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**Creation of a New Way of Japanese Management**  
Management and Structural Reform for  
High Efficiency and Value Creation based on Japan's Strengths  
***Chairman's Message at the Fiscal 2007 Annual Meeting***

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**Introduction**

Being appointed chairman of Keizai Doyukai, with its long history as a policy group for corporate executives extending more than 60 years, is an honor greater than I deserve. I am awed by the depth of this responsibility.

I would now like to share my determination and beliefs with you as my greetings on this occasion of assuming the key role of chairman.

Since the end of the Second World War, Japan has experienced the reconstruction era, the period of high economic growth, and the bubble economy and its collapse, and it is now facing the issue of structural reform toward a new socioeconomic system.

Throughout those years, Keizai Doyukai has functioned as an agent of social change, leading the times by proposing novel concepts such as the "democratization of corporations", "voluntary adjustment", "corporate social responsibility", and adherence to "market-oriented economy". The fountainhead of these innovative ideas lies in the pursuit of the ideal corporation and in corporate executives' efforts to identify their own obligations.

Our role is to carry on the Keizai Doyukai tradition that has been established through the great dedication of our many predecessors, to make the best use of corporate executives' knowledge, to consider what we need to do in today's world, and with that as a starting point, to open up new horizons for Japan's economy and society.

## **1. The Knowledge of Corporate Executives: Pursuit of New Value Creation and High Efficiency**

Individual corporate executives are the basis of Keizai Doyukai. If we did not develop policy proposals making use of the knowledge gained from executives' daily management activities, Keizai Doyukai would lose the very purpose of its existence. The foundation of our activities lies in speaking from members' knowledge and their unique approaches as corporate executives.

The most important aspects of executives' knowledge are the insight, wisdom, methodology, and ideas they have gained through dialog with the market for the creation, development, and growth of corporations, as well as their prescience, efficiency, and global perspective as executives.

The importance of the market has only increased along with the advance of globalization. We live in an era when the market's assessment and selection dictate corporate survival. Under this competitive environment, it is no exaggeration to say that corporate efforts have been constituted the pursuit of and transformation toward new value creation and more efficient management. Corporations will not grow and develop if they become complacent in management as a simple extension of past success. We have found that the required reforms come forth from two main areas. The first is stimulation from the "outside" under free and fair competition in a market-oriented economy and society, that is to say market demands and the entry of competitors. The second is the positive incorporation of heterogeneity and diversity. This can be viewed as stimulation from the "inside" through the infusion of external resources (people, goods, and capital).

In this sense, corporate executives play an extremely important role in the creation of a market-oriented economy.

## **2. Back to the Origins of Reform and Building a Market-Oriented Economy and Society**

Almost a quarter-century has passed since the necessity of reform was noted as the post-war Japanese system premised on continuous population growth and expansion of economic scale became dysfunctional amid the advance of

globalization. The approaches to reform since the 1980s, including the administrative reforms of the Nakasone and Hashimoto administrations and the structural reforms of the recent Koizumi administration, have all been aimed at preparation for a new era. Regardless, it must be said that the construction of a new socio-economic system still remains incomplete. Furthermore the momentum toward the acceleration and decisive implementation of structural reforms has by no means been strong during the recent brisk economic recovery. As things stand, I cannot help but feel concern that reforms may even retrogress.

Despite this, large-scale changes in the social and economic environment are rapidly progressing. As is well known, the population of Japan peaked in 2004 and has begun to decrease due to a graduate decline in the birth rate. Internationally, the globalization dynamic is spreading, deepening, and being strategically developed with the emergence of the BRICs nations and the formation of free trade agreements (FTAs), economic partnership agreements (EPAs), and other economic alliances. I think we should view the recently announced FTA between the United States and South Korea as having a major influence on Japan's future economic diplomacy. We must prepare for even more changes in the future that will demand a new response. We do not have much time left. What we have to do now is first return to the origins and confirm anew what the diverse reform efforts are aiming at. Then we must draw a future vision of Japan after the reforms without being constrained by what worked in the past and reinforce and advance the reform process.

This means building up an economy and society grounded in market principles, which place faith in the market function and respects the voice of the market, just as Keizai Doyukai has repeatedly advocated in the past. We must reaffirm that a market-oriented economy, which ensures free competition, is the foundation for socio-economic vitalization, growth, and development, and the only sustainable framework for making contributions that are valued by the world at large.

I have recently heard arguments that may be interpreted as a backlash as well as those casting doubt on the value of a market-oriented economy, but I believe that these result from an excessive focus on problems that have emerged since formation of a market is incomplete and still half way.

Let us consider what is important in building an economy and society based on market principles.

First, corporate executives themselves must develop their management around fair and transparent competition that is completely market-oriented. I think it is important that executives have the resolution to work hand in hand with the market and the determination to influence the market.

