

## **Part 3**

### **What is Globalization for Japanese Enterprises?**

#### **- Have Globalization Serve as an Engine of the Evolution of a New Style of Japanese Corporate Management -**

In Parts 1 and 2, we discussed the practical aspects of the New Style of Japanese Corporate Management from various points of view. Under such consideration, we will present the New Style of Japanese Corporate Management as a management model in Part 3. We would be pleased if it would be helpful to your corporate management.

What is most important here is enhancement of global competitiveness of Japanese enterprises. How will the corporate management with which Japanese enterprises can be most competitively evolved, when globalized? Therefore, we would like to express it as concretely as possible based on the consideration by now.

### Part 3: What is Globalization for Japanese Enterprises?

#### - Have Globalization Serve as an Engine of the Evolution of a New Style of Japanese Corporate Management -

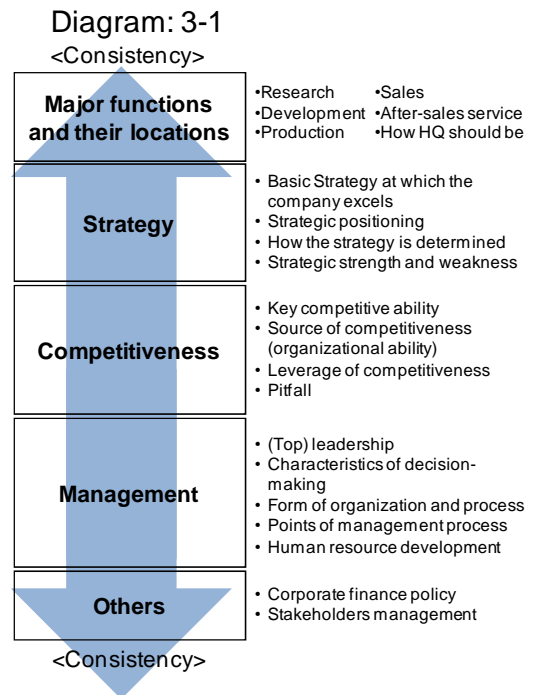
It is not easy to give a comprehensive view of corporate management. No, it may be impossible. Here, we would like to use a little simplified framework as in Diagram 3-1 as a way of expression. That is, what is the source of competitiveness of Japanese-style corporate management; what is a strategy that most uses it, and what is the key to management that effectively brings out competitiveness? To give consistency to the relationship among the source of competitiveness, strategy and management is an ironbound rule of management that efficiently maximizes the ability of a company.

Thus, excellent companies introduced in this report can play as they want, if we compare the situation to sports. They have carefully and steadily chosen the way; they changed what they should change to respond to changes of the times and the environment, and they rather strengthened the core that they should not change. This change of attitude can be said the most important essence of the New Style of Japanese Corporate Management.

Naturally, “what should be changed” and “what should not” vary a little depending on the company or industry, but Japanese companies have many common features. Here, such common elements are used as models.

For example, we use the expression “strength of *Gemba* (workplace or actual location)” as one representation of competitiveness. Even if we use the same term under different conditions, the concrete method to bring out the strength of *Gemba* may vary. In this section, we would like to present such variations wherever possible.

First of all, we need to present the fundamentals of Japanese-style corporate management. We looked at the top players in globalization in Japan. The history of globalized corporate management is not very long. They may have a long history of exporting products or services, but it would only be twenty years or so for most of the companies since they started expanding in the world, and the number of employees with foreign nationality exceeded one-third of all employees. These companies have desperately worked to be global by utilizing their fundamental strengths. The first case, Type One, is a fundamental model of such Japanese-style corporate management. We would like to reconfirm the underlying



competitiveness.

### **1. Type One - Fundamental model of the “New Style of Japanese Corporate Management” -**

We shall position the model displayed in Diagram 3-3 (pages 90 to 91) as the fundamental model of the New Style of Japanese Corporate Management because excellent Japanese enterprises have implemented the elements described here, regardless of the degree of globalization. As many of the elements overlap with Part 1 in this report, we will not explain the details. However, we would like to be more in detail to confirm the fact that the competitiveness and strategy of the Japanese enterprises are realized only when management brings them out.

Adherence to the company’s own technological and development ability can only be realized when patient organizational culture that allows the behavior of “difficult” engineers, and appointment of top management that makes engineers feel that their efforts will be appreciated are both visible. To value technologies is often considered the same in meaning as to value engineers.

From the viewpoint of showing the range of reality, the adherence to technology creates two contrasting cultures. One is the culture aiming at becoming “the first in the world” and another is aiming at becoming “the best in the world.” Not many companies declare that they aim at becoming the first. However, you should not miss the fact that this group of companies (like Sony and Honda) has stimulated product innovation in all Japanese companies after World War II. On the whole, more companies have the characteristics of the latter. Although they are not really innovative, these companies have identified customer needs more precisely, produced good products one after another, and acquired competitiveness in the global sense.

Continuous evolution is brought about often by the power of *Gemba* in the broad sense. To bring out the power, we have to build an organization where communication is facilitated, everything is “visible,” and full participation is welcomed. Furthermore, leaders who can maintain the organization must be reproduced.

Every single employee in the workplace must have unique and excellent techniques, technology, or knowledge. And when they solve problems, a shared “toolbox” that helps involvement and commitment is needed. Total Quality Control (TQC) of the manufacturing industry is the toolbox in many cases. Some have the company’s unique methodology, like Seven & i’s hypothesis verification cycle or Toyota Production System (TPS). However, “facilitating communication” does not simply mean speaking out whenever you like. You should not build an organization where you can say anything but nothing happens. It should be tied to a powerful middle management who has an excellent power of execution, with which they can change what they should change.

It is very difficult for foreign companies to introduce the *Suriawase*<sup>22</sup> approach. This means that it cannot be realized without underlying long-term commitment and relationships of trust between the persons who try to solve problems in integral way. If design, development, and production works are all self-contained, and if it is a matter of course that each individual's job description is clarified, the *Suriawase* approach does not work well. If all players share the customer-first principle ultimately, stepping into other's territory crossing the functional border (enduring unpleasant feeling each other) and making continued efforts to produce better products will bear fruit in the end.

Similar approaches have formed vertical cooperation, involving suppliers of components and facilities. The business relationship with them will be long, although the conditions are severe. We have been very careful about fostering capable suppliers. By doing so, we can let them participate in the development process at an early stage, and the two can closely exchange information, so that the technologies and know-how of the supplier can be introduced, and we can contribute to their growth at the same time. However, whether this vertical cooperation is developed into capital ties or limited only to the business relationship is at the discretion of each company.

In terms of sensitivity and careful response to customer needs, we have to educate developers so that they can naturally acquire the behavioral pattern of being very close to the customer or *Gemba*. Furthermore, leaders must always take the initiative. (Here, we call it an "actual things in the actual location" approach. Similar expressions are "*Sangen Shugi*" philosophy and the "focus on the sense of *Gemba*." Either of them is used to reflect the focus of each company.)

Corporate management attaching importance to the ambitions of the organization is one of the important fundamentals. We have seen corporate management based on the corporate philosophy in detail in Part 1. Many companies have this kind of "organization's ambition" and it is expressed as the founder's spirit. Some of them are listed and straightforward and others are expressed in the form of quotations at full length. These have been passed on from generation to generation, supporting the raison d'être as corporation or employees. And then, agglomeration of this "ambition" is gradually organized into a kind of philosophy. This "ambition" or philosophy is typically spread or handed down through work in Type One without any special programs because they are usually extremely obvious matters among the Japanese leaders.

The last foundation should be human resource development. As stated later, it is one of the Japanese enterprise's definite characteristics that people have confidence and expectation in

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<sup>22</sup> Organizational capability, such as team-based integrated problem solving that particularly favors integral-architecture (as opposed to modular-architecture) products and business. In engineering, for example, a multifaceted process that combines stage overlapping and intensive cross-stage communication

the power of people. For most of the companies, human resource development means enhancement of the ability of all employees because it is the source of competitiveness called the power of *Gemba*. The program to foster new leaders in Japanese enterprises is created and sophisticated based on this human resource development.

We picked up the typical source of competitiveness and added an explanation. If competitiveness is combined, the strategies they are good at will be implemented as shown in Diagram 3-3. However, the strategies they are poor at also exist, as everything has two sides, which will be explained later. This integration among management, competitiveness, and strategy as a whole is the model called “Japanese-style corporate management.”

## **2. Type Two - Present-day model of the “New Style of Japanese Corporate Management”-**

Type Two (Diagram 3-4 on pages 92 to 93) is a model showing how they carefully distinguish “what should not be changed” as the core of corporate management and “what should be changed” keeping pace with the expansion of globalization and how they have evolved. The underlined part in the diagram is newly added. We would like to add an explanation to this evolution.

Strategically, the basics are in differentiation by quality, which has not changed. However, as the opportunities to directly compete with more diversified global players increase, they respond to two changes. One is to clarify the positioning of the products and services. There is a need to strongly demonstrate which position the company’s products and services are placed in the total market, which customers they target, and what kind of value they seek. Design, development, and sales that are keener in the aspect that was not emphasized in domestic competition, for example, ease of use, high energy efficiency, and sense of class are strongly requested.

Another change is that they keenly notice the importance of innovation in technology and a business model. Approaches to bring about innovative products and services by continuing improvement, which is their original strength, are one thing. But they will study different approaches toward innovation. Companies good at continuous improvement will try to develop products by expanding development capabilities on a global scale. For example, they assign product design to Europe and software development to India. They will establish new development processes, maximizing the characteristics of each regional office.

Even at this stage, the basis of the growth strategy lies in organic growth. However, the company starts to use (in-out) M&A more strategically in order to deploy the bases globally or acquire important managerial resources such as technologies.

