

insight *Japan*

ISSN0966-8071 • JUNE 1994
Vol.3 No.1 • £2.50

The quarterly magazine
of today's Japan



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SOPHIA UNIVERSITY
上智社会福祉専門学校



**Education: time
for change?**

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**Politics: the path
through the maze**

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All about Sake

Change comes gradually

GERARD LYONS

Leaner and fitter. This is how companies are supposed to emerge from recession. The opportunity to cut waste and lower costs can allow a company to benefit from a productivity-led recovery. Whilst many companies can survive in better shape, others fail or carry the enduring scars of recession. It is now three years since Japan entered its worst post-war recession and the casualty list has been high. Japanese companies have had to restructure aggressively and are still having to do so: bankruptcies have soared, unemployment has risen, output has fallen and investment has declined. Problems have been felt across the economy and not just in manufacturing.

Japanese companies have clearly had to adjust, as firms anywhere else in the world would have to. But the key issue is whether there has been more than just a cyclical downturn. Are we now witnessing a profound, structural change in corporate behaviour in Japan? Are Japanese companies shedding their old ways and becoming more like their competitors in the west? Many in Japan think that conditions should change and are changing.

This may seem strange when one considers that Japan's post-war economic success has been far more impressive than that of any country in the west. But for many people in Japan the trade-off for economic success has been too high. In the good times, when companies were successful, workers did not share in the spoils of success and so the necessary corporate restructuring from recession allows the opportunity to resolve many deep-rooted issues.

There remain many differences between Japanese companies and those elsewhere. Some are explained by cultural factors, others are a consequence of Japan's post-war development. Changes are occurring and some of the differences are disappearing, yet change is still slow and it is likely to be a while before Japanese companies behave like their competitors in the west.

The skill for the Japanese corporate sector is to try and maintain the practices that have contributed to their success whilst responding to calls for change and adopting more flexible management and labour techniques.

MACRO ECONOMIC EFFECTS

Early in the recession there was evidence of changing behaviour by Japanese industry. Surveys of corporate attitudes indicated that companies were shifting away

from a desire to maintain market-share to the need to generate profits. As the recession has progressed the measures undertaken by companies and the need to change have become greater.

Deregulation and the strong yen have been the main external driving forces, but such changes really need to be reinforced by a change in business attitudes, which may take some time to occur.

The changing economic environment has forced companies to cut costs and boost earnings. Whilst companies in other countries face similar problems, the solution in Japan is posing a serious threat to Japan's *keiretsu* system, which has been a core element in Japan's industrial success.

Keiretsu refers to the close-knit integration among domestic companies. There are various types of *keiretsu*, but mutual share holding and close business cooperation characterise the groups. The US has been keen to reduce the power of the *keiretsu*, as they are seen as preventing foreign companies from entering the Japanese market. But they also help Japanese companies operate in a more stable environment.

The *endaka* or strong yen policy that emerged in the wake of the Plaza and Louvre accords in the mid-1980s triggered large Japanese direct investment overseas. And the switching of production overseas has again become a key theme in the wake of the recession and the yen's renewed strength, which has undermined Japanese competitiveness. Japanese companies have revised global strategies and have sought to move production overseas to low cost centres in Asia and elsewhere – "hollowing out" as the shift is known.

The strong yen and the buoyant Asian market has led to alliances between leading Japanese companies and firms overseas. All this could reduce the ties at home. Additionally, and once again as a result of US pressure, Japan's Fair Trade Commission has become more assertive, urging more openness in the awarding of public sector projects and tackling cartels in order to ensure a more efficient and transparent market place. Deregulation of Japanese markets should ensure that this occurs.

In response to international criticism of Japan's large trade surplus, the Government has outlined plans to deregulate by removing so called "invisible barriers" – mainly regulations which make it difficult for foreign firms to access Japanese markets. Deregulation is already affecting behaviour in the financial, industrial

and retail sectors and suggests that foreign firms and goods should penetrate increasingly into Japan.

Already, the opening-up of Japanese markets is exposing companies to increased foreign competition. An example can be seen in the retail sector, where department stores are facing competition from cut-price discount stores. Entrepreneurs have cut out the middle-man and imported foreign goods direct, selling them at discount prices in the new shops. If this is an example of what could happen elsewhere in Japan then there could be big changes ahead.

INTERNAL PRESSURES

Change is also occurring for other reasons. In addition to the impact of deregulation and the need for Japanese companies to become more competitive, peoples' attitudes are changing. There is an increasing desire for all things foreign. This is seen most clearly in the recent renewed surge in holidays overseas, but is also evident in the taste for foreign goods.

Within firms there has been a desire for change in management techniques and working practices. Criticisms have tended to focus on the way the system has always worked to the company's advantage, often at the expense of the workers. It has been claimed, most notably by Sony's former Chairman Akio Morita, that Japanese workers have not benefited from their company's growth as much as employees in the west have in terms of shorter working hours and higher wages. In 1988, prior to the recession, the Government announced a five-year plan to reduce the working week and improve the quality of life. This was in response to growing disquiet, particularly about the longer hours worked by the Japanese compared to workers in other countries. Hardly surprisingly the recession has diverted

attention so there is still some way to go to achieve this change in working practices.

Indeed, despite much press comment, there has been no evidence of a shift in the policy of lifetime employment and promotion based on seniority, which remain characteristic of Japanese companies. Although there has been pressure for change and a move to western-style performance related pay, Japan's inflexible personnel management means it has not happened yet.

The role of the financial sector has been supportive of Japan's longer-term approach. Companies in Japan, unlike those in the US and Britain, do not face aggressive shareholders demanding changes in boards and in policy. Furthermore, banks have a key stabilising influence. Consequently the dividends paid by Japanese companies are still sharply lower than those of American or European firms. This would appear to offer Japanese companies more scope to pursue gradual change, free from aggressive shareholder pressure.

In recent decades Japanese companies have benefited from company loyalty and the Japanese belief in consensus, which is reflected in an absence of adversarial industrial relations. Fortunately these aspects have remained, despite the desire for change.

Overall, Japanese industry is changing but the pace of adjustment is still slow. Whilst Japanese companies are becoming more focused on the need to generate profits, like their competitors in the west, there is still much to suggest that Japanese industry remains very different. So even those companies that have survived the recession in good shape will face further change in the years ahead.

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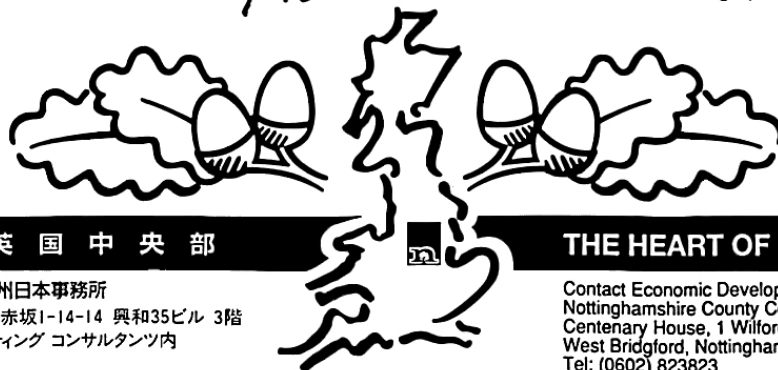
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