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**Toward a Nation of New Businesses  
- Creating a Brilliant Japan -**  
Chairman's Address for the 2003 Annual Meeting

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**1. Introduction**

I am deeply honored to stand before you as the newly appointed chairman of Keizai Doyukai as we commence our fiscal 2003 annual meeting. This marks the first time in 20 years that our annual meeting is being held in the history-laden halls of the Industrial Club of Japan. Indeed, this site is closely associated with the history of Keizai Doyukai itself, which, since its inception as a policy-study association of corporate executives, has endeavored tirelessly to contribute to the development and reform of Japanese society. Recalling this brilliant history, I am truly humbled at the weight of the responsibility that has been placed upon me.

It was only months after the end of the war that 83 founding members gathered in the inaugural meeting of Keizai Doyukai held on April 30, 1946. In the 57 years that have followed, our predecessors have come together to earnestly discuss the challenges of corporate management and the framework of the Japanese economy. Through these discussions, they have developed numerous proposals and helped create postwar Japan.

"Corporate Executives in the World Economy." That was the title of the New Year's Statement given by one of my predecessors, in which he argued that corporate executives must prepare for the intense competition that would result from economic globalization. Five years later, he entitled his New Year's Statement "Year of Decisive Action on Structural Reform," advocating that there was no time left to lose in implementing structural reform. The author of these

statements was none other than Kazutaka Kikawada, who held the office of chairman some 40 years ago, and the statements I have mentioned date back to 1963 and 1968, respectively. Several years later, in 1981, Chairman Tadashi Sasaki made a speech entitled "Toward the Realization of Private Sector-Led Society."

More recently, Chairman Takashi Ishihara redefined Keizai Doyukai as "an open and action-oriented policy group"; Chairman Masaru Hayami made the case for restructuring Japan based on three key words: "global, market-driven, creative"; and Chairman Jiro Ushio advocated the "declaration of market principles." Throughout this period, Keizai Doyukai gained a prominent and important role in the Japanese economy as an organization of corporate executives.

Finally, in his inaugural address made in 1999, my immediate predecessor Yotaro Kobayashi made a speech entitled "Beyond the Declaration of Market Principles: Toward the Establishment of the Four Governances." In this address, Mr. Kobayashi outlined a long-term vision for establishing the four pillars of governances -- corporate, social, global, and individual governance -- and declared that the full implementation of market principles and bold action on reform constituted the immediate challenge. Mr. Kobayashi followed this up in December 2000 with "21st Century Declaration," a document that reaffirmed the sense of crisis prevailing at the time of the establishment of Keizai Doyukai and identified "the evolution of market " as the goal beyond the establishment of the four governances. In a way, "21st Century Declaration" represented a second mission statement for Keizai Doyukai and marked the start of a new page in the history of this organization.

The various initiatives that were pursued under the leadership of Mr. Kobayashi during the period of four years were summarized in the 15th Corporate White Paper, released in April of this year. Entitled "Market Evolution and Corporate Social Responsibility Management," the White Paper condenses of Keizai Doyukai's knowledge and wisdom in the development of confidence in corporations and sustained value creation, and proposes a "corporate evaluation standard" as a means of undertaking an overall assessment of corporate value, based on economic, social and human factors. This is an epoch-making effort for self-evaluation and commitment by corporate executives. While Mr. Kobayashi

was the birth parent of this evaluation standard, I look forward to taking over as its adoptive parent, and will endeavor to fully nurture this initiative and carry forward the principles and concepts it contains.

I would like to take this opportunity to express my deepest appreciation and gratitude to Mr. Kobayashi for his distinguished leadership.

## **2. Toward a "Nation of New Businesses"**

Having accepted the heavy responsibilities of Chairman, the question naturally arises: What must be done now to carry forward this brilliant legacy and record of accomplishment? In my view, in the opening years of the 21st century Keizai Doyukai must focus its attention on the realization of a "nation of new businesses." Having first become aware of their social responsibilities, corporations both old and new must implement modes of management that are fully competitive in the international arena, and must endeavor to achieve sustained growth in their business performances. I firmly believe that by pursuing these obvious objectives, corporate executives can help end Japan's current recession and lead the way in restoring the nation to its former glory.

