

Revitalizing Japanese Economy/Firms and Appropriateness of P2M Approach

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What Japan is facing is not the crisis, but the world has completely changed. It may take 30years until we regain new stability. Japan should tackle to respond to the unprecedented change. Never refuse change. Peter Drucker

Introduction

This paper will consider the past, present and future of Japanese economy and firms and show how they are undergoing significant changes. It will also show that Japan's economic system led by private sectors are becoming more conventional. And it will verify that the energies of these changes are the vectors for how to achieve total optimization from multiple partial optimizations in a state or firms in a changing business environment, equipped with a vision. This is what has been mentioned as a core concept of Project & Programme Management (P2M), which we have been making efforts to put into practical use both in Japan and overseas over the last several years.

As a conclusion, this paper intends to clarify that we should not fall into fatalistic view. Our future is not yet decided, but it is something nobody else but we ourselves should decide, and that each nation, local region, and firms has things that must be pursued. Furthermore, this paper attempts to clarify that our future must lie in harmony with the peaceful world, and most of all, in harmonious coexistence with Asia. The keywords applied here are "structuring" and "total optimization."

Charles Darwin argued that the winners of the natural world are not the strongest nor the wisest, but those that most flexibly adapt to the changes. The law of the "survival of the fittest" appears most distinctively when natural environment undergoes dramatic changes, for example, during ice age. Only those that managed to change crisis into opportunity survive. As an exception, those that live in the world without natural enemies survive, escaping changes. Similar law may largely apply to corporate environment. For instance, when politico-economic situation was sound and robust both in Japan and overseas, majolity of Japan-based firms flourished almost equally, regardless of individual's DNA for survival, and the good (equipped with flexibility for changes) and wrong of management was not very clear. However, when the basic conditions for development of economic society

change dramatically in a short term in states of emergencies such as a financial crisis, an economic crisis, and an energy crisis, and this time through the spread of information technology (IT), the struggle for existence among firms reaches an extremity globally and the industry and firms will differ in rise and fall and light and darkness depending on the level of adaptation capability. Let us name this a "corporate Darwinism" principle under a paradigm shift. This report intends to verify and survey the development of Japanese firms and economy amid the global business environment changes after the end of "Cold War" from such a viewpoint.

Shortly after the end of World War II, the world was divided into the market-economy bloc and the planned economy block (COMECON nations and China), and the 'Cold War' world started. China before long parted ways with the Soviet Union and the age of political priority continued with Cultural Revolution and other big political games taking place. Thus, its economic system became mostly paralyzed and economic development stagnated till the late '70s during which the change of the rudder to "socialist market economy" was shouted.

As Western world or market economy block adopted "mixed economy" system in general, the fiscal role increased and "big governments" appeared on the scene. This structure continued till the '80s. Japan was no exception. Although two oil shocks, 'Nixon Shock' in '71, and the Plaza Accord in '85 cannot be compared with the shock of the Second World War or the end of Cold War in its scale and depth, they resulted in a very big paradigm shift world-widely, greatly shocking the Western countries and bringing about dramatic changes. America's overwhelming predominance in the world economy became gradually lost and Japan and European countries, especially [West] Germany, made remarkable progress economically. Thus, the "US -Japan-Western Europe trilateral pillars" appeared in the world. In the meantime, Japan and Japan-based firms showed the highest growth power in the world and the ability to flexibly adapt to international environmental changes through its and their unique model(s). Ezra Vogel, the author of *'Japan as No. 1—A Lesson to America'* published in '79, praised greatly the "miracle of Japan" which had been continuing over a long period of time in contrast to the US. Japanese economy has kept the dual structure made up of a group of export-oriented manufacturing firms with high productivity that had been gaining competitive edge through friendly rivalry in export and overseas production, on one hand, and of weak groups like agriculture, construction, distribution, real estate, the finance business, etc., largely protected by the national border, regulations and language/cultural barriers, and marking lower productivity, on the other hand. The latter could also grow, due to factors including a big domestic market, system of subtle cooperation on finance between the government and private sectors called a convoy-fleet ('gososendan') system, a high barrier to entry, and the subsidy from the government

(especially through Foodstuff Control Special Account). In the Cold War age, the domestic inconsistency or potential gap between high productivity industries and low-productivity industries did not surface so much except agriculture under fierce attack by such countries like the US. It was because firms in high productivity sector were capable of paying a large sum of corporate tax, and there was a structure in which the tax would be redistributed to low-productivity sector through public works, subsidy or subsidized finance, and tax revenues could also be obtained from other corporate sectors, real estate owners and consumers, thanks to high economic growth throughout the '60-80s and an asset inflation in the latter half of the '80s. Indeed, it was farm subsidies and public works by the central government and local governments for railroads, highways/roads and other infrastructures that had activated regional economy. Japan became a rich country and a target of envies of the world by the '80s, while on the other hand, being bantered as "the only country in the world where socialism succeeded." Although many of the finance business, real estate businesses and construction firms fundamentally lacked the ability to compete in overseas markets, in the '80s, they started to internationalize following the overseas expansion of the manufacturing industry and aggressively pursued international development using strong "yen" and abundant funding ability. It was mostly such firms and rich people that kept buying real estates across the world in the '80s.

At the end of the '80s, with the fall of the Berlin Wall, the Soviet Union divided into Russia and neighboring countries, and Central and Eastern Europe also seceded, resulting in the collapse of COMECON in '91. In China as well, the era of "Cultural Revolution" ended, and the shift to the "socialist market economy" which aspires to the market economy started while the political framework of a dictatorship by the Communist Party has been maintained. In this way, "Cold War" regime basically ended and the heterogeneous world that had been split into east and west began to unite at a staggering rate of speed.

Japan-Europe-US "trilateral regime" of the '80s yielded its seat to "unipolar multipolarism" of the superpower US. The US Government advocated strengthening its national competitive power, and opened up information technology (IT), core of which the military had monopolized, to the private sector. Thus, "IT age" began to blossom world-widely with the U.S. as a center and the geopolitical importance of Japan for the US decreased. U.S.-led 'globalization' brought a shadow with light to all corners of the world. While expansion of the world economy and world trade progresses, the future of the world is increasingly becoming uncertain with such new risk factors as international terrorism, global climatic warming, and the new North-South problem on the rise. The "9.11" incident in 2001 furthered this tendency deterministically. Countries of the Western continent that had led EU, a self-reliant economic bloc and foundation of regional currency Euro, especially France and

Germany, opposed the US over the way of the outbreak of war against Iraq and the nature of the U.S.-led NATO.

Japan has been tossed about by such paradigm shift to global neo-classical type capitalism for about 15 years from the end of the Cold War to the present. On the political front, the one-party rule of the Liberal Democratic Party came to an end and the era ruled by a coalition cabinet started. Politician's role increased in the national economy, and the age when the bureaucrats virtually ruled the important decisions in the diet ended. It is not that Internationalism was thrown away, but it is experiencing a socio-political set back, and nationalism is on the rise. The real GDP growth rate of Japan has remained a miserable figure of 1% a year on the average since the '90s and the expression "lost decade" or the "lost 13 years" caught on. Japanese firms were subjected to an unprecedented and severe struggle for existence on micro-economic front, but those that could transform business models appropriate for the new age, achieved high profits and became "Winners." While the struggle for existence has intensified, new senses of values such as global environmental consideration, respect for intellectual property rights (IPR), corporate governance (CG), and emphasis on the corporate social responsibility (CSR) have increased.

