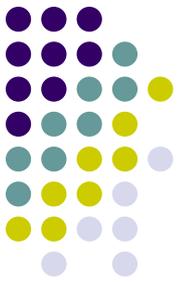
- **Assembling outsourced parts** like putting together PC. You source Intel chips for CPU, other parts for memory, display and OS, etc. Then, you assemble. (Also, i-Phone)
- **Advantages:** Fast to set up the manufacturing system, thus, **faster** response to changes in consumer tastes, and **low cost** (Samsung as example)

Modular System cont.



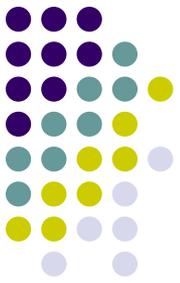
- Japanese companies do not have the technology to manufacture the same product at the same or lower cost as Korean or Chinese firms (Samsung and LG for example)
- But they are making efforts to transform now and beginning to offer affordable products in Asia. At the same time, they need to go one step further. And it is a real challenge for Japanese companies

Production: Reverse Innovation



- Developing products in countries like India and China and then distributing them globally by setting up R & D centers and mastering local consumer needs (Samsung strategy to place 200 or so employees in a target country)
- To tap opportunities in emerging markets and pioneer value segments in wealthy countries.
- To pre-empt emerging giants from China and India (local champions) who have natural advantages. They are low cost producers to begin with and they know what their people want better. (Nokia is beginning to have a problem in India due to a local competitor such as Micromax. Refer to a Nikkei article)

Reverse Innovation Cont.

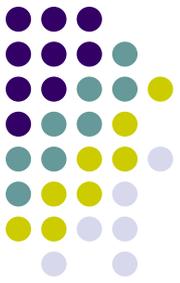


Example of GE Medical

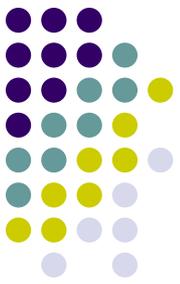
1. **1990's:** GE served the Chinese **ultrasound market** with products developed in the US and Japan. The **price was \$100,000** and up and the product was bulky. Sales was very poor
2. **2002:** A local team in China developed **a cheap, portable machine** using a laptop computer enhanced with a probe and sophisticated software. **Price: \$30K to \$40K.** The total sales was \$4 million

2007: The local team launched a **dramatically cheaper model for \$15K** and sales took off in China
3. **2008:** The **new global market** for portable ultrasound machine. Price: \$15,000 --\$100,000 (higher priced PC based models for advanced countries. **Global sales: \$278 million**

Reverse Innovation cont.



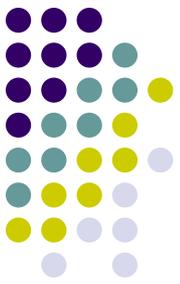
- It should be pointed out that developing high-end products at home is dead.
- Need to do both



Japanese efforts to date

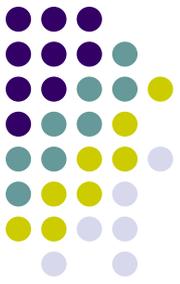
- Reducing the price of existing products like Sony and Panasonic slashing some TV prices by 33% in China
- Further shifting of production bases abroad (this does not help unemployment in Japan)
- Nissan and Komatsu closer to implementing reverse innovation in China

4-c) Personnel/Human Resources



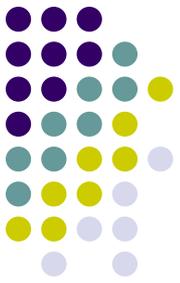
- Very challenging time in this field today
- Life-time employment: After the bubble burst, this was abandoned to allow reductions in employees, thereby cutting cost.
- 30 to 40 % of workforce became temporary workers at a much reduced compensation package (no social insurance related benefits, hourly wages)

4-c) Personnel/Human Resources cont.



