

# Japanese Management Style and Philosophy

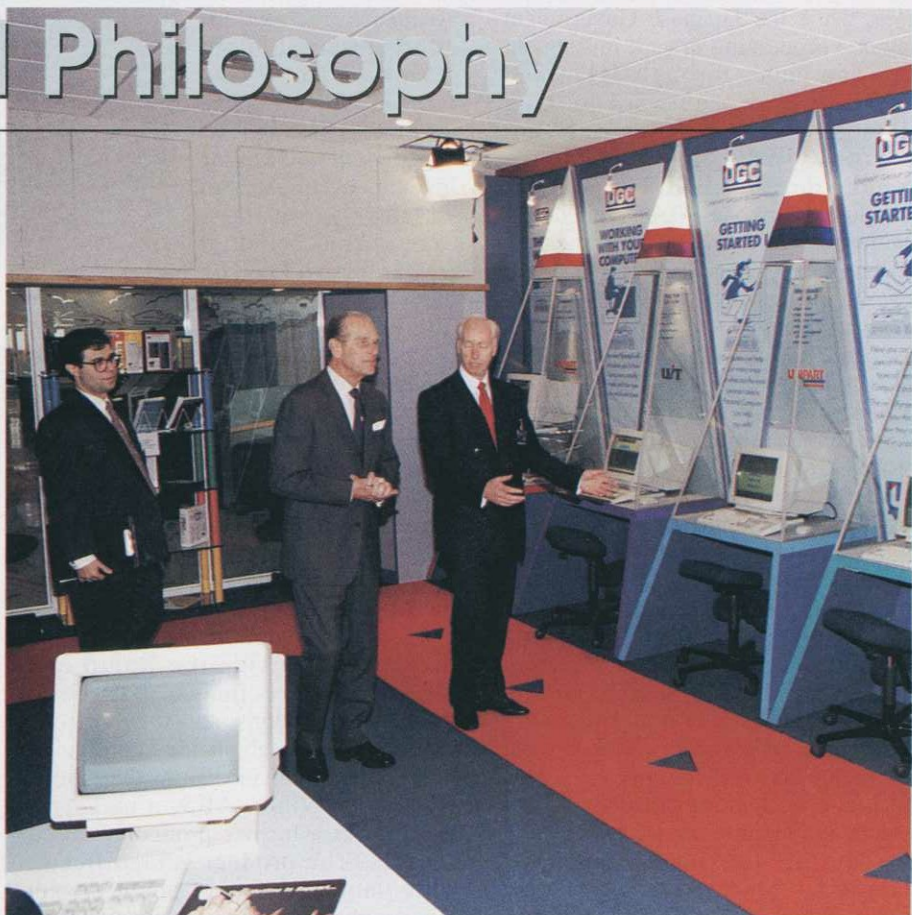
By John Neill

I am delighted to have this opportunity of sharing some of my experience as a Western businessman doing business with Japanese and Western companies.

My first real opportunity to understand the difference between Japanese business philosophies and those in the West came when my company (the Unipart Group of Companies) was privatized through a management buyout from what at that time was still the State-controlled Rover Group.

We now had the opportunity for the first time to create a new company with our own mission, philosophies, values and corporate goals, and we decided to build as part of our group, a strong manufacturing business. This looked like Mission Impossible and many top people in the City of London strongly advised us to exit manufacturing as they were convinced that neither Unipart, nor indeed Britain, could be a successful manufacturing nation. We knew that if we were to build a truly world class manufacturing business, we would need to learn from the very best in the world and now that we were completely independent, we were in a position to develop relationships in the way which we thought were best. At that time, many people wrongly argued that Japanese car manufacturers had simply come to Britain to build screwdriver factories and find low-cost employees.

Our company philosophy, which guides us to this day, requires us to "understand the real and perceived needs of our customers better than anyone else and serve them better than anyone else," and so we studied Honda very carefully. I personally read every book, magazine and business article about Honda and asked their management to explain Honda's way to



British Royal Highness, The Duchess of Edinburgh make a visit to the showroom for the latest computer hardware and software at Unipart

me. I came to the conclusion that Honda were not seeking obedient suppliers who would do as they were told but rather that they were setting out to help to create strong, self-reliant business partners who would be able to work with them to produce high quality products to satisfy their customers. This was fundamentally different from the approach adopted by most manufactures in Europe and the United States in relation to their suppliers. This led us to develop a completely different strategy and approach for our own business from those which we might have used had we followed the traditional European/U.S. pattern.

