

Nikkei Keizai Kyoshitsu, April 18, 2008

Make a clean departure from a “domestic only” mentality. Let the innovative companies fly free in the world market”

Yoko Ishikura, Professor, Graduate School of International Corporate Strategy, Hitotsubashi University

Summary

- Define the real issues Japan is now faced with
- Self-initiated reform, and not putting down excellent companies
- Build the infrastructure to support globally competitive companies

There are two separate and completely different pictures of Japan at present, which are reflected in: 1) the approach to define and resolve the problems at hand; 2) Japan's position in the world; and 3) its future prospects in the face of a rapidly changing world.

1) Definition of the problems to be resolved

One school of thought takes a proactive approach to facing the major changes that originated from the sub-prime loan problem in the U.S. and are now sweeping the world, threatening the global financial system. This school is also concerned about other threats including environmental degradation and the sharp increase in the price of resources such as energy, water and foodstuffs. On the other hand, there is a school that focuses on the debate of issues within Japan, thus pushing Japan into further insulation from the world as if it were somehow the Galapagos Islands.

2) Japan's position in the world

One group refers to the fact that Japan is still the second largest economy in the world in terms of GDP, and uses this fact as evidence of its power and still strong standing in macro economic policy, human resources, and the private sector (or companies). There are others, however, who are very concerned about the capability and future potential of Japan and the Japanese to sustain the country's high position in a rapidly globalizing world.

3) Future prospects given the fact of a rapidly changing world

Many people believe that Japanese technologies in “manufacturing” still lead the world, as products made in Japan are highly appreciated and valued in the growing economies of Asia, Russia, Latin America and Eastern Europe. On the other hand, quite a few people are concerned about the lack of ability on the part of most Japanese companies to propose new “values”. These people believe that the value appreciated

more in the advanced economies (including some Asian markets) are “concepts” which provide new lifestyle and new values, rather than “stand-alone products,” and the tangible benefits derived from new technologies made possible by innovation and reform of the social systems, rather than “technologies” themselves.

Competitive rankings and surveys conducted throughout the world recently reflect these two different aspects of Japan. The most recent Global Competitiveness Ranking for 2007-2008 compiled and published by the World Economic Forum indicates low rankings for Japan in macro economic policies such as the tax system and public sector, which resist change persistently. These disadvantages impede various initiatives for innovation and lower the overall competitive ranking. On the other hand, R&D investment and the number of patents held by the private sector are still ranked very high in the world. (See Table on the separate file for Global Competitiveness Ranking 2007-2008 by the World Economic Forum)

These two opposing views have made it difficult to uncover the real issues Japan is now faced with and thus develop solutions to resolve them. I believe it is the “illusion” that Japan is isolated from the rest of the world, nostalgia for the “good old days of our superior manufacturing” and wishful thinking for Japan’s current and future capability not based upon a rational analysis of the status quo that prevent us from facing the real issues and tackling the problems. The clock is ticking for us to face reality and take action.

There are quite a few Japanese companies which have sustained superb performance and/or have recovered remarkably. Toyota and Matsushita lead the pack of excellent companies well respected throughout the world. The list includes Canon, Ricoh, Kyocera and Nintendo. There are some “only one” companies with an overwhelming share of a “niche” and yet “global” market segment. Companies such as Horiba Group and NIDEC fall into this category, though their relative size makes them only well known to industry experts.

Then why is Japan still lagging? What causes these polarizing views of Japan? What can we do to take a step forward to resolve the real issues? I think the root cause that prevents us from rejuvenating Japan from the current bleak scene is “the other world” described above. What has blinded us is a service sector with extremely low productivity and bureaucracy in which the notions of efficiency and implementation do not exist and in which the people involved believe they never make mistakes, and

consequently fail to learn from them.

In fact, many regulations were established several decades ago with the world of that time being used as the “relevant” environment. Institutions and business associations have tried to maintain their vested interests vehemently. Those who live in “the other world” remind me of piranha, the type of fish that are attracted by the sniff of blood. The “inhabitants” of this other world have tried to destroy Japan’s excellent companies, our pride.

Given the status Japan holds in relation to the world today, we cannot and should not let these guards of the “old world” continue to exercise their power. Piranha will weaken the now globally competitive companies so that the latter will be exhausted from the ensuing “civil war”. The result will be a declining Japanese economy without growth engines and a public that cannot expect a better standard of living.

What should we do now? We should never stop asking the question, “Who creates the value and wealth of our country and society?” The answer is “companies in the private sector”. New products, new services and newly created markets will provide new added value and improve the quality of life of the public. Unless we make the pie bigger, there is no point of debating how to slice it up.

