

Thoughts on Weaknesses in Japanese Corporate Strategy

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Background

- (This presentation draws on work done for a project funded by the Daiwa Anglo-Japan Foundation)
- Project on the influence of Anglo-American institutions on Japanese Business System
 - As seen through Japanese eyes
 - Extensive use of Nikkei Weekly/Japan Economic News – electronic archive back to 1980
- Am increasingly aware of weaknesses of Japanese Corporate strategies
 - By strict “Anglo-American” standards
- Am looking for comments, particularly from people who feel I am being overly critical

Conclusions of Anglo-American Study

- Japanese Business Culture in early 1980s very distinctive
 - Toshiba Production System, Keiretsu System etc
 - No competition for corporate control
 - Virtually no accountants with international experience
 - Lawyers who worked for the corporate sector faced expulsion from the legal profession
 - 14,000 vs 700,000 in US
- Today
 - First attempt at contested domestic takeover (rejected)
 - Poison Pill defences being erected against foreigners
 - (response to easing of regulations on “triangular” mergers)
 - Citigroup/Nikko Cordial rare case (2007)
 - Entrepreneurs end up in jail (Horie, Murakami)
 - Equity holders will vote against their financial best interest
 - Judicial system biased against Anglo-American business practices
 - Bull-Dog sauce/Steel Partners
 - Steel Partners defined as an “abusive acquirer” – Bull-Dog allowed to strip SP of its voting rights
 - Murakami’s “appalling profit-is-everything principle”
- Still no real market for Corporate Control

Emergence of New Orthodoxy?

Concept of “New Hybrid” management

- Economist (Magazine) recent survey
 - Quoting major book by Aoki et al (2007) – coming from RIETI (the METI research institute)
- Highly statistical in its analysis and reasoning
- Argues New Hybrid corporate structure emerging
 - Best of Japanese and Anglo-American management styles?
- However, some of the evidence can be interpreted in less charitable ways
 - M&A’s are increasing – but majority seem to involve the shuffling of weak subsidiaries
 - Yes, mergers – but often with no follow-up integration of merged entities
- And this is a book
 - Which gives 3 tiny mentions to Carlos Ghosn and Renault/Nissan
 - Ripplewood/LTCB – Shinsei (not a mention?)
 - Doesn’t raise issues such as career paths for foreigners (lack of) or any issues which draw on the literature of the organisation of Multinational subsidiaries

An Economy of missed opportunities?

- Lack of serious market for corporate control means no radical corporate strategies
 - No Japanese equivalent of Jack Welch's GE (only stay in businesses where #1,2 in world)
 - No IBM (sell hardware: focus on software)
 - No Dell (new business model for selling)
 - No ICI (divestiture of fast-growing, unrelated business)
 - No Microsoft, Intel or Apple
- Vodafone vs NTT-DoCoMo
 - DoCoMo probably had the better technology
 - Vodafone ends up with the global presence
 - A-A financial engineering
- At level of national economy: missed opportunities
 - Construction/service sector no real move on appalling productivity record (40% of US levels?)
 - Despite 1980s' ambitions, Tokyo has totally failed to become the world's 1st or 2nd financial centre
 - Basically a very big national centre – losing out to Hong Kong, Singapore, Shanghai as a regional centre
 - In electronics, why didn't Japanese companies go on to dominate
 - Computers? (Microsoft/Intel out created them?)
 - Mobile phones? (over-engineering for Japanese consumer? Failure to internationalise Japanese standards?)

The Gaijin show up serious Japanese weaknesses

- Carlos Ghosn did become a national hero
 - Brought standard Business School practices into a demoralised Japanese management
 - Clear targets, clear deadlines, speeding of decisions
 - Radical pruning of traditional supplier relations and size of Board
 - (Toyota President was not amused)
- Ripplewood turnaround of nationalised LTCB
 - Use of Yashiro (a Japanese outsider – Citicorp experience)
 - Tales of appalling accounting practices and incompetent IT systems
 - Indians brought in
- Howard Stringer at Sony
 - Attacking the “Silo” mentality
 - Attempt to speed decision-making and implementation
- But decline of their influence?

