Japanese Businesses at a Crossroads

Masamoto Yashiro

In the 1990s, Japanese businesses are being challenged to revise their fundamental approaches to doing business, both domestically and internationally. The practices that are being called into question include both export policies and exclusionary business practices, as well as deeper cultural traditions.

Protected Industries, Protected Markets

Among the many factors responsible for the success of Japanese industry over the past three decades, one of the most important has been the accessibility of foreign markets – particularly U.S. markets – to Japanese exporters. Equally important has been the strategic approach taken by Japanese industrialists in collaboration with the Ministry of International Trade & Industry (MITI) in preferentially expanding selected industrial sectors. The government's policy directives in this area were often developed on the basis of recommendations made by the minister's advisory policy councils, whose members consisted of government officials, industry representatives, and academics. Thus, throughout the past three decades, Japanese business has aimed at nurturing and growing those industries viewed as strategic to making Japan the most technologically advanced industrial power in the world. These industries have included, among others, automobiles, electronics, fine chemicals, and ceramics.

Such industries were helped by the fact that during the 1960s, before the first oil crisis, the Japanese Government's target was to double national income in 10 years. At the same time, key Japanese industries attempted to grow at double-digit annual rates. Such rapid expansion led to temporary surplus production capacity, which enabled manufacturers to produce goods for export at incremental cost. This helped Japanese business compete aggressively with foreign companies in export markets. Although most Japanese executives in the automotive, electronics, and semiconductor industries would not concede this argument, the fact remains that while product pricing in the domestic market was tied to average manufacturing cost, export pricing was very much determined by incremental cost considerations.

Although Japanese industry has enjoyed the openness of overseas markets, Japan's domestic market has not been readily accessible to foreign competitors. For example, there have been no new entrants into the Japanese petroleum marketing industry since the early 1950s. Only since the early 1980s have limited imports of motor gasoline been allowed. For the past few decades, Japan has adhered to the principle of local refining in preference to imported products, thus effectively protecting the existing petroleum companies, whether domestic or foreign, against competition from outside. Similarly, foreign commercial banks have been allowed to open new branches only since the early 1980s. It is fair to say that only during the last few years have Japanese markets begun to open to any meaningful foreign competition.

How open these markets truly are, however, is a debatable question. While certain branded imported products have their niche markets, Japanese consumers generally prefer to buy products manufactured by Japanese companies. Japanese consumers are highly demanding and discriminating with respect to both product quality and after-sales service. Since the end of Word War II, Japan as a nation has tried very hard to eradicate the prewar image that „made in Japan" meant cheap in price and low in quality. Today, of course, many Japanese brands are household names in the West and enjoy reputations for the highest quality.

The success achieved by Japanese industry in both quality and pricing has put foreign manufacturers at a severe competitive disadvantage in the Japanese market. Even when foreign manufacturers offer Japanese customers high-quality products at very competitive prices, they do not necessarily succeed in making sales. The Japanese preference for Japanese goods – which holds true for both individual and corporate customers – rests on three major concerns:

• Consistent maintenance and after-sales service

• Confidence in the future availability of parts

• Ready access to the supplier in case of product defects

Because these concerns are as important to Japanese buyers as price, Japanese manufacturers – like Japanese consumers – generally prefer stable, long-term relationships with their suppliers. Historically, there have been very close relationships among industrial and trading companies over the years. For example, the Japanese affiliate of a major international oil company has enjoyed an automotive lube oil sales agreement with a top Japanese car manufacturing company extending over the last 40 years. This relationship began with the exchange of a very simple memorandum of agreement whereby the supplier agreed to sell top-quality lubricating oil at competitive prices, which the buyer agreed to purchase, provided a stable supply was ensured at competitive prices.

Many traditional Japanese business contracts are this simple and usually are not prepared by lawyers. They always contain a clause toward the end of the contract stating that should problems or disputes arise, both parties will endeavor to resolve them through the spirit of „mutual trust and cooperation." Thus, in the case of the oil company's Japanese affiliate, when other companies – whether Japanese or foreign – attempted to replace the current supplier by offering better terms, the buyer, consistent with Japanese practice, refused to abandon the original supplier. Instead, it hardened its position in periodic price negotiations. The international oil company's Japanese affiliate is a member of the automobile company's supplier network – a part of its *keiretsu* system.

