Making the Best of Restucturing

Steel

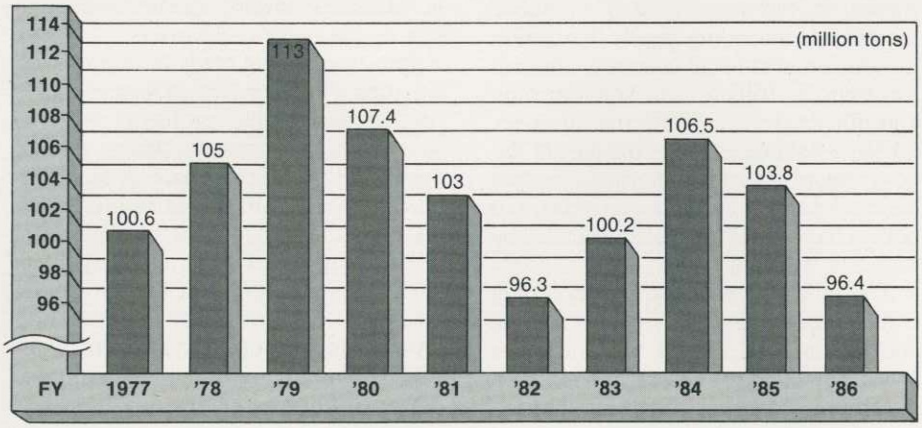
Nippon Steel Corp. (NSC), the world's largest steelmaker, announced a sweeping plan this February to cut 19,000 of its 64,000 jobs and close down five blast furnaces by the end of fiscal 1990. The facilities scheduled for closing include the Kamaishi Steel Works in Iwate Prefecture, the cradle of the Japanese steel industry. Says Yutaka Takeda, NSC chairman, "We won't be able to survive unless we carry out this rationalization plan."

Japan's steel production in terms of crude steel exceeded 100 million tons a year for the first time in fiscal 1972 (April 1972 to March 1973), making the country the largest steel producer in the non-Communist world. Last year, however, output was a dismal 96.3 million tons, and it is expected to drop to between 85 million tons and 90 million tons by fiscal 1990. The steel industry was the leader of Japan's postwar economic recovery. Now, though, it is being cited as a typical example of a structurally depressed industry deserving of government assistance.

Japan's steelmakers suffered heavily from the voluntary restraints on exports to the United States that went into effect in 1984. The U.S. market accounted for a major share of exports, which claimed 30% of total crude steel production. The rapid appreciation of the yen that began in September 1985 further eroded yen-based export earnings. At home as well, demand for steel for export products, such as cars and electric machinery, diminished–and is expected to drop even more sharply in years ahead, now that production of these items is being increasingly shifted to overseas factories and plants. Low-cost imports from South Korea, Brazil and other newly industrializing countries now pose a growing competitive threat to Japanese steelmakers, and it is likely that foreign steel will make further inroads into the Japanese market. It is no exaggeration to say, as Takeda puts it, that Japan's steel industry faces the "worst crisis since the end of World War II."

The buzz word in the industry today is "competitiveness." The greatest challenge Japanese steelmakers face is regaining the competitive edge they have lost in their race with foreign steelmakers, particularly those in South Korea. Japan's big steel companies have launched an all-out effort to cut costs, determined to keep their lead over the state-owned South Korean steel works in Pohan. These efforts include cutting payroll costs, which are much higher than in South Korea and other up-and-coming steel-producing countries. Coupled with these drastic work force reductions are equally strong measures to scrap excess capacity and slim corporate structure.

Output of Crude Steel



It is not only NSC that is pushing a major retrenchment program. Other big producers, such as Nippon Kokan, Sumitomo Metal Industries and Kawasaki Steel, are also taking drastic measures to cut both employment and capacity. Japan's six largest producers are expected to cut more than 40,000 jobs. This means that one in three employees in the steelmaking operations will be thrown out of work.

Many workers have already been put on temporary leave. In addition, plans to extend the retirement age to 60 have been put on hold, and wages and salaries have been slashed. Currently, surplus workers are being transferred to affiliated firms or reassigned to new operations–an indirect way of reducing redundancies. But there is a growing feeling in the industry that voluntary retirement will become unavoidable sooner or later.

Steel firms are also accelerating efforts to diversify their operations away from steel into new lines of business. For example, under NSC's medium-range plan to boost annual sales to ¥4 trillion by fiscal 1995, the share of steel will drop to 50% of total sales. As for the remainder, 20% will come from electronics and communications, and 10% each from engineering regional development and services and new materials. Steel operations currently account for 80% of total sales on a consolidated basis. How to trim that share to 50% is a vital question that will determine the future of NSC.

The company is already making some progress in the field of electronics. This spring, it began producing silicon wafers, the base material for semiconductors. It has also embarked on the import and marketing of super mini-computers through a joint venture with a U.S. company. This autumn NSC is expected to start producing electronic parts in a joint venture with Philips, Europe's largest maker of electric appliances and equipment. Over time, NSC's electronics operations are likely to move further "downstream"–meaning that production will extend to assembled end-products–through wider cooperation with both domestic and foreign enterprises.

Japan's steelmakers are also moving into biotechnology, a field heretofore completely alien to the steel industry. These moves toward diversification, along with its back-breaking efforts in rationalization, show how serious the industry is about breaking free of its old mold to carve out a new future. ●

(By Akira Kishine, business news correspondent, the *Nihon Keizai Shimbun*)