

Japan Should Aim to Be a “Manufacturing-Led Country”

Second to None in Digital Home Appliance Technology

Interviewer: Okabe Hiroshi

CALLING for “Deconstruct and Create,” Nakamura Kunio, president of Matsushita Electric, is seeking to press ahead with the company’s reforms. Widely known as a strong advocate of corporate restructuring among Japanese business leaders, Nakamura stresses that Japan’s manufacturing sector is springing back to life on the strength of the highest technology in the world with the advent of digital home appliances. He says Japan should seek to be a manufacturing-led nation in the years ahead. Putting “global excellence” as his corporation’s goal he pushes managerial reforms. Nakamura talks about his views on manufacturing industry and the basic strategy for the Matsushita group’s restructuring.

Panasonic

The Japanese electronics industry – and the manufacturing sector as a whole – is said to have resurged on the back of the explosive spread of digital home appliances. How do you assess the strength of Japanese manufacturing industry?

Nakamura: In the 1990s, the United States prevailed in the fields of IT and personal computers, allowing the Japanese manufacturing sector no role to play. The Japanese manufacturing sector remained dismal and sluggish for years. However, I was confident that it would be able to demonstrate its abilities in the forthcoming age of digital-network home appliances. I predicted a “digital Big Bang era” would come, and now I believe such a “Big Bang” age has set in. When Windows 95 was introduced, the PC software was the sole means of accessing the Internet. Even Americans are reportedly using only 12-13% of the PC’s total capability. At that time, I was living in the United States and thought using the PC merely to access the Internet was of no use. Today we have numerous gadgets that can access the Internet. You can surf the net with cell phones and TVs. Moreover, we can easily operate TVs by only pressing the buttons while the PC does not work unless we enter commands. I predicted the diffusion rate of PCs would reach a maximum of around 50-60%, and this turned out to be true. We should not create the so-called “digital divide” soci-

Photo : Matsushita Electric Industrial Co., Ltd.



ety. I firmly believed that Japan would be able to prevail if it focused on those devices that both young and old people can easily operate. Japanese industry has a full range of key digital devices such as flat-panel TVs, DVDs and digital still cameras. We also dominate these devices in terms of intellectual property. Japanese manufacturing industry is moving on a track to full recovery.

“Post-manufacturing focus proves to be wrong”

A few years ago, the pessimistic view was widespread that the Japanese manufacturing sector had lost its international competitiveness.

Nakamura: When the US economy was at its heyday and was called a “new economy,” such a view was spreading in Japan that by only extricating itself from its manufacturing-led industry could change Japanese industrial structure. There were some critics who went to extremes to say Japan would remain unchanged as long as the automobile and electronics industries exist. More specifically, they said long-established Japanese companies such as Toyota, Nippon Steel and Matsushita should retire from the playground. Looking at the realities of the Japanese economy, however, you can understand that the manufacturing sector accounts for 22% of the GDP. In addition, manufacturing industry is in charge of exports. Japan can make both ends meet only by aiming to be a manufacturing-led country.

We import raw materials and energy resources, and add value in the form of products for export so as to earn foreign currency, and import food and energy resources. I can never agree with the view that the manufacturing sector can be replaced by the services industry. If the manufacturing industry goes into a decline, the Japanese yen will plummet against other major currencies, and we would be unable to import even the

essential product of oil. The manufacturing sector should be resolved to do business in the firm belief that Japan can spring up only by seeking to be a manufacturing-led country.

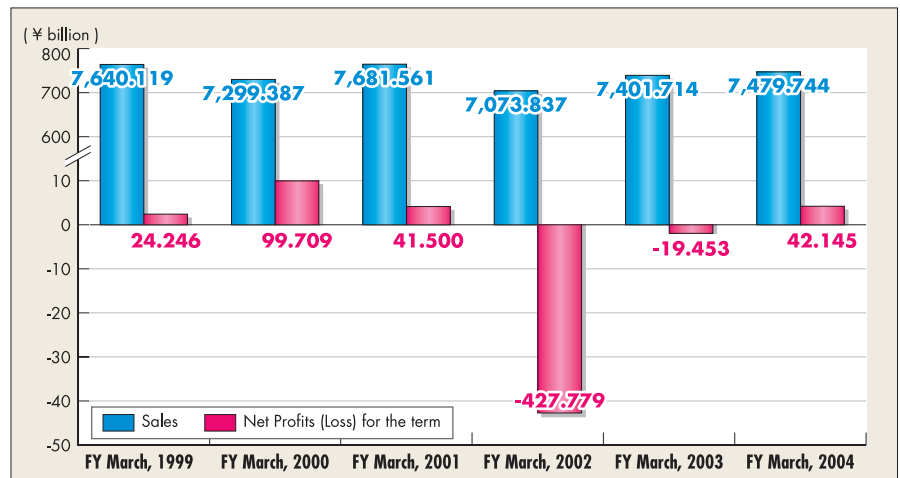
Is there fierce competition with US and European rivals in the field of digital home appliances? Up-and-coming South Korean and Taiwanese firms may pose a threat to Japanese makers. Some analysts say China is a threat to Japan now that it has developed into a major production center for the world.

