

## Japan's Progress in Power: From Industrial to Economic

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Japan has progressed considerably beyond the management lessons it learned during the Occupation years. It has established a firm industrial base. It leads the world in export trade. It has earned customer confidence by focusing attention upon the fundamentals of quality and product reliability. It controls costs by increasing productivity. Its payoff has been larger shares of the markets in which it chooses to operate. As a result, financial returns have been rewarding. So much so, in fact, that it has been able to plow back excess profits into numerous foreign investments, including government obligations, bank holdings, manufacturing enterprises, real estate and business ventures of all kinds.

Some of those investments have an ironic twist. One, for example, is New York City's Rockefeller Center. That monument to America's most enterprising entrepreneur is now the property of a Japanese owner. Another example concerns the gathering of American World War II veterans that is planned for December 7 in Hawaii. At the conclusion of that observance of the 50<sup>th</sup> anniversary of the Japanese attack upon Pearl Harbor, those survivors will attend a final banquet at the Sheraton Waikiki Hotel.

The hotel is owned by a Japanese company based in Tokyo.

As the event organizers were searching for a site for that banquet, they could hardly avoid selecting one that had ties to Japan. Almost every hotel in Honolulu large enough to handle the meeting is owned by Japanese interests.<sup>1</sup>

Japan's success in the marketplace has enabled it to spread its economic influence across the Pacific to the United States, to Great Britain, to the European Continent, and elsewhere around the world. How is that possible? After all, Japan is not even as large as the State of California. It has half the population of the United States. It is largely devoid of the natural resources essential to sustain its industry. It has a hard time feeding its own people; only about 16% of the land is arable.

Historically, it is a feudal society still in transition from its ancient past to the exigencies of the modern world. Scaled-up industrialization began only about ninety years ago, compared with the two hundred and forty years of progress in western nations since the start of the Industrial Revolution. It was defeated and devastated in a war forty-five years ago. Now it challenges the world as a power to be reckoned with.

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1 "Pearl Harbor Rite, A Knife in an Old Wound," Robert Reinhold, *The New York Times*, 1991.

At a meeting of the New York Japan Society, Makoto Kuroda, a former vice-minister of the Ministry of International Trade and Industry (MITI), posed the question of whether there will be a cooperative partnership or a destructive rivalry between the United States and Japan. Among other things, he charged that Americans were too confrontational. Because of this, there was a growing feeling in his country of anti-Americanism. He concluded his remarks with the statement, “America must recognize that it has a high stake in keeping good relations with Japan.”<sup>2</sup>

Obviously these are not the words of someone suffering from an inferiority complex. Nor was there any bashfulness on the part of some government officials when they pointed out recently that Japan is now a volume producer of the high technology components the U.S. Army needs for its systems. The defense of America, they said, depends upon a steady supply from Japan. Shintaro Ishihara proclaims a similar theme in his recent book, *The Japan That Can Say No*.<sup>3</sup> He states that the nations of the world must recognize the new Japan as an industrial and economic force that must be treated with utmost seriousness and respect.

The transformation of Japan from what it was prior to the Meiji Restoration to what it is now has many American and European businessmen rushing to Tokyo. They are searching for an answer to “The Miracle of the Metamorphosis.” They are looking for a package they can grab onto that contains the secret of “The Japanese Style of Management.” Perhaps, they think, they can bring that package home, install it in their own companies and reap the same results. But, of course there is no such package. There is no miracle. Even if there were, there is no basis for believing that a style that fits Japan would work successfully in another country’s environment.

What Japan is today is an amalgam of its historic national goal, its unique cultural traditions, the commitment of its people to perceived social priorities, the policy leadership of its government, and the adoption by its commerce and industry of up-to-date technologies and methodologies, many of which originated in western nations.

There is, however, another ingredient that has been added to the mix. As a matter of national policy, the decision was made during the post-war reconstruction period that Japan would be a producer nation — not a consumer nation. It would seek competitive advantages in new markets of opportunity. Price would be a factor, but so too would be product quality. Market penetration would be directed toward countries, such as the United States, in which there were strong consumer demands. Those demands would be supplied from highly efficient mass-production facilities. This was the essence of Japan’s strategy formulation that has since served it so well.

The fundamental and most important function of management is strategic planning. That means, those entrusted with the direction of an enterprise, as a priority matter, must set a comprehensive course of action for the long term specifically aimed at achieving a stated goal of fundamental importance. It also means that plans, once made, must be continuously reviewed and checked for progress, feasibility, possible revision and improvement. Planning is an on-going management responsibility.