From '03 to '05, the Japanese economy was supported by domestic and external factors: the jumping of domestic equipment investments and the buoyant economies of both U.S. and China. Japan entered a situation in which "Beyond the long darkness, faint light has at last begun to be visible" as Chairman Okuda, Nippon Keidanren stated in early '04. Afterwards, though continuing to seesaw, the Japanese economy has been gradually improving. Although one hopes for the continuation of buoyant economy, the thorny path may be waiting in the future for the Japanese economy, handicapped with declining birthrate and a growing proportion of elderly people, and a large amount of accumulated budget deficit amid growing global uncertainties.

Incidentally, the Project & Program Management Knowledge System transmitted from Japan, or, "P2M" which we are spreading, aims at enhancing the power of execution that adapts the organizational capability of such entities as firms, countries, and local municipal entities to their maximum, corresponding to external changes flexibly and promptly, in order to attain visions and missions. This paper tries to examine whether responses of firms at the time of rapid changes in the business environment were correctly conducted or not and to conduct attribution analysis of their quality, assimilating P2M to "the thread of guidance" in the age of Corporate Darwinism. In other words, I wish to clarify why P2M had to be born in Japan, and how its approach has been effective for a revitalization of Japanese economy and Japanese firms. Based on such awareness of the issues, I must touch on the changes

in macro-economy and micro-economy of Japan during the past 20 years and how major players have dealt with the situation, especially the major listed manufacturing companies which have been positively conducting overseas deployment.

VII. Why “Project & Program Management (P2M)” had to be born in Japan.

1. Differences between top executives of Japan and the US

In Japan where business schools to create professional executives have not been widespread, P2M should have conspicuous characteristic in setting its main purpose as providing knowledge management through integrated approach of uniting corporate strategy with solution derived by ‘Program’ composed of individual ‘Projects’. In P2M, emphasis is placed on “Program Profiling Management” for accurately defining corporate management issues just as in the cases of Business Process Re-engineering (BPR) and Six Sigma. In order to pursue an optimization, it is the fundamental principle to construct a system in which top priority is given to projects with short period and low risks, while fully considering such characteristics as the length, size, effects, contents and level of influence to the organization for each project and to gradually carry out those with higher difficulties.

In Japan, “Project Manager” has basically been an existence that can be likened to either a master builder or master of a ship for each project. To make the story easily understandable, it would be appropriate if we took a case of major Japanese conglomerates in (heavy) plant industry and specialized engineering firms, equipped with the world’s first class technologies. There are quite a number of ‘excellent’ employees in those companies such as Mitsubishi Heavy Industries, Kawasaki Heavy Industries, Ishikawajima-Harima Heavy Industries, and Hitachi, Ltd. (also a major general electron/electronic manufacturer), and pure engineering companies with fewer staffs such as JGC, Chiyoda Corp. and Toyo Engineering Corp (TEC). Although Project Managers needed to work under certain conditions including budget, specification, and expected profit, they were basically for the nonce secluded from the management of the firm and always dedicated themselves to their own assigned work.

In the era of mass production and mass sales, economy was sloping upward and thus vertically structured division organization, a feature of big conglomerates, could function well. The complex of “partial optimization” also functioned well in general. It demonstrated effects of absorbing variation in overseas economy and risks in change of fashion. Balance was appropriately taken among divisions and by putting emphasis on autonomy of divisions, “internal peace” in a firm was maintained; thus few serious problems occurred. As long as the convoy system was functioning, lack of investment fund did not occur for such big

conglomerates regardless of their profitability, and abandonment of expansion opportunity was feared more than the merits that might be obtained by “selection and concentration.” Under such business environment, top down-type CEO was not favored in a firm, and in most cases, consensus-oriented person was chosen as the top. In spite of that, not many problems did occur.

However, in the post-Cold War environment, minds of consumers in particular have rapidly changed. Market conditions and production way have also been undergoing radical changes, with emerged networked IT changing traditional work method. Especially in electric and electronics companies, Product Life Cycle (PLC) has been shortened, and many firms tried to adopt the “Winners take all” strategy in which firms launch new products to the market, grasp large shares within a short period of time and disable followers to catch up. Patent strategy and black box strategy have also been accelerated.

The divisional system (*jigyoubu-sei*) tended to forget comprehensive strategy (total optimization) and pursue partial optimization. It was a natural course of events for a number of Japanese firms to pay attention to the footsteps of Jack Welch of GE to review such approach after the transformation in global paradigm. Many tried to follow, but ended up having it half-done or wrongly-done. Nissan Motor and Matsushita Electric (or ‘Panasonic’, as called outside Japan) were among the few exceptionally prominent successes in this move.

Every year, such organizations as IMD, a world-famous business school in Switzerland, announce the competitiveness ranking of the countries in the world. There is no doubt that Japan’s ranking which in the ‘80s used to be No. 1 or No. 2 has sharply declined (in media terms, from “Japan-bashing” to “Japan passing,” and furthermore to “Japan-nothing”) and that the rise of China as “The World’s Factory” that provides low-cost and improving quality products, has stimulated Japanese firms to take a new leap forward under the new environment against wind. For Japanese firms to survive, their only choice is to sweat at making a new structure that realizes total optimization and remain viable under the new global rule of competition. This applies to all industries and entities including manufacturing industry whose main line of work is “Monozukuri” or making of products, services industry, financial industry, government --- especially local administrations, and educational organizations. In executing this strategy, M&A and strategic alliances have been used frequently in all countries, most frequently in the U.S.

2 . Advantages of “Architecture” theory and points for consideration

In Japan, management mind is gradually changing. Nonetheless, there are still industries

that are strongly proud of maintaining their traditional mind. Most of the major firms in the above mentioned heavy industry have a commonality in their large fixed capital investment. These companies have comprehensive high technologies of production, assembly, and engineering that embody world's preeminent 'Integrated and approximation (*suriawase*) type" architecture. And yet, they accept not being able to achieve high ROI and ROA and to have low stock prices ranging from 100 to 300 yen level as of the end of '04. It is apparent that on the one hand there are radical changes in world's cost structure, unique and multifaceted group structure within which it is difficult for synergy to work, and a considerably large stable market. On the other hand, several elements have delayed disengagement from existing situation. They include the special circumstances of the industry in which the needs of overseas market with rapid changes differed from those of domestic products and that simultaneous pursuit of them both becomes difficult, the strong linkage with the local society resulting from clusterization of industry ("castle town"), and fragile financial structure. Moreover, one factor has also largely influenced it. It is the fact that because foreign capitals have not aggressively entered as in the cases of automotive industry and financial industry, "outside pressure" for consolidation, reorganization, and external direct investments were small in spite of the low market price of these firms.

