

Kiyotaka Fujii, President of Better Place Japan & former president & CEO of Louis Vuitton's Japanese Subsidiary

# Keys to New Business Growth in Japan

Interviewer: Helen FUJIMOTO

**Could you tell us about your involvement in the electric car industry?**

**Fujii:** I chose this industry because I believe the automobile industry is at a crucial point of change. The electric vehicle seems to me to be the ultimate environmentally friendly form of transportation and I opted for this area because of its effect on the environment. The automobile industry has a very wide impact across the economy, including makers, suppliers, dealers and consumers - it's probably the most strategic industry for any nation. It's interesting to compare countries like Japan, the US and Germany which have a really developed auto industry, with countries where that industry is still budding, like China. Electrification is really changing the paradigm, nullifying the strengths of the front-runners and allowing the late-comers to catch up or even overtake very quickly.

Do you remember what happened to IBM? In the late '80s, IBM was dominant in main-frame computers, and they didn't believe that the personal computer market would come to anything. In the meantime Microsoft, Apple and Intel created the personal computer industry and IBM was cut out. I don't want that to happen to Japan in the auto industry. Japan has a lot of cutting-edge stuff in many areas, but Japanese are not so good at weaving things together as a system. I would like to be able to help with that.

We think that infrastructure, not just the parts of the car, is the key. For electric vehicles, this means the charging infrastructure. The battery is the key component that will set the direction and speed of the evolution of the electric car industry.

The environment is a central issue - it's hard to argue against that. Today you are behind the times unless you are doing something about it. The cause to clean up the environment attracts a lot of people and many of the top students are interested. If you look at business school students, a lot of them are looking to work



*Kiyotaka Fujii*

in the environmental and high-tech industries. The new trend is not to pursue material success only but to blend a high cause with business success. You still need to make it a profitable business otherwise it cannot be sustained. Now there is a good opportunity to blend the high cause of the environment with making money in a new area.

**You have built your career very creatively in many different areas. Can you tell us a little about your ideas on innovation?**

**Fujii:** My career has always focused on bringing in something that Japan will need for the future but does not yet have. When I chose consulting, there was no such thing here. When I was an investment banker, there was no such thing in Japan.

It's been the same with software and a lot of the other things that I have done. My career has been based around bringing new things into Japan. Now what I really want to do is to put the Japanese strengths together and take them out to the rest of the world.

**Do you think it is possible to educate for innovation?**

**Fujii:** When I graduated from university, I joined McKinsey. Back then nobody knew about McKinsey and people thought it was a strange choice - as though I didn't have any better options. In the '80s the top students didn't join foreign companies. The year after I joined, I was put in charge of recruiting, and that year five students from the same department joined the company. The year after, there were 10 and then 15, and now, McKinsey is one of the most coveted employers for top university students.

At that time, I was really looking for people who wanted a global platform - people who didn't want to be confined to Japan. I looked for the will to see the world. They might want to come back to

Japan eventually, but they wouldn't want to be restricted to Japan.

The other thing I looked for was a professional attitude. I believe that joining a company is less important than starting a profession. I remembered my own experience, when I once seriously considered joining Mitsubishi Corporation. I came to understand that in joining a big-name company like that I wouldn't have any choice about what I'd be doing. I could be selling anything from nuclear reactors to noodles – I wouldn't know what I would be doing. Why would I join a company not knowing what I'd be doing in the first

year?! People join these companies without knowing what they will be assigned to. That is really letting go of the lever of your career.

The first choice of job is going to be a big part of your life, particularly in Japan, where you are likely to be working for a company for 30 years. But I could never join something where I would have no choice about what I would be doing. When I talked to the students about that, I could tell that they hadn't thought about it at all. I would tell them what a big decision it was for me to choose a company like McKinsey, and go through my decision-making process with them, and explain it to them. I believe a role model is very important – you have to be an embodiment of what you are talking about. If you want to do anything innovative, you have to show that you are walking your talk. If you are with a good Japanese company it can be very difficult to dare to do anything new – you have too much to lose.

**Do you think the Silicon Valley business model of cultural diversity and individual independence, the horizontal rather than hierarchical business model, will become dominant in Asia?**

The concept of the horizontal alliance is to get the best part of each section of the chain in a place where that piece of the chain fits best. Putting them together is the role of an integrator. Do we



*Switchable-battery electric taxi project in Tokyo*

make cars? No. Do we make batteries? No. We gather the people who are expert in making these things and we bring them together and provide the customer interface.

