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Mrs. Watanabe's Quiet Revolution

By Naoyuki Haraoka

Since 2007 it has been observed that the yen's exchange rate has frequently depreciated without any specific reason, contradicting the recent trend in which the yen has appreciated in afternoon trading. After having investigated what might lie behind this, the authorities realized that many individual Japanese investors, such as housewives with a small amount of money, had all been selling yen and purchasing dollars and that this had eventually affected the movement of exchange rates. Although each of them invested only a small sum of money, in total they acquired sufficient power to affect the rates. The British magazine *The Economist* called these investors "Mrs. Watanabe", since "Watanabe" is one of the most common family names in Japan, and thus this naming must have two connotations: one is that there are many housewives engaged in such an activity, and the other is that they are not experts but simply ordinary people with little knowledge of foreign exchange transactions who are using their lunch break to invest their petty cash in the foreign exchange market.

This observation tells us that the economy can be changed by ordinary people's actions. In the following, I would like to reflect upon its implications for the inertia seen today in Japanese business and economy.

Dr. Michael Cusumano, a business management expert and professor at MIT, discusses six enduring principles for managing strategy and innovation in our increasingly uncertain world in his latest book *Staying Power* (2010). These are: platforms, not products; services, not just products; capabilities, not just strategy; pull, don't push; scope, not just scale; and flexibility, not just efficiency. His ideas about broader ways of thinking about agility and competitive advantage at the ecosystem level in comparison with conventional narrow ways of thinking about focus and competitive advantage at the product level are well described in *Chart 1*.

According to his theory, what keeps companies competitive in the long run in the midst of increasingly severe competition and uncertainty is their agility in adapting quickly to external as well as internal changes. Agility would make it possible for firms to think on the basis of not only products but also platforms and services, and such agility means having the capability

to understand that management and such platforms and services must learn from each other, and also that economies of scope as well as scale, or flexibility as well as efficiency, are key concepts in surviving competition. Such agility has never existed in the conventional business world.

In applying his theory to the reality of Japanese business and economy, he said in an interview with a Japanese journal there could be some concern about the conventional thinking still dominating business in Japan, since the older generation still maintain their power in Japan, while in most countries today any rapidly growing firm is managed by the younger generation, in particular young entrepreneurs. Inertia resulting from conventional thinking could have disastrous outcomes.

Inertia would certainly make the economy and business slow to respond to changes and make it difficult to achieve any reform. A couple of years ago *The Economist* also mentioned that many things would need to be done to achieve reform in Japan but that there seems to be a reluctance in the country to pursue them when responding to changes and that its default mode is to stick with things as they are until they become intolerable.

The reason why I mentioned "Mrs. Watanabe" at the beginning of this article is that ordinary people like her could provoke a revolution to change such inertia. First of all, there are many such "Mrs. Watanabe's" in Japan who are eager to start new businesses on their own. According to the recently published METI White Paper on SMEs in Japan, the estimated number of females not in the labor force but eager to get jobs is 3,420,000. Though they may have difficulties working due to the need to take care of their children, many of them would like to be active to meet consumers' increasing need in Japan for services such as caregivers, supplementary education for children, or teaching at culture schools. (*Chart 2* shows how each Japanese household's expenditure for personal services has been increasing recently.) Their entrepreneurship in such areas could explore further the need for new services and such a need for new business would create further business opportunities for women entrepreneurs, and in this way we could create a virtuous cycle. Moreover, many such women are immune to conventional ideas and thoughts, since

CHART 1

Six enduring principles & competitive advantage

Narrow way of thinking about focus & competitive advantage at product level

Examples:
 • Ford in Model T era
 • GM in the 1920s
 • Sony in Betamax era
 • IBM before Open Source
 • Apple before mid-2000s