This is obvious at a glance when one compares the situation of Japanese and western plant/specialized engineering firms. There were 67 major Western plant engineering firms in '85, but the number has sharply declined to 49 in '90, and then to 17 famous firms in '01 including Bechtel, Fluor, Foster, Feeler, GE, Siemens, ALSTOM, and ABB. In the meantime, MW Kellogg, a typical process engineering firm was taken over by Dresser, while Lummus Crest, a dominant engineering firm for ethylene process became a subsidiary of ABB. And yet in Japan, although major plant engineering firms suffered a "Winter era for the plant" in the late '80s, they recovered their wind by the demand boom for plants in Asia in the '90s during the bubble economy age that followed. Once again today, they are increasing their order intakes due to global shipbuilding boom and making of the LNG base. Major players have not changed very much. However, financially speaking, their market value has been declining after '96 due to order intakes at unreasonable prices resulting from excess competition in the middle of the '90s. On the other hand, specialized engineering companies that have little fixed capital in Japan and that have depended mainly on external demand for their development (that have "open module type" architecture) such as JGC and Chiyoda Chemical later have skillfully used their high engineering technologies demonstrated in constructing facilities including LNG plants and outsourcing. They have expanded their order intakes for large projects, morphing into companies with high earning capacity. Chiyoda is following this example.

P2M, the new knowledge system transmitted from Japan was initially developed as a result of a survey research at the study group of Engineering Advancement Association of Japan (headed by Shigenobu Ohara, currently Prof., Nippon Institute of Technology). The main purposes of the study group were to let Japanese plant engineering companies suffering from these structural changes have a sense of responsibility as entities (sense of mission) and to have them think of the optimum solution for the company as a whole and not the partial optimized solution. It was also to quantify tacit knowledge (explicit knowledge) within firms and to make them true corporate assets. Following its verification, a new twist was added and it has developed into P2M qualification accreditation system widely known both in Japan and overseas.

3 . Importance of Cross-Functional Team (CFT)

In order to make total optimization possible, first, cross-divisional project team system is strongly encouraged to break down sectionalism as much as possible. In electric/electronics industry, for example, Sharp has used its mobility derived from not being the largest company as their strength. Sharp co., under the command of its CEO, Mr. Katsuhiko Machida, has established an efficient system over a long period of time in which new products are made in project teams. Thus, it has made numerous hit products. Ultra major companies, especially conglomerate companies that have a great many unrelated divisions, such agile cross-functional cooperation is extremely difficult. They have a tendency to waste time. Recently at major plant manufacturers, moves to cut off engineering divisions (to split-up firms or subsidiaries) are underway. But even if split-up firms were to take place, in case individual split-up firms cannot be independent financially, the possibilities of cases similar to non-split-up firms happening are high. Nevertheless, now that we have entered the era in which global capital logic penetrates, it is apparent that status quo cannot be maintained.

Recently it is IT related firms that are trying to aggressively deal with the predicament using P2M type approach. It is an interesting phenomenon to make efforts to use a qualification system for improving the efficiency of work and as the basis for career development.

4 . What are the differences between the revitalizations of Japanese firms and the revitalizations of American firms?

(1) The case of Japanese firms: “Revitalization of Monozukuri (manufacturing-business-centered) economy ”

The recent revitalizations of Japanese businesses definitely have not been accomplished by simply adopting an American style business model. It was possible because Japanese firms did not lose sight of “themselves” that have excellent contents.

By reviewing the revitalizations of Japanese businesses this time, one can see that they are the revitalizations of “Monozukuri (manufacturing-business-oriented) economy.” The profits generated by major manufacturing firms are several times of those of service industries. The service industries have an overwhelming number of fields that are difficult to link to the global economy (nontradable goods). They are strongly bound by regulations/practices and other past constraints. Furthermore, they are strongly affected by the sluggish growth of the Japanese economy. (There are exceptions to this such as IT software industry, major distributions, and marine transport that can develop in many directions amid globalization.) Nevertheless, the Japanese economy and firms which were bantered as “the most socialistic in the world,” are beginning to quickly and strongly commit themselves to “logic of capital” in recent years irrespective of whether they were part of the manufacturing industry or service industry. Adopting such measures as ROE/ROA/EVA management, market-value accounting, abolition of ‘automatic’ annual wage increase system and performance-based evaluation, and holding of recruiting tests throughout the year are prime examples of this stance.

Many of the people that praise revitalizations of Japanese management centering on “Monozukuri” nationalistically are missing this trend. Even the Toyota group that enjoyed a large amount of profit amounting to 1.75 trillion yen for the term FY '04, ending March '05, has largely made revisions to its conventional “seniority-based payment system and lifetime employment” and has embarked on accepting contract workers and temporary employees extensively. Overseas production ratio, or overseas production amount(OPA)/OPA+ domestic production amount, is rising, but yet, failures of foreign operations are not allowed. Japanese technical system can be brought in, but localization of human resources, goods, money, design, and engineering are unavoidable. Amid this situation, mistakes in production are gradually increasing. A new issue of how to cover such unprecedented risks is being produced.

Furthermore, as an element that makes Japanese style management more complex and difficult, a product life cycle (PLC) can be mentioned. In such changes taking place, the number of companies that are setting with confidences long-term financial targets that had been considered characteristics of Japanese firms is decreasing. Such super excellent firms as Toyota and Canon have the luxury to continue with it, but pressures from foreign shareholders and others that put emphasis on relatively short-term profits have a tendency

to increase. Firms struggling with the management have abandoned long-term management targets and have fallen into living out on a day-to-day basis.

(2) Excellent companies that aspire to revised “Japanese-style management” system

However, in Japan, the thought that “Human resources are the biggest assets of the firm.” still remains steadfastly and there are still a number of firms very cautious about layoffs which are commonplace in the US. Mr. Mitarai, President of Canon, who announced the plan in Nov. '04 to build the most-automated plant in Kyushu, Japan and to have them assume different roles than China in the future also clearly states that “Canon will not fire human resources.” (Canon will protect employment for life, but will conduct severe evaluation and transfer positions.) Of course, there were more than a few Japanese companies that literally reduced its personnel or encouraged voluntary redundancy with special bonus added system in the last 10 years. However, these measures were taken at a sluggish pace inconceivable by American corporate culture. Behind this was the characteristic of Japanese business that has been long-lasting since the end of the war; if it meant escaping the bankruptcy of businesses, even the major trade unions tend to cooperate especially strongly with increase in productivity and cooperate in across-the-board reduction in salary and bonus. (This difference in corporate culture between Japan and the US poses a large problem when Japanese companies aim to develop overseas.) In this way, the hybrid type which unites "5S, ""teamwork, ""attachment to Monozukuri," (3 reals, namely, "Reality, Real Place and Real Things" or 3 GEN's or “GENJITSU, GEMBA and GEMBUTSU” in Japanese) "the reflection and KAIZEN," and "the emphasis on OJT" which have been the origin of the competitive

power of Japanese companies and the Japanese-style modified version of "logic of capital," has become the new Bible ("best practice") of Japanese corporate management. The expression “revitalization of Japanese style management” is not precise, but there is no question the Japanese business culture is playing a major role in reviving the Japanese economy.

