

# Restructuring Mature Businesses

## — Asian Forum Looks at Japanese Trends —

By S.K. Subramanian and Shuji Aoyama

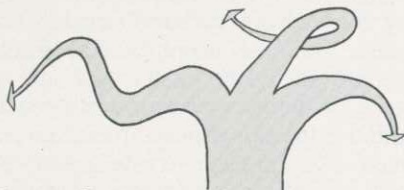
**T**op Management Fora, an annual series of the Asian Productivity Organization (APO), have been organized since 1985 in collaboration with the Japan Productivity Center and the government of Japan, with an intention to share selected Japanese experiences relevant to emerging management trends. The scope and emphasis of these forums are changed from year to year.

The Top Management Forum in 1988, held in Tokyo from February 22 to 26, shed light on corporate revitalization through restructuring of mature businesses as well as creation of new businesses and their blending. In a surge of readjustment of intercountry industrial balance, such restructuring has become essential to meet new environmental challenges. Rapid shifts in international comparative advantages, emergence of high-potential knowledge-intensive businesses, shortened business life cycles, development of automation and the like, tend to push many industries to the brink of being sunset industries overnight. In turn, they induce the renewal of corporate strategies and provide powerful impetus for diversification and conversion of business. Careful and dynamic reallocation of management resources are needed for innovative adaptation to the environment. Due to growing economic interdependency, restructuring as a strategy can be witnessed of late in every industrial sector transnationally.

Taking cognizance of growing limitations of their own business or market, many enterprises have made, for their survival and further evolution, various strategic attempts, such as conversion to well-selected high-technology fields through the development and application of their accumulated technologies; merger and acquisition or alliance with another company in high-potential markets for business diversification; production intensification through collaborative production with other manufacturers of

different groups of products; and establishment of peripheral new service businesses facilitating the renewal of their existing main business and increase in value added. Top managers have to view the current changing environment as an opportunity rather than as a threat. They have to revise their corporate strategy with a clear long-sighted view and to exhibit leadership in planning as well as in execution.

The forum was attended by 30 top management personnel from 15 APO member countries. It included presentations by top management personnel from selected Japanese enterprises and academic experts, as well as panel discussions and group discussions among participants to exchange experiences in the region. Here is a summary of the presentations made by six participating Japanese enterprises.



### Hoya Corporation

Talking about the diversified technology-intensive businesses of Hoya Corporation, Koichiro Okutsu, executive managing director, stressed that management strategy should be based on how predominance in market competition can be gained. The creation of value is the most strategic issue in gaining competitive predominance.

The company's sales in 1987 were ¥110.1 billion and the current profit ratio to sales was as high as 11.9%. Due to its high profitability, the company has been listed for the last five years among the top Japanese excellent companies announced by the *Japan Economic Journal*. High profitability resulted from high coverage of individual markets, such as 36%

of spectacles, 65% of crystal tableware and 60% of optical lenses, all in the domestic markets, as well as 75% of mask blanks in the world market.

Taking cognizance of emerging worldwide megatrends, i.e., maturation of economies, the advent of a sophisticated information-oriented society, consecutive innovation in leading edge technology, economic globalization and fluctuations in foreign exchange rates, the company changed its management concept in 1984 from "incessant pursuit of the possibilities of glass production" to "opto (light)—new media of communication" and changed its company name from Hoya Glassworks to Hoya Corporation. Along with this new management concept, the company redefined a wide business domain as "opto" and its hybrid high technology-relevant fields, including medical and eye care products, electronics, optical products and home furnishing.

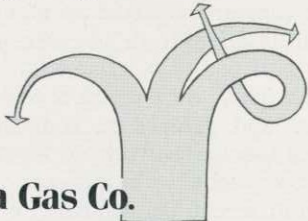
Hoya follows two principles, namely, technological synergy strategy and top-share strategy. The company is developing technologies that "adhere to the fundamental axis and aim at adjacent areas." In order to most effectively utilize in-company resources, R&D activities are conducted separately in three laboratories as per their specialties, i.e., material, laser and new business promotion, and the research results are coordinated and integrated by the technology committee for creating new businesses.

As for the top-share strategy, Okutsu summed it up as "10 products at ¥10 billion each rather than a single product at ¥100 billion." He stressed the strategic importance of creating and maintaining many small ponds (or markets), least affected by others, where the company can enjoy high profitability (big fish in a small pond). In practicing this "small pond" strategy, the company aims at gaining a 50% market share by either placing creative products in the market or marketing products in a way which differentiates in



terms of software aspects, such as distribution strategy.

