

Japan's Corporate Challenge: Restructuring and Corporate Governance

On March 3, 2000, the Center on Japanese Economy and Business organized a discussion session between Mr. Yuzaburo Mogi, President and Chief Executive Officer of Kikkoman Corporation, and Columbia University MBA students and faculty. Mr. Mogi described what Japanese businesses are doing in the areas of restructuring and corporate governance during Japan's economic recovery period. Specifically, he addressed management-labor relations, the seniority and lifetime employment systems, and appropriate systems to monitor management performance from the viewpoint of the shareholders. This report is a summary of his presentation.



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JAPANESE CORPORATE RESTRUCTURING: MEETING THE CHALLENGES

Japan has changed greatly since my time at Columbia. Since the end of World War II, Japan has gone from the "catch-up" phase through the boom and bust times of the bubble era, into a very critical period of transformation. An economy that was once government-guided will now be characterized by a much freer market, as Japan tries to build a more lasting recovery.

Today I would like to tell you a bit more about what Japanese businesses are doing during this transformation period, particularly in the areas of restructuring and corporate governance.

In recent years, Japanese business people have become more stock-price conscious — that is, sensitive to the movement of their own corporations' stock. The reason for this is a recognition that increasing value for shareholders is one of the most important goals — if not the most important one — especially for the CEO. While this may seem logical to American businesses, it represents a significant departure for the Japanese.

Japanese CEOs and management used to attach the highest importance to their relationships with their employees. This was the basis for the world-renowned strength of Japanese companies in the past. During this period, shareholders were not as important because we had indirect financing from banks. As a result, Japanese

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companies gave higher priority to their main bank rather than to shareholders.

Now, however, the Japanese economy is in the process of transforming from a government-guided economy to a market-oriented one. The performance of the corporation is judged by the market — i.e., by the shareholders. Further, Japanese companies now attach more importance to direct financing rather than loans. Consequently, Japanese business people are beginning to recognize that they must focus on relations with their shareholders. They still feel that relations with employees are important, but relations with shareholders may now be more important.

As a result, Japanese senior management finds itself seeking higher returns on equity (ROE). Unfortunately, this conflicts with the traditional focus on employees. In the past, even during recession periods, Japanese companies tried to keep their excess employees, even though profitability figures, including ROE, declined. Now, as the realities of the global marketplace become clear, maintaining excess employees has become more difficult and the issue of restructuring has become a major focus for corporations in Japan these days.

Corporate restructuring, in the narrow sense of reducing labor costs, has become a particularly hot issue. Although it still has its own merits, the long-admired Japanese lifetime employment system is beginning to crumble, and Japanese managers are taking a hard look at the alternatives.

Last summer I was at a meeting of the Japan-U.S. Business Council in San Francisco and I co-chaired a discussion group for manufacturing companies. The Japanese asked their American counterparts how they had executed restructuring in the past. The Americans offered their own experiences which, in turn, helped us to focus on a number of ways to reduce labor costs. First, some American corporations simply lost their competition and left particular industries. This automatically reduced the labor count. Second, other corporations kept their employees, but cut wages. According to the Americans, about 50 percent of major corporations in the U.S. encountered this experience. Third, corporations reduced or eliminated new hires and, fourth, people were simply fired.

What impressed the Japanese was that, in the U.S., there were many choices for restructuring. Currently, many people in Japan are worried about losing their jobs. However, firing is only one of several alternatives that corporations can use. I think we will see a variety of alternatives used in the near future as Japanese companies work on restructuring. The bottom line in Japan is that, in the coming years, more people will be fired than ever before. But, because the long term relationship between companies and their employees has traditionally been so strong, I think we will see a smaller percentage of Japanese companies choosing this alternative than we have seen in the U.S.

CORPORATE GOVERNANCE

As Japan begins to adopt more of the global rules of the marketplace, we are asking ourselves what kind of system would be appropriate to monitor the performance of management from the viewpoint of the shareholders. There are currently

two main movements under consideration. One is to reduce the number of directors on the board and to include outside board members. In contrast to American firms, most board members come from within the company in Japan.

Being an outside board member in Japan has greater risks than in the U.S. For example, derivative lawsuits by shareholders are becoming more common, especially since the enactment of an amendment to Japanese commercial law several years ago. Since then, it has become easier to file such lawsuits. Moreover, there is no ceiling on the award in these cases, so outsiders may be more reluctant to join a board. If this situation is corrected, we will see more Japanese boards comprised of outside members. One current alternative, that avoids difficulties with lawsuits, is for a company to set up an advisory board that mainly consists of outsiders.