It can be said that the spread of vitalizations of outstanding Japanese firms has become the engine for vitalization and recovery of depressed national economy and that as a result, consumers' and investors' confidences are on the path of recovery. Thus, an economic circulation pattern for the new era different from the traditional pattern of depression leading to large-scale budget by the government, which led to economic recovery, appeared on the scene. Naturally, the difference with the Anglo-American society is that there is a tendency

for existing employment system and respect for the elderly culture to hamper the implementation of Business Process Engineering (BPR) which aspires to flat organization or empowerment (delegation of authority) and emphasis on knowledge. IT and venture firms and some other firms are excluded here. Simply put, it means that it is difficult to become a flat organization with a strong leadership suitable for efficient use of IT. This can be considered to be the cause leading to halfway utilization of IT in the field of Management Decision Making. The fact that there are many Japanese firms that began overseas deployment 20 to 30 years ago and are still struggling with internationalization of management aspect are often due to such reasons. Although their products are of high quality and price-competitive, they are having a difficult time securing human resources and appointing local resource people to the executive levels. Putting emphasis on "people" and the existence of the cooperative union had been the strong characteristics of Japanese firms. However, now, Japanese firms are faced with the question of how to adjust their strengths with their global deployment.

3 . Balanced hybrid is the correct solution.

As a matter of fact, it is next to impossible to turn the behavior of Japanese firms as a whole at once to an international (Anglo-American) standard. If it is advanced by force, competitive power may be lost on the contrary. This is also the reason why a heated discussion on pay-per-performance system ('seika-shugi') is taking place. This system has already been introduced by 86.7% of the companies and includes wages attached to posts. Therefore, in general terms, the following sequencing is required. Firstly, firm needs to promote delegation of authority to an overseas subsidiary and follow that up by establishing a mechanism that enables good global management. With the trend for adoption of consolidated statements for both domestic and overseas businesses and market-value accounting, the efforts for achieving such total optimal route will continue semi-permanently. Naturally, it will be unavoidable for a personnel strategy to change; mid-career recruiting that places emphasis on expertise and seeks adaptable fighting potential will increase and eventually will change to recruitment throughout the year. (Some firms are already implementing it.) Since this is the recruitment strategy in accordance with the needs of the site, the position of the Personnel Department in the company will inevitably weaken.

VIII. Why was continued success possible for certain firms?

1. "Winner" maintenance model

Viewing the actions of the Japan-based multinationals in the past 10 to 20 years, we can see that leaders of not a small number of them made following mistakes. They either did not employ required measures suitable for both domestic and overseas changes accompanying advance of globalization, indulging themselves in their past glory, or excessively invested in plant-and-equipments, misforecasting the future of macroeconomy or a commodity market, and were burdened with excessive production capacity and debt. Of course, there are also other types of companies such as Toyota, Honda, Canon, Sharp, Kyocera, Takeda Pharmaceutical, Shin-Etsu Chemical, and Shima Seiki, regardless of their size, that have hardly made such failures for the last 20 to 30 years. It is ideal to analyze what kind of management philosophy and model these companies have adopted to enable them to continue to win, make a general model based on the findings, and have it woven in into the system of P2M (as a mechanism to prevent "missions" to become irregular). If it differs from European and American corporate models greatly, and if it is generalizable (transferable), it will serve as the optimal management model transmittable from Japan.

For example, the model of Toyota is called by such names as *Toyotatism*, but it has not been made into a general model. At the time of the oil shock that shook companies all over the world, Toyota was among the first to escape from the predicament. (However, in reality, it was the history of try & error including failures.) Toyota also overcame the drastic appreciation of the yen from the second half of the '80s onward by such measures as overseas deployment and automation efficiently making use of people (as it is called in the company "making people work on their own will"). (It is clearly shown by investigation of the MIT team that total productivity rather fell in some European and American automobile companies that immoderately used many robots and promoted full automation. Although Toyota itself had the same experience, it differed in its subsequent dealings.) People showed big interest on Toyota's success and many researches on the company were made. They studied how the company maintained a sense of impending crisis and continuously repeated KAIZEN, educated people both inside and outside the company and came to gain world market share of 12%. As stated above, the secret for Toyota's strength was claimed to be in its "lean production" in the research conducted by the research consortium of MIT. However, Toyota's strength does not come only from a physical production system. Education of people and efficient linking it to the production system is the most important as below-mentioned. Toyota's consolidated pretax profit in the fiscal year '03 was 1.8 trillion yen and its value of shares at the end of the year was larger than the sum of US Big-Three at 14.6 trillion yen. ROE was also very high at 15%. Moreover, for the mid-term ended September '04, seven out of ten companies of the Toyota group recorded the highest ever

profits for the mid-term.

Companies such as Honda, Canon, and Sharp are different from Toyota in their sizes and management philosophies. However, they are the same as Toyota in that they are corresponding to changing times flexibly and continuing with their successes by not ceasing their investments in people.

These companies have tried to introduce the similar management and production systems in their overseas operations. In advanced nations such as the US, localization of personnel is also substantially under way. President Cho of Toyota states as follows. "Toyota has been dealing with human resources development, the key for future growth, always having a sense of impending crisis. Beliefs and senses of values for management at Toyota inherited as 'tacit knowledge' were arranged and collected in 'the Toyota way 2001' in '01. It was then deployed to overseas business entities as well as inside the firms at home. At the same time, in advancing 'globalization of management', Toyota appointed locally recruited personnel to the top of overseas business entities and appointed five foreigners as the executive managing directors of the Toyota, Japan. Taking such measures as establishing 'Toyota Institute' in '02 as a training organization of the resource people who will support global Toyota evolving around the 'Toyota way,' we have been deeply committed to the establishment and innovation of the system and structure to develop people." Indeed, Toyota can be called A-student in the sense that it is raising people with desirable action characteristics through daily work and education, and preventing an arrogance of executive members and precedent principle ("bureaucratization"), while linking to the management which aspires to total optimization including expansion of local production. Having said that, the total performance of Toyota's overseas business entities is not yet at the same level as that of its headquarters in Japan. Supposing it is greatly influenced by the culture (DNA) of the geological family line (Mikawa) which respects Sakichi Toyoda as its founder, there may lie the starting point of an "original Japanese-style management model."

There are two reasons why Toyota has been popular in the US after the '90s. One is that Toyota did not spare funds for future investment that considered the limit of energy resources, such as hybrid cars. Another is the keen perception of the firm on international politics, especially US politics. Much is mentioned about Toyota's offshore production. The fact that Toyota understands well the political situation of countries such as US they set up operations in and has acted with caution taking the situation into consideration deserves special mention. In the middle of the '80's, Toyota went through the ordeal of having its car unreasonably destroyed by an American congressman in front of Capitol Hill. There may be a view that it is natural for any company to act in a similar way by experiencing such an incident. However, the truth of the matter is that following points seem to be largely

influencing Toyota's actions. They are: that Toyota's top leaders assumed such important posts as Japan Federation of Economic Organizations and that they were confronted by internal politics of US, Europe, and other nations, and fierceness of Western economic diplomacy based on such politics. It is not from altruism that Toyota made corporate joint venture (NUMMI) with America's biggest car manufacturer GM and made efforts to expand sales of GM cars in Japan. It is supposed to be from a viewpoint that if GM management would feel cooperation with Toyota is desirable, it will stabilize Toyota's activity base in US.