The planning process begins with goal setting. In Japan’s case, as it emerged into the twentieth century, its goal was to be the dominant military, political and economic force in its geographic sphere of influence. At that time, the rallying cry was *fukoku kyohei*, “rich country, strong

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2 Transcript, New York Japan Society, May 12, 1989.

3 *The Japan That Can Say No*, Shintaro Ishihara, Simon and Schuster, 1991.

military.” The survival of the nation required that its enemies, real and potential, had to be brought under its control.<sup>4</sup> This was the obsession of all patriotic Japanese. Japan was well on its way toward accomplishing its mission when it was stopped by the Allies in 1945.

Japan has since redefined its goal. Its purpose now is to secure economic prosperity for the nation through market dominance based upon state-of-the-art industry. The principal planner for this strategy is the Ministry of International Trade and Industry (MITI). Its task is to look ten or twenty years ahead to discern which technologies, markets, products and processes are most likely to be of major economic importance. It converts its visions of the future into specific long-term research and development programs and projects. In concert with other agencies of the government and industry associations, it provides companies with incentives and guidance in carrying out these programs.

One of the first markets targeted for control, based on the successful production of radio receivers during the Occupation years, was home entertainment electronics. However, there was a problem. Japan lagged behind the rest of the world in current technology. MITI orchestrated a program to acquire the information it needed from the United States and Europe and then distributed it to various companies in Japan that had the potential to put it to good use. At the same time it set up trade restrictions to protect these companies from foreign competition<sup>5</sup> until they had developed a strong market position for themselves.

MITI has applied the same forward-looking planning and implementation techniques to other areas of potential interest. Among these are: super high-performance and artificial intelligence-based computers, new energy sources, very large-scale integration semiconductor fabrication, high productivity computer software, electric automobiles, and super-hypersonic transport systems. Funding projected for just these market innovations amounts to approximately 350 billion yen to cover incentive expenditures up to the year 2000.

MITI implements its strategic plans by promoting and funding a broad variety of projects directly and also indirectly through conditional loans, guaranteed payments, tax incentives, long-term financing, research contracts, trade association participation, capital investments and interest-free joint venture loans. It works closely with the Ministry of Finance, the Japan Development Bank, the Japan Key Technology Center and other funding sources to channel money to companies selected to carry out assigned projects. The intent is to reduce financial risks usually associated with technology innovation. Thus, company managements are able to concentrate attention and effort on producing the desired technical results. At the same time, by supporting more than one company in the same project at the same time, MITI expects competition will produce the most useful outcome.

In addition to its planning, resource allocation and research and development coordination activities, MITI has another critical role to play. It sets national industrial and trade policy as a function of its Industrial Science and Technology Council, the Industrial Structure Council, the Industrial Policy Bureau, the International Trade Policy Bureau and the Agency of Industrial Science and Technology (with its 16 research laboratories).

Although MITI is only one of twenty-five government ministries, and not the largest in terms of staff or budget, it is undoubtedly the most influential in formulating and implementing national

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4 *The Enigma of Japanese Power*, Karel van Wolferen, Vintage Books, 1990.

5 “Formula for Competitiveness,” Alfred Rosenblatt, Tekla S. Perry, *IEEE Spectrum*, June 1991.

industrial policy. In 1990 its staff totaled twelve thousand people. Its budget amount to 301.8 trillion yen (approximately \$2.2 trillion, or 1.31 trillion Pounds).

One of the tools, supported by government policy, used to gain for Japan its position of market dominance is the *keiretsu*, the post-World War II successor of the *zaibatsu*. The *zaibatsu*, typically, were vertically integrated monopolies of various industry segments that were tightly controlled by holding companies. Principal among these were the Mitsubishi, Mitsui, Sumitomo and Yasuda families. They, and others as well, provided the industrial and economic support the military required for its program of conquest and expansion. At the end of the war, they were outlawed and dissolved by Occupation directive.

The *keiretsu* subsequently came into existence. Instead of being vertically organized, they are broad horizontal conglomerates of primary and subsidiary companies clustered, in each case, around a major commercial bank. The banks serve the government by channeling funds to their affiliates to support targeted growth industries. They also monitor the performance of their associated companies and provide assistance as may be needed.