Japanese Business Practices Under Challenge

Because of such systems, and despite all their successes to date, Japanese companies remain essentially local businesses targeting world markets. However, it is generally recognized that over the next several years Japanese companies must become truly global in their perspective. This will mean a fundamental transformation for Japan. Among a number of so-called structural impediments issues, there are two areas where Japan must take immediate steps to bring about dramatic changes. These are (1) the *keiretsu* system and (2) exclusionary business practices. These aspects of Japanese business are the result of the pervasive influence enjoyed by large Japanese companies through many years of cross-ownership and other business relationships among trading companies, industrial companies, and financial services companies.

For example, under the antimonopoly law, commercial banks are not allowed to own more than 5 percent of any industrial, commercial, or financial company. This legal proscription was instituted by the occupation forces after World War II because the prewar *zaibatsu* holding companies, which had extensive ownership of diverse business interests, were seen as having collaborated with the Japanese military in pushing the country toward the war.

Despite this 5 percent restriction, some commercial banks in reality own controlling interests of many other companies through cobwebs of 5-percent-owned affiliates. Similarly, although securities companies are prohibited from owning more than 5 percent of other companies, including brokerage houses, top securities companies have a pervasive influence over the managements of some of the smaller companies through the appointment of key management personnel.

Today, Japan is being asked to open up this closed corporate network. While Japan historically has been eager to adopt foreign ideas and technology, it has resisted accepting foreign people and institutions. The Japanese are fearful that their comfort and stability might be disturbed by foreign participants who seek opportunities rather than – Japanese-style – stability.

Interestingly, in contrast to domestic conservatism within Japan, Japanese companies faced with the 1992 European single market have been taking timely and aggressive action to strengthen their competitive position in Europe by adapting their business strategies to the emerging pan-European market. However, while they move very fast overseas, they are ultraconservative at home. Undoubtedly, the principal reason for this apparent dichotomy is the protection of vested interests and the determination to maintain the harmonious status quo.

Quo Vadis, Japan?

The recent discussions of structural impediments between the United States and Japan poses a question of much greater significance than any of the individual trade disputes that flared during the 1980s. Whereas those trade disputes usually concerned specific commodities or products and were resolved by compromise and accommodation, the current discussions call into question the entire Japanese approach to business. Some people, primarily in the West, argue that Japan should adopt Western ways and conform to Western business standards. Others, primarily Japanese business executives and government officials, contend that the Japanese way is better, as demonstrated by the country's remarkable successes to date. They argue that Japan needs to change only gradually and only when pressed from the outside.

In fact, the issue is more complex than either of these positions indicates. Japan already has many of the salient features of Western business, such as antitrust legislation, insider trading prohibitions, and a basic code of business ethics. However, these aspects of international business, which were imposed upon the Japanese by the occupation forces after World War II, arose from abuses in America in the early twentieth century rather than in response to any specific Japanese need. Because such modifications were inherited and alien, Japanese society has not accepted or imposed them in the same manner as the West.

I believe that Japan need not conform totally to Western standards. Japanese business should continue its strong orientation toward long-term business relationships, its belief in the commonality of interests between management and labor, and its cooperative rather than confrontational relationships between government and business. All of these are virtues worthy of preservation. At the same time, both the Japanese Government and the business community should reaffirm the importance of accepting common international business rules. Furthermore, Japanese businesses must adhere strictly to these rules in their day-to-day business conduct. Such

adherence should not be incompatible with the pursuit of good Japanese business traditions. It may be the only way that Japan can find harmony with the rest of the world.

In addition, major Japanese companies should take a few concrete steps to become truly multinational in management philosophy and composition. First, Japanese parent corporations with overseas operations should develop local management resources as quickly as possible and have them run the overseas operations. The local management personnel have intimate knowledge of and contacts with local business communities and government people. Above all, they understand the market far better than managers imported from Japan. Until local management resources are fully developed, the firm should employ a mixed management consisting of professionally or technically qualified personnel from the parent corporation working side-by-side with selected local managers over the next several years.