To achieve this goal - redefining Japan as a vibrant nation of new businesses, existing corporations must boldly withdraw from those fields of competitive disadvantage. They must reallocate management resources to new pursuits and restructure their current businesses. In doing so, corporations should act with speed and decisiveness, even if it is difficult and painful. They must also develop differentiated and competitive products to successfully compete against China and other newly industrializing countries. When doing so, they should take full advantage of such Japanese strengths as perfectionism and excellence in details. Human, physical and financial resources should be concentrated on the development of competitive products and services. In short, existing corporations must venture into new business areas.

Recently, I heard an interesting story. On average, Japanese companies that are less than 30 years old are hiring more people than are leaving the company through retirement. On the other hand, in companies that are more than 30 years old, the number of retiring employees exceeds that of newly hired

employees. Moreover, throughout the 1990s, the number of companies going out of business constantly exceeded that of newly established companies.

As a result, the Japanese corporate sector has experienced a loss of competitiveness. Mirroring the trends in Japanese society, the corporate sector is also undergoing "aging and a declining birthrate." This is why new employment opportunities are not sufficiently being generated, and why business restructuring is not creating greater labor mobility.

Of course there are exceptions to the statistic concerning the age of companies. In fact many older companies are constantly reforming themselves, developing new business fields and redefining themselves as "start-ups." Such companies resemble younger companies in that they are focused on the developing future businesses and contributing to job creation. For any company to go through a repeated start-up process, corporate executives must show effective leadership in engaging in bold programs for business restructuring.

Furthermore, it is absolutely essential for Japan to create a society in which uninterrupted streams of new companies are born and young companies are given a full opportunity to grow and thrive. When I mention the birth of new companies, I do not mean only in the fields of technology-intensive industries, such as biotechnology and information technology. New companies can play an important role in responding effectively to emerging customer needs and promoting affluent lifestyles. Moreover, an increase in the number of young companies will lead to the creation of new and diverse employment opportunities.

I am convinced that by transforming itself into such a society, Japan will be able to thrive as a nation full of entrepreneur and new business opportunities. By this reform, Japan will gain new competitive advantages in the global economy and will be able to revitalize its own economy.

### **3. Japan's Underlying Issues**

I would like to briefly outline my analysis of the current conditions in Japan that has led me to these conclusions.

In my opinion, we are faced with unprecedented difficulties that undermine Japan's postwar economic success. Since 1992, the Japanese economy has remained stagnant. Furthermore, in the spring of 1998, Japan began to experience disinflation as measured by the consumer price index, and has since been mired in deflation. Production facilities are being relocated abroad, unemployment is rising, and the stock market is stuck at very low levels. Local economies are particularly hit hard.

### **1) Issues of Corporate Management**

When we view this situation from the perspective of corporate executives, we see a simple and obvious fact: a considerable number of Japanese corporations are fighting a losing battle in terms of international competitiveness. A survey of international labor productivity based on Organization for Economic Cooperation and Development data underscores this weakness. Compared with labor productivity of 100 in the United States in 1999, Japan scored only 69 in the same year.

More importantly, the Japanese economy is moving toward a bipolar structure. Roughly 10% of Japanese labor is employed in manufacturing industries with strong international competitiveness, such as the automobile, electronic machinery and steel industries. Another 15% is employed in other manufacturing industries, such as food processing and textiles, which primarily produce goods for domestic consumption. The remaining 75% is employed in service industries, led by such industries as retailing and construction. The productivity index of Japan's internationally competitive manufacturing industries stands at 120. The remaining 90% of Japanese labor registers a productivity index of only 63. In other words, the Japanese economy is divided into two distinct groups: Roughly 10% of the labor force is employed in internationally competitive industries, while the remaining 90% is working in industries with approximately half the productivity of the first group.