Being a member of a *keiretsu* has some definite and major advantages. First, because of the diversity of their composition, including en-item manufacturers, intermediate parts suppliers, materials vendors, trading companies, distributors, marketing specialists, and others, all within the same group, individual companies deal with each other as branches of the same family. Their operations take on the characteristics of exclusive cooperative ventures. Financial problems tend to be quickly resolved by their covering banking institutions. If needed, managerial, technological and marketing assistance can be provided to an ailing company by others within the same group. This support and interdependence serves to protect member companies from competitive threats. The environment thus makes it possible for managers to devote their time and efforts to maximizing market share in the areas they choose to operate. Immediate return on investment and near-term profitability are not of major concern. These are not the primary criteria by which managerial success is measured. The banks are pleased to see favorable cash flows. Their interest is focused on long-term results.

Fundamental to Japan's success in the marketplace is its manufacturers' commitment to quality at every level of operations. Quality is treated not merely as an advertising slogan. It is a matter of national pride. It is a measure of a company's worthiness. It is the subject of intense study, discussion and attention within companies, trade and management associations and at the government level. It is recognized not as an immutable phenomenon, but rather as a condition that is responsive to continuous improvement. It applies not only to the factory floor and production, but to all areas of endeavor, including accounting offices, sales activities, vendor relationships, customer services and, particularly, management functions.

The payoff is customer satisfaction and loyalty. Superior quality is regarded as a competitive advantage. It helps to expand market share. This has been dramatically demonstrated by the success of Japanese automobiles in the United States market at the expense of General Motors, Ford and Chrysler. Customer surveys consistently show that Honda, Toyota and Nissan cars have fewer service problems and greater reliability. A majority of American car owners say that the next cars they expect to buy will again be Japanese.

Attention to Total Quality Management pays off substantially within the company in terms of increased productivity and improved cost control. With production processes specifically

designed for a given output within an acceptable range of variability, wastage of time, materials and effort is cut to minimum. Studies show conclusively that manufacturers with the best quality performance have the highest productivity per worker. The people who make the product derive a sense of “ownership” in the process. They feel their efforts really do make a difference. That feeling is reflected in the higher level of morale and the greater attention to detail they bring to the job.

Studies also show that any extra cost involved in making higher quality products in the first place is more than offset by the savings in after-sales warranty and service charges attributable to manufacturing defects that should not have happened. Plus, not having to make such repairs means greater customer satisfaction.

Teamwork contributes importantly to Japan’s economic success. It is a characteristic rooted in tradition. There is a saying that “teamwork (*wa* — the Japanese word for ‘harmony’) is the greatest treasure.” The individual gains status, security, and peace by working within the clan, the group. The team’s achievement is each individual’s achievement. The success of the “Quality Circles,” the devotion to company loyalties, the concentration of the “salarymen” upon their careers all reflect this attitude.

The principal function of a manager in a Japanese company is to create and maintain productive teamwork (harmony) relationships among his associates. Frequently this involves consensus-building within the group. The effect is to increase the individuals’ personal sense of importance to the group. It encourages greater participation in the group’s efforts and stimulates cooperation. In contrast with this, all too often in many western companies, relationships between managers and their employees, and between company management and labor union, are adversarial and non-cooperative.

Japan’s emphasis on excellence is further proof, if any is needed, that it has a long-range view of its place in the world. Its substantial investment in education is vital to its plan for the future. At the turn of the century, it was recognized that the country had far to go to catch up with western nations in terms of their levels of production expertise, technical knowledge and scientific information. The “short-cut” it took at that time was to reach out and build upon or adopt the technologies it acquired from foreign sources. The program now being pursued is aimed at establishing a comprehensive education system that will produce the world’s best — and best equipped — students, scientists and engineers, and also the world’s most technically proficient workforce.

The number of engineers graduated each year already exceeds that of any other country. Not all of these people are going to laboratories. In large numbers they are taking on factory jobs in anticipation of qualifying eventually for managerial positions. In contrast with most western countries where senior company executives come from the ranks of accountants and lawyers, the preponderance of Japanese managers are engineering school graduates. This is in line with efforts to continue to expand the nation’s industrial technical base.

The number of science graduates going on to engage in fundamental research is equally impressive. The aim is to avoid having to follow the lead laid down by others in American and European laboratories. Japan must now chart its own course in the basic sciences. Accordingly, it has set up programs to investigate the synthesis of advanced materials, the creation of superconductors, the development of new energy sources through the control of nuclear fusion,

and other high-energy physics explorations. From these studies, it expects to develop the foundations for new technologies, products and processes that will find their places in future markets. And, to prove its merit, Japan expects to earn at least one Nobel Prize within the next few years.