Second, Japanese multinational companies should invite non-Japanese nationals to join their boards. A few top Japanese companies are beginning to move in this direction by having non-Japanese business executives or former government officials as their international advisors. However, these steps are too small. Japanese companies, which rely heavily on overseas markets and must become global in their perspective, should start inviting top foreign business executives, academics, and former government officials to become full-fledged, independent board members. Furthermore, these boards should be run as true boards of directors rather than as rubber-stamping bodies for the chief executive, as many Japanese boards are today.

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Viewpoint

International, Multinational, and/or Global?

Alfred Zeien

How do large, worldwide businesses evolve from international to multinational and then to global structures?

First, let me define these three terms. *International* is usually the first step. An international company transports its business outside its own country. Normally, each of its operations is a replication of the company's domestic experience. Generally, an international company is structured geographically and involves subsidiary general managers.

A *multinational* company, in contrast, grows and defines its business on a worldwide basis, but continues to allocate its resources among national or regional areas so as to maximize the total. Companies with multiple product lines often find it very difficult to stay geographic for a variety of reasons, such as the need to have a common accounting system, common control functions, and interrelated marketing programs. Such companies evolve into multinational structures, with combinations of product-line and solid-line responsibilities.

Finally, the so-called *global* organization treats the entire world as though it were one big country. The global organization may be the entire company or one or more of its major product lines.

Some businesses operate on a mixture of two or three of these models at a time. At the Gillette Company, we are currently operating on a mixture of the latter two.

Despite the hundreds of treatises by experts in this field who preach one way or the other, there is no one optimal organizational structure. And that is because – obviously – companies vary. They vary as to how well a particular product or service „travels" – in the sense in which a good Bordeaux wine travels. A product or service that doesn't travel well requires tailoring to the individual marketplace. In companies with a single product line that travels well, it is relatively easy to move toward the global form of organization. Businesses that don't travel well – that is, where the marketplace or the desire for the products varies by national or other characteristics – are hampered in their ability to achieve the global organization.

Companies with multiple product lines tend to be forced into some form of a matrix function, which makes it very difficult to achieve globalization. The matrix form of organization is generally a choice of two of three alternative organizations: geographical, by product lines, or by functional area.

Sometimes, the matrix can be three-way. This is the structure adopted by two of Gillette's principal product lines, our North Atlantic blade and razor business and our Braun appliance business.

Most large corporations tend to have multiple product lines and some businesses that don't travel well. Such organizations are constantly searching for some common ground between multinationalization and globalization. This will continue to be the case for several years. It is my belief that the pendulum will swing back and forth in four- to five-year intervals between multinationalization and globalization as management searches to improve the effectiveness of the organization. For most students of business and industry – and I consider myself a perpetual student thereof – this is a good sign. It underscores the need for leadership qualities, because, in essence, management is management of change.

Application of the global model has become increasingly difficult. Trying to manage a business in a central way only emphasizes the great differences in market development between – say – Sweden and Indonesia. That is, the state of development of the economic infrastructure tends to support the multinational form of corporate structure because it allows delegation of the planning function to the central group and of the implementation function to the use that is best adapted to local geography and infrastructure.

Companies such as Gillette, with long experience in both the developed and the developing world, have maverick organizations. For example, Gillette recently had to devise strategies for the Eastern European markets as they opened up to the possibility of something more than exports. In the initial period – and we hope that history will support this decision – we adopted a geographic organization, principally because the several countries adjoining Western Europe require a planning approach that's built up from grass roots, based on the national marketplace rather than the extension of our global strategy. This approach is totally different from the approach we choose to use in the Soviet Union.

A second example: Several years ago, our appliance business in the United States was sourced in Western Europe and managed essentially on a geographic basis. As we gained experience, we realized the tremendous difficulty in strategically managing the cost structure with constantly changing exchange rates between the European currencies – the franc, the deutsche mark, the peseta – and the U.S. dollar. To overcome this issue, our business has essentially taken on a global framework. We greatly expanded our production base in Mexico, which is now supplying a combination of the Mexican, U.S., and Canadian markets.