Utilization of M&A is the key to the New Style of Japanese Corporate Management. Many

of the Japanese companies repeated painful failures in M&A of overseas enterprises mostly in the 1980s. Maybe it was because they tried M&A that had little affinity with the company's fundamental management model, as seen in Part 1. They helped the target by making a short-term business recovery as a result of large-scale head-count reduction and selling the business, and then merged with it. Such an M&A does not fit within the corporate management model. Even if they try to conduct it, they have not fostered human resources with the required ability and experience and will surely have significant difficulties in the process of implementation and integration (PMI: Post Merger Integration). If a corporate leader examines how they use M&A in a practical and realistic way, the leader will naturally reach the style of the model, and it is most wise.

Next, some new important efforts are made at this stage to maintain the original competitiveness. First, maintenance and penetration of the power of *Gemba*. Many companies start by documenting the concrete methodology or philosophy that has supported *Gemba* and made it communicable. As stated before, they start with the TQC method or by making tools and then try to document the company's unique methodology and underlying philosophy. They will establish organizational processes to convey the methodology (voluntary study meeting, etc.), and many personnel (instructors) are sent to local companies from Japan. The more overseas factories they have, the stronger the function that is required for the Japanese factories as the "mother" factory. Some approaches have a centralized training center like the Global Production Center (GPC) of Toyota.

Ability to implement the *Suriawase* approach used in the relationship with development staff or suppliers is one of the important sources of competitiveness that should not be lost. As stated before, this is a culture and a methodology. Therefore, it is practical to attach Japanese personnel wherever possible in key positions that require this organizational ability because very few foreign employees understand and acquire the ability not merely as a methodology at this stage.

More attention is paid to the sensitivity and careful response to customer needs. Japanese enterprise's response to needs consists of an engineer's understanding of customer needs using their senses based on the so-called *Genchi-Genbutsu* (frontline-first and real-thing based) approach and customer analysis supplied from the marketing division. Which way should be emphasized is at the discretion of each company. It may be categorized as follows: Sony and Honda focus on the former and Panasonic and Toyota try to balance the two. If it is combined with a strategy, the former will lead to more innovative development with some risk, and the latter to more secure and comprehensive product lines.

We should be aware that the efficiency of the network of the Japanese people in the

Japanese language is one of the sources of competitiveness. For example, a company may have more than 100,000 employees and almost perfect functional organization, which tend to take a “silo” approach. A company may have a complicated matrix organizational structure, operation of which is said to be theoretically difficult. Or, a company may have an extended global structure for almost all businesses and became an insider at each location. In any case, the whole company can easily reach consensus rapidly. This is largely dependent on an informal network hidden in the back of the formal organization chart. However, even an informal network reflects the culture of each company. Some networks may be very thick and include private relationships. Some may be like a network of hobby friends. Either case plays a role of largely improving efficiency of communication.

The biggest shift from the corporate management aspect on this stage is that they start substantial efforts to document corporate philosophy like “... Way” or “... Value” and communicate it globally. The importance of diversity is fully understood as globalization advances. Still, priority is placed on organization building, which helps employees all over the world tackle their task on the company’s common base. Each company has its original corporate philosophy, and it often explains how the company’s competitiveness should be or how management or leaders should be to produce competitiveness. When a company is managed only by Japanese, it was passed down and shared tacitly through common experience after joining the company. This supports the quality of the above-mentioned informal network.

On the other hand, the structure of the philosophy has very unique elements, and personnel other than Japanese find it difficult to understand. Many of them are not fully understandable with only verbal explanations. Therefore, global dissemination of this common foundation will be a CEO project. In any company, top management takes the initiative for it and uses every opportunity to meet, including training. At the same time, the initiative is emphasized as one of the most important factors in top leadership.

When we consider the global company’s centripetal force, the answer we hear most often is technology. Most of the Japanese manufacturing companies regard its advantageous technologies and development staff as the core to competitiveness. However, as globalization expands, the division of labor on a global scale is considered even in the engineering and development divisions. In this approach, technologies are divided into core technology and application technology, and Japanese engineering personnel will cover the core technology wherever possible.

The specific methods have variations. One method is to identify a group of important technologies from the company-wide point of view, called the “Technology Platform” (Canon). Another is to specify the important elemental technology as “Black Box Technology” and provide an exceptional development system (Panasonic). On the contrary, Sony believes that technology and people/organizational climate cannot be separated and adopts a “softer”

approach focusing on the engineers and creation of an organizational culture.

Corporate management from a long-term perspective must be the basis of the New Style of Japanese Corporate Management. However, you must be careful that excessive emphasis on long-term employment relationships may have a risk to create a “logroll” climate. Excellent companies understand this point very well and try to minimize the evil influence by combining it with the mechanism of self disciplined competition. The methodology also varies depending on the company: (1) Many activities are standardized and therefore become comparable. Then, internal competition between factories or sales agencies is accelerated by visualization. (2) The personnel system and its operation where competition to climb the ladder among colleagues who joined the company same year is prolonged into their fifties by a consolation match to avoid moral degeneration. (3) Operation of something like an apprenticeship system, which helps to earn respect (master, god of ..., and meister) in the same field (production or engineering). If we see it from the opposite direction, when a person drops out from this “self disciplined competition” system, it means the person is not in the company’s future plans.

Priority on “trust on people’s ability and resolution by people” is another distinguishing characteristic. If we take the above-mentioned operation of an organization, which is theoretically difficult, for example, many companies adopt an approach to resolve the complexity and weakness of a mechanism by close communication and thoughtfulness among people. It is a way to accelerate decisions and the achievement of a consensus on a company-wide scale, and they do not separate territories by complicating the system or agreement, such as authorization, but recommend stepping into each other’s territory positively. Again, the concrete way of realization varies from company to company. For example, in some companies, a manager of a business also holds the post of the head of a company-wide cross-functional organization or an employee is the head of multiple divisions in rotation. Another company makes it a rule that the criterion for decision-making is whether it is compliant with the corporate philosophy.

It is also a characteristic of this model that substantial efforts to foster new leaders will start. There are two approaches of differing directions. One is to train Japanese employees to acquire the ability required to be a global leader. Another is to have a foreign executive understand the essence of company management. Many companies started the former approach but very few tackled the latter substantially. In most cases, the latter approach is to have intensive and centralized training on a global scale. Some companies think that most of the training of foreign executives shall be done locally, as they are fully aware of the philosophies and its implementation. Examples of leadership education are explained in detail in Part 2.



Please note that not all companies boldly agree with the expression of “leadership education.” Many companies emphasize the importance of human resource development in a wider context rather than fostering a limited number of leaders. This is because most of the essence of the New Style of Japanese Corporate Management is based on the belief in human power. Both are important.

### **3. Type Three - Near-future model of the “New Style of Japanese Corporate Management”-**

Now, this model incorporates the elements of a future novel. If the New Style of Japanese Corporate Management is the state of more globalized Japanese corporate management, the number of enterprises that can be our model is limited. It is realistic, however, that the essence reviewed in Type Two was inherited because it is quite unlikely that a business entity having several tens of thousands or hundreds of thousands employees and maintaining global competitiveness as a whole suddenly changes to an essentially different entity after a few years.

The company will face challenges it has never experienced in a variety of different aspects. The aspect of new corporate management is denoted by the underline in Diagram 3-5 (pages 94 to 95). We would like to describe near-future management, including the part of something like a novel. A 30-year-old man with U.S. citizenship joined a local subsidiary in the United States. After three months, he is participating in global introductory training in Singapore.

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Jack just turned 30 years old this year. He was born and raised in an affluent family in the Midwest, U.S.A. He spent three years in Japan when he was an elementary school pupil because of his father’s job. He only speaks broken Japanese but is attracted by the vision of the world unique to Japan. After he completed business school at the University of Michigan, he joined us, one of the best-known companies in Japan. He is an engineer, and he majored in water treatment technologies and earned a master’s degree.

This is the fourth day of the introductory training. The training is proceeding in a relaxed atmosphere. Maybe it is because of the appeal of Singapore or the half-day icebreaking session on the first day. All open the notepad in front of them, where the company’s global symbol is marked, which has become familiar. Some may place the cap on the desk next to the notepad. It was given on the first day, and the same symbol is printed on it.

By now, people at the operating officer level from each region gave lectures. Two-thirds of them are Japanese and half of them talk fast in international English for more than two and one-half hours. Jack could catch only 70% to 80% but felt their great enthusiasm. Fortunately, the delivered materials were almost perfect, so that he found no difficulties in understanding

the details.

Until recently, the company did not have this kind of training where newly joined mid-career employees got together from across the world. Each local subsidiary had the opportunity to introduce the company, preparing its own contents and procedures. But, the headquarters has been extremely eager about the global training for several years. There are two major reasons. One is that the company has established an institutional framework for fostering global leaders beyond the barriers of regions. Another reason is top management's strong desire that even mid-career employees with foreign nationality, known all the more for that, should have an opportunity to have as many common experiences as possible, understand the genes of the company, and notice the importance of having a broad network with Japanese personnel. The president has a stronger feeling than anyone else about this and always spends a half-day in the global training before the promotion to executives and preparatory training for senior executives to convey his enthusiasm.

Human Resource Development Manager:

"We have listened to the lectures of operating officers of the major regions for three days. From now, it is the Q&A time, and you can ask any questions about what we have discussed by now. I will answer openly any question I can answer. I'm not quite sure if I can answer all questions because you are here from more than ten countries. Anyway, I'll do my best."

Jack:

"I think I understand why the company has established overseas bases for almost all functions including the newly emerging nations for the last 20 years as well as its strategic intentions. I also understand the intention of shifting the headquarters in Japan to global headquarters and of clarifying the role. It means a window opens and the overview of the company can be understood by employees with foreign nationality. We can open the window even in English!"

