

**The Japanese Corporation in Transition:
Current Challenges & Outlook**

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The Japanese Corporation in Transition: Current Challenges & Outlook

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My remarks on the transition of the Japanese corporation involve some generalizations, based on my experiences in organizations such as the Japan Association of Corporate Executives, *Keidanren* and *Keizai Doyukai*. Membership in these organizations has provided me the opportunity to exchange views with Japanese business leaders concerning the direction Japanese corporations must take in order to remain competitive in the global market and to be meaningful members of all societies in which they participate. I also describe briefly some of the actions that Fuji Xerox is currently taking to meet these two challenges.

Although the U.S. and major European economies underwent significant change following Black Monday in October 1987, the Japanese economy, helped by the Bank of Japan, the Ministry of Finance, banks, security companies, and the manufacturing industry, continued to grow. In fact, the Tokyo stock market did not reach its ceiling until the end of 1989, the height of the bubble. From this point on, as the bubble burst, the stock market continued to go down and the real struggle of the Japanese economy and Japanese corporations began.

Whether we speak of the whole Japanese economy or of single corporations, the situation is the same. If 10 years are spent expanding facilities and increasing expenditures beyond need, when the bubble bursts, readjustment is always very painful. The time it takes to readjust to

reality is a function not only of how big a bubble there is but also of the determination or clarity with which we assess our current position. Of course, we are all human beings and corporations are still driven by very human feelings. Therefore, it is sometimes difficult to depart from dreams of past glory. There is always the lingering sentiment that it just cannot be that bad; we cannot have been that easily fooled; and there must be something we have done well. These sentiments make it very difficult to take the drastic actions necessary to be effective in a new international business environment, especially when those actions will differentiate you from others.

In part, this is what is occurring in the Japanese business scene today. Yet, many Japanese companies that made mistakes decided to move ahead in ridding excess capacity, including manpower, as early as 1989, 1990 and 1991. The difficulties inherent in this process are clear--it is one thing to freeze hiring or to let people go on an early retirement basis, but firing employees is only done in the worst of situations, when everyone within the corporation recognizes this to be the only way out. In some cases, companies that actually took on the difficult task of downsizing or rightsizing staff became unpopular and even experienced small-scale strikes. But having come through these difficulties, they are now doing well. Most companies, however, are still going through a lengthy period of adjustment.

There are several factors that make this adjustment process more difficult. One is the appreciation of the yen. When the yen hit its high of 79 or 80, many forecasters predicted an eventual increase to 50 or 60. Although most did not believe this prediction, even the possibility of such an increase created enough pressure on the part of Japanese management to take difficult and drastic action, partially evidenced in the increased movement of Japanese manufacturing plants offshore. Of course, when a company goes offshore it will perforce engage in a significant

amount of hiring out, even if it is successful in creating alternative jobs back home. But more importantly, the small- and medium-sized suppliers and vendors that have been doing business with these large corporations are bound to suffer. Again, there were a few enlightened small- and medium-sized business leaders who even back in the mid-1980s after the Plaza Accord recognized the eventuality of the yen reaching 100. Although probably accounting for less than 10 percent of total vendors and suppliers, these companies began to develop operations in China, Malaysia, Indonesia and Thailand early on, rather than waiting for the large corporations to move in. The large majority of companies, therefore, continue to go through a very difficult adjustment period. The currency change also impacts many of the service sector players, including distribution, that have been blamed for Japan's lower national productivity. Here, too, a slow and difficult process of adjustment may be expected.

This hollowing-out of the Japanese economy may be viewed from two perspectives. One view is passive and subjective: manufacturers are reacting to a new currency situation which makes it uneconomical and uncompetitive to continue manufacturing operations at home because labor costs in Japan have become so out of line with international wage rates. But, on the other hand, a longer term, objective perspective suggests this adjustment to be a natural result of the economics of comparative advantage; one simply cannot assume that Japan will continue to be competitive forever. Nevertheless, in a country with the long-standing practice of lifetime employment, even such a natural phenomenon creates larger and perhaps more painful consequences both economically and socially, since there are no mechanisms in place to handle this adjustment on a regional or national level.

Trade friction is another factor adversely affecting adjustment. At present, U.S.-Japan

trade relations seem to have reached a peaceful stalemate. But for the last several years, ending with the auto parts negotiations, relations between the two countries, particularly at the government level, have been less than friendly. Though not a major issue, many of the pressures exerted by the U.S. government were perceived by the Japanese as making things even more difficult for corporations in Japan to adjust to the new economic reality.