During the ensuing discussion, it was pointed out that small firms could win large business only by concentrating their resources on clearly segmented markets (or small ponds), but thereafter it might be necessary to form alliances in coping with ongoing megatrends. Regarding Hoya's success in marketing innovations and in the distribution system in Japan, direct distribution (manufacturer to retailer, eliminating wholesalers) can be successful only when the product is a top-of-the-line urban-oriented one and it can give a high margin to retailers.



## Osaka Gas Co.

A presentation by Hiromi Kuramitsu said that with a stable regional franchise in the Kinki region and assured gas rates to recover costs, Osaka Gas enjoyed for a long time a noncompetitive growth. This, in turn, induced a bureaucratic setup. During the rapid growth era, Osaka Gas began to think of ways to promote downstream sales of gas. The oil crises in the 1970s brought about a crisis consciousness and a direct development of new business opportunities. With the introduction of LNG, the company began to use cryogenic energy to cool air and separate liquid oxygen and liquid nitrogen and to manufacture frozen food. In 1978, Osaka Gas created a New Business Development Department to enlarge the scope of activities beyond the gas business and thereby absorb the excess personnel in the new businesses.

The New Business Development Department was expected not only to develop new areas and foster them to become profitable businesses but also to coordinate all the non-gas businesses together. It began with a do-it-yourself company with 3,000 square meters of floor space and a sports club. Over the last seven years, the department's achievements have been substantial. As gas companies

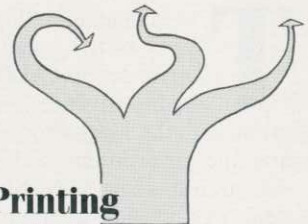
are restricted by law from going into businesses other than gas, all the new undertakings had to be subsidiaries or joint ventures. Thus, the diversification was drastically different from that of portfolio management of an ordinary corporation. This necessitated the new companies of Osaka Gas being independent from the beginning. The development path followed could be generalized as follows: starting from a small scale and eventually expanding in size; learning the management style from forerunners to begin with and subsequently establishing its own style; taking advantage of credibility of parent company; forming a staff of positive and determined people. Kuramitsu particularly highlighted the importance of human resources. The new businesses now account for 25% of total sales and in the future this could rise to over 50%.

Business diversification has been one of the means for restructuring and it has helped Osaka Gas to become "a comprehensive life industry." According to Kuramitsu it takes 10 years for a company to evaluate the success of switching from a single business to multibusiness. He added that in a time like the present, witnessing drastic changes in social structure and values, voluntary actions within various sections should be encouraged and repeated. The belt conveyor was a system suited to the days of mass production and mass sales. To cater to intellectual customers and a variety of needs, a company has to be flexible and generous enough to allow employees to pursue their dreams. Young people with strong character and creativity are becoming reluctant to join large corporations that are rigid. Successful restructuring of a company would greatly depend on how it could draw young people's energy for realizing their potential. In a total system, synergy of each component is important.

The ensuing discussions focused on the following aspects:

Promoting the enthusiasm of young employees through various events and encouraging them to consider their possible contribution to society as a whole could generate new avenues for growth and an awareness of corporate social responsibility.

Absorption of employees released from the main business has been one of the main criteria for the establishment of subsidiaries by Osaka Gas Co.



## Toppan Printing

Kazuo Suzuki of Toppan Printing Co., in a presentation titled "Exploiting Change by Effective Management—the Toppan Way," traced the growth of the printing industry. It has been a powerful vehicle of culture and is an integral part of a mature modern industrial society. Suzuki underlined the urgent need to expand a printing business into its peripheral business fields, due to the emergence of new communications media. Effective combination of traditional paper-print media with new media-mix, such as videotex, CD-ROM, CDI and computer-linked communication networks would enable the printing industry to play a major role in realizing an information-oriented society and exert its impact on new lifestyles.

Rapid progress in electronics technology has been bringing about remarkable changes in the printing industry. The development of the word processor, for instance, relieved almost overnight a headache that Japanese printers had long suffered, namely the problem of typesetting in the Japanese language. Information technology is enabling the shift from printing per se as a secondary industry to software-oriented activities. It is now at a level midway between secondary and tertiary industries. In reality, the printing industry is now engaged in design, marketing and leasing of packaging machinery and even assisting the food industry in terms of merchandizing. Toppan printing has also diversified its activities into graphic and creative business (Toppan Idea Center), packaging design (Toppan Packaging Center), and a customized service designing photomasks for manufacturing ICs and LSIs.



From a managerial point of view, the printing industry has so far effectively adapted to change on account of versatility in management decision-making as well as adaptability of well-motivated technicians and workers. However, the approach taken so far by the industry will not be effective in the future. Changes hitherto mainly related to hardware and could be met by minimal retraining of employees. Current changes call for skillful management with a high human touch and other software aspects like design. Despite these difficulties, the printing industry in Japan is determined to face the challenges and keep its labor force in intact.

