

THE JAPANESE CORPORATION AND ITS MANAGEMENT

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## **I. Introduction**

### **1. The Introduction of Capitalism from Europe (particularly England) and the United States**

I am extremely honored and pleased to participate in the traditional Eli Lilly Lecture Series of this Center.

All of you are probably familiar with the general state of contemporary Japanese industry. However, some of you may not realize that the concepts of capitalism and modern industry were introduced into Japan about 120 years ago following the restoration of the Meiji Emperor to power in 1868. These concepts were taken mainly from the Western world.

Toshiba also traces its roots back to this period. Of its two corporate predecessors, Shibaura Engineering Works was established in 1875 to manufacture telegraphic equipment and a company called Hakunetsu-sha began manufacturing incandescent lights bulbs in 1890, 11 years after their invention by Edison.

At present, it is said that Japanese businessmen work hard, maybe too hard. Have the Japanese always worked so hard?

In 1870, an Englishman living in the international port of Kobe wrote in a local English-language newspaper that "the Japanese are unquestionably the most dull-witted and lazy race on earth," and "the Japanese put everything off

until tomorrow." Another British gentleman wrote that "the Japanese have a genius for making excuses not to work. If a construction project is completed only three months late, you may consider yourself fortunate."

On the other hand, Japan is today under international pressure to increase the number of official holidays and reduce working hours. This historical contrast illustrates just how mutable the Japanese nature is and suggests that there may still be a ray of hope for those aiming to create a more leisurely Japanese society.

In any case, industry did begin developing rapidly after capitalism was introduced to Japan, and capitalism in Japan at that time was similar to Western capitalism at that time. Capitalist corporate owners invested capital and exploited laborers, with whom they had an antagonistic relationship. Many industries were dominated by monopolies, and the major corporate groupings, or zaibatsu, were much more powerful than they are today.

The salary differential between management and workers was huge, with company presidents earning about a hundred times the salary of newly employed university graduates.

## **2. Restructuring of Japanese Society by the United States**

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Several fundamental aspects of the early Japanese

capitalism were changed by reforms made by the United States during the period of occupation following World War II. These reforms ultimately led to a strikingly high level of economic and social equality in postwar Japan.

Among the most important economic reforms were the dismemberment of the zaibatsu and the purge of numerous Japanese leaders, including numerous capitalists, company owners, and government officials. In addition, land reform deprived large landowners of most of their farm land, and tax reforms, including the implementation of a highly progressive income tax and a high rate of estate tax, deprived high-income groups of the larger part of their income and deprived wealthy families of most of their inherited assets. Thus, inequalities of income and wealth were greatly reduced.

Today, in contrast to the multimillion-dollar salaries of many U.S. CEOs, Japanese CEOs' yearly pretax earnings average around a half million dollars, and, because the salaries of ordinary employees have risen to the average levels seen in developed countries, the after-tax earnings of company presidents are now only about 76.5 times those of newly-hired university graduates. This ratio is one of the lowest among countries with free economies and is low even when compared with the situation in socialist countries.

This equalization of Japanese society found a harmonious linkage with Japan's traditional group-oriented

culture and elicited an unusually energetic participatory spirit among rank and file corporate employees. It came to have an important influence on corporate activities and has played a large part in determining the nature of Japanese-style capitalism.

### **3. The Relationships Between Society and Corporations in the West and in Japan**

Let us take a closer look at the nature of Japan's group-oriented social structure, and its influence on capitalistic and corporate activities.

Western cultures are generally characterized by belief in individualism, and these cultures generally welcome the guidance of strong leaders. In contrast, Japanese find it difficult to accept strong individuals and Japan has a group-oriented society that prefers working through equality-based consensus.

Western individuals tend to perceive themselves in terms of occupational categories, but Japanese generally identify with the groups to which they belong. This is seen in methods of self-introduction. While an American might commonly introduce himself as an accountant or scientist, Japanese tend to simply identify themselves as a member of such-and-such a ministry or of Toshiba Corporation.

This social difference is clearly reflected in the

contrasting structures of Japanese and Western labor unions. While American unions are organized on the basis of common occupations, Japanese unions, which came into existence for the first time due to the efforts of the American occupying forces, have taken a company-oriented structure. As the American occupation forces did not indicate what structure Japanese unions should take, this was the structure chosen by the Japanese. We can thus see the way that social systems will naturally become adapted to the culture into which they are introduced.

## **II. Japanese-Style Capitalism and the Nature of Japanese Companies**

### **1. The Relationship Between Capitalism and Management**

Even such basic social systems as capitalism will take different forms when introduced into such different cultures as those of the West and Japan. Thus, capitalism in Japan has developed differently than in other countries.

When capitalism was imported into Japan over a century ago, its social basis had already developed. Western-style capitalism can be seen as an economic vehicle aimed largely at earning profit and increasing capital. However, because Japanese socioeconomic structure had historically been people-oriented, as seen in its group orientation, Japan was unable to truly comprehend this basic aspect of

Western-style capitalism. Western-style capitalism was superficially adopted as an economic institution, but it seems that Japanese society's human-oriented group dynamics caused it to become reshaped. Rather than a system aiming ultimately to pursue profits, Japanese-style capitalism has evolved into a framework for human-oriented economic activity.