Deflation also exerts a negative impact on adjustment. Because Japanese consumers and business people are taking positive, maximum advantage of the stronger yen by importing price-competitive and high quality products and services, price levels in Japan are going down. We describe this process as deflationary because of the negative gap between the gross and net growth of the economy. But deflation or not, this is no doubt a healthy process for the Japanese economy. Government rhetoric regarding our stable economy and low inflation rate notwithstanding, people were very much aware that Japan's low inflation rate came at the expense of very high price levels. Nevertheless, this reduction in price levels is painful to many Japanese corporations. Fuji Xerox, for example, began to receive numerous complaints from its global customers that prices were simply too high to be internationally competitive given the current exchange rate, so we had to lower our prices. But when a company is forced to lower prices without increasing sales volume, revenues go down. What about costs? Do costs go down in line with price? Clearly, the answer is no. This is in part because Japan's inefficient distribution system is not filtering through the benefits of the high yen as effectively as it should and also because in some sectors, such as electricity and gas, costs have not responded directly to currency changes. Consequently, many Japanese firms are faced with smaller, if not nonexistent, profit margins.

Japanese corporations also face an international competitive picture much different from that of the mid-1980s. The Americans and Europeans are back, and our Asian neighbors are constantly increasing their competitiveness. Part of the American comeback is certainly due to changes in the exchange rate, as Mr. Welch of General Electric has often stated. But other observers have raised serious doubts about the extent of improvement in American competitiveness. Based on my experiences with Xerox Corporation, I would have to say that the currency change has helped the situation, but there is more to it than that. Real substantive improvements are taking place in many American companies with regard to producing more effectively and more efficiently. In some cases these companies have gone too far in their efforts to downsize and rightsize production, and they are now paying the penalties. But this can happen anywhere and the real test is whether these companies can adjust to the penalties and still be competitive. Very often it is necessary to take a second look at what is really happening in the marketplace; many companies fail because of their slowness in recognizing marketplace realities. Broadly speaking, however, I would argue that American companies have done well by combining the benefits of incremental improvements in total quality management with drastic and effective restructuring. This is a powerful combination and, coupled with a calm, objective management outlook, almost unbeatable.

Returning to the Japanese case, I doubt that most companies would have been able to restructure as effectively as they have if the yen had appreciated gradually from 150 to the 100 of today. When faced with gradual, but steady and consistent trends, do Japanese corporations have the ability to act early enough to preempt future risks instead of reacting to sudden dangers as we have done so often in the past? My answer, unfortunately, is no. We often talk of long-range

planning on the part of Japanese and the short-range orientation of our American friends. But when faced with the likelihood of the yen's rise, only a few Japanese companies were gutsy enough to take the swift and effective action necessary to ensure their continued competitiveness. Most companies failed partly because it was difficult to act, but mostly because of their ingrained inability to act positively and strongly based on a long-term view. This is one of the new challenges that many Japanese corporations face as they enter the next century.

A second challenge arises in the area of communication. For Japanese, English is admittedly the most important foreign language, but growing in importance to all of us is Chinese, and perhaps even Spanish. Despite the fact that studying English is compulsory from the seventh grade on in Japan, I recently discovered that our country ranks as low as 197 of the 214 countries that use the TOEFL test. To make matters worse, for the past 10 years the Japanese score has remained flat while scores of other nations have improved. This is a very serious challenge that Japan has yet to overcome.

In the business world of the future, the information technology language will also be key. Looking ahead to the next century, it is information technology management, not modern theories of organization or personnel management, which will make the difference between winners and losers in business. And how do Japanese compare with their American and Asian counterparts in this area? Unfortunately, again, the answer is not well, partly because of nationwide regulations but also because of a lack of aggressiveness on the part of many corporations in breaking away from past patterns of management.

Despite these many challenges, I remain fairly optimistic that most Japanese companies will adjust successfully. Based on the past record, it is clear that many have been able to manage

somehow, although this “somehow” approach will be more difficult in the future unless significant deregulation occurs, particularly in the area of information technology. New Zealand, Australia, and Singapore, for example, have already developed a global business network which Japanese corporations are able to utilize, thereby saving some two-thirds on international telephone bills. Japan must also develop a viable venture capital system if it is to create new business opportunities in the financial and other service sectors for displaced employees from noncompetitive sectors of the Japanese economy. Developing such a system will require changes in Japan’s tax system, and this will take a long time. Japanese business and government must also develop new mechanisms for handling the higher rate of unemployment which is certain to occur. In the past, when Japanese companies could count on the future growth of their businesses, they viewed underemployed personnel as a valuable source of accumulated know-how and stronger company loyalty and therefore were willing to pay the price to keep these employees on their payrolls. But today, most sectors of the Japanese economy are facing either negative or flat growth potential, coupled with increased demands from their shareholders to become more profitable. Under these circumstances, many corporations simply cannot afford to retain underemployed personnel over the long term. While I doubt official unemployment in Japan will ever reach 10 percent, we can certainly expect an increase to at least 5 or 6 percent.