Broader way of thinking about agility & competitive advantage at ecosystem level

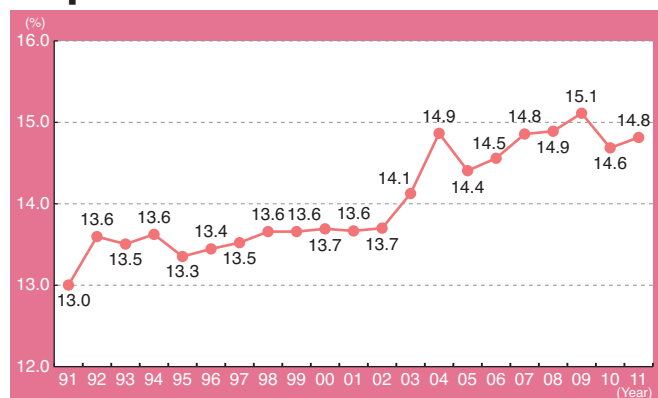
Examples:
 • Toyota
 • Microsoft
 • Intel
 • JVC in VHS era
 • Apple after mid-2000s
 • Google, Adobe
 • Cisco, Qualcomm, et al.



Source: "Staying Power – Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World," by Michael A. Cusumano, Oxford University Press

CHART 2

Change of percentage of consumption for personal services to total



Note: Personal services: caregivers, supplementary education, home services, cultural and leisure services etc.

Source: Ministry of Internal Affairs, Statistics Bureau

they have never worked for any large company in which conventional thinking still allegedly dominates in Japan, according to Cusumano.

Cusumano and other business management experts today seem to emphasize the role of entrepreneurs as a catalyst in breaking through inertia, and also that they must be young. All the entrepreneurs, female and male, must be agile in Cusumano's argument. Therefore, the rapid increase in the number of firms funded by startup funding shown in *Chart 3* means that agile entrepreneurs are steadily increasing even in Japan. *Charts 3 & 4* also show that senior male entrepreneurs are playing an active role as well in promoting venture business in Japan. This would suggest that age may not matter in displaying agility in Japan.

However, the role of Japanese female entrepreneurs is still to be considered very important not only in terms of their increasing number, as shown in *Chart 3*, but also in terms of their encouraging effects upon ordinary working people's motivation to start businesses, since many of them were successful in overcoming such difficulties as raising children and working as a housewife while engaged in starting up a business. Unless they are extremely agile and flexible, they would not be able to run a business.

Therefore, "Mrs. Watanabe" – a symbol of the Japanese housewife – could contribute to reforming Japanese business and economy by breaking this state of inertia with their emergence as entrepreneurs, instead of investing their small sums of money in the foreign exchange market.

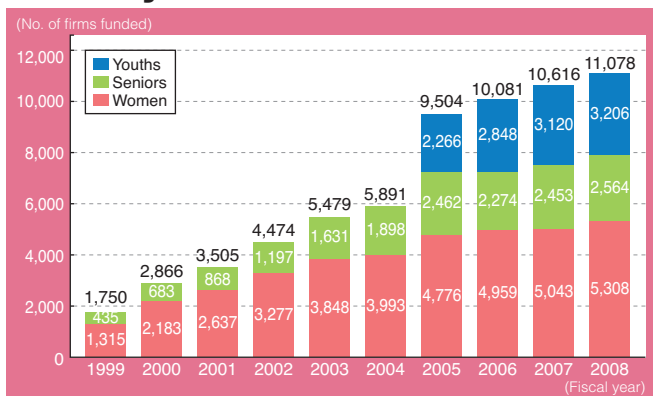
Furthermore, such a "Mrs. Watanabe" could provoke a quiet revolution in a large firm as well.

What is the most serious defect of a conventional large Japanese firm entrapped in inertia in terms of Cusumano's theory?