I believe two key factors must be kept in mind when individual corporations are trying to improve their international competitiveness. The first factor is economic globalization.

Given that global competition and division of labor are rapidly changing, we corporate managers need to constantly review the competitive position of our own businesses. Similarly, technological innovation is advancing at a tremendous pace. This gives rise to the question of how to maintain technological competitiveness and incorporate the latest technological advances into corporate management.

Recently, I saw some made-in-China sports shoes that are selling in Japan for 90 yen a pair. The level of technology in China and other Asian countries is advancing at a breathtaking speed. My own background is in the IT industry -- an industry in which Asian countries, during the past decade, have emerged as cheap and reliable manufacturers of products requiring sophisticated technologies. As a result, manufacturing in Japan has had to be fundamentally reviewed, making us painfully aware of the difficult age that has now arrived. In this age of global competition, Japan will lag behind if it fails to go beyond conventional technologies.

Regarding the second factor, the IT revolution, dramatic advances in technology have given rise to a second industrial revolution. Some have argued that the IT revolution has come to an end with the collapse of the IT bubble in the late 1990s. However, technological innovation continues to advance with full force all around us. It has allowed inventory levels to be sharply reduced and clerical function automated. Many internationally competitive corporations are using information and communication technologies to cut costs and to achieve greater efficiency in all aspects of their corporate activities, from R&D and manufacturing to distribution, marketing and after-sale services.

In the United States and many other countries, inefficient companies are either restructuring their businesses to achieve greater competitiveness, or otherwise exiting the market leaving newly established companies to quickly fill the void. The situation in Japan is, however, quite different. Many corporations are still struggling to regain competitiveness; only a small progress has been made in withdrawing from markets and there has been a tiny trickle of entries by new companies. Unfortunately, this is one of the fundamental problems of the Japanese economy.

## **2) Political Issues**

Parallel to these corporate management issues, a series of political problems have become increasingly evident.

In June 2001, the Koizumi Cabinet gave its approval to "Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management," widely referred to as the "Basic Policies." The Cabinet committed itself to the position that "without structural reform, there can be no real economic recovery and sustained growth." It declared that the problem of non-performing loans would be resolved with "no fear, no hesitation and no constraint," and that structural reform would be pursued in seven strategic areas.

When the Koizumi Cabinet launched a frontal attack on difficult reform issues, a large part of the population responded with strong support and expectations. Keizai Doyukai was at the forefront in announcing its support. However, satisfactory progress in structural reform has not been made. Roughly 45% of the national budget is financed through borrowing, and total outstanding public-sector debt exceeds 700 trillion yen. If the huge fiscal deficit is left unattended, government finances will eventually collapse. Japan continues to postpone responding to the sharp drop in birthrate and the aging of society, and has procrastinated in undertaking fundamental reforms in the pension and health insurance systems. This political environment of postponing the resolution of crises has created a general sense of malaise and uncertainty for the future in Japanese society.

I earnestly hope that Prime Minister Junichiro Koizumi will return to his starting point of pushing vigorously for the realization of structural reforms. Keizai Doyukai and a large portion of the Japanese public continue to support the prime minister and to expect great things from his leadership. We wish that the prime minister would speak frankly to the people and explain in detail how far the process of structural reform has advanced, what obstacles stand in the way of further progress and what must be done to clear the way for progress. I believe a renewed effort must be made to once again create broad support among the people for the implementation of structural reforms.

#### **4. Our Aspiration**

I believe that much of this impasse is a creation of ourselves.

Many forward-looking corporations have already implemented bold programs for business restructuring and achieved important results. When we consider that the Japanese economy represents the aggregation of our daily pursuit of value creation, such achievements are immensely encouraging.

Fortunately, Japan retains a high level of fundamental strength. We have at our disposal an accumulation of capital and technology, a well developed social infrastructure, and highly educated human resources that are ready to support a knowledge-based economy. Furthermore, we have a highly refined domestic market of more than 100 million consumers. Finally, China and the other Asian economies stand as an enormous market and a center for manufacturing, and are richly laden with opportunities for further collaboration with the Japanese economy.