**Fujii:** The key is in business architecture. Take Apple, for example. You know that Apple is the architect of the iPod business model. They are responsible for the customer interface. They don't make anything themselves, but they are responsible for the decisions, for the software and the design, and they contract with many other companies around the world to actually make the different parts. They are responsible for what you see on the screen, and for the customer interface.

The important thing is to have someone who can set out the rules and bring people together. In manufacturing, labor is important, so let's look for a place where labor is good and cheap. If you are looking to do something capital-intensive, then look for a place to raise money. This is the concept of the horizontal alliance. If you create the platform and bring other people in, you can all make money. That is the platform integrator's role - the network-oriented business model. The role of an integrative company is putting the components together. We don't have to make things ourselves - we look for others who can do that. That is what I am doing in my business.

But generally, I think Japan will be rather slow in creating a company like that. A Japanese company is something like a silo –

everything is done within the company. Still, there are some areas that Japan is really good at and things that other countries are good at. I want to put those together in a network, and I want to help create that kind of company in Japan.

### **The Meiji Restoration in Japan was led by strong, independent individuals. How can we create such strong independent Japanese leaders for today?**

**Fujii:** There is a big difference between Meiji period leaders and today's leaders. The top people in Meiji were very international - they really understood what was happening in the world. You look outside if you need to eat, if you need to survive, and that was what happened during Meiji, even though the majority of the people themselves were still inward-looking. It was that elite group which really galvanized the country. When you leave Japanese alone they will always be complacent and inward-looking. It's the nature of geopolitics. Japan will never be invaded. I don't think it will ever happen that Japan as a whole will become outward-looking. The crisis is at the top level – the inward-looking nature of the leaders.

It's necessary to have internationally trained people in government but the election process makes everything onerous. I think what the Japanese government should do is appoint people who can make strategic changes. They should first appoint somebody who has the needed capacity, and they may be elected later, like Takenaka, for example. He was a professor, not a politician, and he was appointed by Koizumi to carry out economic reforms. It was only later that he was elected. I think this pattern is a quick remedy for having internationally trained people at the top level.

If I am running a global company like Sony or Takeda Pharmaceuticals, if I am the CEO of a global Japanese company that has its headquarters in Japan, I have no choice but to globalize my management team. That is where people who have been trained internationally will be needed.

Japanese are not used to operating in heterogeneity. Japan has a lot of implicit comfort and a lot of rules among the people who know each other very well and that works well within the company or within the system as long as it's self-sufficient. But Japanese are not used to working with a lot of different companies and countries. In Silicon Valley, you bring together experts from many different places and they start talking the same language pretty much in the first week. In Japan it would take a year!

A few months ago I was giving a speech in Korea – there were Chinese, Koreans and Japanese and our common language was English. I found that the will to communicate is so strong among Chinese and Koreans that even if their English was a bit rough around the edges, I could easily get their point. But Japanese are the only Asians who really disclaim their ability to communicate in English. They would always start a presentation by saying “I'm sorry my English is not good.” The disclaimer is part of Japanese

modesty, but it actually comes across as a disclaimer of capacity – “I'm not good so don't expect too much of me.” After the disclaimer, people go on to say really good things, but they've already lost their audience by creating the wrong kind of energy.

If you say something you believe in, people will listen to you, but they lose patience if you make a disclaimer at the very beginning. It doesn't go across well outside Japan. People are impatient - if you are not confident, they won't waste their time with you. Japanese have to stop disclaiming. It's really embarrassing, and it shows Japan's backwardness.

### **In these times, we need people with high individual capacity as leaders. Do you think it is possible to establish some kind of training program for such potential leaders?**

**Fujii:** Education is key in shaping up the next generation. US universities are very competitive – they are a magnet for talent from around the world. Japan has also had its position among places to study. There are a lot of Japan-educated leaders in Asia. If you are a capable young person, education is a really important decision and it's a huge investment. And there are so many choices - people worry about whether to send their offspring to a Japanese university or a US university or a European boarding school. It's a big decision and you have to invest a lot in order to ensure a better future. And cross-fertilization is going to be more and more important.

