



*Tentative Translation*

**Creating a New Style of Japanese Management  
(Executive Summary)**

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**<Table of contents>**

Introduction .....	2
I. Japan's Strengths and Weaknesses.....	4
1. Fundamental ethnic characteristics and characteristics that are beginning to lose their luster	
2. Japan's Strengths Engrained in Corporate Management	
3. Perceptions of Executives as Revealed by Questionnaire Responses	
II. Changes in the Business Environment and Issues Confronting Japanese Companies.....	6
1. Changes in the Business Environment	
2. Common Issues Confronting Japanese Companies	
III. A New Style of Japanese Management.....	10
1. The Realization of Successful Japanese Corporations for the Early 21st Century	
2. Initiatives to Strengthen International Competitiveness	
3. Gaining the Confidence of the International Community and Contributing to the Resolution of Global Issues	
4. The Way Forward for Japanese Companies	
IV. Proposals to the Government .....	24

## **Introduction**

Although the Japanese economy seems to have broken free of the long period of stagnation that followed the burst of the so-called “bubble economy” and to have returned to a path of stable growth, Japan’s relative economic standing internationally is gradually declining and its presence in the world is weakening.

At the same time, the globalization of the world economy is advancing rapidly, with new developments quickly spreading across the globe, and competition for resources is growing ever fiercer among both the developed countries and larger developing countries such as China and India, which are relatively poor in natural resources and currently experiencing rapid growth. In addition, competition for human resources, which play a crucial role in determining the quality and results of every sort of human endeavor, is arising on a global scale.

This proposal brings together views on the style or form Japanese corporate management should take now and in the future, considering the current economic environment both domestically and internationally. This is achieved by first considering the questions, “What are the sources of strength for the many Japanese companies—particularly in the manufacturing industry—that have retained a competitive advantage relative to their American and European counterparts?” and “Can these be maintained?”, and thereby determining the key management characteristics that will continue to be the source of competitive advantage for Japanese companies into the future. It clearly states which should be retained and which reformed, reviews our present standing at the beginning of the 21<sup>st</sup> century, and sets forth a “new style of Japanese management” for the future.

The core corporate characteristics that Japanese companies will require in the 21st century are (1) leadership capable of bringing about sustained economic growth in East Asia; (2) distinct positioning, achieved through steady and incremental innovation, a bold and straightforward approach, and creative ingenuity so as to ensure that companies can make the most of their existing strengths and maintain their competitive advantage, rather than becoming indistinguishable between America and Europe on the one hand and the emerging nations on the other; and (3) leadership in technology that contributes in the environmental field.

The cornerstones of the “new style of Japanese management” for realizing the above are (1) initiatives to strengthen international competitiveness and (2) gaining the confidence of the international community and contributing to the resolution of global issues. The key points related to the first are (1) continuing to strengthen Japanese management in the areas of 1) management from a long-term perspective, 2) building a relationship of trust between executives and employees, and 3) strengthening group orientation and teamwork that encourages creativity; (2) reforming management attitudes in the areas of 1) establishing a global vision, 2) fostering a global mindset in executives, 3) promoting diversity, and 4) recognizing the need for critical thinking as a business practice; (3) increasing the competitiveness of products and services through 1) maintaining and strengthening the capacity for on-site process innovation, 2) outstanding skill at exchanging ideas to obtain an integrated whole/on-site networking/passion for quality, 3) thoroughgoing pursuit of productivity and efficiency, and 4) leveraging of technology to assist with the aging and decreasing population; and (4) establishing an environment that promotes competitiveness by 1) breaking away from the “convoy system” of extensive collaboration between government and the private sector, 2) responding to competition for resources, and 3) promoting the establishment and growth of new enterprises, such as start-up businesses.

As for the second, the important points are (1) raising confidence in management through 1) high ethical standards among executives, 2) management that is more responsive to the expectations of shareholders, and 3) transparency in governance; (2) contributing to the resolution of global issues through 1) research and development on cutting-edge environmentally friendly technologies, products, and services, 2) improving the environmental performance of developing countries through support for and transfer of environmental technologies (through CDM, ODA, etc.), 3) initiatives to reduce emissions of carbon dioxide, 4) the elimination of poverty (through ODA, etc.), and 5) research and development work on medicines for neglected diseases; and (3) promotion of value-creative CSR, which actively endeavors to resolve issues affecting society.

