

An Interview with Danny Risberg, CEO, Philips Japan

“Labor Market Reform” Under “Abenomics” Is Moving in the Right Direction But Needs More Effort on Business

Interviewer: Naoyuki Haraoka Writing: Chaobang Ai

Q: First, please introduce yourself and your relationship with Japan.

Risberg: I have lived in Japan now for almost 25 years, though not consecutively. I am originally from the United States — I was born in Colorado, and grew up in southern California. But I am half-Japanese: my mother is Japanese, my father is of Swedish descent, and my brothers were born in Tokyo. So I grew up with some Japanese culture because of my mother, and I came to live in Japan when I was 25 or 26. I stayed in Japan at that time for about 14 years and then I moved back and started another business in the US, in the healthcare industry with mostly American companies as my customers. Through some acquisitions and buying and selling, I ended up coming back to live in Japan for the second time, as vice-president International, as well as the CEO of our Japanese and Chinese companies — virtually Asia at that time. We did some acquisition in Japan and became a direct subsidiary, and then that company was acquired by Philips. So that is how I arrived in my current role, and I have been the CEO here in Japan for about five years now.

Currently I am the CEO for Philips Japan (Philips Electronics Japan and Philips Respironics) across all three of our current business sectors. We focus a lot on healthcare, but we also have a good lighting business, as well as a commercial business which would be more in the health and wellness area here in Japan: Sonicare toothbrushes, Philips shavers, noodle makers, and so on. So structurally Philips Japan is set up in alignment with the global Philips footprint.



Danny Risberg, CEO of Philips Japan

Q: Do you think Japan is a big market for the healthcare business in the context of the aging society?

Risberg: There are two or three points to make here. The first is that when we think of Japan, although we talk about deflation or low growth, the volume and size of the Japanese market make Japan significant not only for Philips but for all global companies. If we look at the full size of the market today, the largest market for most companies is still the US; the second-largest is now China; but the third-largest in the world is Japan. So it is a *very* important market.

Second, now that we see the Japan market changing due to the aging society, it is very difficult, but it is also creating many business and social opportunities. As the population gets older, the older generations will have different needs,

which means that companies, if they understand that, can develop new business models and new products. So there is a lot of change, and therefore challenge, but also a lot of opportunity.

And third, where Philips is concerned, our largest business in Japan is healthcare. Globally we are also very focused in moving and driving our healthcare initiatives in line with the local needs in Japan and globally. So from that standpoint, Japan truly becomes a very important market and a huge opportunity. Philips has a lot of global healthcare experience, and also has its local knowledge and experience of Japan, where it has been for some 61 years now. As we mix those together, we think we will be able to offer and participate in the Japanese market in a substantial way with a positive impact. So we believe we need to continue to invest, to grow our business, and focus on the Japanese market.

Q: Healthcare is also considered very important in the Abenomics growth strategy, particularly with regards to the third arrow.

Risberg: It is significant. In Abenomics you had the first and second arrow, and those obviously did very well: we saw the Japanese stock market grow, the market shifting out of deflation, and some good growth for Japan. And now it is really the third arrow that needs to happen for Abenomics to get to that next phase. Whether that means structural reform, or some deregulation, there are many parts of the third arrow, and they are really what I think will be the sustainable part of Abenomics. The first two parts work, but, as much as the Bank of Japan is making a great effort, and as much as devaluation of the yen has helped that, it is not a sustainable way to grow the economy. We also saw some temporary wage rises, especially for the large companies, but medium-sized and small companies, which are the largest part of the economy, are still struggling.

But I think Abenomics itself is very important, and within Abenomics it is clear that healthcare is one of the pillars. We know that the Diet has changed some of the laws, and now we are waiting for the end of this month when the Ministry of Health, Labour and Welfare will actually announce some of the deregulation and changes, and Philips will play a very active part in that. We participate in all the industry meetings, and the Medical Equipment Committee — of which I am the chairman — has been very active in working with the Japanese government, the ministry, the Pharmaceuticals and Medical Devices Agency (PMDA), and the Japanese and American medical industries, to participate in recommendations. And we see great movement; it could be better, but we have seen a lot of reform over the last two years, and we see a lot of positives to it.