Second, it is of the utmost importance that market participants, supervisory authorities, and other concerned parties make efforts from a long-term and comprehensive perspective to build up and maintain a “healthy market” that can make decisions contributing to the prosperity and fairness of the national economy.

Third, it is important to advance changes in the national government, local governments, and industry by embracing a “healthy market” and advancing structural reforms. To begin with, the public sector must reconsider the future roles of the national and local governments as well as the range of administrative responsibility and authority from scratch, without adhering to inefficient systems and the provision of services that citizens no longer desire or assuming the continuation of existing systems and organizations. Meanwhile the private sector must boldly embrace the challenge of moving into new growth fields without expecting government protection and holding fast to fields where growth can no longer be expected. In other words, it is extremely important to autonomously and independently regenerate corporations in a shift toward growth by advancing the creation of new growth and service fields that people desire, while promoting competition in a healthy market. Given the harsh realities of the changing environment, it is the duty of the current generation to work at building up systems that facilitate a sustainable Japanese society for the next generation.

There is no doubt that we are being called upon to create frameworks that conform to free and healthy competition, and to make valuable contributions to global development through the growth and development of Japan.

### **3. Creation of A New Way of Japanese Management**

It is the role of corporate executives to identify new value and provide customers with better products and better services through their management activities, as well as to aim at highly efficient management. From the 1990s, however, Japanese corporate management has bounced back and forth between the Japanese style

and the global standard, which might more appropriately be called the American way. Amid the ongoing globalization, response to global environmental problems, the declining birthrate and the aging of society, and diverse other changes in the times and our surroundings, the time has come to pursue a new way of Japanese management as the ideal form for Japanese corporations, which constitute the core of our market-oriented economy and society.

The most important perspectives for this new way of Japanese management are first to fuse together the respective good points of domestic and foreign corporate management to bolster global competitiveness, and second to simultaneously fulfill the corporate social responsibility of achieving harmony with society based on a market orientation.

I would like to explain the first item in slightly greater detail. To reinforce competitiveness, it is first important to rediscover the strengths and good points of management at Japanese corporations. We must then provide and share those strengths with our partners in the international community, capitalizing on the values, wisdom, and technologies that have been cultivated in Japan's society and economy. Speaking from the manufacturing industry perspective, there are strengths that should be reinforced and utilized including world-class capabilities of manufacturing staff, superb teamwork, sophisticated and perseverant personnel, technological prowess, and a customer market with severe judgment on the quality. There are certainly many strengths and good points that should be utilized in other industrial fields as well. In general, we Japanese tend to begin by addressing our defects and weak points at every occasion. While that is understandable, it is far more important to start from our strengths. I believe that will enable us to carry out reforms with confidence and a bright outlook for the future.

On the other hand, it is also important to absorb new strengths from our global competitors and partners. Let us face competition by changing what needs to be changed and improving on our national strengths, that is to say, our core competences as a nation.

#### **4. Respect for People, Society, and Work**

To build a highly creative, efficient, abundant, secure society based on sustainable

market principles, it is necessary to establish social ideals that are shared by all. I believe that these are common ideals of respect for people, society, and work.

The basis of society and of corporation lies in having each and every member of society feel that there is purpose in their lives and that their work is worthwhile. There are no corporations or societies that do not value people. To build a society where people enjoy true wealth, we must respect for work, which is the basis for wealth through self-realization, while also valuing the state, local communities and corporations.

It takes time to build consensus on common ideals, and I think it is important for those of us who are corporate executives to take the lead by realizing these ideals and responding to social expectations. I really look forward to discussions about this as we pursue this new way of Japanese management that I have just proposed.

## **Conclusion**

In closing, I would like to say a few words regarding the administration of the Keizai Doyukai.

Japan is now at a crossroads between holding fast to the benefits of long-established structures without changing and be left behind by the rest of the world, or building a society based on sustainable market principles to achieve growth and development.

At the time when Keizai Doyukai was founded, and each time Japan faced a turning point, our predecessors have made major accomplishments. Let us now look up to them, share a sense of crisis, implement reforms in our respective corporate management, and work hard to achieve results. On that basis, I believe we must advocate the establishment of a healthy market to political and government circles.

Keizai Doyukai is an association of corporate executives united by these kinds of aspirations. Yet even while we share the same concepts, I think there is leeway for individuality in the methodologies applied. At Keizai Doyukai, solidarity means the mutual recognition and understanding of what we can and cannot agree upon as a common platform. With this foundation, I look forward to expanding the circle of

shared understanding to encompass a wide range of individuals and organs involved with the policy formation process, starting with all of our members, political and government circles, NPOs, think tanks, and academia, and working together with all of you toward the realization of our vision.

The establishment of a vibrant and steadfast Japan that contributes to global development lies in our hands. I ask all Keizai Doyukai members for your cooperation and support.