This proposal was compiled with a frame of reference extending about ten years ahead and is intended for currently serving executives and upper level managers who aspire to such positions in the future.

## **I. Japan's Strengths and Weaknesses**

### **1. Fundamental ethnic characteristics and characteristics that are beginning to lose their luster**

The national and ethnic characteristics of the Japanese people were formed over the long history of their country during which there were no large-scale influxes of other ethnic groups. The main ethnic characteristics of the Japanese people that relate directly to corporate activity may be thought of as follows.

Among the fundamental characteristics that constitute the strengths and advantages of the Japanese people are group orientation/teamwork, harmonious coexistence with nature, flexibility/passivity, industriousness, consistency/persistency, the craftsman's spirit, and consideration for others. Characteristics that are changing or beginning to lose their luster include high ethical standards/sense of morality, loyalty/forbearance, a sense of being contented with one's lot, politeness/honesty, public safety, and modesty/self-restraint.

Historical "weaknesses" of the Japanese include their lack of an international perspective (weakness in diplomacy), a tendency to base decisions on emotional factors, a conformist mentality/"hammering down the nail that sticks out," insufficient self-reliance/independence, and a tendency when faced with challenges to simply hope that things will turn out alright in the end.

### **2. Japan's Strengths Engrained in Corporate Management**

If we arrange the effects of these strengths and weaknesses on corporate management based on a comparison with America and Europe, the listing of "strengths of Japanese companies" would include the high ethical standards/sense of morality of executives, management from a long-term perspective, thoroughgoing pursuit of productivity and efficiency in all aspects of business, highly precise implementation based on consensus management, ability to create environmentally friendly technologies and products, outstanding skill at exchanging ideas to obtain an integrated whole, strong collaboration with suppliers and affiliated companies, and process innovation.

In contrast, the "strengths of American and European companies" include quick

and bold decision-making, mobility and diversity of personnel, a management focus on capital efficiency, communication with stakeholders, clarity of vision, investment in personnel recruitment and training, a flexible social structure, transparency in governance, and a concept of strict adherence to contracts.

### **3. Perceptions of Executives as Revealed by Questionnaire Responses**

In a questionnaire survey given to Keizai Doyukai members, the responses to a question about characteristics “seen as strengths” included industrial prowess with a strong technological grounding, an emphasis on quality and safety, a high level of responsibility among employees in the workplace, a strong sense of loyalty to the company among employees, employees with a uniformly high level of education, an emphasis on longterm growth, a sense of balance that prevents one way of thinking from gaining undue influence, the high expectations (discriminating taste) of Japanese consumers, and an emphasis on teamwork. Characteristics cited as “weaknesses” included a management system centered around Japanese nationals, a belief in self-reliance, a reliance on relationships based on trust rather than on contracts, an emphasis on consensus in decision-making, and dependency on the Japanese language for communication (lack of competence in foreign languages).

The postwar period of sustained high growth, during which the so-called “three sacred pillars” of Japanese management — the seniority system, lifetime employment, and the system of “company unions” — functioned so effectively, was a time when particular circumstances prevailed and is now past. Nevertheless, many of the questionnaire responses expressed a desire to maintain the good points of that period, with certain conditions attached. In order to achieve continuing economic growth, Japan must retain its national strengths and advantages as much as possible while quickly reforming itself in areas that do not increase its competitiveness, thereby allowing it to swiftly respond to changes in market needs and the current business environment.

## **II. Changes in the Business Environment and Issues Confronting Japanese Companies**

### **1. Changes in the Business Environment**

#### **(1) Globalization of the Market Economy**

Recent events have shown that the impact of financial markets on the real economy cannot be avoided, and that the effects of a crisis in one country or region now immediately impact on other parts of the world. As the economies of the world become ever more interdependent, it is incumbent upon us to prepare for the outbreak of a similar crisis again in the future. However, caution is called for because enacting excessively strict laws and regulations could have the effect of stifling incipient economic activity before it can fully develop.

#### **(2) Technological Innovation**

Just as those creatures that adapt best to changes in their environment survive, “innovation” involving self-reformation is essential for a company to survive and prosper. In the future the speed of change will continue to increase, so we must be aware that innovation to survive will become more and more necessary as well.