Marco (Italian):

"It's international English, Jack."

Jack:

"I know. But, you speak faster than I, Marco."

Human Resource Development Manager:

"Movement of the global headquarters is still not very smooth. A Japanese must treat another Japanese as "*Gaijin* (foreigner)" in many cases. It needs hard training."

Jack:

"My question is that as long as we have these many bases, we must consider how we liaison with each other. Almost all heads of local sales are non-Japanese. The number of Japanese employees is constantly decreasing in the factories. We have more than ten development bases, and they seem to move in different directions. I hear the research base will be increased. I cannot see who controls the whole and how."

Human Resource Development Manager:

"It depends 'what the control of the whole' means. But the middle-term plans and important investment decisions for each functional and business area shall be made by the global headquarters. Recently, more and more regional headquarters make a decision in effect in many fields."

Jack:

"Is it a delegation of power?"

Human Resource Development Manager:

“Actually, yes. People in important positions, including the regional headquarters, all passed through, so to speak, personal appraisals for many years. We have had a solid relationship of mutual trust, and it may be the reason for the delegation as a result. Isn't it very Japanese?”

Jack:

“I don't think so. People manage the company. Companies in any country have such an aspect, more or less.”

Jean-Marie (French):

“French companies look alike in that light.”

Jack:

“But, it's about the relationship among Japanese in our company? More vague. *Gaijin* are left out of the scheme?”

Human Resource Development Manager:

“That's the reason why we established a system and transferred personnel to foster global leaders a few years ago. Until that time, we had a few local people with an affinity to our corporate climate but it was by chance. Such people have supported the development of local subsidiaries. Good examples are Jim, head of the United States, and Wang at a supervising sales agency in South China. But, we cannot be dependent on such chances endlessly. The number of bases is ever increasing as long as there are needs of the business.”

Jack:

“Are you going to recruit more MBAs?”

Human Resource Development Manager:

“Well..., Jack. You know the criteria and process for appointing a leader in this company. We had a detailed explanation yesterday.”

Jack:

“I think they were not very special at all.”

Human Resource Development Manager:

“That's the point. That's because you try to understand the written sentence as it is. In fact, many foreign people can explain it more accurately than Japanese. But, to implement what is written here, a lot of experience and the ability to involve others are necessary. It's not easy at all. So, we will check whether the person can implement the corporate philosophy. For this purpose, we prepared a long-term process for the selection of leaders.”

Jack:

“If we look at MBA holders only, there are few who like this kind prolonged test.”

Human Resource Development Manager:

“Yes, I think so, too. People who want short-term profit or make their careers rapidly do not fit our company.”

Jack:

“That's why you recruited me?”

Human Resource Development Manager:

“I don't know. But, unless you feel empathy with our philosophy and look at people and business from the long-term perspective, you will not be happy here.”

Jack:

“That's the reason for Career for Performance?”

Human Resource Development Manager:

“I think we clearly present the careers that can be provided for excellent performance.”

Jack:

“It is a good idea that the company clarified the opportunity for promotion to senior management. I am looking forward to seeing the actual appointment. American companies also have this kind of career path, but not many people with foreign nationality are promoted in fact.”

Human Resource Development Manager:

“Almost one-third of the employees at the operating officer level are people with a nationality other than Japanese. We have a candidate who may join the management committee in one or two years and I am looking forward to it. By the way, Jack, do you understand that our philosophy is closely related to the core competence we have valued.”

Jack:

“I think I understand it. ‘Power of *Gemba*’, ‘Ability to *Suriawase*’, ‘Customer First Principle’ and ‘*Genchi-Genbutsu*’. I like ‘Place Importance on People Most.’”

Human Resource Development Manager:

“Yes, That’s good at this stage. Many of the requirements for our leaders show the judgment or behavior required to bring them out. To be able to implement it, practice is necessary. On-the-job training means practice and experience. But, what is more important is ‘change what we should change.’ It’s about maintaining the innovating organization.”

Sanjay (Indian):

“The company conducted comparatively large-scale M&As in newly emerging countries including India several years ago. Are you going to incorporate them into this company-scale mechanism?”

Human Resource Development Manager:

“Yes, I would like to do so at the end. But, it is a company that operates very robustly. I would like to take time to shorten the distance. We had a joint project to develop a new model for Eastern Europe. That merger was to secure know-how and bases for designing and producing low-cost low-price products. We are not good at it. We have tried many times and failed all the time. There is still a discussion in Japan whether we should produce such products. What is sure is that the current engineers deny it with all their hearts. It’s not about ability. There are many other things Japanese engineers are not good at beyond low-cost low-price products. We will continue to introduce what is totally different from the current system in order to stimulate Japanese engineers. It is the company’s lifeline that those who are involved in technologies and development are strongly motivated.”

Jack:

“OK. I joined the company to work as long as possible. Will you transfer me to the headquarters in Japan now?”

Human Resource Development Manager:

“Discuss it at the career session of your region. Japan always welcomes you. Well, next is the video session with the president. Have a break now and come back.”

#### 4. Pitfalls of the New Style of Japanese Corporate Management

All management models have the essence and fragility that makes the essence a strength or weakness depending on the skill of management. In other words, even if the essence of the New Style of Japanese Corporate Management is the same, it cannot be realized in the same way as you see here as a management model, if you are not careful enough. We call the fragility “pitfalls” here. Based on actual cases, we would like to list up some examples of the pitfall. Of course, this is to avoid the pitfalls.

- Whether the corporate philosophy is shared and implemented in the whole organization.  
It should be remembered that there is a big gap between understanding and

implementation of the corporate philosophy. Corporate management based on the corporate philosophy means implementation. Leaders should take the initiative.

- Whether long-term commitment and self disciplined competition are combined.  
Many of Japanese companies trust the morale of the employees who have long-term commitment and minimize “threatening.” However, there are some mechanisms that trigger people to work hard in a self disciplined competition. Long-term relationships of trust may become vested interests, or “large-scale company illness,” if it becomes stagnant. Once you are affected by the disease, it is difficult to recover, and valuable time is wasted.
- Whether a powerful upper-middle level that can lead the employees is formed and reproduced.  
The quality of corporate management as a whole is constantly maintained by the combination of excellent top management and powerful upper-middle level managers supporting top management. This can be called the management team. But the employees constituting the team must be re-produced constantly.
- Whether excessive M&A (especially in-out M&A) is not conducted to seek short-term results.  
To strategically utilize a large-scale M&A, it is almost common sense that whether the value can be fully extracted with PMI is important. Maybe, there are no Japanese enterprises that have a group of people who can conduct rapid mergers and integration by force on a global scale. Japanese enterprises are not good at implementing this strategy.
- Whether an excessive role is given to numbers/figures.  
One characteristic of the long-term perspective is to pay attention to the importance of the process or system and to avoid attaching excessive meaning to the figure as a result. It is of course important to give a result but pursuing the target figures blindly will lead you to forget the original strength.
- Whether promotion and fostering leaders are fair from a global perspective.  
The concept of “fair” is maybe the most important in human resource development. Japanese enterprises tend to think of the mechanism “fostering leaders means selection, and the vast majority feel de-motivated,” based on the management model. When fostering leaders globally, the mechanism should be “fostering leaders means equal opportunity, and the result (difference) must be accepted.”
- Whether it minimizes the effect of deteriorating competitiveness of Japan.  
The New Style of Japanese Corporate Management has an aspect of management based on the natural strengths of the Japanese. Deteriorating competitiveness in human resources and infrastructure of the nation is often pointed out. Its harmful influence should be minimized even at the cost (re-education of human resources, etc.).

## 5. Strategies Where Japanese Enterprises are Weak

We would not start detailed arguments on strategy here. Otherwise, we would like to list the categories of strategy where Japanese enterprises are generally weak. Can we complement the strategic idea and ability to implement it with the human and managerial resources that can be obtained in a global expansion? This can be called the list of ideas we want to complement.

- **Brand strategy:** It is difficult to clearly segment customers in the Japanese market (in other words, very homogeneous). People are not trained to appeal to a specific segment using brands as a tool. If we consider brand strategy as clarifying what we should seek and use them differently, then we are weak at utilization.
- **Niche market strategy:** A niche strategy means to inhibit others from entering a comparatively small market using special technologies or others and to create an oligopoly. Excellent small and medium-sized companies play a central role in this strategy but only a few companies try to expand it on a global scale (global niche). Basically, people tend to understand the meaning by providing many goods to the mass of people.
- **Portfolio strategy (especially, selling to withdraw):** People feel unnecessary inhibitions about reducing manpower and withdrawing from business. Japanese enterprises need to retain the technologies or business they had in the beginning, and it is not rare they result in growth in the long run. Therefore, it is inevitable that Japanese companies are cautious about unconsidered withdrawal. This may be one of the costs that the Japanese model must bear.
- **Idea of value chain:** There is a tendency that the Japanese market does not allow making a profit from after-sales services. This may make it difficult to create concrete ideas to earn money throughout the value chain.
- **Innovation of the basic business model (de facto standard strategy, etc.):** This may be one ability that cannot be obtained without a global perspective. Today, innovation of a basic model designed only for the domestic market, if any, may be copied immediately, and the business may be successful. This inhibits growth on our side. Under the circumstances, a new basic business model requires the global scale from the scratch.

## 6. Type Zero – “Introverted” model

Apart from the story where the fundamental model of Type One will evolve into Type Two and then Type Three, triggered by globalization, we would like to draw a Japanese-style management model that would not go through an evolution such as Diagram 3-6 (pages 96 to 97). This is a trial to see how the management model that has been continued under the characteristics and restrictive conditions of the market looks like in a small market like Japan where major growth cannot be expected. By comparing it with the New Style of Japanese

Corporate Management, the accuracy of a mirror reflecting our issues may be improved to some extent.