Ensuing discussion dealt with the following:

In developing photomask technology, Toppan did not make a huge investment, as it already possessed basic technologies like etching, photo technology and plating technology. What Toppan did for this development was to integrate and refine technologies it already possessed.

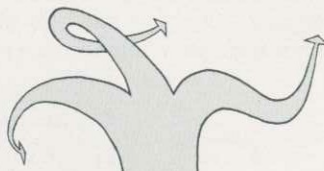
In the R&D of electronic precision components related to printing, 300 engineers are engaged in research on production technology in addition to 300 researchers in Toppan Research Institute. Though Toppan is engaged in in-house basic research, its efforts in the basic research field are concentrated on the transfer of basic technology from universities and electronics companies with their cooperation.

The printing industry has traditionally been a business based on receiving orders from customers, and the printers were pushing their technology to customers. But now the printers have changed their stance to becoming increasingly market oriented, due to competition.

In the field of biotechnology, in which Toppan is getting involved, it is studying aseptic technology for paper containers of *sake* (Japanese rice wine). The material for *sake* containers is changing from glass to paper, due to market preference.

Though it is necessary to retrain shop-floor workers to enable them to meet technological innovations, the installation of automation or mechatronics can alleviate dependence on employees'

skills. From the viewpoint of worker motivation and development of their ability to meet environmental change, however, career development plans of individual employees have to be worked out.



## Misawa Homes

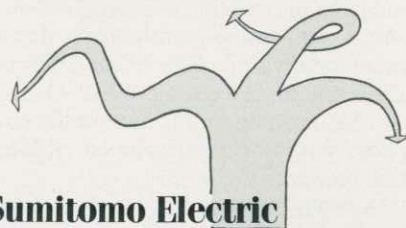
Toshiaki Kawasaki talked about what he called "Misawa's Strategic Management." Two critical factors behind the remarkable growth and success of Misawa Homes during the past 20 years are technological innovations and renovations, and systems management. Misawa is conscious of rapid changes in society, which are accentuated by internationalization, the increase in the ratio of old people in the population, expanded information utilization and leisure orientation. To cope with diversified needs and changes, Misawa had resorted to mergers and acquisitions. The diversified activities of Misawa Homes cover biotechnology, information supply, energy and leisure area development. Kawasaki gave a brief historical review of the establishment and growth of Misawa Homes and its continuing efforts to promote quality and to meet the individual tastes. Misawa ranks as the largest manufacturer of prefabricated single-family housing in the world. It has been promoting its new ceramic technology and its three-story new ceramics apartment (OX3) has become very popular.

As regards future perspective, Kawasaki explained the scope for diversifying into every field of housing. Over the last five years, "renovation of houses" has emerged as a big business. Employing women as interior-coordinators, Misawa Homes' subsidiary, Home-Ing Co., has been active in this new field. Misawa Homes' future strategies encompass needs during different stages of life, such as those of students and single business-people living in apartments; married couples living in condominiums; families

living in houses; three generations living under one roof; houses in resort areas catering to various hobbies; aged people preferring to live in the countryside or condominiums with nursing care.

Misawa Homes is trying to meet the needs of all the above stages. In urban development, the company is engaged in intelligent buildings and hotels. It introduced the "Diamond System" in response to rising land prices and to assist owners to maximize the value and income potential of their property through effective land utilization.

Misawa Homes has acquired six companies through mergers and acquisitions, starting with Suzuki Steel Works. The others include Misawa VAN, which provides nationwide information services to real estate brokers and a database for home owners, and Misawa Ceramics and Chemicals specializing in precision chemistry and firms specializing in biotechnology and heat pumps. It has also been focusing on design of houses with low energy consumption by utilizing solar energy. Through Nippon Eternit Pipe, it has diversified into the leisure industry.



## Sumitomo Electric Industries, Ltd.

Seiichi Takeuchi's presentation titled "Diversification Strategy of Sumitomo Electric Industries" dealt with dynamic diversification efforts of the firm and its systematic R&D activities. Beginning as a copper and cable manufacturer, the company has emerged as a producer of powder metallurgical products, electronic systems, fiber optic systems, compound semiconductors, nuclear fuel, rubber and plastic products for aircraft, and the like. The component ratio of the company's sales has shifted from 75% of electric wire and cables and 25% of other products in 1960, to the current ratio of 52:48. All these diversifications arose from the



company's strong belief that pushing R&D was the only way for a hardware manufacturer to survive in a competitive and changing market.