#### **(3) The Rise of Emerging Nations**

As the growth rate in emerging nations such as the BRIC countries (Brazil, Russia, India and China) continues to accelerate, the era in which the United States, Europe, and Japan together accounted for some 80 percent of world GDP is quickly coming to an end. The downward trend in the share of world GDP accounted for by current developed countries and regions is likely to continue into the future.

#### **(4) The Population Problem**

In Japan, where the population is aging rapidly and starting to decrease, risk factors such as a shrinking domestic market and labor shortages are growing at an accelerating pace. Breaking free of systems and modes of thinking that assume ongoing population growth has become an urgent matter. On the other

hand, the total world population is expected to continue to grow in the years ahead, and issues such as assuring adequate supplies of food and energy, environmental damage, and poverty will surely grow in importance. The developed countries must take the initiative and work to study and implement appropriate measures with the utmost urgency.

#### (5) Global Environmental Issues

Unmistakable signs of global warming, such as the melting of the polar ice caps, are becoming more and more evident. Humankind must rapidly devise concrete measure to avoid a worst case scenario in which the entire earth suffers a devastating blow to its ecosystems. Advanced countries need to make further efforts to conserve energy and also put in place a more cooperative and comprehensive framework for providing technical assistance and aid to developing countries with the aim of achieving environmental preservation through meaningful cooperation between advanced and developing nations and greater harmony on a global scale.

#### (6) Intensifying Competition for Resources

Prices of fossil fuels such as petroleum, natural gas, and coal continue to rise, and competition is likely to become still fiercer for food and mineral resources, such as iron ore and rare metals. At the same time, it is becoming more difficult to recruit high quality human resources. Japan needs to invest in further developing human resources in areas such as advanced manufacturing technology and research and development, while also working actively to attract and foster talented and capable people from overseas.

## **2. Common Issues Confronting Japanese Companies**

### (1) Dealing with the Aging and Decreasing Population

Corporate executives must carefully consider what they can accomplish themselves and move rapidly to put their ideas into action, rather than simply waiting for leadership from the government or the regulatory authorities, who have not produced meaningful results in developing a more favorable environment. Achieving high productivity in a society with a falling population will necessitate making the most of diverse human resources with diverse styles of



working.

First, to provide a more work-friendly environment for working mothers in response to the falling birthrate, we must learn from examples in various developed countries and implement policies consistent with Japan's social structure and culture. There is also a need for a reevaluation of how men approach work and revise current notions of gender roles for men and women.

Priority must be given to women as a key component of the labor force, and the public and private sectors should work together to resolve factors that prevent women from actively pursuing careers. There needs to be an active effort by society as a whole to efficiently employ the elderly, who possess an invaluable commitment to industriousness and hard work. The efficient employment of foreign nationals also requires consideration with priority given to knowledge workers and persons with high-level technical skills, such as engineers. Companies, after identifying the issues entailed in accepting foreign employees, must endeavor to implement changes in attitudes and provide appropriate working conditions.

## (2) Dealing with the Liberalization and Vitalization of Capital Markets

A basic legal framework has been put into place, but an important remaining issue is the Japanese mentality of executives and stockholders. Excessive talk of the threat posed by foreign capital and resistance to liberalization have produced the impression that the Japanese market is closed, resulting in a reluctance among foreign investors to invest directly in Japan. Corporate executives active in the capital markets should always base their judgments on a dispassionate assessment of what is in the best interests of their shareholders. They should constantly be thinking of solutions to the fundamental problems facing publically listed companies and take steps to deal with funds engaged in greenmailing, whether they are backed by foreign or domestic investors.

## (3) Promoting Innovation

Sustained growth in a time of constant change is only possible by maintaining and strengthening competitiveness through continuing innovation. The Japanese tendency to flexibly assimilate new concepts from other cultures can

be seen as a strength in the process of innovation, but other Japanese characteristics, such as an overreliance on conformity and a lack of diversity, global awareness and communication skills, can be seen as impeding innovation. Corporate executives need to be actively involved in efforts to foster a corporate culture conducive to innovation, and must work to create mechanisms to promote reform.

#### (4) Dealing with Intensifying Competition for Resources

Since Japan has few resources other than its people, measures to secure supplies of energy resources, mineral resources, food, etc., must be undertaken as part of a national strategy, rather than relying on the efforts of individual companies.

