

# Management that Embodies Sophisticated Rules & Democracy as Keys to Economic Security

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## The Long Cold War: the Grand Strategy Japan Must Pursue

Many business leaders look doubtful when I tell them that the “cold war” between the United States and China will be with us for 30 years or more. But they do not realize that a long cold war works to the benefit of Japan and more broadly the world. Little do they realize that a peaceful environment is actually provided by a cold war that does not metamorphose into hot, kinetic warfare.

The risk of war rises when the balance of power deteriorates rapidly. When the balance between competing forces suffers a serious upset when not only the parties to the conflict but the surrounding states also are unprepared for the newly emerging reality, the resulting disruption while a new order is yet to emerge will be seized as an opportunity by forces that seek to change the status quo.

We must understand that the pressure points for efforts to prevent a cold war and for efforts once it occurs are completely different. People who hoped that a cold war between the US and China would not break out tend to hope for an early conclusion because they are driven by the desire to calm the waters and put a quick end to the situation. But that only invites the rapid escalation of tensions, leading to the worst of outcomes.

Therefore, Japan should adopt as its grand strategy the prolongation of the US-China cold war, using its weight as the third-largest national economy to bring an end to it in a peaceful manner. That is the grand strategy that must be shared between the Japanese government and Japanese businesses. The government should incorporate it into its economic security strategy and businesses should use it as a premise for their management strategies as a new social responsibility of theirs.

The assumption here is that the US and China, as the parties to the conflict, compete to come up with innovative policy initiatives in succession with no intention of prolonging the cold war. The Japanese government and businesses must have the strategic interpretative capacity to drive policy in a direction that helps prolong the cold war and the applicative capacity to incorporate this in their corporate behavior.

It is not easy, however, when incorporating new corporate behavior at the global frontlines of Japanese businesses, to promote new investment and reform operations with the sole purpose of responding to security needs. The institutional mindset of Japanese

businesses, who have long maintained a distance from security policy, will surely generate factions that oppose this or urge caution, making it difficult to produce a consensus among them. One effective way to break through this resistance is to apply this through trending management methods aimed at enhancing business results. Businesses should look out for factors that help prolong the cold war in the new management methods that are being spawned and use them for the twofold purpose of prolonging the cold war and improving business results. In other words, pursue dual intentions in management methods, much like the pursuit of dual use with technology.

## Rulemaking from a Strategic Interpretative Capacity Perspective

Slowing down China’s growth secured by unfair means is an example of “strategic interpretative capacity” that was started by the administration of President Donald Trump and has been maintained under the administration of his successor Joe Biden. Maintaining restrictions on US exports related to newly emerging technologies to China and beefing up the Committee on Foreign Investment in the US are aimed at preventing technology development that is not based on healthy competition and instead utilizes such means as cyberattacks and forced labor and slowing down the speed of China’s technological catchup. The conflict will not escalate into a hot war as long as the US believes that it maintains a certain level of technological superiority, so it helps to prolong the cold war when Japan aligns with the US in strengthening its own control over information on emerging technologies.

For Japan to effectively exercise its strategic interpretative capacity, it is important to understand that the form of competition in technological development in the US-China cold war is completely different from what it was in the US-USSR cold war. During the US-Soviet Union conflict, the competition took place in an unusual environment of limited scope, a war zone where walled-off military and aerospace industries worked to meet military requirements. The US-China cold war, by contrast, is a competition in which the general public and ordinary businesses are corralled as customers. The massive data accumulated from this customer base is used to develop technology, and the goods and services produced as a result are distributed broadly and deeply into society at large and weaponized. This competition requires a “process to corral (the

general public and businesses) as customers in the general market”. Since a business cannot acquire massive volumes of data unless it satisfies people’s needs and secures a position for itself in the market as a platform for indispensable access, it is essential to win the intercorporate battle for customers.

What does this mean? Unless the government has the will to proactively control the competition environment and continually remakes and reshapes the institutional framework, businesses will emerge that swiftly come to dominate the marketplace through overwhelmingly low-price competition backed by freeware distribution and government subsidies. When a specific business acquires excessive dominance over its market, the development of its technology is accelerated, creating the risk of the technology being converted to military use and upsetting the balance of power. At the same time, governments may weaponize businesses that dominate markets and put them to wrongful use, destabilizing society through clandestine efforts to influence and divide, intentional malfunctions, and the like. Rapid deterioration of national power as domestic order collapses could also push the US-China cold war towards a swift, violent conclusion. The US-China cold war requires the strategic interpretative capacity to identify as a security threat the emergence of businesses that dominate the market to the point where they have too much influence on society in general.