Nakamura: US and European makers as well as other Asian firms cannot match Japanese companies as far as the digital area is concerned. In the area of flat-panel TVs, for example, Japan dominates the fields of broadcast-reception and high-quality picture technology. Looking at Matsushita-made digital still cameras, for example, we also hold most of the core technologies such as charge-coupled devices (CCDs) and lenses. Japanese companies have the advantage of licensing technologies to foreign manufacturers so that they can assemble the products.

Government support may be necessary for Japanese manufacturers to achieve technological development to establish a manufacturing-led country.

Nakamura: Japan has changed. Specifically, a large number of joint teams have been established by the government, industries and academics, prompted by the reorganization of national universities into independent administrative entities. Professors are now proactively launching research and development ventures. The most important task of the government is to support private businesses in their bid to bolster international competitiveness. We now see a rapidly improved environment where the government, private sector and academics fulfill their respective responsibilities. Japan is especially

Figure 1 Sales and Net Profits (Loss)



Source: Matsushita Electric Industrial Co., Ltd.

Note : Matsushita achieves an amazing revival from 2002

strong in the technique of making goods compact; that can be further advanced by nanotechnology and biotechnology in the future. We have seen successful partnerships in these areas. Japan seems to have started restoring its energy and strength.

“Creating Another Matsushita in China”

A new business plan calls for Matsushita to achieve ¥1 trillion in sales in China in 2006. Please explain your basic policy concerning the China business.

Nakamura: China has two faces. It is an export-oriented country, producing goods at low labor costs and exporting them. In other words, it is a factory of the world. Japan boasts a high technological level while China mass-produces goods at low labor costs. In this way, it is important for us to build up bilateral relationships that ensure harmonious coexistence. The other face is that China is growing at a torrid pace, with its markets expanding rapidly. Coastal areas in China have now a total of 70 million affluent people, a larger number than Japan.

Demand for audiovisual devices, air conditioners, refrigerators, washing

machines and car electronics is projected to grow strongly. Robust growth is also expected for such industrial products as compressors. Matsushita is implementing measures to enhance and expand production in various areas of China. “Another Matsushita” is in sight in China. What is important is not to see the Chinese market from a single angle. It has multiple faces. In Japan, luxury goods are mainly bought by middle-aged and older consumers. By contrast, consumers in their 30s are the main buyers of Mercedes-Benz and Rolex in China. Meanwhile, about 3 million students graduate from colleges and universities every year in China. It is no easy task to improve social infrastructure so that such a large number of graduates can find their jobs. With the idea of creating “another Matsushita” in China, the Matsushita group plans to hire a total of 2,000 university graduates over the next three years. This stems from our belief that the best way for us to do business successfully in the country is that Chinese people play active roles as main players.

The latest trends show that digital products sell explosively at a stroke on a global scale when new products are launched.

Nakamura: In the past, audiovisual products were produced first in Japan, went to the United States and then spread to Europe. Today such products

spread globally at a stroke. This is because information spreads globally in a matter of seconds and these products are easy to use. We have never seen such a phenomenon. Previously, Japanese manufacturers had many regional production bases. Now that IT has been established and supply chain management has advanced significantly, we need to establish a major production base for global supply. We no longer need to have many regional production bases. Matsushita has set up a giant factory in Japan to produce plasma-display TVs for the global market. Japanese makers' production system has changed markedly, and Matsushita has taken the lead in adopting and completing a new production system.

“More diversified, international board members eyed”

How do you plan to utilize overseas personnel in the global operations of the Matsushita group?

Nakamura: Matsushita is aiming to create a diversified business group – a diversity of personnel in terms of nationality, age and gender. Our efforts have only just started, however. At present, we have one European executive officer at the head office and we need to add more. We hope more employees

from various parts of the world will join the board in the near future. We expect local employees will develop their abilities to take charge of management in their respective regions of the world. Chinese people are well versed in Chinese affairs, and so are East Europeans.

You have carried out bold measures to push organizational restructuring as part of your efforts to revitalize Matsushita. What is your basic policy of reorganization, and what problems do you face?

Nakamura: Matsushita's organization had become rigid. We had built up a pyramid-shaped organization and concentrated on management training for those expected to assume supervisory posts. As a result, only the number of managerial posts had increased. We tried to sort out what managerial administration is, and came to the conclusion that the positions of section and department chiefs are passing points of information. The conclusion led us to introduce IT. Top executives' ideas can be shared by the frontline employees with IT. At the same time, top executives can directly obtain information from the frontline. The direct flow of information between top management and employees makes the posts of section and department heads unnecessary. Therefore, I abolished such posts. What became important is the role of team leaders, with each member facing the customers. In addition to creating such flat organizations, management should

boldly pass a large part of its powers on to each organization. The organizations cannot get a lift as long as they rely on instructions and orders from top management. I have experienced myself not enjoying jobs simply to follow the instructions and orders of higher-ranked people. Human beings cannot fully demonstrate their abilities without their own ingenuity. Matsushita still has things to do to improve such organizations.