Japan will be left behind in the global competition for human resources if efforts are not made to attract people with diverse backgrounds and diverse ways of thinking when recruiting personnel, and they are not provided an environment in which they can maximize their potential. There is also a shortage of personnel training programs, both in-house and outside the workplace. Regardless of corporate performance, companies must undertake continuous and sustained investment in personnel training.

### **III. A New Style of Japanese Management**

#### **1. The Realization of Successful Japanese Corporations for the Early 21st Century**

##### **(1) Leadership in East Asia**

To ensure its continued prosperity, Japan must achieve ongoing economic growth that at the least does not fall behind that of the advanced nations of North America and Europe.

The United States and the EU are realizing population growth and market expansion through the acceptance of outstanding personnel and large numbers of good quality workers from all over the world, in the former case, and the addition of new member countries, in the latter. The strategic path to sustained growth that Japan should prioritize involves working to establish an economic community in East Asia by especially cooperating with ASEAN nations while continuing to take a leadership role in partnership with China and India. There are political issues to be addressed, but these tasks must be addressed as a national agenda and carried out by the government, bureaucracy, and business working together as a team. In particular, the promotion of an Economic Partnership Agreement (EPA) with ASEAN is an extremely urgent issue for Japan. If Japan is able to establish a successful model for a society capable of maintaining continued vitality and prosperity despite an aging and diminishing population, it will serve as an important example for other countries in East Asia.

Japanese enterprises have invested heavily in the East Asian region over a long period, particularly in the manufacturing industry. We believe that Japan should work to promote further economic development and strengthen its contribution to the region by building new collaborative links in the R&D field in the years ahead, while maintaining existing cooperative relationships.

##### **(2) Distinct Positioning between America/Europe and Emerging Nations**

Japanese enterprises must embrace global standards that are essential to doing business in a multinational setting, however diversity needs to be respected and it should be understood that the American way is not necessarily correct by default. The EU is competing with the United States for supremacy in

the setting of global standards in every field, and Japan needs to consider carefully whether unquestioning support for American policies really is the best approach.

In addition, Japan has difficulty competing against the United States in the aerospace industry and the professional services field (consulting, investment banking, financial services, legal services, etc.), and against developing countries in the mass production of comparatively simple products using cheap labor. Japan should therefore position itself firmly in the manufacturing field, where the keys to success are steady, incremental, and solid innovation, creative ingenuity, and a bold and straightforward approach. This is a field where the Japanese excel and where other nations are not necessarily advantaged. It is therefore a field where Japan can seek to differentiate itself and to maintain its strength through hard work. Nevertheless, we must remain conscious of the need to maintain our position of competitive advantage through constant innovation in order to combat the risks of copying and leaks of expertise.

### (3) Leadership in the Environmental Field

In the environmental field, Japanese technology is said to be of the highest standard in the world. In the future, competition for natural resources and dealing with global warming will become even more serious issues than they are now, and the excellent environmental technologies created in Japan—where harmony with nature is deep rooted—will become a key source of competitiveness for Japanese companies. In addition, Japan has the potential to contribute to both the economic development and environmental preservation in developing countries through the support and transfer of such technology. Furthermore, Japan can make a contribution to solving environmental problems on a global scale.

Achieving this will require a concerted effort, including the setting of high targets based on a global and long-term perspective, the creation of innovative technologies, and the development of alternative sources of energy. At the same time, it is expected that Japan will act as a bridge, helping to promote cooperation and dialogue between advanced and developing countries.

## **2. Initiatives to Strengthen International Competitiveness**

### **(1) Areas of Japanese Management to Be Strengthened in the Future**

#### **1) Management From a Long-Term Perspective**

Rather than the top-down model typical in American and European companies, most Japanese companies tend toward an approach in which detailed medium- and long-term plans are worked out carefully over time, all affected parties are involved during the process and a heightened sense of participation is generated, and the implementation stage is characterized by a high level of precision.

Structural and system reforms within a corporation are necessary to reflect changes in circumstances and the business environment, but drastic reforms that seek to negate aspects grounded in ethnic characteristics are liable to produce more negative than positive results. To enable outstanding personnel to contribute to the company over the long term and thereby to provide value, employees should be encouraged to realize their full potential, with the result being heightened loyalty to the organization.