Individual corporations in Japan must also find a new course which balances efficiency and effectiveness. I refer here to my company, Fuji Xerox, as a case in point. Fuji Xerox, a typical 50-50 joint venture created in 1962, was helped through the 1960s and 1970s fundamentally by two factors: first was the strong economy in Japan, which created a very positive attitude toward modernization in the business community; second was the fact that we were providing technology

and products that no one else had, an effective monopoly lasting until 1973. Of course, the 1973 oil shock changed the whole ball game. International competition grew fierce, but still we were able to respond effectively. Our company started TQM in 1976, and four years later we won the Deming Award which prompted Xerox Corporation in this country to take similar action, instituting their own system of TQM in combination with a solid restructuring plan. And Fuji Xerox has continued to grow in Asia, adding Australia, New Zealand, Singapore, and Malaysia five years ago. We have a joint venture with Xerox in this country, and are opening a new factory in China which will be managed and 90 percent owned by Fuji Xerox. These arrangements are intended to make our group more competitive and to help us better serve our customers. Although we are today probably one of the best examples of a successful joint venture, this success has not come without difficulties and frictions. In this sense, our relationship is not unlike that of the United States and Japan--basically sound but not without problems.

Through all of these experiences, Fuji Xerox has become aware of the need to make our organization more effective; efficiency gains simply do not seem exciting enough to keep our employees actively and creatively engaged in the organization. As a result, we have recently introduced the "New Work Way Movement" designed to bring individual creativity more into play by blending team work with individual initiative. Naturally we have had to overcome some initial doubts among our people that this was not just another management catchword designed for publicity purposes. But after three years, we have achieved relative success with this new approach for creating what we think is a good company.

At Fuji Xerox, we believe a good company has three facets. First is financial, technological and marketing strength, and being responsible to our shareholders. Although for

many years Japanese corporations have been described as irresponsible vis-a-vis shareholders, placing more importance on employee satisfaction than anything else, this is as much an exaggeration as the view that American companies care only about their shareholders' needs at the complete expense of their customers and employees. Nevertheless, it is true that more Japanese companies are moving toward a profitability orientation which emphasizes return on equity and return on assets, and away from their former size-growth orientation which emphasized increased market share. This change in orientation is important in that it requires a different set of management strategies and a different attitude toward employment, and in this sense is symbolic of many of the changes Japanese companies are going through.

Second, in addition to being strong economically, a good company must be employment conscious, environment conscious, and community conscious--we call this the gentle company. In order for a company to be both strong and gentle, the engines which drive that company, namely the people, must find the company to be an interesting place within which to work. Therefore, instead of constantly driving our employees to be more efficient, we have decided to create a more interesting work place by providing them with new opportunities to absorb the changes that are occurring in the outside world. We believe that if a corporation wants to be sensitive to changing societal needs, those needs have to be felt by the people who form the organization, not simply at the top but at all levels of the organization. Fuji Xerox's New Work Way, for example, encourages employees to spend a portion of their time away from work, or in non-work-related activities, for instance, our Social Service Leave Program. Employees' reactions so far have been quite positive and on all accounts the new approach appears to be working. Employee satisfaction is higher, we had a profitable fiscal 1994, and fiscal 1995 should prove to be another

good year. On top of this, some of our new products, including color and digital multi-function machines, are leading the market. Of course, there is no guarantee that this approach will continue to be successful, and it does require continued dialogue up, down and across the organization. But if corporations can successfully stimulate the interest of their employees in the outside world and develop effective internal communication mechanisms, this combination will assist them in improving their sensitivity to societal needs and, ultimately, keep them afloat.

It is important to recognize that the New Work Way may not be the right approach for all corporations. Rather, each corporation must find its own mechanism for developing a new and exciting corporate culture which stimulates creativity among its employees. In this way each can achieve the third facet of being a good company, and that is to be different and interesting. Clearly, this difference must be created by the people in the organization. The realities of the outside world are forcing Japanese companies to be different from the past, to develop different management practices, and to find a new vision for dealing effectively with the challenges of the next century. I remain optimistic that most Japanese corporations will be able to meet these challenges by creating new and dynamic relationships among company, employees and customers which all parties respect and value, and these changes will be born of the struggle in which we are currently engaged.