I agree that strong individuals are needed and it's probably a good idea to establish a leader-training program, but I'm not optimistic that this is actually the best way to train leaders. In a way you have to be your own *sensei* (teacher). I think Japanese are too *sensei*-oriented. I don't think that is the attitude you want. You have to create your own mould instead of following someone else's mould. I don't deny the importance of education, but I don't think it should be prescribed for someone. You need to be the entrepreneur of your own life. And someone who is willing to go with a pre-designed program is probably not the kind who will make a strong leader.

### **Assessment and criticism are very difficult in Japan, but without evaluation you cannot make progress. Do you think we should have a stronger culture of assessment?**

**Fujii:** It's very interesting that there are more restaurants highly rated by Michelin in Tokyo than in Paris, but the Japanese still like to be rated by the Europeans. Despite the fact that Japan has many of the best restaurants, and the most demanding customers in the world, and such good ingredients, they still want to be rated by the Europeans. We should be the ones who do the evaluation. Japan

has so many good things, but we are not very good at recognizing and weaving them together.

Japanese tend to be defensive, and sometimes the methods of criticism, more like an attack, really show up their defensiveness and insecurity. Japanese do criticize each other, just as in most other countries. What is different is that they tend to be more defensive. If I'm told that I'm not a good president, I would take it to mean that I didn't fulfill my role, not that I am a failure as a person. I don't take it personally. If you are always looking for feedback from other people, you shape your life according to what other people think of you and you will be devastated by criticism. But if you have a sense of who you are, you can handle criticism in a more balanced way. That is what Japan is missing.

Actually, I think many Asians tend to be more defensive than Westerners in a debate situation. If someone said something about China's backwardness, for example, Chinese people would react very strongly. Japanese also tend to take criticism as an attack and they are defensive about negative comments.

There should be implicit rules about criticism. Quite often, criticism is carried out like an attack. I see people on Japanese TV sometimes really profiling and attacking people. They judge and attack people based on what they have done in the past and really wipe them off, in front of everyone. That's not criticism – it's a personal attack.

Another factor is that, even in a debate, Japanese put a lot of weight on the consistency between what you say and what you have done, where Americans put more weight on your words. Japanese take into account what you are doing in your life or your company as well as what you are saying. In this way, the scrutiny of people is stronger in Japan.

### What do you think of the recent trend for Japanese companies to hire foreign students?

**Fujii:** I think it makes a lot of sense. If you go to China or any other country to start a business from scratch, it goes without saying that you have to hire local people. The real test is whether they can rise in the company and whether they can eventually be brought in to the top management team. That is the real issue. Look at Toyota, for example – they have huge revenue from North America and maybe there are American sales managers, but there is no American who sits on the board of Toyota.

Hiring Chinese and Korean students to start a business is not such a big thing, but it's important to look at what will happen in ten years' time. Can these people become part of the global management team? That is the test of being multinational. If you have a glass ceiling at the top level, the quality of incoming young people will go down. The verdict is not in yet, because companies have just started hiring. The real test will come a few years later, when we see whether or not any of those people are included at the top level.

Photo: better place



*Fujii with switchable-battery electric taxi project in Tokyo*

### How do you see Japan making a contribution to Asian growth?

**Fujii:** One of the reasons that the country's economy is beginning to grow again is the growth of economies like India and China. People in those growing economies want a better life materially. That is a driver for economies – people want a better life. I think Japan can be the Lexus of Asia, as opposed to the Volkswagen. Many Chinese come to Japan to buy high-end products like Louis Vuitton, even though the same products are also available in China. Many Chinese don't even trust products made in their own country. They want the certificate that it was made in France and bought in Japan. In convenience stores in Beijing, some Japanese products regularly sell out before similar Chinese products, even though the price may be much higher. Japan is trusted to that extent. Japanese products, especially high-end products, are trusted throughout Asia.

In several more years there will be many people – even a thin layer of wealthy people in China comes to a huge number – who will want to buy high-end Japanese goods. This country is in a unique position to provide high-end, well-made goods to a very large class of newly wealthy people in Asia. Even though there may be some cutting of corners in newly growing economies – as there was in Japan also – this is just a stage of evolution. In the early stages of growth you build what you can, and as you become more sophisticated you start demanding higher standards. Japanese do everything very thoroughly, maybe overly so. Japanese thoroughness and high quality are highly valued by Asians and there is trust in Japan. I feel very optimistic about Japan's economic future in Asia.

**JS**

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