#### **2) Building a Relationship of Trust between Executives and Employees**

Many executives still see trade unions as good partners in management. Unions cannot be overlooked as a key factor, if for no other reason than that the quality of the workforce affects the competitiveness of the company. Creating a true win-win situation by building relationships based on cooperation and trust with unions, which possess networks that differ from those of corporate executives, can be expected to lead to more effective utilization of personnel.

#### **3) Group Orientation and Teamwork**

Group orientation and teamwork—which have been said to be a key strength of Japanese companies—will surely continue to be a driving force behind process innovation, workplace empowerment, high productivity, and the ability to achieve outstanding quality in manufacturing settings and the like. However, in workplaces and occupations that demand creativity and

individuality it is necessary to utilize this tendency in a way that does not lead to a conformist mentality that suppresses creativity.

## (2) Reforming Management Attitudes

### 1) Establishing a Global Vision

In contemporary corporate management it is important to create mechanisms that make it possible to attract outstanding international personnel, to empower each employee to realize their full potential, and to maintain optimum performance. To accomplish this it is necessary to have a clear corporate vision or philosophy and for executives to take the lead in putting it into practice and spreading awareness. The vision or philosophy must encapsulate the ideas and range of activities that have developed naturally over the course of the company's history and be something that the employees can understand and put into practice.

### 2) Fostering a Global Mindset in Executives

It is impossible for companies to escape the effects of globalization, not only those that have embarked on the internationalization of their operations but also those focusing on the Japanese domestic market as well. For candidates with the future potential for executive positions, it is necessary to provide practical leadership and management experience through stints of at least several years in both North America and Europe. It is also important to work to switch the operations of the Japanese headquarters to English over time and in a planned manner. If this cannot be achieved, corporations will not be possible to attract outstanding foreign employees to the Japanese headquarters where they can be groomed as future executives.

### 3) Promoting Diversity

The Japanese are good at assimilating beneficial aspects of other cultures, but they are sometimes not as adept at interacting and negotiating with persons of other ethnicities. Despite this, for Japan as a nation and for its enterprises to develop further, it is a necessity that we be able to deal skillfully with diversification as foreign cultures and people flow into the country. Embracing diversity is important in encouraging innovation. English,

the language of international business, is an essential communication tool in becoming a more diverse society or organization. Reform of the English language education system must be undertaken immediately at the national level so that lack of ability in English does not become a greater handicap in the future.

#### 4) Need for Critical Thinking as a Business Practice

The Japanese tendency is to naively believe that things will turn out alright in the end whenever faced with challenges, however this is a weakness that needs to be replaced with critical thinking—which is already normal business practice in Western corporate society but not generally implemented in Japanese companies. To achieve this, it is necessary to assume that most of the phenomena that occur in business are nothing more than the result of a hypothetical probability and based on that work out emergency measures beforehand. This needs to become the norm for conducting day-to-day operations.

### (3) Increasing Competitiveness of Products and Services

#### 1) On-site Process Innovation

The productivity of Japan's non-manufacturing industries could be improved markedly by carrying over to non-manufacturing fields the capacity for on-site process innovation that has been refined to a high level in the manufacturing industry. Never-flagging process innovation in the workplace has made possible a standard of high-quality, highly efficient, and low-cost manufacturing unmatched in other countries, and the historical and cultural strengths of the Japanese people have contributed to this achievement. Another salient characteristic of Japanese manufacturing is the shared consciousness of large companies and their subcontractors that enables them to collaborate in implementing process innovation.

#### 2) Outstanding Skill at Exchanging Ideas to Obtain an Integrated Whole/On-Site Networking/Passion for Quality

“On-site empowerment”—one of the sources of competitive advantage for Japanese companies—is possible because of a combination of Japanese

characteristics and strengths such as teamwork, creative ingenuity in the workplace and skill at exchanging ideas to obtain an integrated whole, together with Japanese employment practices grounded in the lifetime employment system. In order to increase competitiveness into the future, the networking of workplace technology must be expanded through measures such as enhanced collaboration with universities and research institutes.

In addition, Japanese companies must maintain their passion for quality. Innovation in areas that provide technological breakthroughs and enhanced processing management efficiency is vitally important if Japanese companies are to continue to lead their counterparts in other countries.

### 3) Thoroughgoing Pursuit of Productivity and Efficiency

Many Japanese companies apply to operations other than manufacturing the methods of increasing productivity and efficiency which they first carefully refined and thoroughly implemented on the production floor. American and European enterprises are not necessarily all that good at doing the same, and this is an area where Japanese companies may continue to have an advantage in the future. We must not cut corners and must continue to refine their operations.