While you are involved in a “war of attrition” in Japan, the distance to the world will grow larger and larger. When you noticed, it has become almost impossible to fill the gap. Not a small number of industries have this kind of fragility. As a matter of course, many such businesses are in the non-manufacturing industry. But, even manufacturing businesses cannot think of it as someone else’s problem.

Even if a company wins a small competition in a segmented and limited domestic market, it would not lead to victory as an industry. It may produce a company that cannot be competitive at all in the coming “global war.” Some people may have this type of fear. The involved person does not regard himself as “introverted,” but looks so if we look from a global point of view.

As many of you have noticed, competitiveness consisting of the management model named the New Style of Japanese Corporate Management and, especially, its fundamental model (Type One) has been skillfully sophisticated through a number of wars of survival by Japanese enterprises in a global market.

For example, the idea of sticking technologies and placing the technology in the center of their competitiveness was pursued by many founders representing Japan as an essential weapon to fight the world. The power of *Gemba* was constantly polished using the substantial introduction of QC in the 1960s as a trigger. In this case, they were conscious of the strong competition with foreign companies. The approach using “Ability to *Suriawase*” is quite popular nowadays, but it was found and polished in the process to find a unique method to shorten lead-time (from development of a product to the market) in the competition with foreign companies. Overseas markets also taught us that the *Genchi-Genbutsu* (frontline-first and real-thing based) approach, which Japanese companies like very much, as well as the sensitivity to identify customer needs, was excellent, and they could be the source of competitiveness.

When we regard Japan as a market, it has both advantages and restrictions for corporate management, of course. Japanese consumers may have the most severe requirements in the world about quality. Perfection of products and services as well as the high level of requirements are one of the most important factors that have supported Japanese companies’ thorough adherence to quality.

A large middle class is characteristic and cannot be seen in other countries. This mass market is homogeneous to the fullest extent and comprises comparatively passive consumers. They have the strong habit of following the crowd when they purchase products. What is more, local areas form a market that follows the consumption trend of large cities (especially Tokyo).

If we look at these markets only, a company's fundamental strategy lies in securing market share only. Each company supplies something comparatively homogeneous and does not find the need to dig out new demand. As suppliers are also always looking at the homogeneous Japanese, they can produce similar products. But, high quality and low prices are constantly pursued (price competition) because this is the most effective way to secure market share.

As for corporate management, it may be comparatively easy to take the long-term perspective because indirect financing prevails in Japan, and the banks or the parent companies provide capital or cash. In addition, regulatory authorities provide a mixture of direct and indirect protection. You will realize the difficulty of maintaining a long-term perspective for the first time when you fight in the overseas market and face foreign stakeholders.

In this way, in the domestic market, a "war of attrition" tends to be conducted, as fighting until last is the virtue of the *samurai* spirit. As a matter of fact, the person involved must survive the fight with all their might. But, this will lead to a "war of attrition" in the end.

It is not realistic even now to anticipate only domestic competitors even in the domestic market. Even if you do not go abroad, when foreign companies enter the market here, you are forced to stand in an international battlefield of competition, and it will not be a very remote future. This is the model that makes us depressed, murmuring, "What can we obtain after a 'war of attrition'?"

**(Reference only) Type X - Non-manufacturing model of the "New Style of Japanese Corporate Management" as a tentative assumption**

Last, we would like to point out the management model that can be expected, if the New Style of Japanese Corporate Management, which we have analyzed by modeling, is applied to the non-manufacturing industry (Diagram 3-7, page 98 to 99). Currently, the major key factors for success (KFS) that are common in the non-manufacturing industry, except for the finance may include the following:

- Both thorough personalization of services and its provision and significant reduction in provision costs through modularization and utilization of IT are realized at the same time.
- Building long-term relationships with customers, maximizing repeaters and maintenance, and obtaining profit constantly from them.
- Forcing a kind of "perceived notion" to both customers and employees to maintain customer satisfaction and employee satisfaction high.

We drew a model to satisfy these KFSs as much as possible and inherit the strategy - competitiveness - management approach that utilizes strengths unique to Japan as seen in the New Style of Japanese Corporate Management as a tentative assumption.



As long as this type of management model does not exist, it is difficult to consent to it. It would be our pleasure if it would contribute to the emergence of an actual management model by utilizing it as material for discussion.

Diagram 3-2: Positioning of each corporate management model

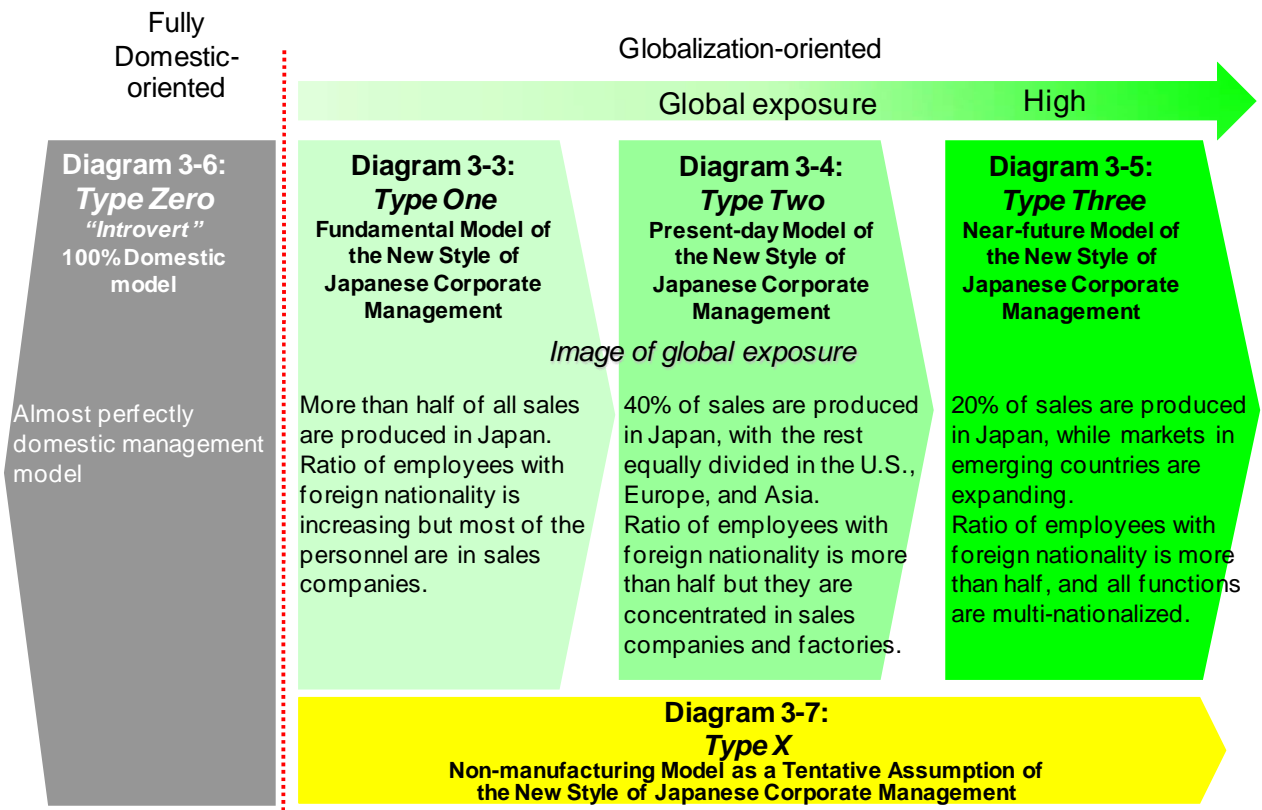
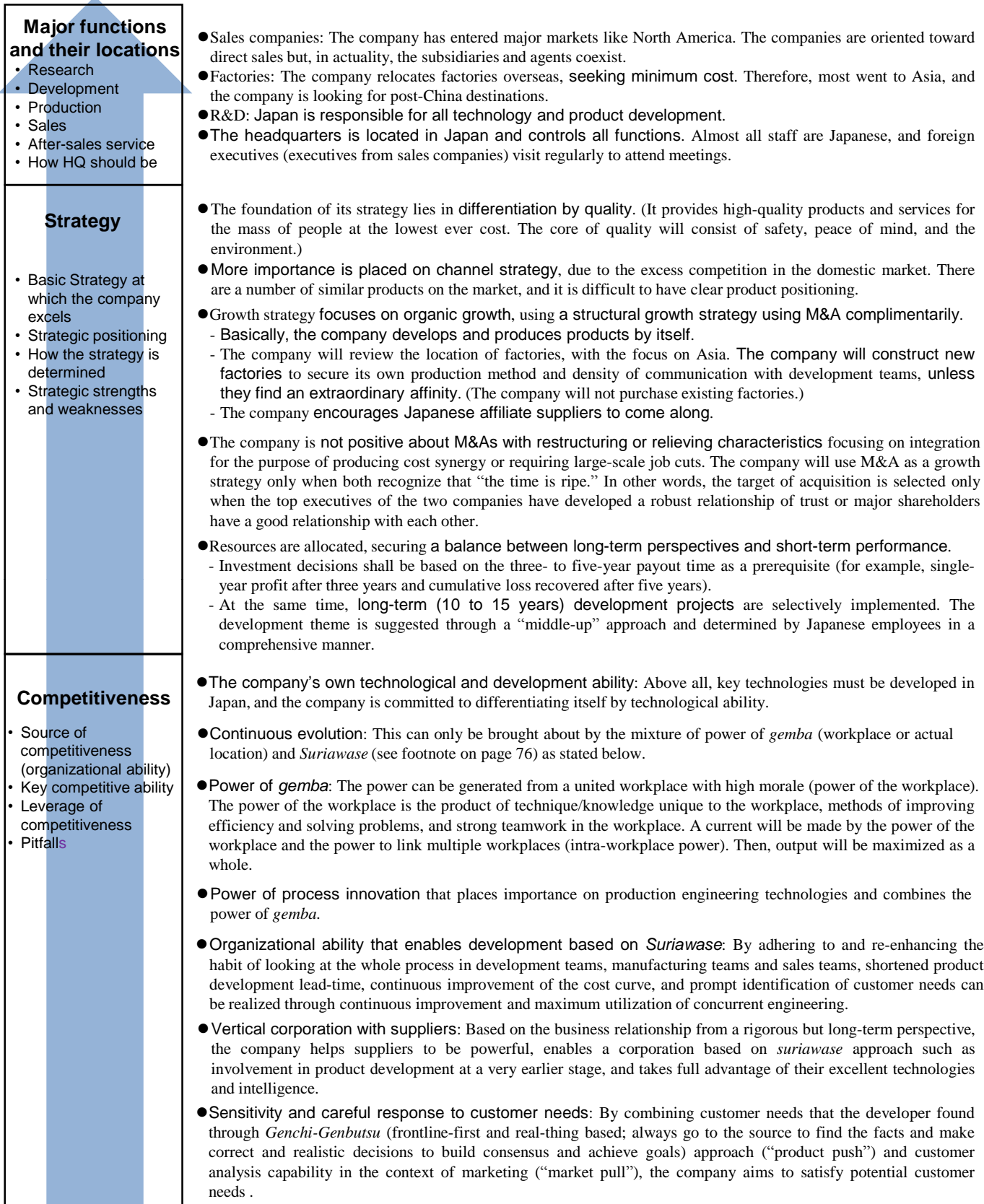