This must be a lack of flexibility or agility, to use his technical terms. More concretely, people working for a large firm with a long history tend to stick to the old corporate customs, the most important part of corporate culture, without thinking deeply about why they have to observe those customs. A large company has many departments and sections. Each one is given its tasks and jurisdiction and some sections' interests occasionally conflict with other sections' interests, and thus in extreme cases this internal confrontation can make it difficult to get a consensus within a company despite a common business objective. In many cases, communication between the different sections does not work well in spite of a good accommodation of IT facilities. Each section becomes independent and focused only on its own interests, and ends up ignoring the interests of the company as a whole. The spirit of teamwork is lost and the company is reduced to being a collection of small independent sections without any mutual cooperation and communication. In extreme cases, one section does not know what its neighboring section is doing and they are not interested in each other's work at all. One of the

CHART 3

Trends in startup funding for women/youths/seniors



Note: "Business Startup Funds for Women, Youths & Seniors," a financing program designed to support women and men (the latter aged either less than 30 years or 55 years or older) who are about to start a business or started one within the past five years or so. Youths (younger than 30 years) were added to the program in April 2005.

Source: Japan Finance Corp.

conventional working customs mentioned above would be to keep this divided system as it is and remain reluctant to achieve cooperation and communication between the different sections in responding flexibly to any possible external change beyond each section's jurisdiction.

Nonetheless, a hierarchical system occasionally based upon male-dominated seniority is one of the distinctive aspects of a conventional big Japanese firm, and tends to dominate such a firm's corporate culture so robustly that any flexibility in decision making beyond each employee's jurisdiction cannot be easily achieved. Such inflexibility could also significantly reduce the merits of IT as a management tool, since occasionally in such companies even e-mail communication between the different levels of management and different sections is not carried out.

But even in such conventional Japanese firms today, there are people like "Mrs. Watanabe". For example, one such lady, having worked for a publishing company for more than two decades as an accountant, still knew very little about the publishing business due to a complete separation of sections under the old corporate customs. But she has finally realized the need for flexible work-sharing and cooperation between her section, in charge of budgets and accounting, and the section engaged in publication of a magazine, because the company is now facing a serious challenge from rationalization of the budget and restructuring of the publishing business due to continuing deflation.

Such an urgent need has enabled her to change her working habits and now she is trying to study the publishing side of the business in order to learn how the new budget scheme can be consistent with a possible restructuring business plan. She is pushing her colleagues to collaborate with the publication section to realize the optimal business and budget rationalization plan.

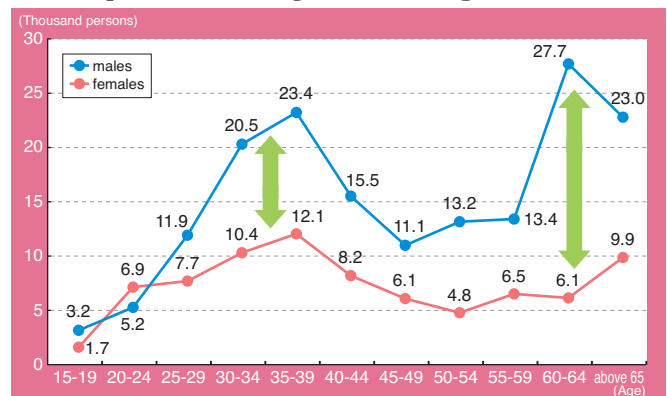
Business leadership is obviously critical to achieving reforms in response to today's needs, but I think business management experts should not overlook such ordinary people's daily efforts to change existing business customs – efforts that are not initiated by any business theory or idealistic philosophy but strongly motivated, as in the case above, by the simple pursuit of job security and concern that continuing with old working customs could result in the collapse of the company in the midst of a recession. As the yen rate was affected by such people's investments, so business inertia in Japan can also be changed by such people's actions. It is to be noted that "Mrs. Watanabe" exists everywhere and her power to achieve a quiet revolution cannot be underestimated.

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CHART 4

Entrepreneurs by sex & age



Source: Ministry of Internal Affairs, Statistics Bureau