### 4) Leveraging Technology to Assist with the Aging and Decreasing Population

Japan is a leader in robotics. R&D work on humanoid robots with a variety of features has produced impressive advances. If Japan can lead other countries in the successful practical application of robots as substitutes for human workers in simple tasks and in fields such as support for the elderly and nursing care, it will surely make a difference in the nation's ability to deal with the aging and decreasing population and provide enormous business opportunities.

## (4) Establishing an Environment that Promotes Competitiveness

### 1) Breaking Away from the "Convoy System" of Extensive Collaboration between



Government and the Private Sector The “convoy system” involving close collaboration between government and the private sector functioned well during Japan’s postwar period of high growth, but it now serves as an impediment to strengthening international competitiveness. The focus in the years ahead should be on increasing the international competitiveness of individual companies by promoting deregulation and R&D. For their part, companies should resolutely eliminate unfair competitive practices and work to manage their operations independently. The elimination of unfair trade and competition practices will encourage corporate restructuring and increased efficiency, leading eventually to a higher level of international competitiveness for the companies involved and the Japanese economy as a whole.

## 2) Responding to Competition for Resources

To survive future competition for resources, Japan needs to maintain and bolster its economic strength and retain its ability to make purchases even when faced with considerable price hikes. As additional reinforcement, Japan should continue to carry out omnidirectional (economic) diplomacy while always keeping the focus on Asia and implement in a planned manner policies to increase competitiveness in the agricultural sector, expand the amount of arable land overseas, strengthen nuclear power generation capacity and secure stocks of uranium, and develop fuel cells for automotive use. To secure an adequate supply of another key resource—talented human resources—consideration needs to be given to a thorough reform of the domestic education system and the extension of universities overseas (especially in Asia).

## 3) Promoting the Establishment and Growth of New Enterprises, such as Start-Up

Businesses In Japan there are few new enterprises such as start-up businesses. The social infrastructure and support in the areas of capital and management guidance to support the establishment of new companies is insufficient, and the business community needs to make efforts to foster a culture that encourages start-ups. It is also necessary to reform attitudes, such as the risk averseness typical of the Japanese character and the

strong tendency toward conformity. Finally, there is a need for a “corporate angel tax system” targeted at venture capital firms interested in investing in start-up businesses.

### **3. Gaining the Confidence of the International Community and Contributing to the Resolution of Global Issues**

#### **(1) Raising Confidence in Management**

##### **1) High Ethical Standards among Executives**

To begin with, current executives must strive to strictly comply with ethical standards, and then carefully investigate to determine if their own companies have any compliance issues. When non-compliance is discovered, it is important that thorough measures to prevent reoccurrence be introduced, public disclosure be made, and the individuals responsible be punished severely. In addition, the training and selection of the next generation of executives must include careful scrutiny of their ethical and moral standards in addition to managerial ability.

##### **2) Management that Is More Responsive to the Expectations of Shareholders**

As the globalization of the stock market continues to progress, it has become a matter of course that a significant portion of many companies' shares are owned by foreigners, so logic-based accountability has become indispensable for executives. There is a need to switch from the currently typical emotional response to market logic to management based on forward planning and an emphasis on investment efficiency. It is also necessary to give sufficient consideration to individual investors in investor relations activities and to provide opportunities for communication with stakeholders other than stockholders. In addition, to avoid exclusion of sound M&A activity, there is a need for clear management policies, accountability, and management personnel who will carry on their duties appropriately following a takeover.

##### **3) Transparency in Governance**

Though one idea would be to take an American style system of

governance as a model, there is a need for executives to have the good judgment to select the form of governance that is most suitable to their own company. It is desirable to introduce an objective management selection system with clearly stated conditions, such as period of service or age restrictions, and to have rules to help enable a smooth transfer of power from currently serving executives, such as having executive remuneration based on yearly performance paid out during the term of service and a complete withdrawal upon retirement at the end of the term of service. At the same time, the responsibilities and authority of each position must be clearly established and strictly adhered to by the executives themselves. It is also important to strike a good balance between outside directors possessing knowledge and experience not available within the company and executives with a knowledge of the workplace.