Diagram 3-3: *Type One* - Fundamental Model of the New Style of Japanese Corporate Management

Image of Global Exposure  
 ● More than half of the sales are made in Japan.  
 ● Ratio of employees with foreign nationality is increasing but most of the personnel are in sales companies.



## Competitiveness (Continued)

## Management

- (Top) leadership
- Characteristics of decision-making
- Form of organization and process
- Points of management process
- Human resource development

## Other

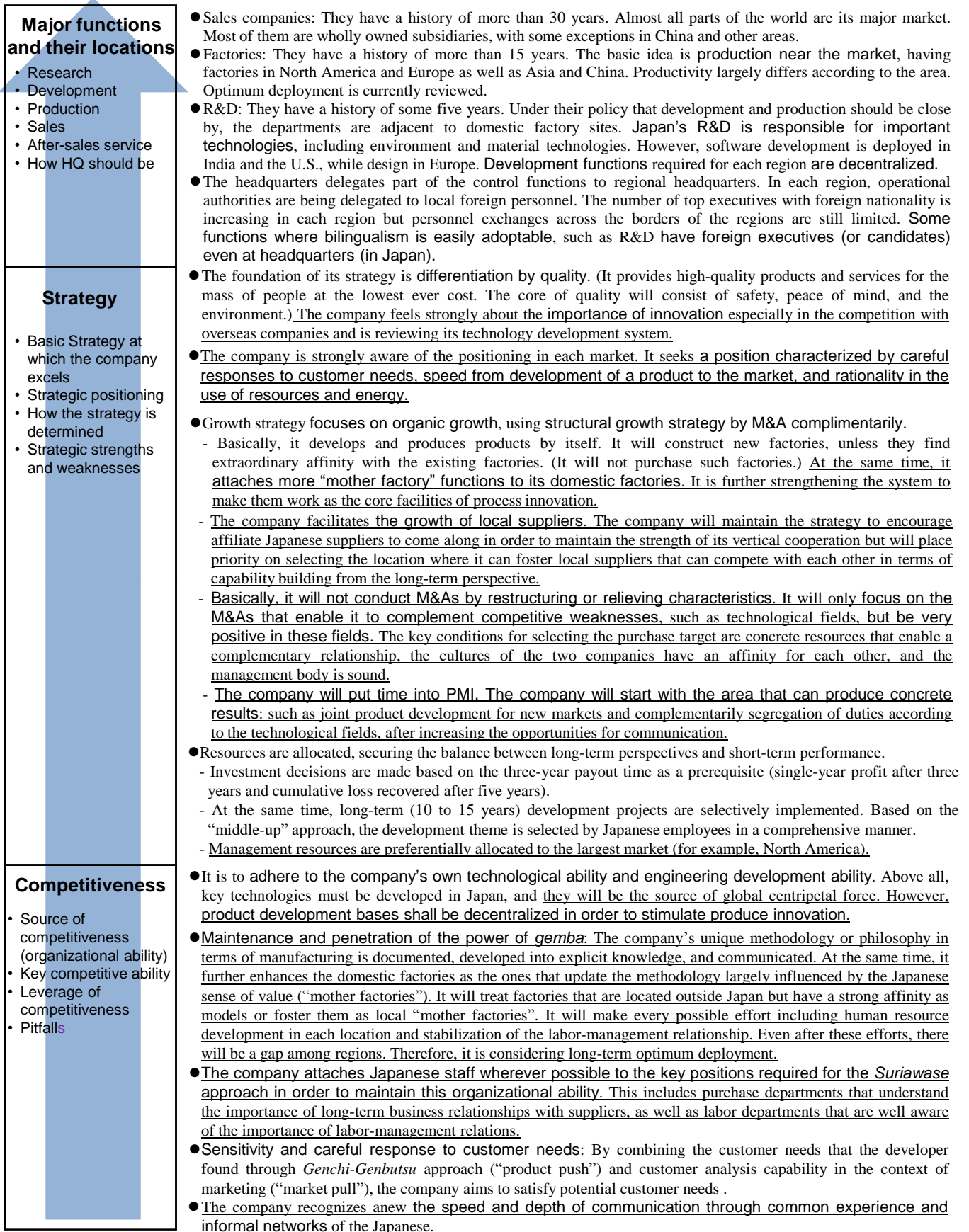
- Corporate finance policy
- Stakeholders management

- Attaching importance to the ambition of the organization: It should be based on the philosophy established at the time of foundation. The company also seeks the *social raison d'être* (importance of existence) in many cases. (This is the foundation of the “corporate management based on the corporate philosophy” stated in Part I.)
- Fundamentals are the long-term employment relationships and long-term relationships of trust based on it. Mechanism of self disciplined competition, which helps employees stay sharp to the end, is added to it.
- The management consists of the following:
  - The board of directors has the supervising function and operating officers have the corporate management function.
  - Ten directors (including two outside directors) and approximately 25 operating officers (all Japanese)
- The role of top management is representation of the orthodoxy unique to the organization. If it is a manufacturing business, it is important for the maintenance of morale throughout the organization to have a CEO who graduated from a science course and to maintain the balance between graduates from a humanities course or a science course at the top management level. (CEO shall be appointed from either of the two categories in turn or there is a position that complements the role of the CEO.) Most CEOs remain in office for about six years, which is comparatively long. Anyway, a CEO works very hard.
- In order to maximize the power of *gemba*, it is important for top management to be always near to the *gemba*. It will be a testimony to success whether leaders always work together with *gemba* and maintain two-way communication with it.
- The company believes the so-called *Genchi-Genbutsu* approach is one of the most important features of the expertise regarding corporate management.
- Leaders are not dependent on theoretical numeric values but they always have primary information and make a business judgment based on the sense of reality and overall picture. Therefore, the leaders are at their desks only for a short period of time. By doing so, they bring out the power of *gemba*, understand customers through *gemba*, or make it the most powerful trigger in identifying potential needs.
- Participation by all members realized by “less-hierarchized workplace with facilitated communication” and “visualization of process” is an indispensable factor for bringing out the power of workplaces, namely QC and other improvement activities. This must be thoroughly communicated especially in the factories.
- Especially, in the line organizations, the organizational climate with an excellent power of execution is created under the slogan “Carry out the PDCA (Plan, Do, Check, and Action) cycle processes.”
- The company overcame a crisis. And it shares and has taken over what it has learned from the experience.
- There is a document or other form that briefly describes the philosophy (the ambitions of the organization) or the spirit of the founder. This spirit seems so natural for Japanese leaders that the company has no special program designed for its inheritance. Most of such philosophies are shared or taken over through experience or on-the-job training.
- They can learn a lot from past failures. They have created a culture where failure stories are regarded as sources of learning and therefore not hidden.
- Combination of powerful “middle-up” approach and powerful “top-down” execution is a typical management style.
  - Before decision-making, the upper-middle level employees lead the case and facilitate discussion across the hierarchy.
  - As employees at each level understand the importance of careful discussion before the fact, they exchange honest opinions. The company often provides formal and informal opportunities, not for specific cases but to gather frank opinions at each level (Town meetings etc.).
  - They reconcile interests over multiple departments for the purpose of finding potential problems as early as possible (front loading). This process is called *nemawashi* (laying the groundwork for consensus building). This is mainly intended to reduce costs in the implementation phase.
  - One of the important ability requirements for upper-middle leaders is to build consensus among more than one level in a hierarchy and to take front-loading measures by *nemawashi*. It is because the quality of implementation phase after the decision depends on the quality of this process before the decision.
  - It takes time to determine but it will implement the decision promptly and thoroughly, which is characteristic.
- The company places emphasis on human resource development. The focus is placed on the enhancement of the ability of all employees (not selected group of people). Leaders are fostered through exceptional promotion and actual business experience, and they are cautious about declaring that they foster leaders.
- They stick to so-called conservative financial policies.
  - They do not seek even appropriate leverage typical of corporate finance in the U.S. but place priority on securing cash flow and strengthening the capital base to build financial strength that can support long-term investment.