Because corporations are viewed as means of obtaining profit in Western-style capitalism, capitalists owning corporations aim to employ only the number of workers that is optimal from a profit-making perspective. Thus, layoffs are seen as a natural response to business downturns, and true capitalists have no qualms about selling their corporation when it appears to offer the greatest return on investment.

In accordance with the individualist philosophies, members of Western corporations orient their lives around themselves, their families, and their communities, while their work is primarily a means of receiving financial remuneration. As everyone accepts this, it is not considered traitor-like behavior to leave one's company when better remuneration is available.

In Japan, however, one's company is on a par with other important group affiliations and thus represents one of the basic social group situations in which real life is lived. Capitalistic economic activities are engaged in with the

primary goal of sustaining and developing the corporation as a group and a social unit. Within the lifetime employment system, one's job represents a life-long group affiliation, and as management is promoted from within the ranks, there is an unconscious consensus, regardless of what shareholders many think, behind the idea that the employees are true owners of corporations.

Thus, for employees, or corporate members, to sell their social unit is unthinkable except in times of severe financial difficulties.

This conception remains generally valid today, although rising income levels and the influence of Western societies has led to a weakening of corporate-group identity among young people.

## **2. The Relationship Between Management and Employees**

While serving as Toshiba's president and CEO, I often referred to the company as a product-oriented community. Success in manufacturing industries is essentially based on the ability to closely survey the market and provide products that meet the market's needs in a competitive manner with regard to price, performance, and service. This requires intimate cooperation focusing on products among all types of workers, not only in production-related areas such as research, development, design, and manufacturing, but



also in such areas as marketing, distribution, and accounting.

Doing this effectively requires harmonizing operations and attitudes throughout all areas of corporate activity. I refer to this process as management engineering, because I strongly feel that the manufacturing concept of industrial engineering should be applied consistently throughout all areas of corporate activity.

In major Japanese companies, employees remain tied to their companies throughout their working lives, and because all corporate members perceive their fates as being closely linked, there is a natural basis for enthusiastic cooperation.

Company members are, in principle, all on a lifetime employment basis and not likely to leave the company. The company views them as a permanent resource and works to increase their value through energetic in-house training programs for both management and union members. Employees understand that success in these programs may lead to future promotions and participate enthusiastically.

A weakness of the lifetime employment system, however, is seen in the time-consuming process of building a new consensus behind new policies when responding to changes in the business environment and when significant product or organization changes must be made. At such times, management feels a duty to transfer workers from problem divisions

to growth divisions rather than firing them.

### **3. The Board of Directors' Role**

With respect to the role of corporate directors, I must say that I have been very impressed with the aggressiveness and speed of top-down leadership at ICI, where I am an outside director, in such strategic activities as restructuring. I feel that I am witnessing an exhibition of a special strength of British industry.

Regarding the nature of discussion at board meetings, I have noted that such discussion at ICI deals primarily with performance, profitability, and share price. At Toshiba, in addition to these subjects, the range of discussion often includes growth, new technologies, and the development of new businesses. My observations concerning ICI may be also true with regard to major U.S. corporations.

To compare methods of evaluating corporate performance, or individual manager's performance, such evaluation in the West centers on budget and profit. In Japan, in addition to such evaluation, the degree of progress in implementing corporate strategies is also emphasized. These strategic areas include new technology development, new business development, productivity improvement, and the upgrading of marketing capabilities.

To give a general overview of international differences

in the relationship of corporate boards and management, American boards are composed primarily of outside directors representing the shareholders with a smaller contingent of inside management. In France, the president or CEO is often the only member of management on the board. In Germany, supervisory boards are usually composed exclusively of outside directors and labor representatives -- management is not represented at all -- a management board is separately organized.

In Britain, the executive contingent of board members generally outnumbers the outside directors, so there is no discrete separation of board and management functions.

In Japan, the tendency of British boards is taken one step further. There is rarely more than one or two outside directors, and the overwhelming majority of board members have been promoted from within the company and retain executive responsibilities. Reflecting the fact that the function of Japanese boards generally overlaps greatly with management, members are in a clearly delineated hierarchy of chairman, president, vice president, senior managing directors, and directors. It should also be noted that the number of Japanese board members is generally greater than in the West, and the speed of decision making is slower.

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#### **4. Similar Aspects of Companies in Japan and the West**

I have been focusing on differences between Western and Japanese companies, but ICI, for example, is a Western company that views its employees as its most important resource, emphasizes R&D activities, and is similar to leading Japanese companies in numerous other ways. The so-called excellent companies in the United States also are unusually attentive to their personnel and their top managers have often worked their way up within the corporate ranks. Truly superior companies have many characteristics in common regardless of their locations.