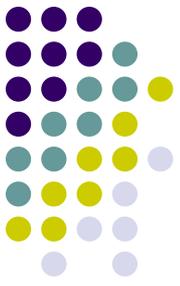
- In the last 20 years, the single biggest contributor to corporate profit has been payroll reduction, and not productivity gains or new innovative products.
- Resulted in creating a new domestic problem: the same job, different pay between “regular” employees and “temporary” employees (social unfairness)
- Manpower business flourished in the last 20 years till the Lehman shock

Personnel/Human Resources cont.



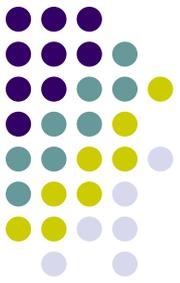
- Doing a way with life time employment (LTE) may not be a bad idea in going global
- However, what is bad is that **most of other practices stayed** as if LTE is still in practice
- **Seniority System:** salary and promotion generally based on age, Not job content based. Due to this,

Ramification of Seniority System



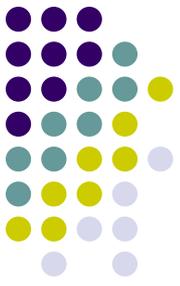
- In general, no mid-career hiring. Only new high school and college graduate hiring all starting in April (graduation in March)
- Only one salary schedule based on age
- Retirement age at 60 (resulting in loss of know-how within, providing know-how to competitors like Samsung hiring ex-Sony employees)
- Lack of (or no need for) professional employee evaluation system
- Providing training for 1 to 2 years, but 30 to 40% of new recruits quit after 3 years now even in Japan.

Ramification of Seniority System cont.



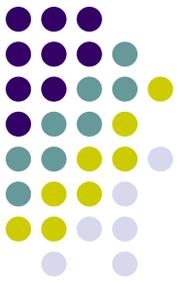
- These practices do not generally work well outside of Japan. And often result in employee relations problem and high turnover.
- Personnel Department is very powerful in Japanese corporations, and they are the only department involved in new college recruiting as well as deciding which department to be assigned after the training period

Personnel/Human Resources: Japanese Corporate Culture



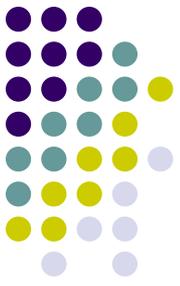
- Another area of difficulty is the so-called Japanese corporate work culture which has not much considerations for a work-life balance. Some of the examples:
- Difficult to go home at 5 pm if one of your co-worker is doing the overtime. So, everyone stays
- As a result, it is a tacit agreement that when you report overtime hours, you only report less than a half of time you actually stayed doing overtime
- Difficult to take “paid vacations”
- Difficult to take child care leave

Personnel/Human Resources: Japanese Corporate Culture cont.



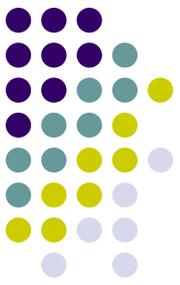
- Very few women in management positions
- Decisions made by only Japanese managers without foreign managers, resulting in dissatisfaction by the foreign employees as well as labor strikes in China
- No overnight business trip to cut expenses. So, you leave early in the morning to catch the first Shinkansen out to Osaka and come home with the last Shinkansen out of Osaka for almost 18 hours a day
- No more entertainment, no more golf outing

Personnel/Human Resources: The so-called youth problem



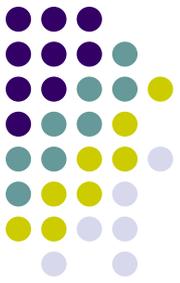
- Another challenge: Japanese corporations are facing the situation where their employees are very reluctant to go overseas. Even those who have been assigned to foreign countries, they cannot handle the pressure of working in a foreign environment yet to deliver the result to home office. They require cares in mental health. Especially male. They would go abroad if their mothers accompany them to continue pampering.

Personnel/Human Resources: The so-called youth problem cont.

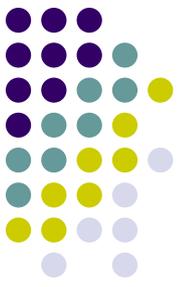


- They are pampered, spoon fed, inward oriented, very fragile, easy to get hurt, cannot handle communications very well as they spent too much time playing games alone
- Some Japanese firms now going to recruit from Korea, Hong Kong, China, Singapore universities because their students are proficient in English and they have the “hungry spirit” Japanese students do not have. They have the right attitude to work and highly motivated with a lot of aspirations.