Nearly ten years later, I was invited to participate in a major study by Britain's R.S.A. (the Royal Society for the

Encouragement of the Arts, Manufactures and Commerce, whose President is His Royal Highness Prince Philip) which was setting out to define the characteristics of the company of tomorrow. I drew heavily on my experience of working with outstanding Japanese companies, together with the heritage and pedigree of my own company.

In the early stages of this study, the business participants struggled with the Western model of business which put shareholders first, and their view of the Japanese model in which they perceived that employees are placed first. In our company, we had been thinking about these ideas for several years and so we were pleased to share them with the Inquiry team.

In a desire to try and contrast in an easily understood way the differences between what we experienced as the Western business model with that of the world class Japanese companies we worked with, we devised the idea of the Model A and the Model B approach to business.

We described Model A as typical of the way in which, for example, the traditional British motor industry used to work. It was characterized by short-term, power-based relationships between all stakeholders. Stakeholders are defined as customers, suppliers, employees, shareholders and the communities in which a company trades. Typically, suppliers were awarded business on price and a tough annual negotiation would take place with the supplier striving to increase prices and the customer threatening re-sourcing to minimize cost increases. Because trust was almost totally absent, there was no sharing of information or exchange of know-how. Under Model A, the customer relationships were also short-term and the objective was to maximize returns out of today's transaction. Traditional industries were heavily unionized and bargained in a confrontational manner over pay, conditions and productivity on an annual basis. Problem-solving in the community was something for governments to deal with and the overriding focus was on continuous short-term earnings per share growth.

We developed in contrast what we called Model B. This model is characterized by long-term, shared-destiny partnerships between the stakeholders. For example, suppliers are seen as part of an extended enterprise with whom to work in close, trusting partnerships. All the effort of employees in the customer and supplier are continuously dedicated to improving quality and reducing cost. After costs come down, prices can then be reduced. In Model B, there is mutual

commitment to work together for the long term and because this creates trust, information can be shared and waste can be eliminated. Customers are not seen in terms of one-off transactions but as long-term partners. Model B companies strive to understand their customers' requirements and orientate all the company's activities towards meeting the long-term needs of their customers better than their competition. Employees in Model B companies are continuously trained because it is not just their effort that is required but instead, their creativity and problem-solving skills. Short-term changes in

this belief, they are convinced that for one of the stakeholders to win, the others must lose, and for shareholders to win—employees, customers, suppliers and the community must sacrifice something. We believe, however, that costs can go down forever if all stakeholders in the enterprise work in long-term, trusting, shared-destiny partnerships. Waste can continuously be eliminated from all processes, thereby providing higher quality and more innovative products to consumers, and that in turn provides opportunities to all other stakeholders and fair, enduring long-term returns for shareholders.

My experience and that of many executives in my company, is that the Model B approach is a natural and normal part of the way in which world-class Japanese companies operate. There are now increasing numbers of Western companies who say the same thing, and many are trying genuinely to work in the same way, but there are many years of traditional Model A behavior patterns which need to be changed. The RSA published their "Tomorrow's Company" report in June 1996 and it was encouraging to see

the ideas in this report often referred to as the "inclusive approach" (which we call Model B) being adopted by more and more British companies. For our part, we will always be grateful to our Japanese business partners for their help and patience in helping us to find our "own way," which we have been able to do because we were hungry to learn and they were certainly happy to teach us.

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*The Queen of England visits "Britain's Best Factory" seen here with The Duke of Edinburgh and John Neill (right)*

demand are not met by reductions in employee numbers, but instead employees have the confidence of a long-term relationship with the company.

Model B companies recognize that devastated communities cannot buy their products and so they understand that it is in their commercial interest that their communities are safe and vibrant and that community schools are producing children with a high level of knowledge, skill and above all, insatiable curiosity and a desire to learn. What then of shareholders? To properly understand how Model B companies provide better results for shareholders, it is important to grasp one simple idea. Many Westerners believe that in the long run, costs stop going down and flatten out. Because of

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