Diagram 3-4: Type Two - Present-day Model of the New Style of Japanese Corporate Management

Image of Global Exposure

- 40% of sales are made in Japan, with the rest equally divided in the Americas, Europe, and Asia.
- Ratio of employees with foreign nationality is more than half but they are concentrated in sales companies and factories.



## Competitiveness (Continued)

### Management

- (Top) leadership
- Characteristics of decision-making
- Form of organization and process
- Points of management process
- Human resource development

- The company's ambitions are the sum of the founder's spirit and philosophy supporting its core competence. The company reaffirms it by itself and makes it understandable to foreigners and disseminates it to them.
- Fundamentals are long-term employment relationships and long-term relationships of trust based on it. Mechanism of self disciplined competition, which helps employees stay sharp to the end, is incorporated.

- It will review how governance should be but cannot confirm the advantage concretely and will adopt an auditor system instead of a committee system.  
- The international advisory board has been established.
- The role of top management is representation of orthodoxy unique to the organization. If it is a manufacturing business, it is important for the maintenance of morale throughout the organization to have a CEO who graduated from a science course and to maintain the balance between graduates from a humanities course or a science course at the top management level. (CEO shall be appointed from either of the two categories or there is a position that complements the role of the president.) Most CEOs remain in office for about six years, which is comparatively long. Anyway, a CEO works very hard.
- Top management devotes more than 20% of his or her own time to communication of the corporate management philosophy and human resource development. He or she seeks changes, while conveying the value of what should not be changed.
- Genchi-Genbutsu is one of the most important features of the expertise regarding corporate management. Leaders are not dependent on theoretical numeric values but always have primary information and make business decisions based on a sense of reality and the overall picture. Therefore, the leaders are at their desks only for a short period of time. By doing so, they bring out the power of *gemba*, understand customers through *gemba*, or make it the most powerful trigger in identifying potential needs.
- They can learn a lot from past failures. They maintain a culture where failure stories are regarded as sources of learning and therefore not hidden.
- In research departments, the teaming of people with a variety of ways of thinking and a leader who can lead them are required. Some areas have employees with foreign nationality who are more appropriate as leaders than Japanese. Authority is positively delegated.
- Especially, in direct departments, an organizational climate with an excellent power of execution is created under the slogan "Carry out the PDCA cycle processes."
- Visualization has become popular to some extent in sales organizations, too, though they have had some difficulties. They start efforts toward it in staff organization but are still struggling. It gives the impression of a "black box" and evokes distrust.
- Ratio of employees with foreign nationality is increasing in the upper middle leader level. However, they are not accepted as leaders, until they can manage the company's decision-making process. This aspect is emphasized especially for the training of employees with foreign nationality. Still, it takes time.
- The basic structure of the organization is matrix management of functions, business, and regions. This will become increasingly complex as it grows, require adjustments for the sake of adjustment, and is easily infected by "large-scale company illness." The aim is resolution by people.  
- In many cases, the company's solution is to expect the long-term relationship of trust and rivalry between managers and adjustment ability based on them.  
- Which axis a profit responsibility entity should vary according to the characteristics of the business or company. Leaders experience cross assignment, which force them to be responsible for different areas and functions. This reduces the inhibition about entering another's area of responsibility and prevents decision-makers from creating their own sanctuary. It also helps company-level decision-making after intensive discussions regardless of each other's area of responsibility. Therefore, to enter this leadership level, candidates must prove that they can do it, irrespective of whether they are Japanese or foreign nationals.
- Leadership development (training and assignment) is intensively implemented. The core of the programs lies in reaffirming the genes of the company ("... Way", "... ism", etc.) and enhancing the communication ability for Japanese employees. It is thorough understanding of the genes of the company and reaffirming their implementation for employees with foreign nationality. A new course for fostering Japanese employees is newly established, where younger employees can experience working abroad and management of affiliate companies.
- To foster executives with foreign nationality on a long-term basis, the company promotes job rotations including working in Japan. Although bilingualism is not prevalent in workplaces in Japan and retention is difficult, some departments have started increasing the number of executives with foreign nationalities.
- Introduction of a personal pay-per-performance system was discussed but it was not introduced considering the seriousness of the negative aspect. Greater importance is attached to the performance of the team or from a long-term perspective and self-disciplined competition are further promoted. Wage differentials are implemented at the leader level according to the personal career.

### Others

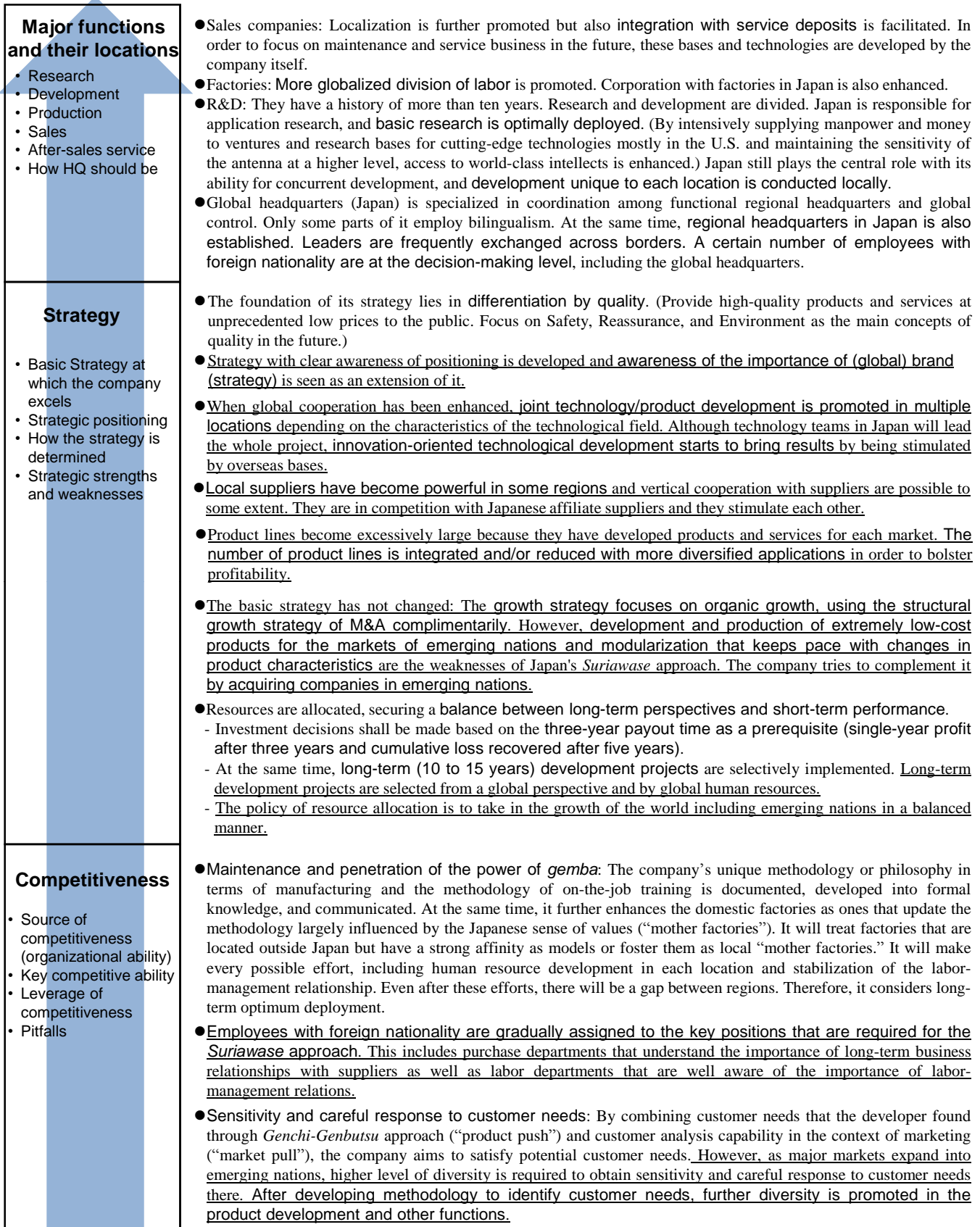
- Corporate finance policy
- Stakeholders management

- They stick to so-called conservative financial policies.  
- They do not seek even appropriate leverage typical of corporate finance in the U.S. but place priority on securing cash flow and strengthening the capital base to build financial strength that supports long-term R&D investment.  
- Criteria of "selection and focus" in each business must be based on the pursuance of both short-term profit and long-term potential as well as maintaining the integrity of the genes of the company. By doing so, the company's long-term earning power is enhanced.  
- From the viewpoint of IR, the company emphasizes the necessity of not excessively pursuing short-term profit and of long-term support from all stakeholders. It also seeks support from shareholders by further improving transparency of information disclosure.

Diagram 3-5: *Type Three* - Near-future Model of the New Style of Japanese Corporate Management

Image of Global Exposure

- Less than 20% of sales are made in Japan, while markets in emerging countries are expanding.
- Ratio of employees with foreign nationality is more than half and all functions are being multi-nationalized.