It is this kind of strategic planning, goal setting and follow-through that has brought Japan its present market success. From that base it has become a world-class economic power. By means of purchases and investments, it has established itself in the United States as a major producer of automobiles, television receivers, and a host of other products. In the same manner it has expanded its interests to Great Britain, France, Germany and elsewhere in Europe. These are just a few examples:

The United Kingdom's principal computer manufacturer, ICL PLC, is now 80% owned by Japan's Fujitsu, Ltd. Recently, that company undertook a joint venture in Russia with the Kazan Manufacturing Enterprise of Computer Systems. Its aim is to expand its sales of midrange systems in Eastern Europe. It is reaching out also to buy Finland's Nokia Data computer company. If these deals are successfully concluded, Fujitsu will be a least fifth in size in Europe's \$102 billion computer market.

Mitsubishi has an arrangement in process with Daimler-Benz that will give it a foothold in Germany. Nippon Denki (NEC) is actively engaged in talks with Groupe Bull SA in Paris that may lead to its gaining a controlling interest in that company. There are other ventures in the making on the Continent as well involving automobiles, telecommunications, office equipment, semiconductors, home electronics, and many other products.

With the opening of the European Community's borders in 1992, additional business and investment opportunities will become available. The competition for market position and business survival will be intense. The most likely contestants will be Japanese, American and national interests, or any combination of them. There is the possibility that economic rivalry will slide into political rivalry. However the situation develops, success is most likely to go to those companies that have best learned and applied the lessons of progressive management.

[Addendum]

In coming to an understanding of the Japanese mind and civilization, there is no practical way to overlook the military rule and martial culture that have dominated Japan for many centuries.<sup>6</sup> The development of the country's economic, political, social and educational structures reflects this ingrained influence. For example, the organizational titles used in companies even at the present time to identify managerial positions, such as *bucho* and *kacho*, are taken directly from the army. Military discipline is evident in the teachings of what it means to be Japanese:

- Japan has existed as a nation for centuries free of outside influences. Its national character is internally inspired and pure.
- Japan is a single homogeneous race of people who have one language and a unified way of thinking. It has one culture and one heritage.
- Each person has a given role in society and an obligation to fulfill that role.

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6 *The Japanese Art of War*, Thomas Cleary, Shambhala, 1991.

- Japan has a perfect system of government that has evolved from its honored past. From this has come the benefits of work specialization, urbanization, and a society free of class distinction.
- Harmony is the greatest treasure of Japanese life.
- Equality is the most distinguishing feature of Japanese society. (Individuals in western societies regard personal freedom as being of more importance.)
- Japan's work ethic demands diligence. ("To work is good; to play is bad.")
- One must strive to overtake and overcome the competitor.
- The clan, the work group, the company, the family, the nation identify the individual. Clan loyalty gives the person status and security.<sup>7</sup>

Over time, the people have been inculcated with these "beliefs." In large measure they characterize the Japanese psyche. They are the cultural "glue" that binds the populace into a cohesive and manageable nation.

This is not to suggest that the average Japanese is a mindless automaton. The success of the Quality Circles, for example, gives evidence that workers are responsive to motivational leadership. A case in point is described by an engineer who had been a student of mine on the subject of quality control. He wrote:

I gradually thought out a quality control system that would be particularly appropriate for Japanese people. I tested it out in an electric appliance assembly plant.

I began by abandoning the specialized conveyor belt system. The workers would then complete the entire work process by themselves. They would in this way enjoy the experience of creation. Then, I gave the workers a thorough explanation of the type of results desired by the company. I told them that they were free to choose whatever system they wished to do the work as long as they produced the level of quality the factory demanded.

I trusted the workers to choose their own methods. As a result they were able to develop a sense of independence within their group that fully lived up to my trust. Leaving everything to them meant that they had to take full responsibility for the final product. For this reason, they chose the system of carrying out final inspections on the products they themselves had assembled.

I was convinced that this would get rid of the feeling that they were being forced to work. They would then feel more eager to work. They would look forward with pleasure to the next job that had to be done. I put this system into practice in a number of different companies and it brought about favorable results.

In this manner many factories re-examined the totally American way of doing things that had been introduced immediately after the war, as well as the good elements of the older Japanese way of doing things. We thus succeeded in putting into effect a unique Japanese style of quality control.<sup>8</sup>

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7 "Key Factors Behind the Successful Modernization of Japan," Kuwabara Takeo, in *Japan As I See It*, NHK, 1985.

8 "Why the Japanese Work So Hard," Nishibori Eizaburo, in *Japan As I See It*, NHK, 1985.

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