### **III. Operations of Japanese Corporations**

#### **1. Product Development Amid Fierce Competition**

When considering the factors behind the rapidity of Japanese industry's post-war growth surge, product development strength amid fierce competition is one of the first things that comes to mind. In the past two or three decades, competition in Japan's domestic markets has been more severe than anywhere else in the world, forcing Japanese industry to energetically and continually launch new products. Japanese companies have thus struggled to improve their competitive positions through a continual stream of new products that are superior with regard to performance and price.

In addition to my strong feelings about the product

oriented community, I have long emphasized the importance of "speed and sensitivity" at Toshiba. In today's market environment, which is characterized by severe competition and rapid technical and social changes, a corporation will not succeed without the timely introduction of competitive products designed with a sensitive and accurate understanding of market needs.

Successful new products are the result of the emergence of technological seeds that correspond with market needs.

Especially in the electronics industry, the role of technological innovations has been prominent. To take the most striking example, advances in semiconductors have enabled a vast variety of compact, high-performance electronics products, such as lap-top computers.

In Japan, substantial efforts are devoted to incorporating the results of market research in product development programs. For example, Toshiba has established a Lifestyle Research Institute in one of Tokyo's most fashionable districts. The center investigates the tastes and needs of young people, who will determine the nature of the future demand trends. Most of the major Japanese consumer electronics companies have established similar organizations.

Another situation differentiating Japanese and Western R&D programs is the contrast between Western companies' relative strengths in research or basic science and Japanese

companies' relative strength in product development and process technologies. This situation is clearly reflected in statistics on university students. Although the United States places more emphasis on development and technology than is the case in Europe, this emphasis is not as strong as in Japan.

The European style of education has emphasized investigations of truths and basic science, while Japanese education has tended to stress applicability and relevance of research to everyday life. This tendency is at the root of Japanese industry's relative strength in quickly commercializing technologies.

## **2. The Internationalization of Business**

Having become internationally competitive through their efforts to survive in the severe conditions in the domestic market, Japanese companies began product exports in the latter half of the 1950s. In the 1980s, many Japanese companies took internationalization one step further with the establishment of overseas manufacturing operations. Toshiba presently has over 4,000 employees at six manufacturing facilities and several marketing companies in the United States and approximately 2,500 employees at six manufacturing facilities and several marketing companies in Europe.

At present, Japanese R&D operations are becoming increasingly international. For example, Toshiba designs logic chips (ASICs) locally for customers in numerous countries around the world, and the designs are then immediately sent to production plants in Japan by satellite.

#### **IV. Examples of Foreign Companies Successful in Japan**

As the globalization of the world's markets continues, Japanese companies are advancing into Western markets and Western and other foreign companies are entering the Japanese domestic market. There are complaints that Japanese markets are closed, and many efforts must still be made, but, in general, Japanese markets are open to foreign participation now.

For any company in any market, the combination of strong products and a strong marketing network will bring success. Energetic efforts to create strong marketing networks are behind the success in Japan of such U.S. companies as Schick, Coca-Cola, and McDonald's and such German companies as BMW and the cosmetics makers Wella. A list of companies who have been successful in Japan on the strength of superior products might include the United States' IBM, the U.K.'s Rolls Royce and Rank-Xerox, and West Germany's Siemens and Braun, the latter being well known in Japan for its electric razors.

## **V. Prospects for Japanese Industry**

Among the major economic trends under way today are the globalization of business operations and the multinationalization of companies. And as internationalization progresses, Japanese companies are facing numerous problems.

Some of these problems derive from the internationalization of the operating environment. For instance, Western companies' shareholders have a strong voice in the short term. Japanese shareholders do not exert such pressure at present. However, the internationalization of shareholders is progressing in Japan as well as elsewhere. In addition, the significant and ongoing reduction of Japanese companies' borrowings from such long-term shareholders as financial institutions may lead to a desire on the part of long-term shareholders for increased dividends. Thus pressures from all types of shareholders desiring higher profits and dividends are likely to increase in the future.

Many Western companies have responded to market changes and intensifying competition by initiating merger and acquisition activities. This method is superior with respect to the speed of response. Because of the widespread perception in Japan that employees are the true owners of corporations, however, Japanese corporations are attempting to respond to such changes through restructuring carried by



corporate members for their own benefit, although this method may be slower than merger and acquisition activities.

Other problems are arising from the internationalization of individual companies. As Japanese companies establish overseas subsidiaries, they are hiring increasing numbers of local employees. Japanese companies are facing numerous problems in harmonizing local and traditional Japanese practices with regard to such questions as the status of local employees, the feasibility of using the traditional lifetime employment system and management structure outside Japan. Japanese companies are still groping for the exact nature of their identity as multinational organizations.

Japanese multinationals will face increasing challenges in attempting to retain their traditional characteristics and cultures while introducing numerous features typical of multinational corporations based in the West.

However, as I mentioned previously with reference to the general nature of excellent companies, I firmly believe that a high level of respect for employees as human beings will continue to be a crucial factor in the long-term success of all companies, regardless of their location or national affiliation.

Thank you.