This means that it is useful to manage competition to decelerate the pace of market dominance by specific businesses by continually remaking the rules that govern the fight over customers in the marketplace with strategic intent to make them more complex and difficult. Continuously remaking the rules and repeatedly destroying monopolies should be interpreted as the prolongation of the cold war.

Forced labor is one issue where this policy is relevant. It creates the risk of businesses using labor unfairly to conduct low-cost production, distort healthy price competition, dominate the market at unreasonably low prices, and rapidly destroy the balance of power. Human rights due diligence over supply chains is a rule aimed at avoiding this risk. It forces businesses to transition to “more sophisticated management” that incorporates the cost of establishing and operating institutional frameworks to exercise due diligence and to diversify areas of investment. Market domination decelerates as a result.

Anti-trust law, which is under review in the US, also helps to prolong the cold war. The purpose of anti-trust law has been to stop

businesses from using their dominant position to “harm the consumer”. However, the argument that global technology companies should be dismantled turns on the “social disbenefits” of the harm inflicted on democracy as their market dominance is used to distribute fake news and conduct influence campaigns even though their products may be free of charge and convenient for their users. In an innovative twist, the scope of the disbenefits of market domination has been expanded from consumers to society as a whole.

China also appears to be aware of this risk. In 2021, the Chinese government suspended the Ant Group’s IPO and ordered its reorganization as a financial holding company, conducted anti-monopoly investigations against DiDi, Meituan, and other platform businesses, and required mandatory government examination of any Chinese corporation with personal information on more than 1,000,000 individuals before public listing overseas. What does all this mean? That as powerful as the Chinese Communist Party may be, its influence no longer reaches into the details of corporations that have come to dominate markets, so the Chinese government has begun to develop rules that eliminate the risks generated by the oligopolies before they become a threat to sovereign authority.

### **Managing Competition by Developing Rules that Delay Market Dominance**

Japanese businesses must understand that prolonging the US-China cold war is the grand strategy for Japan and that their greatest social responsibility is to link their corporate strategies to support it. In their engagement with the creation of rules to decelerate the rapid concentration of market shares or to dismantle oligopolies, businesses must have a deep understanding of the intentions underlying the security strategy, take a positive view of rules that force change, and turn them into an opportunity.

For example, the US and China have placed climate change policy as an area for cooperation; Japanese businesses should be able to lead rulemaking here to prolong the cold war. Although CO<sub>2</sub> currently dominates the public debate, declining groundwater resources have also become a serious social problem. Adding a mechanism to offset water consumed in the supply chain helps prolong the cold war in the sense that it increases the matter for which sophisticated rules must be developed.

There are many ways in which the rules regarding water can be

enhanced: increasing the ratio of recycled wastewater, mandating the recovery of water equal in amount to the water consumed by storing rainwater, and allowing the manufacture of products that require large amounts of water to be produced only in locations where there are sufficient water reserves, to name a few. Specific action by businesses to help prolong the cold war means coming up with their own proposals for rules and actively advocating them instead of leaving these initiatives in the hands of governments.

The European Union is moving forward on the circular economy path. Already, Germany has limited public procurement of information and communication technology (ICT) equipment and devices to those using 90% or more recycled plastic, while France has begun levying fines on wrapping other than recycled plastic. Japanese businesses may see the EU's "green" rules as a bothersome cost, but they should reposition this as rulemaking that prolongs the cold war and adapt proactively to those rules and spread them worldwide.

If your company is an industry leader, it should take its sophisticated efforts to the public as voluntary rules and encourage competitors to follow suit. It should also be useful for industries to adopt prolonging the cold war as an area for cooperation, consider new voluntary rules together, and set up an institutional framework to push their adoption worldwide. Rulemaking should cover supply chains as well, obviously. Efforts should be upgraded, and only the suppliers that undertake them should be part of supply chains.

## **Purpose-Driven Management**

Another example of dual intention that I would like to take up is purpose-driven management, a newly trending management method that has been drawing attention in recent years. Businesses are beginning to adopt it to nurture innovation-generating creativity and develop organizations that continuously attract top talent.

Specifically, this management method enhances the independence and creativity of individual employee by encouraging dialogue within the company that links the significance and objective of the tasks assigned to each employee to the purpose of their lives.

Another way of understanding this is as the liberalization and democratization of the organization management process. Now, business management theory has evolved by absorbing strategy and efficiency from research on war and military organizations. This is the reason why, even in liberal democracies, a business is organized

by surprisingly authoritarian principles. Owner-run businesses are particularly likely to practice top-down management under powerful, commander-in-chief leadership.