Educational institutions identify and develop “human capital”, a fundamental source of wealth creation in the long run. The legislature and administration play a significant role by setting up rules of competition in the market and improving the infrastructure, so that new goods are made available to people in need and new markets are created and expanded. They are indispensable for the governance of the country. However, neither of these institutions has a direct means to create value and wealth.

What direction, then, should companies in the private sector pursue? There are at least three ways or approaches for these companies to rejuvenate and reenergize Japan.

1) Global niche for globally integrated markets

Instead of the national and regional segmentation often used in the past, one solution could be to explore and identify new bases for segmentation by viewing the world as a whole. With rules becoming harmonized throughout the world and national markets becoming more and more integrated, the “global niche” strategy has excellent potential.

The Japanese market is unfortunately “large” enough to accommodate quite a few

competitors. These compete within the domestic market, as they are not forced or tempted to go out into the world market. As a result of cut-throat competition within the domestic market, all of them suffer from low profitability. The electric/electronics industry is one such example. Even in related industries, companies manufacturing electronic components and devices have enjoyed a competitive advantage, having targeted the world market from the initial stage.

Several companies have begun revisiting and reviewing the relative position of the Japanese market. Some have begun questioning the “special” characteristics of the maturing Japanese market in relation to the new emerging rapidly growing markets in Asia and Latin America. They have allocated resources accordingly. Some companies have begun simultaneous launches of new products throughout the world, recognizing the globally integrated nature of the markets.

2) Better use of Information and Communication Technology (ICT)

Another approach would be to use ICT more extensively to involve end users in the product development and strategy development process. The “Cuusoo” website is one of example where the public can participate in new product development. Ryohin Keikaku, known for its Muji products, has launched a clear label you can read through as a result of revealing the latent needs of end users, in collaboration with Cuusoo. Wii which was developed and marketed by Nintendo targeted at non-users of video games and focused on the “bodily sensation” experienced by end users. The reason it became such a huge hit was because it broke the conventional rules prevalent in the industry for seeking technological sophistication. These are good examples of the use of ICT for “real” customer orientation.

Some companies such as Seven Eleven have upgraded customer interaction and interfaces both by accumulating, analyzing and utilizing abundant customer data through ICT means, and by direct conversations and exchange with customers on the premises.

There seems to be a misunderstanding in Japan that the “hospitality” handed down through generations in Japan cannot co-exist with ICT. I am convinced that a combination of the hard data made possible by ICT and the attention to detail which characterizes Japanese hospitality for customers can emerge and prosper as a new strength of Japan.

3) High aspirations by private sector companies to assist upgrading social infrastructure such as education, tax and pension systems

The third approach I expect from the private sector companies is to go beyond a narrow-minded focus on the short-term profitability of the company and sustaining

the vested interests of existing industries and business associations. The education, tax and pension systems are good examples where private sector companies can express their views and apply a business approach.

In the English-speaking world, where search engines are making enormous progress, universities and other institutions make their intellectual assets (syllabus, lecture notes and lectures themselves) open to the public via the Internet. In the 21st century, it is not only in-depth knowledge of one field that is indispensable, but also its application across a variety of disciplines and fields and broader perspectives. The ability to communicate with anybody in the world is another “must.”

Japanese educational systems, on the other hand, have been debated extensively, but little action has been taken. At the schools, the focus is still on knowledge rather than the wisdom to apply knowledge to other areas and contexts. The distinction between science and art at the undergraduate level still persists, despite the current global trend towards the conversion of disciplines. Many Japanese spend enormous time and effort on developing English communication skills, and yet they still do not learn English as a means of communication.

However, some companies such as Watami, have realized the importance of the “new skills” critical for the 21st century. They have begun initiatives to improve and upgrade educational systems and schools, which used to be considered as in the “public” domain with the government in charge.

Tetsuya Iizuka, founder of THine Electronics which designs and manufactures LSIs, is one person who has attempted various initiatives for social system reform in order to make Japan a place to which excellent companies, institutions and people are attracted. He has been trying to liberalize competent engineers now buried at large Japanese companies. His hope is to build an open system as seen in Silicon Valley and other locations, by making specific proposals for tax and pension systems from his own experience of starting up business in Japan.

What we need to do now is make a commitment to liberalize these innovative companies with high aspirations from traditional bonds and outdated regulations, so that they can fly free in the world market. If we take unreasonable advantage of companies with excellent track records and world fame and/or find even minor faults with them, just for the sake of putting them down, the seeds of the future will die quickly.

I am convinced that Japan has little time for determined action. If we let “the other

world” prevail, characterized by “fairness for the wrong reasons”, “trying to eliminate the gap with a focus only on Japan”, and “in-fighting which exhausts energy and scarce resources on both sides”, companies with excellent capability and high aspirations will leave the country. I definitely do NOT want this to happen. Now is the last chance for us to re-create a new Japan by liberalizing these companies. They are the ones that create value and wealth for us and for the world.