2. A key of success for localization is a thorough management that incorporates local political risks.

GM, which hit a deadlock with its discount tactics, is intent on a large restructure, and the day when Toyota will surpass GM is not far off. Ford, which ranks second to GM, is also facing an uphill battle, and is reducing its market share. However, Toyota leaders know well that it may bring a new risk to Toyota. 41% of Toyota's consolidated profit for the term ended March '05 came from overseas, with most of it generated in the US. It was based on Toyota's sense of management incorporating such local political risks that the firm decided to cooperate with GM in producing hybrid cars in May '05 and that in June, it raised its automobile prices in the US slightly. Such a feeling of tension serves to maintain Toyota's sense of impending crisis. And it has become the energy for Toyota to continue to self-innovate. Looking overall at these points, one comes to understand that seemingly invincible development of Toyota which is said to stick resolutely to Monozukuri has been achieved not only by the strength of its manufacturing sites. The skillfulness of total "Shikumizukuri" (structurization) has also been playing its part in combination with its strength.

Naturally, there are some companies that think that their strengths as companies will be destroyed by halfway localizations and venture themselves to (temporarily) turn their faces away from local politics or "cross-cultural management." If their actions are based on clean-cut logic and have a persuading way amid local society, such moves may be acceptable for sometime (but would not be indefinitely accepted).

IX Opportunities for revival of corporate-earnings and P2M

1. Can companies conquer their past success experience s?

On the other hand, Japan-based multinational manufacturing companies such as Nissan, Matsushita Electric (Panasonic), NEC, Sony, Toshiba, FUJITSU, Hitachi, Mitsubishi Heavy

Industry. SANYO, Komatsu, Nippon Steel, YAMAHA, and Toray that had represented Japan for a long period of time were also severely damaged due to such factors as long-stagnant domestic economy since from around the '90s, collapse of the US IT bubble from '01 to '02, failure of plant-and-equipment investments, and catching up of South Korean and Chinese firms. Fall of these companies were affected by drastic changes in both internal and external business environments. Even more than these changes, it appears that the aspect that **past success experiences had blocked adaptation to changes** had been strong. Matsushita (Panasonic), Hitachi, Nissan, Komatsu, YAMAHA, and Toray Industries are among the companies that have since then been quickly improving their corporate performances.

2. The case of Matsushita

Matsushita at the head of this list, has a unique corporate culture. Prof. Tadao Kagono who has conducted researches on management of Japanese companies for many years studied the management technique the company has applied in Japan, Malaysia, and other countries. He is seeking the origin of its competitive power in its "simple honesty." However, Matsushita (and its group) has not maintained competitive power by "simple honesty" alone. Naturally, they cover the basics of "Monozukuri". On top of that, the firm has thoroughly pursued cost reduction, reformed the organization and the distribution system, and carried out **total "Shikumizukuri"** which included acute sense for international politics. That is why the company was also able to immediately recover from fail.

The company had recorded huge operating loss of 211.8 billion yen, and the ordinary loss of 537.8 billion yen for the consolidated statements in the FY '01 . In the face of this greatest management crisis since the end of the war, the new President Kunio Nakamura has been making challenges including: (a) Fundamental shift to predominance of the Sales Division from predominance of many Production Divisions in selecting new products and their specification, (b) Making "V products," utilizing the technologies other companies do not have, (c) Personnel reduction, (d) Reorganization and expansion of sales network (including making of super pro shops in FY '03 fiscal year, (e) Strategic alliance with a Chinese company TCL, (f) and sales strategy of unique products for overseas markets. The number of personnel reduced by the middle of '05 starting from the term ended March '02 reached 27,000 in total by paying special retirement bonuses, and across the company staff rationalization seems nearly to be completed. However, it does not mean that the company has stopped its effort for staff rationalization. It started to put out a call for early retirement aiming to reduce 1,000 employees by July '05, equivalent to 6% of the whole personnel at the semiconductor company, a separate company spun off.

Thus, the extremely relentless "Nakamura revolution" has so far been very successful. Namely, the operating profit for the FY '03 was 195.5 billion yen, an increase of 54.5% from the previous year. And for FY '04, it recorded 308.5 billion yen, an increase of 57.8% from the previous year. Domestic sales increased by 32% in the fiscal year. For overseas sales, Asian countries, such as China grew, and the Appliance Division increased its operating profit by 47%. However, operating profit on sales was 2.8% in FY '04, seemingly below the target (5% by FY '06). And its stock price was also low, with 1,685 yen on July 2, '05, only reaching 54.9% of its stock price of 3,070 yen at the end of March '00. Reform is still in the middle of the way. While the rapid fall in prices of electrical machinery and electronic products becomes prominent, the company is newly investing in the white home appliances for China. Such a move appears on the surface to be contrary to common sense, but it can be said that the company is aiming at improving its profit ratio. A larger management task for the company is reforming its non-manufacturing department.

3 . The Case of Nissan

The reform at Nissan was more dramatic. At one time, it was feared that the company might even go bankrupt. However, Nissan escaped from the predicament splendidly, by requesting Renault for management participation and by welcoming Mr. Carlos Ghosn as CEO and president. In FY '03, Nissan became the No. 2 auto manufacturer in domestic sales, surpassing Honda. New President Ghosn presented a new vision to the Nissan executives, made use of the Cross-Functional Teams, half destructed business affiliation with Nissan-affiliated parts makers by dissolving the capital ties, and boldly altered the steel supply organization which had been formed in line with ranking of the business affiliations. Through such measures, he succeeded in cost reduction of 20% while making hit cars.

In respect of dissolving business affiliations, Nissan applied a different method from Toyota or Honda. Although some ridicule at Nissan's method as "modulization of car production," when management performance is viewed in total, it does not appear that problems are cropping up because of this method. Of course, Toyota and Honda-affiliated parts makers are also selling to automobile companies other than Toyota or Honda. By doing so, they are cutting down on the cost, making new investments in plant-and-equipments, and strengthening their competitive powers. However, it is said that even if Toyota and Honda normally do not make key parts by themselves, in general, they have the power to make them in case of emergencies. They are also said to have an accurate grasp of production costs of those items. That it is the main factor (business model) that enables both companies to keep bargaining power toward each part company and to enjoy high

profits in spite of being assembly makers (their partmakers instead can grow safely with the big assemblers if they are competitive and actually some of them are recording better ROE). It is contrastive to the case of US Big Three. In their cases, fearing that profits will be compressed sharply once a company becomes a mere assembly maker, they have produced key parts in-house. This results in high production costs. It can also be said that if the usual logic of a stock market were followed, companies cannot but pursue short-term profits, and because executives will be replaced in rapid succession, they cannot but become like the US companies. Toyota is following its original way including holding much cash so that they can avoid such a path. This is regarded as the reason why Toyota's stock price is lower than that of companies such as Canon, Takeda, and Honda in spite of it generating greatest profits in Japan.

Thus, Matsushita and Nissan converted their strategies in manners that can be called "revolutionary," applying their core strengths. They are moving along the paths to successful companies, attracting attention both at home and abroad. However, attention should be drawn to the fact that it was **modified Japanese styles** that appeared, not based on the Anglo-American style with such measures as an extensive layoff structure and even with adversarial M&As by the managements under shareholder's control. They have been, however, influenced by the Anglo-American styles in that shareholders status have evidently risen out of stakeholders, and that life-time employment have and payroll system have largely transformed. Therefore, clarifying the actual conditions of corporate Darwinism through strategic behaviors of "winners," Toyota or Matsushita (Panasonic) that are vigorously pushing forward their in-house reforms aiming at becoming the "winners" will be useful in making foreigners understand the strong recovery mechanism of the Japanese private sector and the dynamism of Japanese companies. What these companies have carried out have many portions that overlap with P2M's philosophy in respect of having "a vision" and "a mission" (sense of mission), and adopting the strategy that seeks total optimization.