We think the next level in the medical industry will involve more of the structural reform, as well as harmonization — that is, acceptance of more global standards and clear basic guidance. Harmonization will help not only companies like Philips in Japan, but in the long term it will help Japanese companies too, because they will not work to two sets of rules: what they do in Japan will be acceptable everywhere in the world, giving them a significant opportunity.

Labor Market Reform & Depopulation in an Aging Society

Q: The aging society also has a depopulation aspect, and some companies are worried about the labor shortage. What is your impression on this?

Risberg: I think it is a major problem, and if you look at the demographics it will get worse. The Abenomics approach of bringing



back women into the workforce clearly will help. Diversification and women in management are clear goals of Philips globally, and here in Japan, for example, half of our board of directors are women, and about 40% of my management staff. So I think that is a good step. But to bring more women into the workforce would require a lot of structural support for the women, such as programs to improve daycare. Prime Minister Shinzo Abe has earmarked more money to help build more daycare centers, but if we look at the cost of the daycare centers, then look at the money that has been allocated, and then look at the population and ask how many daycare centers are really needed, then we can clearly see it is not enough. So maybe there could be some deregulation in daycare too.

The other side we hear about is immigration reform. In relation to immigration reform, what does Japan really need that adds value? There is a value component, and there is also the question of what Japan needs just in terms of sheer volume of workforce. I am not sure that I have heard good clear answers to that yet, but I know there are many studying it, and that immigration needs to be addressed. One of the professors I have met in Keio University is one of the world leaders on aging and demographics, and her projections show that for Japan to even maintain the population, it would need about 350,000 immigrants a year until 2050 — which I do not think is realistic. It does not mean that there are not people that want to come, but Japan does not have the infrastructure for that many of them: schools, English language, and so on. There is a lot of reform, but that is one component that must be addressed.

The third thing is that Japan has a lot of highly-educated elderly people, and those numbers will grow. They are experienced, educated, speak Japanese, know Japanese society, and want to

participate. So that is something that maybe labor law reform can help with. I know there are situations in Philips where people retire, and they want to work, but what happens is that because of the laws, once they are receiving some form of social or retirement benefits, if they work too many hours or get paid too much then they cannot receive them. We find a lot of women in this situation, who want to work but would lose their tax benefit if they work more. So that structural reform is going to be important to support the elderly and again women to participate and work.

And last, regarding elderly people in Japan, it is not only about working; they need to be able to enjoy a good life. So a lot of the structural reform that has to happen should consider: how can we make living in Japan more fun and healthier for them? We see gateball courts and they play in the parks — that is all wonderful for the people that are retired. But what about if elderly people want to come and work at Philips, but have to ride in the rush hour train? It may not be realistic for them. So we have to think about their livelihoods, and how to make it easier for them to participate.

Somebody needs to start developing that strategy, and at the same time another group needs to start to implement it. We cannot keep planning any more. We need to start doing things, and then if we learn they could be better, then change as we learn. I think that is important because Japanese society likes to plan and then to implement, but if it is not right, it often gets implemented and then continues on based on what was decided for many years. So it is really about becoming much more open to change and discussion, and if it is not working, then let us fix it rather than say “Well, that’s the rule.” The rules are meant to be there for a reason, but if they are the wrong rules, we need to talk about and fix them. That is I think part of the structural reform and Abe’s third arrow that, if we can get

traction, will make us much better off and really help Abenomics. Too much planning, not enough action.

Special Economic Zones & FDI

Q: As an example of action, the government is now planning to set up special economic zones, in particular here in Tokyo, to attract more non-Japanese companies. What do you think about this?