While businesses tend to take an authoritarian approach in their organization management, purpose-driven management emphasizes the values of the individual by taking the intentions and feelings of the employees all the way down to the lowest levels. This makes the reflection of a wide range of opinions on management inevitable and liberal and democratic debate unavoidable. In other words, when a global company employs purpose-driven management in the business activities at all its bases under authoritarian and democratic regimes alike, it is seeding democratization movements everywhere.

Sustaining democracy has become so much of a challenge worldwide that one proposal in security circles prioritizes preventing democracies from sliding back into authoritarianism over increasing the number of democracies. In this context, it will be effective for Japanese businesses to undertake purpose-driven management with the dual intention of helping to stop backsliding in democracies and accumulating democratic organization management experience under authoritarian regimes.

My long years of experience as an officer in global companies tell me that in seeking to achieve a management objective in an organization that includes people in an authoritarian state, there is a tendency to assign someone to a high-level, powerful position and have everyone obey that person, the assumption here being that swift decision-making is for the best. Decision-making in democratic operations requires time. So, in order to make such practices firmly embedded in society, it is essential to increase the number of people who have experience in a process that comes across as slow and inefficient.

## **Developing Human Capital Capable of Avoiding Conflict Escalation**

Human capital development is another case with dual-intention potential. On the corporate frontlines, employees are transferred between democracies and authoritarian states as a matter of course. Meanwhile, businesses have come to invest heavily of late in human capital with the aim of achieving diversity and inclusion, or D&I for short. D&I is a management method that accepts diversity in nationality, values, gender, and culture and turns the diversity into a strength for the organization. It will be useful to develop human

capital with the understanding that promoting D&I leads to more people in your business who accept mutual differences and coexist without increasing tension in two different political regimes, democratic and authoritarian.

Achieving D&I requires the upgrading of basic abilities that are necessary worldwide. It must be combined with training to eliminate unconscious bias. It is essentially the development of human capital that seek real, fundamental causes, do their own thinking based on facts instead of being overwhelmed by prevailing views and authority, and draw conclusions rationally. Developing human capital capable of believing in the possibility that we can understand each other even if we hold different views, capable of respecting others and accepting diversity. This may seem at first glance to be self-evident, but it is the outcome that a well-known Japanese auto manufacturer always seeks in constructing its human capital development programs. Moreover, this company tells its employees not to limit this way of thinking and attitude to the company but to spread it more broadly to other stakeholders as well.

In the US alone, wracked by division, Japanese businesses employed 860,000 people as of 2016, second only to the British contribution (JETRO Regional Analysis Report, Jan. 31, 2019). If Japanese businesses can develop such human capital at the global level and have their business partners follow suit, democracies will have more citizens who are capable of independent, rational thinking. This will help stem the tide of fake news and populism.

In authoritarian states, when more citizens become capable of independent, rational thinking, we could hope that expectations towards the regime can be maintained at a reasonable level, making it unnecessary for it to distract public attention at home with hardline diplomacy. Learning the value of democratic operations within the business may arrest their devotion to the authoritarian regime and deter it from becoming further radicalized or running amok. It will be effective for Japanese businesses to interpret the massive global workforce that they command as the third-largest economy in the world as assets for prolonging the cold war and act accordingly.

War has occurred between countries even as the economic bond between them grew tighter. But it will be a historical first if global businesses that rival national economies recognize the maintenance of peace as their social responsibility and undertake the development of human capital to prevent cold war from turning into hot war. The Japanese government and Japanese businesses should take the lead in this area with the objective of prolonging the cold war. In order for

Japanese businesses to promote this, it will be necessary to increase investment in developing the capability of their employees to levels appropriate for strategic resource allocation and to incorporate this into their respective corporate strategies.

## Conclusion

It is essential for Japanese businesses to switch to a business model geared to meeting social issues if they are to take the lead in sophisticated rulemaking and to identify dual intention in new management methods. Sophisticated rules require an aggressive posture to meet social issues through market mechanisms. Discovering dual intention requires the will to deconstruct the US-China cold war from multiple perspectives into social issues that surround the business and recombine them into social issues for which new management methods can function as the means of resolution. And business models and an ecosystem that transforms social issues into profit opportunities must be established for this to happen.

It is necessary for Japanese businesses to earn profits over the long haul while playing a role in prolonging the cold war between the US and China. They should develop sophisticated rules, spread them worldwide, and continuously amend them so that the cost of securing new customers rises and more time and resources are devoted to the management reforms necessary to adapt to the rules. In addition, they should look at new management methods that are drawing attention to identify factors that contribute to prolonging the cold war. When adopting those methods, they must aim at prolonging the cold war in addition to improving business results.

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