Counter-lessons from Toyota?

- Since T Boone Pickens greenmail attempt on Koito (Toyota supplier)
 - Awareness that suppliers could fall under hostile control
- Over the last decade, a major attempt to deepen working relationship with lead suppliers (not always keiretsu or Japanese)
 - But also some increased defensive equity investments (as in Denso??)
 - Lesser suppliers are being treated toughly
- Extension of kaizen into supplier relationship?
 - Not just price, but a relationship on technological development.
- Toyota, Automation and Cheap Labour competition
 - Toyota now on record as arguing that it can out-compete the Indians and Chinese by the application of technology (ie ever-more sophisticated robotisation)
 - (part of a trend by leading Japanese companies to strengthen core production capacity within Japan)
 - trust in automated factories

Toyota (continued)

- To an Anglo-American observer, there are weaknesses
 - Failure to create career paths for non-Japanese
 - (loss of the President of Toyota (US) within months of him being appointed to Toyota's main board)
 - Slow to invest in the BRIC economies
 - GM better placed?
- But Toyota is currently a cash-generating machine
- The logic of the Toyota Production System is being developed in radical ways
- Can apparent Strategic weaknesses can be carried for the foreseeable future?

Other answers from Japanese Manufacturers

- No doubt that the language of Japanese executives has changed in an A-A direction
- Outward investment has increased
 - Nippon Sheet Glass/Pilkington example of a Tier I supplier to Toyota strengthening global spread
- Increased willingness to find solutions for under-performing business lines
 - But a lot of cosmetic activity?
 - Some genuine
- Renewed emphasis on technological innovation
 - Most manufacturers will spend proportionally more on R&D than western competitors (statistics?)

An Economy of Niche players?

- Very few companies which are Systems/Industry Architects
 - Though Toyota is massive in its industry
- (parallels with the Mittelstand) a phalanx of technologically strong specialists
 - Denso in auto components
 - Canon
 - Sharp
 - Olympus
 - TDK
- Heavy emphasis on fully automated factories
- But facing “super-competition”
 - Koreans are in same sectors
 - Taiwanese (move faster? More flexible?)
- Unlikely to develop radical strategies to redesign themselves

Conclusion

- As an economy, Japanese productivity is the lowest of the G7
- Unwillingness to respond to financial signals means that gap remains
- A lot of relatively unfocussed conglomerates remain (Matsushita, Hitachi, Toshiba, Fujitsu)
- Strategies of leading manufacturers look perverse to Anglo-American observers
 - Determination to remain relatively vertically integrated? (is this true?)
 - But there could be a logic to Toshiba's strategy
- But, an ageing society is going to pay for today's slowness to adjust to economic realities
 - Yield on Japan's public pension fund is about 3% pa, while CALPERS gets 18% on its Japanese holdings
- The search for "hybrid" solutions has a distinct economic cost

Questions

- Is Toyota (and Honda?) the exception?
 - Case of a Japanese company which dominates its industry
- Why haven't Japanese companies been much stronger in
 - Computing (did Microsoft and Intel out-compete them?)
 - Mobile telecoms (strong in Japan, very weak elsewhere in the world)
 - Aerospace
 - Financial Services
 - Pharmaceuticals (Takeda still a small global player?)
- Am I overlooking some less obvious sectors?
 - Construction Companies in emerging markets?
 - Who else ???

Questions (2)

- Am I being unkind when I say that Japanese companies have not developed radical corporate strategies?
- Is it unfair for Western observers to classify firms such as Toshiba, NEC, Hitachi, Panasonic, Fujitsu as being unfocussed, underperforming conglomerates?
- Which Japanese companies have developed the best career paths for foreign executives? Have any of them developed true multinational paths along the lines of Unilever or Shell?