Given the difficulty in getting outside board members, a second movement in Japan has been to strengthen the function of corporate auditors who check the performance of management. There can be both inside and outside auditors. However, this system does not exist in other countries, and if the monitoring system were to be further strengthened with outside directors, the end result could be excessive oversight. It seems likely to me that more Japanese companies will follow the first movement, which is similar to The American pattern and which is becoming the global standard.

Many people in Japan are saying that the economy is on the road to recovery. However, if you look at recent economic figures, I do not think one should be too optimistic because personal consumption is still too low due to employment insecurity. The unemployment ratio in Japan may not seem much higher than other countries, but many Japanese are still afraid of losing their jobs because the lifetime employment system has existed for so long. The Japanese have not experienced unemployment before. Psychologically, the unemployment ratio seems higher to the Japanese, and that affects consumption.

For example, public spending in the form of a series of stimulus measures by the Obuchi administration is reaching a very dangerous zone. We should not increase public spending any more because the deficit is increasing. We also have excess capacity which makes it difficult for corporations to increase investment at this time.

The Japanese economy can be revitalized through more venture businesses and more foreign investment in Japan. The Japanese government has provided some measures to increase venture business, but additional tax reforms are extremely important, so that "angels" will invest money in new ventures. Inviting foreign investment in Japan is also very important for revitalizing the economy. Compared with the figures for Japanese investment abroad, foreign investment in Japan is very low. We should be encouraging our prefectures to compete with each other to attract outside investment.

As the Japanese government reaches its financial limits, public spending will decrease. Increased foreign investment can help offset the decrease in employment that results from fewer government-funded projects.

These are very challenging times for Japan. I believe that the sooner we transform from a government-guided economy to a much freer market economy, the sooner we will be firmly on the path to revitalizing the Japanese economy.

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コロンビア大学ビジネススクール日本経済経営研究所

講演「日本企業の新たな挑戦：リストラクチャリングとコーポレート・ガバナンス」

茂木友三郎キッコーマン（株）社長

2000^3^30
於 コロンビア大学

日本経済経営研究所は、コロンビア大学ビジネススクールの卒業生でもある茂木友三郎キッコーマン社長をお招きし、「日本企業の新たな挑戦：リストラクチャリングとコーポレート・ガバナンス」というテーマで、現在進みつつある日本の企業経営の変化について講演していただく機会を得た。以下で、その講演の要旨を簡単に紹介する。

株主利益重視の経営、終身雇用の見直し：雇いを重視した経営から株主利益重視の経営に確実に変わりつつある。それに伴い、資金調達も従来中心となってきた間接金融から直接金融に比重が移りつつある。グローバルな経営環境のもと、労働コストの削減が経営の最重要課題となっている。米国ではレイオフ及び解雇、賃金引下げ、新規採用の削減・中止と、労働コストの削減のためのすべての手段がとられてきた。日本でも今後何年間にわたり労働コストの削減が進まざるをえないだろうが、すべての手段が取り得るかどうかは不透明だ。

コーポレート・ガバナンスの強化：株主利益重視の観点から、いかに経営陣のパフォーマンスをモニターするのが望ましいのか、が問われている。二つのやり方が現在行われようとしている。一つは、取締役会の活性化で、取締役の数を減らすとともに、企業内部からの登用を減らし、外部からの取締役就任を増やそうとしている。しかし、取締役への株主代表訴訟が増加してきているため、社外取締役への就任を躊躇する傾向が出てきている。そのため、社外取締役の数を増やすことに代えて、経営諮問委員会のようなものを設けて外部から人を招く例が増えている。もう一つのやり方が、監査機能の強化で、社内・社外監査役による経営の監視をより有効にさせようという方向だ。しかし、日本においても徐々に、米国のように経営の監視は取締役会に集中させる方向になっていくように思う。

今後の日本経済：現在の日本は、政府主導の経済システムからより自由な経済システムへの移行期にさしかかっている。中期的にみると、政府財政支出が限界に達しつつある現状、それに代わる何らかの経済の牽引役が必要だ。ベンチャー・ビジネス、外資による日本への投資、等をそれに取って代わるものとして期待したい。

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