Individual R&D groups in the company are expected to take responsibility for new products to be developed until the products are to an extent successfully commercialized. R&D projects of SEI can be classified into roughly three categories, i.e. Type A, B and C, as per the development stage and nature of the projects. Type A stands for the improvement of current products in the existing divisions of the company and Type B for the development of new products still belonging to an existing division, while Type C is entirely new R&D activities independent of any product lines of existing divisions. Type C, financed directly under the headquarters' budget, is further categorized into three development phases, starting with an exploratory phase which is entirely entrusted to each chief research associate. Depending on its viability, a project moves into the research phase and then to the development phase. A development phase project might be upgraded through test-marketing of a developed product, inducing the creation of a minidivision or *shitsu*, and subsequently to a department or division. The Printed Circuits Department, Electronic Wire Division and Semiconductor Division of the company have been developed through this process.

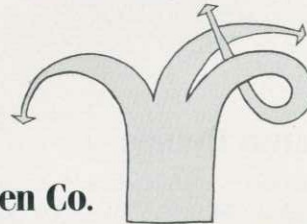
A newly developed product in general would still require 1) sophistication of its performance, 2) a long evaluation period by users, and 3) newly organized marketing efforts. In this context, Takeuchi emphasized the necessity of involvement of R&D engineers right from the research stage through the marketing stage to bring them into contact with end users. This system may in turn lead to organization of a new venture within the company.

The ensuing discussion highlighted the following:

It generally takes 10 to 15 years from a product's conception to its commercialization; an additional five years are needed for further development. Thus, it might be necessary to share the

development with other companies through licensing.

At the initial stage of product commercialization, SEI requests engineers and scientists involved in developing the product to be engaged in its marketing, since marketing personnel do not have technological knowledge on that product.



## Ibiden Co.

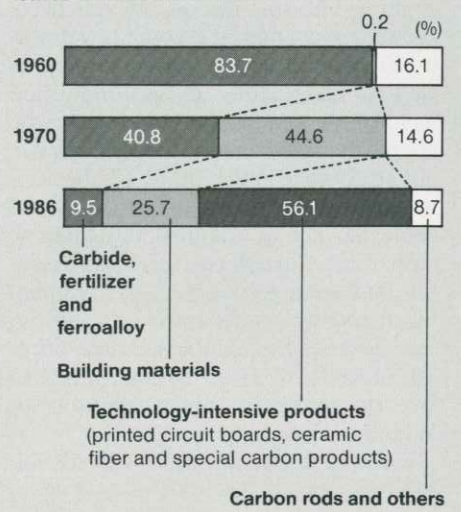
In his presentation titled "The Battle against Inertia," Junichiro Taga, president of Ibiden Co., called attention to emerging structural changes in the business environment. He emphasized that the decline of old industries, such as iron and steel and textiles, was not due to mere business fluctuations but to socio-economic structural adjustment. Top managers must perceive that this adjustment is bringing forth replacement of old industries with higher technology-intensive industries as well as conversion from mass production to large variety-small quantity production systems.

Outlining how his company, Ibiden, has been managed for the last 20 years in meeting changes in the environment, Taga set forth significant aspects of business restructuring based on his experience. Ibiden Co., founded in 1912 as a producer of carbide, ferroalloy and fertilizer manufactured through an electrochemical process, has constantly sought to restructure itself over the last 20 years, foreseeing business life cycles and structural changes in the business environment.

Analyzing the company's experiences, Taga indicated key conditions which may lead to successful business restructuring, including timing, positional advantage and human resources. He also advised top managers that they should be prepared to fight two battles in achieving management innovation—against unknown issues including technology innovation and against old customs or inertia.

Finally, Taga listed the roles and atti-

Sales Distribution of Ibiden Co.



tude of top management for successful implementation of the strategies. It should have: i) eagerness for powerfully carrying out the strategy; ii) clarification of corporate objectives and business domain; iii) an indication of the route leading to the set objectives; iv) acting decisively; and v) enthusiasm and tenacity.

Ensuing discussion dealt with the following:

The battle against past habits/inertia has been more difficult than that against the unknown in the case of Ibiden.

In launching new businesses, Ibiden did not recruit persons from outside the company, rather the company retrained existing employees to handle new business. Such retraining was often conducted after working hours. However, a lifetime education system would in future be imperative within a company due to rapid technological change.

The original papers of these presentations will be published in the fall of 1988 by APO, 4-14, Akasaka 8-chome, Minato-ku, Tokyo 107. Tel: 03-408-7221; Fax: 03-408-7220

*S.K. Subramanian is head technical consultant of the Research and Planning Division of the Asian Productivity Organization in Tokyo.*

*Shuji Aoyama is a research and planning officer at the Asian Productivity Organization in Tokyo.*