4 . The Age of Civil-Wars Continues in electron and electrical machinery industry.

Based on the latest research indicating that since technologies of general appliances and electronics manufacturers are in general "open module type" and not "a sophisticated integrated style (suriawase-style monozukuri)" like automobile industries, it is easy for the predominance of competitive power to wane suddenly. This is clear when one looks at the changes in the stock price since '00. At the end of '04, Sony was still maintaining the highest

stock price in the industry of major Japanese electronic and electrical machinery firms. However, its stock price had fallen to 27% of the stock price for the term ended March '00 when the company was enjoying information technology boom. Similarly, the stock prices of Toshiba, NEC, and FUJITSU fell to less than 30 percent. On the other hand, those of Sharp and Matsushita are 76% and 53% of the stock prices for the term ended March '00; they both maintained the 1,600 yen level at the end of FY '04. In this sense, new business models of Sharp and Matsushita are drawing attention. In '04, Sharp announced that it was planning to execute a large investment for plant-and-equipments in Mie Prefecture while Matsushita announced its plan for similar large investments in Fukuoka Prefecture and Hyogo Prefecture (Amagasaki-City). Sharp has skillfully narrowed down its investments for new products with the motto, "Only One rather than Number One." It is now the world's No.1 in the production of liquid crystal panels and also ranks in the top class in manufacture of solar cells, which could be called the ultimate energy source. It also has hot-selling products such as ion refrigerators. The company is also coming out on top in international deployment of Enterprise Resource Planning (ERP) among manufacturers. Moreover, Matsushita is coming out with big hot-selling products such as DVD videotape recorders and slanting drum washing/drying machines. Both companies, Matsushita in particular, are also in the preceding group for business with China and their brand images are also high. One must also note the point that Samsung Electronics from South Korea is developing its brand value and raising its market share in the world in this field. Even if it is called a "module type," it also has many portions with high added values. If it succeeds in "Shikumizukuri," the world different from the one in the past will begin to spread.

In the meantime, those makers that should be called specialized electronics and electrical machinery, or parts makers in the same industry including NIPPON DENSAN, ROHM, Kyocera, MABUCHI MOTOR, Murata Manufacturing, FANUC, and Canon which was originally a camera maker and now has big shares in printers, digital cameras and so on also have higher ROE and ROA. Although there are many companies whose stock prices have fallen compared with the term ended March '00, their absolute values are considerably higher than comprehensive manufacturers. This appears to give a big hint to the future course of the comprehensive electronics and electrical machinery industries.

From the viewpoint of revival of the manufacturing industry, since '03, the recent favorable conditions of the steel industry, the shipbuilding industry, the chemical industry, and medicine are remarkable. Although the steel industry is an Oligopoly, the industry has for many years been troubled with depression. Recently, due to factors including rationalizations and the spread of price increase in steel-materials, corporate earnings for JFE, Nippon Steel, Kobe Steel, and Sumitomo Metal Industries are all good. Such high-flyer

story as JFE newly building blast furnace has also come out. The technical level of Japanese iron and steel makers is world's No.1. Nonetheless, industries such as steel, industrial plant manufacture, and shipbuilding are positioned in the middle of "advanced nation industry" and "developing country industry," excluding special products. Presently, South Korea (Pohang Steel or POSCO) has almost caught up with Japan in steel production. (Meanwhile, profit deterioration of shipbuilding companies resulting from sudden increase in steel price is expected.) Although it has many quality problems, China is a runaway leader in the production quantity of steel with yearly outputs of 200 million tons. China has the possibility to hold the position of the world's price leader in the future. South Korea has maintained the world's No.1 production in shipbuilding. Now, South Korea aims at increasing its added value by improving the quality, not limited to only quantity. In this sense, even in such fields, although Japanese companies can respond for the time being by product differentiation at a company level, looking at it from macroeconomy point of view, great expansion of added value or ability to absorb employment cannot be expected. It can be said that it appears symbolically in the stock price.

Although major specialized engineering firms had temporarily faced the crisis of survival due to the record-smashing appreciation of the yen, recently, they are less easily influenced by changes in exchange rate due to active order-receiving activities conducted overseas in their fields of expertise such as LNG facilities, global procurement strategy and improvement in management skills. JGC is making remarkable achievements and CHIYODA has also been in good condition recently.

Although pharmaceutical industry continues to be a promising industry in the future, generally speaking, the competitive power of Japanese medicine companies cannot be called strong. This is greatly influenced by the fact that it had long been a regulated category of industry.

Mr. Kunio Takeda of Takeda Chemical assumed the presidency in '93 following the sudden death of his elder brother. The first action he took was to reduce the excessive number of employees of the company, which had blistered by the diversification drive. He says the company had absolutely no philosophy in those days in its recruitment policy. He says that reduction of the excessive number of employees was "to prepare ahead of time for the situation in the future when there will be too many retired employees." He considered that "in carrying out management reform, it is important for its vision, or the direction the company should be heading to, to be presented to all employees: or. ---- maximum pursuit of stockholders' profits should be carried out. ---- And it must be changed to a structure in which a person who achieves success is rewarded." And he called on the employees to "win straight victories in world competition as a R&D type multinational company with a focus on

medicine, not being complacent at being the No.1 local company on the small island in the orient." And he set three targets of "heightening the added value of an enterprise," "right-sizing of employees," and "selective distribution of management resources" as basic strategies for the midterm plan. It is surprising that even at a top-rated firm like Takeda with a long history of 200 years, such basic management strategy for survival was adopted only a dozen of years ago. Although Takeda was not an exception to keep "excessive number of employees" by around that time, it appears that the fact that the pharmaceutical industry was a regulated type of industry had also greatly influenced this.

Strengths of firms as mentioned above are in many cases naturally interlocked with the amount of "brand value" of individual firm. (However, since the size of a firm is also related, it is dangerous to judge a company value only based on the "brand value.")

5 . Things that are happening in industries other than the manufacturing industry

Let's also glance at industries in Japan other than the manufacturing industry. I would like to briefly discuss about the globalization of services industry. The information system & IT software industry have recently begun to show strong interests in P2M. Japan started very late in the development and the spread of IT technology and software in comparison with the US. Regarding IT infrastructure, Japan is no longer inferior to the US. But, there are still big differences in the development and the spread of software including those for business rationalization. IT-related market is rapidly spreading. The market for information hardware (For example, sales volume of PC in '03 was 1.71 trillion yen and the figure for server including main frame was 620 billion yen.) is not very big, but IT software and service grew up to 14.17 trillion yen, 20 times its amount in '80, second only to the auto industry (sales volume in '03: 19.51 trillion yen). (Of course, reselling of Microsoft's software is also included in this figure.) In Japan, the amount of services industry tends to be underestimated. One example of this is that electronic printing is still sorted as the manufacturing industry. But, judging from the actual condition of its operations, there are many that should be assorted as the services industry. However, excluding some favorite fields such as animation, Japan is far behind US on technical developments and branding in this field. Japan should lay emphasis on developing software markets that can create added values. Meanwhile, as for the making of IT software, subcontracting to Asia, and especially to China and still far less to India, is increasing rapidly. Dalian and Shanghai are today two big bases for accepting orders.

