

Johnson Co.: Going Back to the Basics

By Nagami Kishi

Although it is becoming easier to succeed in the Japanese market for foreign-affiliated firms, it is still not easy to maintain a successful situation in the dramatically and rapidly changing Japanese society. There are several foreign firms which were once successful in Japan, but are now struggling with a tough situation.

Japan and the Japanese way of business are changing dramatically, and companies in Japan must adjust. For example, until a few years ago, the just-in-time system, or Toyota Kanban System, was an important key to the success of Japanese manufacturers. Today, however, many Japanese business leaders are publicly saying that there are several problems in this system and that they must remedy them. In this situation, if the president of a successful foreign firm does not exert enough energy to catch up and change with the recent trends, his company will be far behind his competitors and he will lose his reputation.

Synonym for success

Johnson Co. has long been a synonym for success among foreign companies in Japan. Almost all Japanese housewives know three or four names of Johnson's kitchen products. However, during the 1980s its finances went deep into the red and it needed four or five years to reconstruct its management system and change the thinking of its employees to once again become a successful foreign company under the guiding hands of Takao Honda, the present president.

The origin of Johnson is Kentoku, a Japanese wax company. In 1962 Kentoku decided to accept a 76% capital share from S.C. Johnson & Son, Inc. in the United States under the principle of capital deregulation established by the Japanese government. At that time there was a tremendous gap in finance and technical strength between Japanese and U.S. chemical companies, and the found-

er of Kentoku thought that this was the only way that it could survive. Despite his efforts, differences in ways of thinking and strategy had gradually expanded and the founder of Kentoku left the company, making it a wholly foreign-owned company.

At first, since the decision-makers in the United States did not understand Japan and the Japanese market at all, the products from the U.S. did not match the Japanese market and the marketing strategy did not make any sense. For example, the U.S. company sent a spray wax for pianos or furniture as its main product, even though at that time most Japanese could not afford to buy a piano or good furniture. As a result of this situation, the main office decided to hire Japanese who could communicate with both Japanese and American personnel.

Hachiro Koyama joined Johnson Co. from Mobil Japan. Using his long experience with a foreign firm he knew how to improve the situation. He decided to use the American way regarding marketing and advertising, but used the Japanese way of distribution and establishing relationships with distributors. He also hired several key people from both leading Japanese companies and foreign-affiliated firms in Japan.

Since his expertise had involved human resources, he realized the importance of communications with employees, especially after severe trouble occurred between the head office in the U.S. and the Japanese employees. He started "happy birthday parties" in order to have a chance to talk with general employees; he also initiated management meetings in order to discuss profit and loss or target problems every month. Further, he introduced a new system for the sales staff, in which every staff member has his own area and plans for visiting shops. Nobody was required to come to the office, thus allowing more time to be devoted to sales; reports on sales were sent by mail.

Koyama thus introduced many ideas and systems which seemed to be good for employees. One of them was a scheme for retirement at 65, although the retirement age at most Japanese companies was 55 at that time. Another was a whole-life pension system. He started to place advertisements in newspapers to hire middle-aged people, and actually hired them, even though this is still not regarded as common sense in Japan. He also initiated communication meetings and festivals with the residents near factories. With these new ideas, the relationship between the management and the employees improved significantly, as did the company's performance. Johnson became one of the most successful foreign-affiliated companies in Japan.

Koyama had been a top executive for 20 years, 10 years as president and another 10 years as chairman. This was too long. Gradually, within the company a situation developed in which nobody could oppose the opinion of Koyama: only one person could think or make decisions. Employees had enjoyed a comfortable life with high salaries and less work. On the surface, the company could make a profit; but actually, the company had cut advertisements and other necessary costs that would maintain a sound firm.

Starting reconstruction

The main office decided to reconstruct Johnson and hired Honda from Sony in 1985. He became president after a 10-month stay in the U.S. The more he came to learn about the company, the more he realized the serious situation it was in. To make matters worse, Koyama still stayed on as chairman and nobody except for a few top people realized the bad situation.

To clarify the necessity of innovations to the employees objectively, Honda asked a consulting firm to analyze the company's real situation. After an investigation and analysis, he showed a lot of

data to the staff by making comparisons with other companies engaged in the same business, and even Johnson's good days in the 1970s. For example, the proportion of personnel fees against total costs was 60%, an extraordinarily high figure. These figures were a big shock to the staff, and they gradually came to realize the real situation.

Further, to change the awareness of his employees, Honda stopped hiring new university graduates and started prompting voluntary retirement. Johnson has a worldwide policy to never lay off employees. Of course, voluntary retirement is not like being laid off, but to staff it sounded like the same thing. By this means Honda wanted to say that there were too many employees at the company compared with the sales and profit, and that if they wanted to stay, they had to work harder.

Shock treatment

Because of the retirement age of 65, the average age of management and managers had become very high, thus depriving younger staff of the will or desire to work earnestly and be promoted. Honda introduced a retiring age system for managerial posts, which prevented the managers who had reached a designated age from staying at the post or being promoted to an advanced position. In addition to this shock method, Honda remedied one bad custom at the company.

"This company introduced the product manager system in 1962. It was probably the first company in Japan to do so. The system, itself, is good in order to make each manager have responsibility for one product from beginning to end. In this company, however, it led to sectionalism and no product manager communicated with the others, resulting in so much waste."

He established new management meetings and a managers' meeting. At the management meeting, the directors and general managers attend and decide the company's direction. Honda thought that this would be a better way to discuss and make decisions, based on the opinions of many people, rather than only one



person. The function of a managers' meeting is to exchange information and for the managers to communicate with each other. Honda frequently attends the managers' meeting and enters discussions with the managers at an equal level. "Most of things which had been common sense in this company are not common sense in many of the major Japanese companies," says Honda.

He appealed to the employees many times. At the final stage of innovation, Honda decided to reduce the number of products. Only 20% of the products contributed to 80% of the total sales of the company. However, the company had spent so much energy and money in developing new products which came out every year. The company thus decided to halt the production and sales of products whose share in the company was under 5%.

The managers who were in charge of these products complained that many customers would have problems without them, and opposed Honda's decision. Honda replied that they could buy from other companies.

In addition to reducing the number of products, the company also decided to decrease the number of distributors. For historical reasons, Johnson had more than 1,000 distributors for only consumer products. The company cut it down to 167.

Honda started advertisements again. According to Honda, "Many housewives know Johnson's products' names, but they do not know the company's name

very well." He thought it is very important to create a good company image and, once it is established, to create new products that can be sold with less advertising.

"Let's come back to the basics," Honda says repeatedly. Johnson had introduced several innovative methods in the past, and successfully accomplished its goal. Many other companies visited Johnson and asked about its methods. In the 1980s companies which studied from Johnson made advances and Johnson stopped developing new methods, so there was nothing Johnson could teach others. But Johnson staff did not realize this fact. This is Honda's analysis.

Six years have passed since Honda took office as president. At first, he observed the company and considered how he could persuade the staff to change, then gradually began to make innovations. His way of carrying out innovations is to nominate a manager or director who takes charge with broad powers.

One director says, "Our president shows only the direction, leaving the power to us. We feel much responsibility and must consider everything again and again. This procedure leads to good ideas. Now that we have experienced this process, we can leave the power to the younger employees."

Asked how he reconstructed the company, Honda says, "What I have done in Johnson is only common sense in the major Japanese companies."

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