## (2) Contributing to the Resolution of Global Issues

### 1) Research and Development Work on Cutting-Edge Environmentally Friendly

Technologies, Products, and Services Japan has a multitude of environmental technologies that can make a contribution to the world at large in areas such as the development of energy-efficient automobiles, homes, and electrical products; waste recycling; achieving zero emissions in factories; and agricultural techniques like organic farming and the use of domesticated fowl to eliminate agricultural pests. It should also be mentioned that “consideration for nature” and “harmony with nature” are an important part of Japanese culture. Japan needs to stop destroying the natural environment in the name of development and give priority in the disposition of the limited financial resources available to social welfare and environmentally friendly projects for promoting industry.

### 2) Improving the Environmental Performance of Developing Countries through Support and Transfer of Environmental Technology (through the CDM, ODA, etc.)

This is a field where Japan should take the initiative on the world stage. For example, through transfers to developing countries of Japan’s world-class

cutting-edge technology for energy efficiency and other technical support we can help improve the environmental situation in those countries, and by utilizing the Clean Development Mechanism we can expand our own carbon dioxide output allowance and contribute to measures against global warming.

### 3) Initiatives to Reduce Emissions of Carbon Dioxide

At the G8 Hokkaido Toyako Summit in July of this year, Japan should take the initiative and make maximum efforts to establish agreement on a framework to succeed the post-Kyoto Protocol that includes effective reduction targets in which all major countries including China and India participate.

### 4) Elimination of Poverty (through ODA, etc.)

One-third of the world's population currently lives in a state of hunger or malnourishment, while those living in the developed world are suffering from lifestyle related diseases caused by overeating. There is no future for humanity in this present unbalanced situation and it needs to be remedied as soon as possible. Aid such as provision of production machinery or educational materials cannot be effective without a solution to the problem of poverty facing developing countries. It is necessary to support widespread education alongside efforts to supply technology for agriculture, irrigation, and the like. Though it may take time, working to solve the problem of poverty from its roots may turn out to be the quickest solution.

### 5) Research and Development Work on Medicines for Neglected Diseases

Most of the so-called "neglected diseases," which persist without the development of effective treatments, occur in the tropics, but the advanced countries with the technology to develop cures have a duty to do so even if they have no need for them themselves. A sustained effort by the advanced countries would serve to deepen relations of mutual trust with the developing world.

### (3) Corporate Social Responsibility (CSR)

The role demanded of companies in society has grown remarkably. Companies are expected to engage in “value-creative CSR” with the twin goals of building trust through strict legal compliance and creating value by anticipating the latent needs of society. The strengthening of regulations that has accompanied a loss of trust in companies following a string of corporate scandals has sapped the vitality of both companies and the economy. This has spurred makeshift attempts to deal with the situation and efforts to search for ways out, leading to a further tightening of regulations and resulting in a vicious cycle. The ethnic characteristics of the Japanese people have the potential to become strengths in efforts to implement the value-creative CSR. Corporate executives need to reacquaint themselves with the basic characteristics of CSR and exercise leadership in putting them into practice.

Keizai Doyukai has formulated the following six guiding principles for realizing valuecreative CSR.

- 1) Leadership and commitment from top executives
- 2) Accept and respond to the expectations and demands of society, as well as to social issues.
- 3) Foster personnel to have a social consciousness.
- 4) Establish CSR management systems based on the PDCA (Plan-Do-Check-Act) Cycle.
- 5) Promote collaborations that empower more than an individual company.
- 6) Harness the benefits of multilateral dialogue with stakeholders.

### **4. The Way Forward for Japanese Companies**

The essence of the new style of Japanese management can be summarized in the following five points.

- (1) While continuing to utilize aspects of historical merit and the strengths that Japanese companies have cultivated thus far, recognize anew the

importance of continued refinements and avoiding complacency.

- (2) Rather than expending excess energy on overcoming and correcting weaknesses, implement policies that incorporate good points from Europe and America while minimizing negative influences.
- (3) Companies that have already ventured into international operations should positively engage issues of globalization in areas such as recruiting and fostering personnel. Companies with no international operations as yet should implement medium- and long-term plans based on the assumption that the global tidal wave will soon arrive.
- (4) Endeavor to create mechanisms for translating R&D capabilities into competitive advantage, thereby ensuring continued global competitiveness through continuous innovation.
- (5) Do not delay in the recruitment and training of personnel and the cultivation of the next generation of executives. Build a system in which top executives themselves are involved in the deliberate and planned nurturing of outstanding personnel. Ensure that personnel acquire the capabilities and experience necessary for executives through a well-balanced combination of training inside and outside the workplace.