**Competitiveness  
(Continued)**

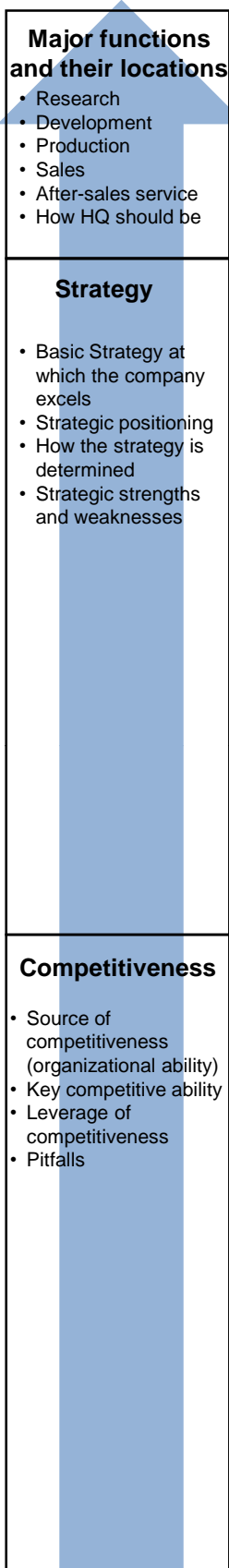
**Management**

**Others**

- To incorporate employees with foreign nationality into the network that has comprised Japanese only, the company makes every effort to provide opportunities to work at headquarters in Japan or to participate in a variety of training opportunities. At the same time, documentation and development of methodologies and philosophies into explicit knowledge and visualization are promoted in more fields than ever before to help their understanding.
- Important conditions for acquiring or fostering foreign executives are the focus on “ambition” and long-term commitment. Their reproduction on a global scale is promoted.
- Fundamentals are long-term employment relationships and long-term relationships of trust based on it. Mechanism of self disciplined competition, which helps employees stay sharp to the end, is incorporated.
- The management consists of the following:
  - The basic idea is inherited; the board of directors has the supervising function and operating officers have the corporate management function. Governance is reviewed again.
  - While understanding that more than half the outside directors are required, they do not have enough evidence that ensures concrete advantages of having such directors. After due consideration, the company decided to increase the number of outside directors by one. As a result, the company has ten directors (including three outside directors) and approximately 50 operating officers (including 15 with foreign nationality).
- The role of the top management is representation of the orthodoxy unique to the organization. If it is a manufacturing business, it is important for the maintenance of morale throughout the organization to have a president who graduated from a science course and to maintain the balance between graduates from a humanities course or a science course at the top management level. (The president shall be appointed from either of the two categories or there is a position that complements the role of the president.) Most presidents remain in office for about six years, which is comparatively long. Anyway, the president works very hard.
- Top management devotes more than 30% of the time to the communication of corporate management philosophy and human resource development. Management seeks changes, while conveying the value of what should not be changed.
- Visualization has become popular to large extent in all functional areas, though they have had some difficulties. Efficiency of the contents of the “black box” is improved, and it now has the ability to explain it rationally. In addition, the number of employees with foreign nationality who deepen their understanding through actual business experience has increased and as a result, the black box turns into a “gray box”.
- Ratio of employees with foreign nationality is increasing in the upper middle leader level. However, they are not accepted as leaders until they can manage the company’s decision-making process. This aspect is emphasized especially for the training of employees with foreign nationality. They gradually come to understand it.
- In part of the research departments and regional development bases, teaming of people with a variety of ways of thinking and a leader who can lead them and take the *Suriawase* approach are required. Some areas have employees with foreign nationality who are more appropriate as leaders than Japanese. Authority is positively delegated.
- It is on the way to delegate authority to the global bases. On the other hand, the company invests a good amount of time and energy for the purpose of further enhancing the global centripetal force.
  - Every effort is continuously made for implementation and dissemination of the corporate philosophy.
  - Globally standardized criteria and processes are introduced especially for the promotion of leaders at a certain level or higher. How they promote people has been left to the discretion of each region, and the personnel system is a kind of accumulation of such discretion. Now, it is decided that managers at the general manager level or higher are promoted according to the globally uniform criteria and processes. This covers many heads and deputies of the local subsidiaries, i.e. approximately 200 posts worldwide.
  - The unification of promotion criteria and processes for the upper-middle or higher level of leaders is designed to help all leaders, who are responsible for corporate management, regardless of nationality, have centripetal force. The unification process will be implemented slowly but surely, realizing that awareness-raising of Japanese executives is rather necessary.
- Requirements are specified on a global basis for the career progression to a certain level (leadership requirements). It includes implementation of the company’s genes, experience of corporate management in more than two different cultures, and support from managers from outside their homeland. Accumulation of the results and evidence is required for candidates. Achievements of the last five years or longer are examined, and this rule is applicable to both Japanese and employees with foreign nationality.
- The company’s basic policy is career for performance like the above (instead of pay for performance). Only the employees who fit into this leadership development policy should be recruited and fostered. For this purpose, the processes of recruiting and human resource development are currently reviewed.
- They stick to so-called conservative financial policies.
  - They do not seek even appropriate leverage typical of corporate finance in the U.S. but place priority on securing cash flow and strengthening the capital base to build financial strength that supports long-term R&D investment.
  - Criteria of “selection and focus” in each business must be based on the pursuance of both short-term profit and long-term potential as well as maintaining the integrity of the genes of the company. By doing so, the company’s long-term profitability is enhanced.
  - From the viewpoint of IR, the company emphasizes the necessity of not excessively pursuing short-term profit and of long-term support from all stakeholders. It also seeks support from shareholders by further improving transparency of information disclosure.

Diagram 3-6: *Type Zero - "Introverted" model*

● "Introverted" model — Almost perfectly domestic corporate management model



- All business bases are located in Japan. In particular, the headquarters building is magnificent and located in the best district in a megalopolis.
- Excluding the headquarters, the deployment of all business bases is almost the same as those of competitors.
- Almost all domestic agents are local companies. The company's factories often form business castle towns in each region.
- The reception desk is fancy and receptionists are all beauties. In the back, a corporate symbol, which seems to be English, is hung. We hear that the corporate logo is renewed in a recent corporate identity project.
- Ninety-nine percent of employees are Japanese. For the last few years, only some employees often make overseas business trips mostly to Asia to seek opportunities to export products and services.
- The foundation of its strategy lies in maximizing market share and sales. (The most important managerial indices are sales growth rate vs. last year and changes in market share.)
- First priority is placed on differentiation by product. However, definite differentiation from competitors is considered difficult, so that pricing (price-cutting war) and channel strategy becomes important.
- The company considers customer needs to be almost homogeneous and tries to gain a larger share by meeting the common factors of customer needs. As it places importance on the relationship with agencies, it supplies products in the same manner throughout Japan.
- As the distribution channels have more power for some products, the company thinks fiercer price competition is inevitable. Their products are similar to the ones of other companies; it improved other company's products slightly or cut their prices.
- To have business relationships with famous companies for some products, it tries to accept the order, ignoring profitability. The past record of having supplied products to such reliable companies is very effective in the market where a following-the-crowd purchase trend is evident.
- Growth strategy focuses on organic growth. In some regions, it is willing to purchase local companies to secure the trade area. The target company also thinks of M&A as a perfect measure to protect the existing trade area and therefore often accepts a buyout offer. In this case, the purchased company will not be integrated with an existing agent but be directly controlled by the headquarters.
- It is expected that the overseas company will enter the market for some products. Excessive production capability in Japan has been objectively pointed out. It started dialogue about the integration in the industry through an industry organization.
- One of the pillars of the strategy as well as the duty of top management is to lobby or to utilize the influence of public administration (supervising authorities and official license regulating authorities) and specific politicians. In fact, the company often has contact with these people anytime day and night.
- Resources are allocated from a long-term perspective. Most are indirect financing, and it has a good relationship with banks. As a result, prolonged low profitability tends to be allowed.
- Strong network with parties involved
  - Public administration (supervising authorities and official license regulating authorities) and specific politicians
  - Human network with influential persons in each region who own candidate factory sites or major market shares or local governments relations
  - Relationship with agencies that are owned by influential people in each region in many cases.
- Presence in the industry (organization) is important. The position and influential power in the industry is one of the important measures to demonstrate the company's significance to agents or suppliers.
- Top management proclaims continuous improvement but has little idea and takes no action to foster organizational ability that takes the *Suriawase* approach.
  - Development is started with an idea from top management and checked by top management in many cases.
  - Or, top management is not involved at all and leaves it to middle management.
  - The company has not acquired the habit of thorough discussions and middle management who leads the organization often tries to protect their own interests.
  - They treat suppliers as if they were servants or give more favorable treatment than necessary to them.
- In many cases, the company is a subsidiary of a larger parent company, so that it is less anxious about capital. The company does not have to devote itself to IR but presentations to the parent company. One of such measures is accepting and hiring retired executives from the parent company.
- The company maintains a long-term employment relationship. However, the employees have no sense of crisis or urgency and the mechanism based on self disciplined competition does not work well. Gradually, a dependent climate will be created.
- Factories and other *gemba* have excellent powers of execution and high productivity by introducing the TQC. In many cases, some veterans dominate the workplace and thanks to their pride, production quality is stable (few defectives).