For manufacturing firms as well, in companies with high ratio of software development, trial & error methods are being deployed. Matsushita has pushed forward ahead of others

with vertical integration of related businesses such as parts or mobile phones. The production division of the main body shared software development resources. In contrast, NEC missed out on the wave. The firm at first pushed forward a strategy to list its subsidiaries to reinforce management powers of their subsidiaries. NEC Software and NEC System were put on the market in succession, and the main body gained profits from its subsidiaries going public. However, due to the environmental changes in software industry that followed, it became impossible as a whole group to cope with the demand for rapid increase in software development. Thus, outsourcing to external cooperating companies increased. The synergy within the group became unfunctional partly due to duplication in work among the two listed companies and the main body, and at the same time, it became difficult to manage cost. Therefore, NEC made the once listed two companies wholly owned subsidiaries and decided to integrate and reorganize them into two firms specialized in software development and system development at the end of '04. President Kanasugi states, "This decision has given priority to the most suitable solution for NEC group, and not the most suitable solution for each subsidiary."

Next, let's consider the situation of general trading houses (or Sogoshosha), leader of international commercial services. The profits of three major companies soared in September of FY '03 and '04 by active injections of management resources to fields such as resource-based projects. However, they did not record high profits only by investments. At least, these three companies had introduced scientific achievements evaluation systems and risk-assets management systems in around '00 and have since been carrying out "selection and concentration." In addition, the differences between "winners" and the followers are spreading.

In the field of insurance against loss or damage, there are also big firms such as Tokio Marine & Nichido Fire Insurance, Mitsui Sumitomo Insurance, and Sompo Japan Insurance which are moving into life insurance businesses in addition to insurance against loss or damage in China or other Asian countries backed by favorable conditions in the domestic market. The reasons why these industries are booming are not uniform. But it can be safely said that they all appear to be shifting from compounded partial optimizations to total optimization.

The shipping business, once a pronoun of industry in recession, is today a booming industry recording massive profits. Efforts to compress costs by using long-term chartered foreign-flag ships and rapid increase in freight charges along with such elements as sharp international trade growth of China have largely led to the rapid profit growth in recent years.

Because deregulation plays an important role in distribution type industries such as warehousing industry, efforts of companies alone do not solve the problems. However, an

application of P2M, which calls for aiming at total optimization with a sense of mission, is possible. In this way, there also exist a great many fields in service industry where P2M can be applied.

6 . Management integration that is becoming active

"The triangle merger" whereby foreign capitals can purchase Japanese companies by exchanging of shares will be made possible by commercial law revision in '06. (Discussions are presently taking place on how to effectively free from hostile buyouts.) Strategy in which a company becomes holed up in Japan, protecting own business will no longer be valid.

Sure enough, movements for mergers or reorganizations started coming out in '05. First Yamanouchi Pharmaceutical and Fujisawa Pharmaceutical announced their mergers, and Astellas Pharma was established in April of '05. Subsequently, it was announced that Sankyo in the second place and Daiichi Pharmaceutical ranked in the sixth place domestically would merge in October of '05. Furthermore, major medicine manufacturer such as Takeda and Eisai have appropriated record-high R&D expenses in FY '06.

7 . A new aspect of international division of labor

One must pay attention to changes after the latter half of '05 when there is concern for the future of the world economy. Faced with such a situation, what kinds of roads will such major production companies (particularly electronic and electrical machinery and appliances industries) choose in order to survive? The division of labor that exists between Japan and foreign countries such as the US and China will increasingly progress. The business models that such companies as Sharp, Matsushita and Canon are starting to deploy, namely, (a) Do not lower the R&D level. Develop more advanced, original technologies in the domestic market and shorten lead time. Develop basic technologies in the US and develop products in places near large markets. (b) Select right spots for production taking into consideration production cost, transportation cost and delivery days to the market, market size, overall risks including country risks, risk of technology leaks, and production concentration risks. (c) Deploy patent strategies for the maximum protection of the intellect property rights. (d) Make high added value products with increasingly confidential core technologies for commercialization of products, and grab big market shares with one sweep for new products thinking about production life cycle (PLC), enjoying profits by preceding others. (e) Connect group companies in the world with SCM considering cost factors, market changes, and risks such as accidents. (f) Aim at global optimization of financial affairs strategies with ERP and

maximize company values. It appears that internal reforms and integrated strategies will become the mainstream.

Concluding Remarks

1. In search of the new horizon, Japanese firms need further structural transformation.

In this paper, I have clarified the situation in which Japanese companies have recovered and have strengthened their competitive powers during "the lost ten (or thirteen) years, " largely changing their business models, particularly through the financial crisis from '97 to '98 or bursting of IT bubble in '01 in the US. Nonetheless, it may be too early if one were to assume that the ability of Japanese firms have completely recovered to the world's highest standards, observing the all-time high profits Japanese firms in many industries recorded in FYs '03 and '04 and that they can continue to record the similar results in coming years. It was greatly supported not only by the restructuring and innovation by Japanese firms, but also by external factors of the recovery of the U.S. economy beyond anticipation (it is accompanied by the highest-ever "twin deficits") and overheating of the Chinese economy. The situation doesn't allow premature conclusions since the latter factor may change suddenly from '05 onwards. The recent recovery of corporate earnings and the recovery of macroeconomy are in that sense, still at an initial stage of innovation. Japanese economy has not regained a truly big dynamism based on new technologies that are completely different from the existing technologies. Furthermore, the present condition is that main players have also changed little. From now on, it is hoped that this structure will be deepened further and will develop the most-advanced nanotechnology, biometrics, and such alternative energies, energy-saving industries, and new material industries as next-generation batteries, fuel cells, and micro gas turbines, or medical treatments and welfare industries for aged societies, and environmental industries. For such new technical developments, the role of the government is *not* insignificant, and cooperation among industrial, administrative and academic sectors is desired.

2. Redefining the relation between a national strategy and corporate strategies: Reviewing the role of the government is needed.

Due to revival of "Monozukuri," and fashionalization of Japan's strong systematized techniques (architecture) argument or FTA (EPA) argument, the industrial state argument is also strongly rooted. This argument states that efforts should be made in Japan to guide

Japanese companies to avoid globalization (multinational corporatization), to guide them to make strong products and expand export, thus avoiding “hollowing out of industry.” That kind of argument also has a point, and there are companies proclaiming that they are carrying out such actions at their companies.

However, the government cannot force companies to act in line with “an ideal situation” for a country. Nor should it do so. It is because companies are one element of an economic society. Although they may have social responsibilities, they have to leave the market if they cannot survive. In this sense, they differ from individuals who are guaranteed minimum standard of life by Constitution.