Globalization of Headquarters



- As Japanese companies going abroad have come to realize the Galapagos syndrome, some of the firms have come to a conclusion that hiring foreigners to help run their foreign subsidiaries alone would not solve the problem.
- If they are really serious about globalization, they need to globalize their headquarters including their corporate cultures
- Rakuten: Mr. Mikitani made a dramatic announcement about 3 months ago to make English as Rakuten's official corporate language in 2 years. (Explain how Rakuten is going about implementing)
- Mr. Yanai of Uniqlo announced the same in the following day.



4-d) General Management

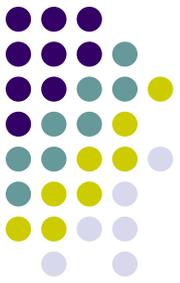
- **Domestic Orientation:** Japanese top management is domestic oriented and not looking outward, resulting in the latest last minute like rush to international markets. Short on global perspective
- **Decision Making:** slow, bottom up, consensus building, Wa (harmony), often procrastinating (Saki Okuri)
- **Risk aversion** (see Hofstede), perhaps cultural heritage. Also, aversion to change. Incremental or gradual change over time (often resulting in **too late too little**)

Hofstede's Cultural Dimensions



	Japan	Anglo-America (USA, UK, Canada)	W. Europe	
			Northern	Continent
Individualism	low	high	high	low
Power distance	high	low	low	high
Masculinity	high	high	low	high
Risk tolerance	low	high	high	low
Context	high	low	high	low

General Management cont.



- **Management emphasis:** experience/tactical rather than strategic/planning orientation
- **Business Scope:** General/Yokonarabi (same as competitors) rather than selecting from alternatives and focus and differentiate (Makino Joke)
- Example: Samsung vs. Panasonic (expand on this)
- These styles and practices worked well when Japanese market was growing in size so they could take time to decide and still capture sales and when Japanese manufacturing of quality products was the competitive advantage. But they are obstacles today.
- Some efforts being made: Asahi Glass positioning a foreigner as CEO, JT totally delegating to a foreign head of its International Division in UK. Already prevalent in professional sports like soccer to have foreigners as coach or manager

Metaphors: Some Cultural Jokes



Paradise

Hell

is a place where we have:

A cook is Chinese

A cook is British

A politician is British

A politician is Japanese

An engineer is Japanese

An engineer is Chinese

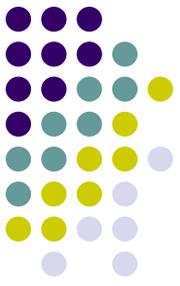
A lover is Italian

A lover is Swiss

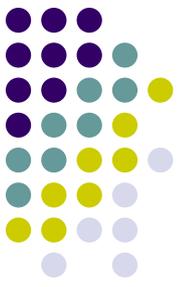
A banker is Swiss

A banker is Italian

Warning to JMSP



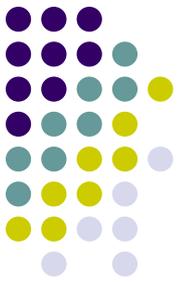
- Prof. Nakamura (Nichia kagaku, UC Santa Barbara and inventor of LED): Firms outside of Japan are thinking about a global market to begin with. As such they know that a large investment is necessary and it is risky. Japanese firms try to firm up the domestic market first making a level of investment to be small and their decision is slow. Thus, Japanese firms lose even though they have excellent technologies



Warning to JMSP cont.

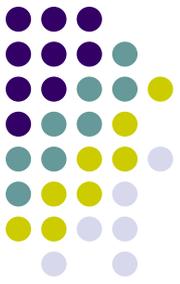
- Prof. Natsuno (Keio University, NTT Docomo): Japanese IT products and services have highly evaluated by foreign firms and their management, but the Japanese top management has a very pessimistic view of its technology and the future. Japanese top management does not understand the IT business, and thus do not have the aspiration to come up with innovative products. They are more control oriented types, and like to conduct marketing research after another. Then still does not make decisions because they are afraid of taking risks. They have no diversity in Japanese top management. They look all the same.