For Japan to regain its glory as a "nation of new businesses," the Keizai Doyukai of the 21st century shall declare and reaffirm its determination to aspire to the same ambitious goals adopted by our predecessors and strive steadily for their realization. I would like to propose the following three specific pillars for laying the foundations toward achieving our goals.

The first pillar is corporate reform and creation of new businesses. One of the central activities of Keizai Doyukai shall be to indicate what we corporate executives can do to achieve such objectives. At least for the next few years, the Japanese economy may continue to face the deflationary pressure. More importantly, the Japanese economy may no longer return to previous patterns of fast-paced growth. Given these conditions, we must actively discuss and formulate proposals concerning management reform, the creation of new industries and innovation in corporate management.

The second pillar is strong support for the realization of structural reform. It is clear that the creation of new industries and businesses will contribute to improving the quality of life, expanding employment opportunities and effective



demand, and revitalizing the Japanese economy. In this context, the task of the government will be to adopt policies for: (1) creating an environment conducive to fostering new industries and businesses, and (2) accelerating the structural adjustment from “sunset” industries to growth industries. This will require a broad-based program for fundamental economic deregulation and societal reform in Japan. Regulations that sustain protected markets must be lifted, and such markets liberalized. Economic regulations of all types must also be removed. The implementation of regulatory reform is particularly important in areas that can make a major contribution to demand and job creation, such as medical and health services, education, the environment and energy.

It is also necessary to develop institutions that will facilitate the smooth flow of private funds to new industries, enterprises and businesses. Concrete progress must be made in reforming Japan's financial systems and capital markets so that individuals can readily take on risks.

When we observe the slow pace of past progress in structural reform, it is painfully obvious that new initiatives must be added to the various efforts that have thus far been mounted. In this context, the program for special deregulation zones is very promising.

As the third and final pillar of Keizai Doyukai's activities, we must present a clearer vision of the future of Japanese society that lies beyond the current challenges of corporate management reform and structural reform, and seek to share this vision widely with the public. Any proposal we may make in this area will fail to gain support unless a broad-based consensus is reached in society concerning concrete objectives and the roadmap to the realization of such objectives. Likewise, in the absence of such a consensus, there will be no social demand for the steady accretion of short- and medium-term reforms. It is only after we come to share a common long-term vision of where Japan should be 10 years from now that we can hope to generate a popular upsurge for reform and widespread support for concrete action.

## 5. Conclusion

Our predecessors gathered here in this Industrial Club some 57 years ago to create Keizai Doyukai and to launch the process of resurrecting Japan from the ashes of the war. Their mission statement resounded with zealous determination as it declared: "Now is the time for all to join forces, for each to encourage and prod the other, to share the best fruits of our minds, and to concentrate all our forces on the reconstruction of the Japanese economy."

Here we stand 57 years later, faced with another set of difficulties and challenges. So, let us reaffirm the vital spirit of "we the members of the business community dedicating all our powers to the building of Japan," which has been passed down from one generation to the next in Keizai Doyukai, and let us announce our determination to act on this commitment.

We need to develop a society in which people can give full expression to their individuality; where diversity is readily accepted and self-realization is facilitated. We need a society that will actively support those who are prepared to take risks and meet new challenges. And, we need a society in which self-reliant individuals can take the initiative in creating new businesses. I believe Japan will be able to regain its vitality and luster through the creation of such a society. Ultimately, whether Japan succeeds in this undertaking or not depends on the efforts of all Japanese.

This requires us to further raise the level of the activities of Keizai Doyukai. We must not stop at presenting proposals and stating our views. Rather, we must back these proposals with concrete action for the realization of reforms. For this purpose, we shall actively engage in the exchange of views with political leaders and government administrators. We shall act directly in the policy-making process. And, we shall strengthen our collaborative ties with non-profit organizations (NPOs) and non-governmental organizations (NGOs).

The building of a brilliant Japan depends very much on us. I eagerly look forward to working with all the members of Keizai Doyukai and enjoying your active participation.