Risberg: I am happy they are doing it, because they are doing something and it is positive. But personally I am skeptical and not so sure, because we have yet to see economic zones in the world make a difference. When they announced the special economic zones in Japan, everyone was very excited — including Philips — but then it was not clear what you could actually do in them. So if we are going to do it, we need to be very clear what you can or cannot do. Now recently they announced the tax benefits you can get, but all the rules and requirements to qualify make it almost impossible for foreign companies to get these benefits. A company such as Philips, or one of the large global companies that have been here a long time, could probably do it. We have the infrastructure, we know how to do it, we have enough people. But for the medium-sized, small and new companies, they have not been here long enough, and do not have the expertise, so they cannot benefit. So these zones may not bring the FDI that is hoped for. I am happy they are doing it, but again I am just not sure of the results.

Supplementary Corporate Efforts

Q: On the business side, in order to take full advantage of women or non-Japanese in the workforce, do you think some crucial reform in corporate governance is needed, as well perhaps as reforms to labor laws and management systems?

Risberg: Women in the labor force is a huge topic. There is a group working on this in Japan called Flourish, in which I am actually a volunteer mentor, and we talk about this a lot. I think a lot of reform has to happen, and there is so much to do. One of the things I think that is still missing is some cultural and social education on women in the workforce. What we find is that society really needs to accept women to work; right now a lot of Japan’s corporate structure — not so much the rules, but the ways people work, and the expectations — are not really good for women. The expectation to work every night till very late, for example: we need to figure out a system where they come in and work, but when they need to go home to take care



of their children or their families, then they can do so without it being held against them or people making bad comments. Maybe that means we also need to look at the ability to allow workers to work at home. If you are a significant income earner, which is the reality today for many women, and your child is sick or your elderly parents are sick, you need to be able to stay home and work, and that should not be seen as a bad thing. So I think we need to educate society on what it means to allow women to work. That is going to require a fairly significant effort, but it is something that has to happen.

Also I think we need more programs for women themselves. There are many surveys in which many women say “No, I do not want to work like that.” They are happy not to work. So how do we show them the benefits of working? How do we make it comfortable for them to work? That is part of the social stigma as well.

Q: What do you think about Abenomics’ other recommendations, such as performance-based rather than hours-based salary systems?

Risberg: For Philips, we are fairly advanced at that compared with maybe some Japanese companies. I do not think I ever ask anybody “How late are you working?” — I am very happy if they just go home. As long as they are getting their job done, as long as they are performing and taking care of their staff, that is a good thing. To have good key performance indicators, and a good incentive program that says that it doesn’t matter if you have worked in Philips for, say, 15 years; what matters is you know what your role is, and you are doing a good job within our vision, our culture and our business requirements. If they can do that, then if they need to work a little later today or they need to go home, that is fine. That kind of flexibility is something that will help.

Is this all one arrow? I do not think so. It is probably a whole bunch of arrows. Because there is not a magic pill that is going to fix this: many things need to happen, and that is why it almost becomes a chicken-and-egg argument. We need to say, what has impact? Then do it, and slowly start to get things going.

Q: Do you think the labor shortage issue can be resolved by the Abenomics labor market reform?

Risberg: By itself, no. Abenomics being successful is a huge part to it, and for Abenomics to be successful it needs labor. It is both, and that is why as everybody continues to implement Abenomics the other social and structural stuff has to happen. Both need to happen together to get the total benefit. If Abenomics by itself finishes, but the labor situation does not improve, Abenomics could be successful to five where maybe it could have gone to 20. If structural and labor



reform works but there is no Abenomics, people will be a little happier but we will not have any answer to the aging society and the direct issues in front of us relating to the workforce. So they have to go together.

Q: So to conclude, not only government policies but also companies and people must change?

Risberg: Yes. And that is why it is hard. If it was easy, it would have been done many years ago. I think we all have to be honest and say that it is a very difficult issue, which is going to require a lot of work from us together to be able to come up with the right answers. I would encourage the Japanese people to be much more participative, because everything that happens is going to have impacts for them and their children, and it is much better to participate than to wait. If we all wait, we are going to get whatever it turns out to be, and that is not always the best thing. So I would encourage everyone to try.

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