Some Recommendations

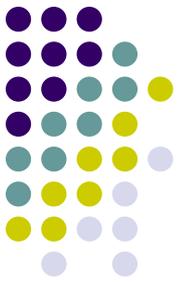


- Prof. Nonaka (Prof: Hitotsubashi Univ., Knowledge Institute): Japanese firms are used to manage by Japanese themselves. As such, it is often very closed and not open to having a diversity of talented management people. Going forward, it will become more important for top management to make sound judgment based on his or her core values

Some Recommendations cont.



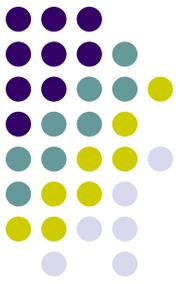
- Dominique Burton, Managing Director, McKinsey & Co.: The biggest problem of Japanese top management is lack of leadership. They are good at Kaizen but afraid to change. 4 suggestions: (1) Stop delegating decision making to middle management, (2) Position foreigners to middle and top management positions, (3) Take advantage of strong yen to buy SME's in emerging countries, (4) Give opportunities to younger employees to promote innovations



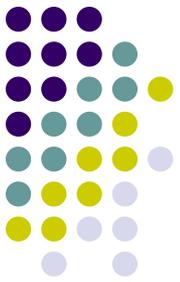
Summary of KSF

- Strong leaders (founders or second generation)
- Fast decision making
- Sound judgment
- Risk taking
- Global perspective
- FSA (Firm specific competitive advantage)

5. Concluding Positive Remarks



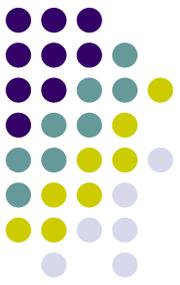
- Is Japan Really Nothing?



Positive Remarks cont.

Not really.

- Japan is still one of the top countries in the world
- Still No. 3 GDP
- No. 2 in the 50 most innovative company ranking with 6 firms.
- No. 3 in the number of companies in the top 100 market capitalization ranking (5 firms)
- No. 2 in the world largest 500 corporation ranking at 71



Positive Remarks cont.

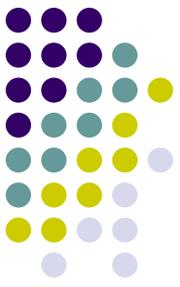
Human Resource Rich Country

Technology rich country

- Shinkansen
- Water treatment
- Energy efficient
- Nobel prize winners: Prof. Suzuki and Prof. Negishi in chemistry for inventing the palladium catalyzed cross coupling method to join carbon atoms. Wide applications in pharmaceuticals and electronics industry.

Culture Rich Country

- Michelin 3 star restaurants (more in Tokyo)
- Popular country to visit by Asians, fashion leaders

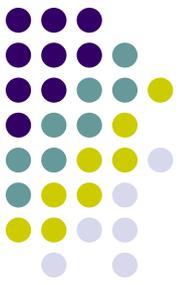


Positive Remarks cont.

- So, the key question is: Can management change its style?

Some progress being made in private sector:

- English as official language: Rakuten, Uniqlo, Shimano, Mitsubishi Morgan Stanley
- Promoting female managers-Kirin
- Foreign assignment as part of new employee training: Hitachi, Taisei Corporation
- Consolidating various brands into one to be more globally competitive: Panasonic
- Reverse innovation: Shiseido, Ajinomoto, kokuyo, Takara-Tommy



Positive Final Remark

- Japanese national trait: Our strength is catching up once you recognize you are behind. The big question is: when the recognition becomes a national consensus. When waking up the “peace Alzheimer syndrome”
- That recognition is slowly building up, and in my judgment, it will explode in a few years time to propel the 3rd great leap forward in our history
- 1st Leap: 700 AD, mission to learn from China
- 2nd Leap: 1868 Meiji Restoration (modernization, central government, post-war miracle)
- 3rd Leap: 20xx, federal system