When implementing the above each company should determine its own “business model for success” that leverages the organization’s own unique strengths and resources. It should never be forgotten that only through “continuous innovation”—which involves ongoing self-renewal and sustained efforts—is sustainable growth possible.

Below is a comparative examination of various paths forward for Japanese companies of different types and configurations, organized into categories.

#### (1) Category I Enterprises (Manufacturers with International Operations)

Companies in this category should aim for further expansion into the future and continue to search for new ways to allow them to survive and prosper in the midst of fierce international competition. They should continue to seek continued growth through ongoing refinement of their own business model in

response to changes in the business environment. The big issue for them is recruiting and nurturing personnel with global competence.

(2) Category II Enterprises (Manufacturers with No International Operations)

It will be extremely difficult for individual companies in this category to achieve continued growth within the Japanese domestic economy, with its relatively low economic growth rate. They must carefully determine whether or not to expand into international operations.

*⟨If they determine that moving into international operations is not desirable/possible⟩*

Companies in this group should either work to maintain technology and products that will allow them to continue to compete in a niche market or endeavor to achieve economies of scale.

*⟨Companies aiming to move into international operations⟩*

Companies in this group should make sure they possess exclusive technologies or products that can compete internationally as well as the infrastructure necessary to maintain their competitive advantage. Then their management must choose among the options of a merger, acquisition of another company, or being acquired by another company in order to reach the critical mass necessary for expansion overseas.

(3) Category III Enterprises (Professional Services, Finance, and Trading Companies with International Operations)

It is not an easy matter for companies in this category to come out ahead in competition with rivals in the countries in which they operate. They should either follow the lead of the overseas subsidiaries of leading Japanese companies, most of which are in the manufacturing industry, or obtain needed expertise and expansion of their offshore operations through options such as M&A or formation of a joint venture.

(4) Category IV Enterprises (Professional Services Companies with No International Operations)

The situation is the same as that facing companies in category II. Companies in this group should make full use of their pioneering position in Japan and their strengths in meeting the needs of their customers to increase their competitiveness in the domestic market. They should also study possibilities for expanding overseas in the future.

(5) Category V Enterprises (Non-Manufacturing Companies with International Operations)

As with category III, companies in this group are a minority. They should keep in step with the development of overseas subsidiaries by Japanese manufacturers and search for opportunities to expand their business operations.

(6) Category VI Enterprises (Non-Manufacturing Companies with No International Operations)

The hurdles to globalization are high for the majority of non-manufacturing companies that operate only in the domestic market. Appropriate approaches mirror those for category II. However, these companies should also examine opportunities for business expansion in other East Asian countries, building on the refined high-quality services they offer in Japan.



#### **IV. Proposals to the Government**

The issues that need tackling at the national level with relation to the present proposal are manifold. They include the formulation of a national vision; promotion of administrative and financial reforms; reform of the public service system; deregulation; the establishment of regional governments through consolidation of the present regional administrative structure of prefectures, cities, towns, and villages into larger administrative units; educational reform; promotion of Economic Partnership Agreements; measures to deal with the aging and decreasing population; promotion of innovation; and rectification of social inequality. Keizai Doyukai has formed committees to study many of these issues. We will not touch on the details of them individually here, instead we offer the following remarks on decision-making related to policy issues.

Many current policy issues are beyond the scope of a single ministry or agency because they overlap the purviews of several. However, since there is virtually no organ within the government for arbitrating between the conflicting interests of government ministries and agencies, decision-making that transcends the borders between them and considers the greater good for the nation as a whole is impossible. As a result the same problems are repeated year after year with no progress, and reform proceeds sluggishly at best.

To remedy this situation and as previously advocated by Keizai Doyukai, one of the following two courses should be pursued: either strengthen the functions of the Cabinet by reorganizing the present Cabinet Secretariat as a National Strategy Headquarters that makes important strategic decisions related to domestic policy and foreign affairs, makes budgetary allocations, and directs ministries and agencies to implement policies, or establish “Cabinet Committees” for specific issues as necessary, an approach that has proved effective in Britain. A system of British-style Cabinet Committees is certainly worth considering.