Matsushita recently implemented an early retirement system as part of efforts to spur managerial reforms for the first time in nearly 90 years since its foundation. I am given to understand that your policy is to keep a tight grip on reform despite a strong recovery of earnings.

Nakamura: I believe the early retirement system proves meaningful only when those who have contributed to the development of Matsushita are fully rewarded and thus have no concerns after retirement. Some critics say Matsushita's early retirement system amounts to “*daimyo* restructuring” (well-paid severance package). But I think it is only natural that we should pay sufficient allowances to early retirees. I have never heard of any complaint or criticism from them. We would otherwise be locked in a dispute. I have learned lessons from my own experience in the United States. The employees with a short period of job experience tend to be laid off first in the country. But businesses lose their vitality if they lack the energy of new employees, and

Matsushita Electric Industrial Co., Ltd. and President Nakamura Kunio

Matsushita was founded in 1918 by Matsushita Konosuke, who was called the “master of management.” With its brand name Panasonic, Matsushita is an electronics maker that offers a comprehensive lineup of products ranging from home electrical appliances to information and communication devices, and housing-related equipment. Its consolidated sales for FY 2004 are projected to reach ¥8.8 trillion. Nakamura Kunio joined Matsushita in 1962. He served as chairman and president of Matsushita's US and British units respectively, after

working with the domestic sales division. He became president of Matsushita in 2000, and soon launched organizational reforms under the policy of “Deconstruct and Create.” He called for a customer-oriented approach and bolstering product value. Based on this policy, he pressed ahead with restructuring of the company's vertical administrative structure based on a product division system, and introduced a special early retirement system as a way to slim the organization. As a result, Matsushita achieved a “V-shaped” recovery.

Photo : Matsushita Electric Industrial Co., Ltd.

social uncertainties may arise.

Your company reportedly plans to actively promote female employees to managerial positions.

Nakamura: The promotion of female employees forms one of the main pillars in a diversified society. That is particularly appropriate for Matsushita because we are producing a number of goods for use by women. It is only natural that female employees should join a variety of projects and give their viewpoints. It does not make sense to try to develop new products with a workforce of only men who are not the main users of home appliances.

Matsushita lagged behind its peers in entering the digital camera market, but has rapidly caught up with them. You compare the race for greater market share to the Othello game.

Nakamura: In order to win the Othello game, we need strong basic techniques. But techniques, or technology in the market, is not everything. During intense competition for greater market share, we are required to offer specific products that can satisfy potential needs of consumers. We also need to be fast to create valuable goods. We may boast of having the largest market share for some products but we may lose to our competitors at any time soon. Desperate efforts are necessary to keep on winning the race. The most lagging player in some products may be able to win top slots and earn high profits, or vice versa. The reality is, we are always facing the fear of defeat.

Matsushita has entered into technological partnerships with rivals such as Hitachi in the field of plasma TV panels.

Nakamura: We analyzed our strength and areas to focus our investment. We have already done away with the principle of self-development. Our partnerships with Hitachi and other companies



Panasonic "VIERA" 65-inch diagonal, high-definition plasma display TV

are the outcome of our efforts and policy. We are determined to win in the areas where we formed partnerships with other companies and concentrated our investment.

“Matsushita is a collective entity of small and medium-sized businesses”

What is your basic view on how to manage the gigantic Matsushita group, which has a workforce of more than 300,000 people around the world?

Nakamura: Total sales of the Matsushita group reach ¥8 trillion, of which the largest TV business division accounts for only 7.7%. Meanwhile, Toyota's vehicle division accounts for 80% of total sales. As for Canon, the office equipment division accounts for 70% of total revenues. Matsushita is engaged in a wide array of businesses, with all of them on a scale of small and medium-sized businesses. We are a collective entity of such small and medium-sized businesses. Each firm should be strong. In order to grow stronger, we need to

boldly turn our powers over to smaller units. In addition, Matsushita and its smaller units need to share and make full use of the outcome of technological R&D as well as accounting and personnel systems. We intend to make use of our own features. Once we think of ourselves as a big organization company, we would see our strength taper off.

Japan faces the serious problem of a population decline stemming from a lower birthrate and a rapidly aging society. How do you think we should address the changing social structure?

Nakamura: Japan has no choice but to bolster its own unique abilities if it wants to remain a major manufacturing-led country over the next few decades. The decline in population indicates a gloomy outlook for Japan's labor force. The number of so-called NEETS (not in education, employment or training) and "freeters" who have no fixed jobs is increasing among young people. Japan may have to accept more immigrants so as to remain a major manufacturing-led country. It would be ideal if Japan can serve as a R&D center while dispatching the results of development efforts to production bases in various parts of the world. **JS**

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