## Management

- (Top) leadership
- Characteristics of decision-making
- Form of organization and process
- Points of management process
- Human resource development

- The operating officer system has been introduced in the corporate management structure but more than 90% of them are directors. Currently, separation of the board of directors is discussed, and it asks the parent company or other familiar corporate leaders to recommend candidates for outside directors.
- In many cases, top management is the founder, a successor to the philosophy, or a retired executive from a parent company. The first two appear in every circumstance and have charisma. However, employees seldom have the chance to talk to them, and they are almost divinized. How the leadership is succeeded is the most difficult issue.
- The fact that all communication is targeted to Japanese only is an implicit premise. They seldom think that major objectives are to have people other than Japanese understand it.
  - Avoid using *katakana* (words borrowed from a foreign language) and the art of conveying unspoken messages are thought to be the most important skills. If you speak logically, you will be evaluated as argumentative. Being logical is not a virtue but an unnecessary ability.
  - Many roles require a preference for very close human relationships.
  - Many believe that explaining the importance of “nonverbal communication” and “reading the situation” are on-the-job training for younger employees.
  - A stereotypical statement is “subtle nuances in Japanese cannot be conveyed in English,” before making any effort to communicate.
- It is often said that the power of execution is important. In fact, all important decisions are made by top management, and retired members of top management often poke their nose into corporate management. In any case, it is natural for employees below middle management to wait for someone’s direction. Therefore, authority will not be delegated forever.
- The company is proud that communication is facilitated and everyone can say anything. But, in many cases, they say something bad about their boss. Even if younger employees say something, very conservative and defensive middle management will not take a risk, and nothing will change. Here, the “water off a duck’s back” culture is created where they can say anything but nothing changes.
- “*Nemawashi*” (laying the groundwork) is not a process of finding and solving a problem as early as possible but an activity to save the face of persons involved and to search for common ground. Problem solving is almost synonymous with saving face skillfully.
- The company sometimes conducts M&As by restructuring or relieving characteristics in preparation for competition against overseas companies, only when the two recognize that “the time is ripe.” In other words, it is only when the top executives of the two companies have developed a robust relationship of trust or major shareholders have a good relationship with each other.
- The managers of the merged companies are treated royally. The larger the merger would be, the more they stick to the personal exchange and equal distribution of the number of directors.
- Some may emphasize the introduction of a method or way of thinking in style according to the advice of American consulting firms. Most cases are for the sake of making them look distinguished. But, if you implement the advice, you will be treated as an eccentric person in the industry.
- The company is positive about TV CF. Most recently, corporate image ads are conspicuous. They have a strong “following-the-crowd” sense. If one company starts advertising, then many follow. Ad agencies and consulting firms know the tendency perfectly. The PR department of the company was flattered by an ad agency and they behave like an adman.
- Selection and exceptional promotion are conducted in a comparatively rigid manner. However, the criteria and process are seldom unveiled.
- Information flow is overwhelmingly active on an informal network. Little can be obtained from the formal flow of information. Employees often know the announcement about a change in personnel in the newspaper. As a result, informal networks may sometimes go out of control.

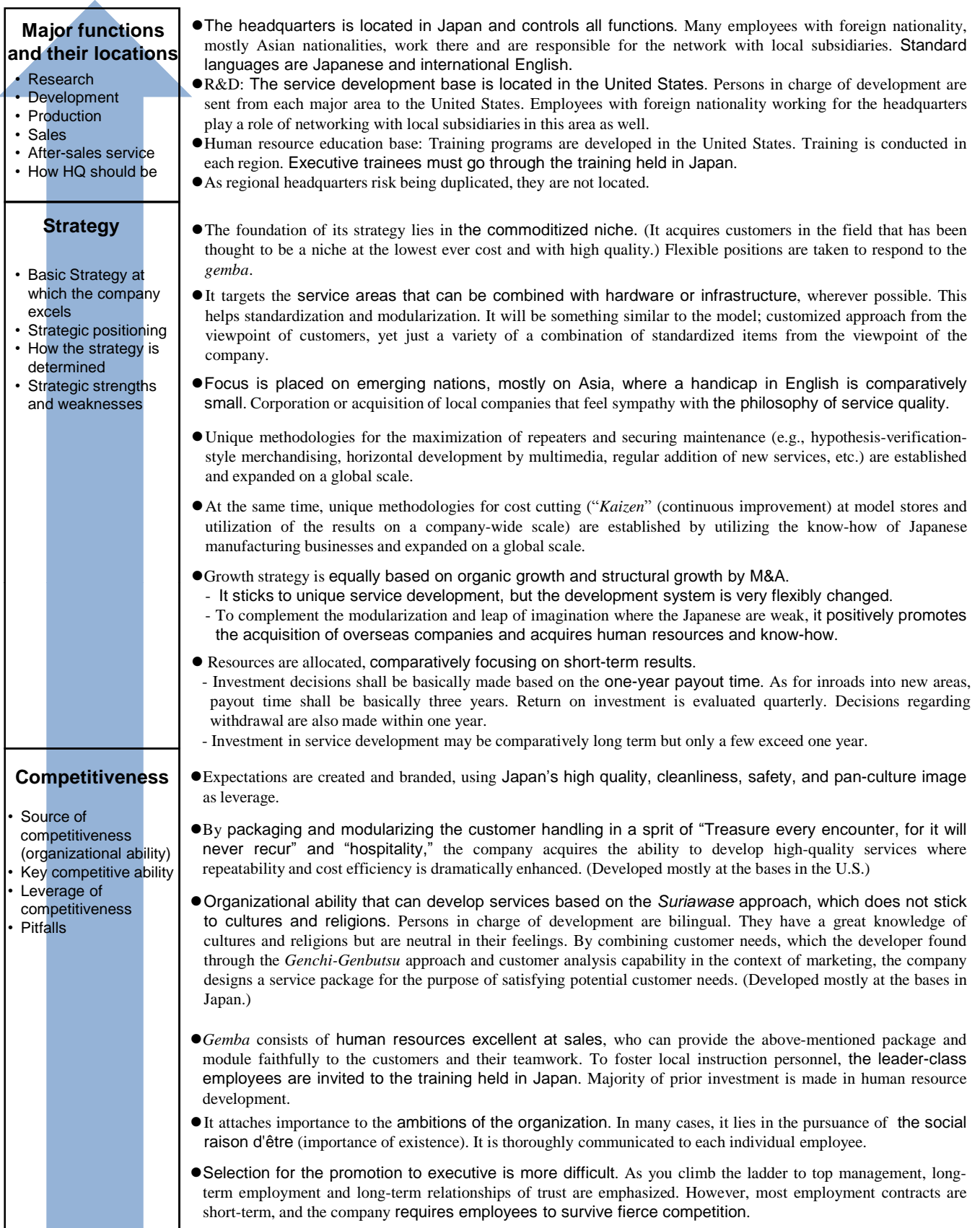
## Others

- Corporate finance policy
- Stakeholders management

- The most important financial issue is the relationship with the primary financing banks.
  - A long-term perspective is more clearly understood in terms of the relationship with banks than corporate management. Apparently, banks have provided loans based on comparatively lax standards.
  - The concept of capital cost and sunk cost is diluted. This is the background of more-than-necessary persistence in the continuation of a tough business.
  - Recently, the company fully recognizes the increased ratio of stock holdings by foreign investors. It tentatively introduced defensive measures against an acquisition. It endeavors to secure long-term shareholders at the initiative of the parent company and financial institutions.

Diagram 3-7: Type X - Non-manufacturing Model of the New Style of Japanese Corporate Management

**● Tentative model of the New Style of Japanese corporate management in non-manufacturing**



## Management

- (Top) leadership
- Characteristics of decision-making
- Form of organization and process
- Points of management process
- Human resource development

- The management consists of the following:
  - The board of directors has the supervising function and operating officers have the corporate management function.
  - Seven directors (including two outside directors) and approximately twenty operating officers (including ten non-Japanese officers).
  - The international advisory board has been established.
- The role of top management is representation of orthodoxy unique to the organization. In many cases, top management is the founder or a successor of the philosophy. They appear in every circumstance and have charisma. How the leadership is succeeded is the most difficult issue.
- The *Genchi-Genbutsu* approach is one of the most important features of the expertise regarding corporate management. Leaders are not dependent on theoretical numeric values but always have primary information and make business decisions based on a sense of reality and the overall picture. Therefore, the leaders are at their desks only for a short period of time. By doing so, they bring out the power of *gemba*, understand customers through *gemba*, or make it the most powerful trigger in identifying potential needs.
- Clear-cut hierarchy is defined, but full participation through a formal mechanism for visualization encourage improvement of productivity at *gemba*. There is another formal mechanism that takes in the idea at *gemba* on a company-wide scale.
- Especially, in *gemba*, an organizational climate with excellent powers of execution is created under the slogan of “Carry out the PDCA cycle processes”. At the same time, many employees make it their fundamental vision to “continue to change” and flexibly respond to changes in the implementation phase.
- The company offers many opportunities to build a sense of fellowship. It often provides formal and informal opportunities, not for specific cases but to gather frank opinions at each level (town meetings, etc.). A graduate network is intentionally formed for each training program.
- They can learn a lot from past failures. They have created a culture where failure stories are regarded as sources of learning and therefore not hidden.
- Powerful “top-down” execution is a typical management style.
  - Before decision-making, while the upper-middle level employees lead the case, the management team exchanges honest opinions.
  - The time required from decision to implementation is very short. They are willing to modify things in midstream.
- It is on the way to delegate authority to global bases. On the other hand, the company invests a good amount of time and energy for the purpose of further enhancing the global centripetal force.
  - Every effort is continuously made for implementation and dissemination of the corporate philosophy.
  - Globally standardized criteria and processes are introduced especially for the promotion of leaders at a certain level or higher. This covers many heads and deputies of the local subsidiaries. It includes implementation of the company’s genes, experience of corporate management in more than one different culture, and support from managers from outside their homeland. Accumulation of the results and evidence is required for candidates. The achievements of the last five years or longer are examined, and this rule is applicable to both Japanese and employees with foreign nationality.
  - The unification of promotion criteria and processes for leaders is designed to help all leaders, who are responsible for corporate management, regardless of nationalities, have centripetal force. Awareness-raising of Japanese executives is rather necessary.
- Japanese executive trainees are encouraged to master major languages other than English (Spanish, Chinese, Arabic, etc.) when they are young. Focus of fostering leaders is placed mostly on acquiring creativity and flexibility. For this purpose, the program emphasizes variety and broadness of experience.

## Others

- Corporate finance policy
- Stakeholders management

- They stick to comparatively conservative financial policies.
  - They do not seek even appropriate leverage typical of corporate finance in the United States but place priority on securing cash flow and strengthening the capital base.
  - However, their capital recovery and asset turnover become rapid, and they claim a sound cycle of assets.

## Members List of Committee on Corporate Management, FY2008

(As of September 2009)

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