It is very welcome that the Japanese government aims to expand domestic investments by Japanese companies and foreign capitals and expand exports as a country through such measures as managing macroeconomy, deregulation and easing of regulations (including Postal Service Reform), technology strategy including basic technology developments by an industry-government-academia, tax reforms, educational reforms, pension reforms, energy policies, measures for earth environment and industrial wastes, new business support, and appropriate security policies. It is because in the end, that is the basic road for maintaining and improving the lives and the welfare of citizens. It is the new vision.

But it is dangerous to regard “reduction in foreign direct investments to overseas” plus “expansion of exports” as something with political purposes. For example, Germany, the world’s second largest export country next to the US, increased its export rapidly in ‘04, but the country is behind in restructuring in every field, and the future prospects for the economy are not necessarily bright. Likewise, South Korea rapidly expanded its export mainly focusing on China in ‘04, but its economy is not strong. And, most of Korean firms are hesitating to invest inwardly and are increasing only the overseas investments. Indeed, exports are expanding by past investments in new and powerful plants and equipments and employees who have strong feelings of loyalty, but the prospects for tomorrow are opaque. Seen in this way, even granting that multinationalization of companies is inevitable, it’s this “Shikumizukuri” that is expected as the role of the government. This includes improving the business environment or devising and promoting new technology development strategies that can reproduce the patterns in which R&Ds for cutting edge technologies are actively carried out in Japan, and are commercialized by highly-motivated entrepreneurships, proactively creating product (or service) cycles. Various reforms should be intentions and processes that make “Shikumizukuri” possible. How Japanese companies becoming multinationalized or foreign capitals can be made aware of Japan’s superiority and invest domestically, and how excellent foreign engineers can be attracted depend largely on abilities of the central government and local governments. (It can be said that in that sense,

the local government run by the former governor Mr. Kitagawa of Mie Prefecture, which promoted rationalization and was in the forefront of attracting enterprises, showed district residents and the citizens an ideal model for the local government.) Expansion of "Investment in Japan," decentralization policy called as "Trinity" reform being promoted by the Japanese government are also fundamentally right. The rest depends on whether the contents can be made to give high "customer satisfaction" to companies or district residents through the efforts and the ingenuities of people concerned.

Individual companies should choose all types of options with self-responsibility within the limits of regulations for survival and development. The Japanese government and other entities of an advanced democratic nation do not need to make more red-tape. It is because global competition is an all-out war. The exchange rate of each country in the world is changing every day, and the growth rate of each country is also fluctuating largely every year. The strengthening movement in the world towards the local market is also an important element in making investment decisions. As far as manufacturing industry is concerned, it is necessary today to perform R&Ds near consumers in many business categories. Moreover, for those companies that must fight for cost competitiveness, China and Southeast Asia in many cases would be suitable as production places.

Demand for merchandises at home in Japan is becoming saturated in many fields under the aging society, and global competition keeps becoming more intense. Cosmetics is an excellent example of it, but even for automobile industry Japan is said to be strong in, the view that domestic demand will decrease from now on is strong and offshore production is expected to overtake domestic production in several years. There are also companies such as Mabuchi Motor or Minebea, which by going out to foreign countries have been able to survive and develop. Of course, going abroad is not the only corporate strategy available. Manufacturing companies such as Toyota, Honda, Nissan, Suzuki, Canon, Matsushita, Sharp, Sony, Epson, Rohm, OMRON and Kikkoman have high overseas production ratios. At the same time, they are obtaining large amount of funds by exporting high technical products and parts, or exporting of technologies. Furthermore, there are some companies that have big shares in the world with products that are all produced in Japan, while there are some that can maintain and strengthen their competitive powers by separating domestic and overseas production by direct investments, strategic alliances, outsourcing (OEM and ODM), and other measures. Moreover, there are also companies that have become successful by shifting their core competencies from "Monozukuri" to other fields, such as distribution and services. Companies including Nintendo, a manufacturer of game machines, which is making a big leap forward in both hardware and IT software (contents), can be put into this category as well.

GE has had strong competitive powers in the international market in advanced medical machines, airplane engines, and large-sized dynamos. But today, its greatest source of profits is "GE Capital, " its finance section. Welch, former CEO who was called superb executive officer is said to have carried out such "Shikumizukuri." But GE also has the early history. Foundation of strategic business units, withdrawal from computer enterprises and other efforts had been implemented by the time Welch came along. However, still, GE once again faced a big problem and came to require Welch to carry out reform. In Japan, for example, Kao is very strong at home, but it is exposed at home and abroad to the offensives of the US based multinational companies such as P&G with huge capital power and network in every corner of the earth. Strengthening the capital power and increasing the share in the global market are absolute musts for Kao. Dell, the world's largest PC supplier, has realized made-to-direct orders from customers without stores. To maintain this model, Dell decided at the end of '04 to build a new factory of their own which will be their third factory in the US while owning efficient cell production factories in countries including China. This move should be understood as "Shikumizukuri" which aims at maintaining their bargaining power against their outsourcing factories or total risk management rather than as resulting merely from its short distance to American consumers. In any event, believing that there is only one measure in the age of originality and ingenuity is not good. Otherwise, there is a risk of falling into the technical narcissism Japanese manufacturing companies tended to have in the '80s.

It was natural that the architecture theory came out from the problem consciousness of what the systematized techniques suited to Japan are. And much can be learned from the knowledge accumulated during the process of this discussion. However, for example, if gasoline automobiles shift to battery cars in the future, there may be cases in which predominance of Japanese automobile companies may be lost suddenly as was seen in the semiconductor production field some years ago. Moreover, even if a company makes a dynamo or a micro turbine with the highest technology in the world and dominates the domestic market, there is doubt about whether it can recoup its investments in case the products are seen as "over-specification" for the markets of the rapidly expanding newly emerging countries. The Japanese model in the past of "If at the very least, variable costs can be covered, receive orders at a loss, feed employees, set equipments in motion, and wait for the trade to be better based on a long-term perspective." no longer functions. It is because in the present, whether a company can succeed in surviving or fails depends on its comprehensive strength. Thus, the issue is the total strategy that takes into consideration the risk elements. The state and corporate-strategy theories based on an architecture theory naturally have limits. What is important is 'Shikumizukuri' (for total optimization) that

enables a company to raise profits in the global market where the business environment continuously changes. Technical strategies are parts of it. This applies to countries, local governments, public entities, as well as to companies.

3. Importance of educational policy as a national strategy

Speaking in long-term, the competitive society where the whole world will bet their survival on structural reform will continue. However, the Japanese economy plagued by steeply declining birthrate and a rapidly growing proportion of elderly people is handicapped in the international world. Not only companies, but also central and local municipal governments, universities, and individuals are subject to severe scrutiny with regards to what kind of visions they will have and what they will do towards the future. In such a time, not only companies, but many Japanese seem to have forgotten Darwinism spirit or true entrepreneurship that ask the question, "How should one look at the overall picture, make flexible choices amid the changes, and survive?" They are influenced by conventional Japanese education, training, and grade system that have excessively segmentalized specialized knowledge and emphasized skills led by conventional educational policies and scientific policies. How we will breakthrough such situation of being up against the wall with systemic fatigue of the political economic society in Japan comes back in the end to a task of political reform requiring a long time. However, the fact that that is truly the engine for the structural reform should not be forgotten. The role of the government and the way of decentralization of power also need to reflect such a viewpoint. Although this point was not discussed in this paper, the idea of P2M also has the potential to be.

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