

Corporate Japan Awaits Its Own "Nomo"

By Hamano Takayoshi

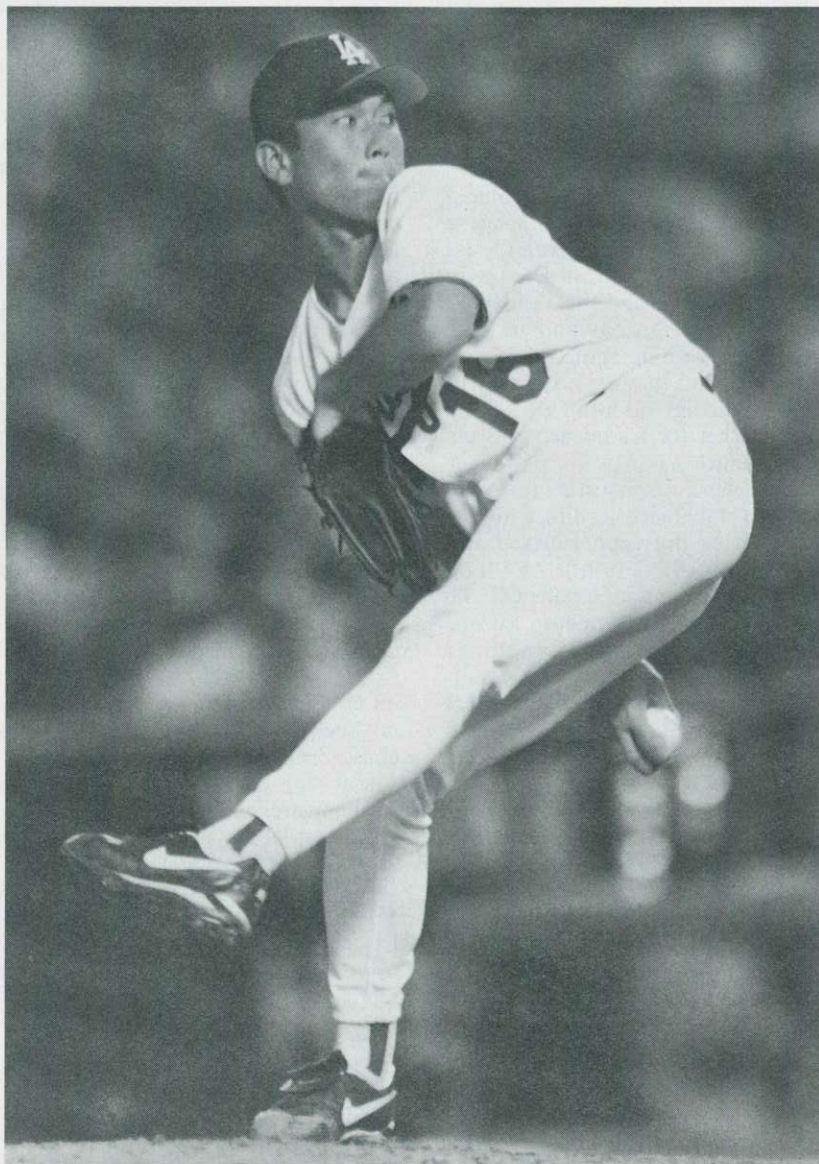


Photo: Kyodo News Service

L.A. Dodgers pitcher Nomo Hideo in action

There was something astonishing about the way Nomo Hideo leapt to fame in the Major Leagues last year. Early in the 1995 season, it had been a matter of speculation whether Nomo, notwithstanding his fame in Japan, could make the grade in the Majors. But

when the pitcher, with his trademark windup and throw, shut out slugger after slugger, American and Japanese fans simply couldn't get enough.

The baseball field is not the only place where people like Nomo—people with dreams and the will to make them

happen—are in great demand. They are sought in Japanese business circles as well. There has even been newspaper commentary urging, "'Nomo' Corporations, Arise!" (*Asahi Shimbun*, October 26, 1995).

But the Japanese business world's courage to be innovative and take on challenges has faded, its energy dissipated. A business environment has yet to be formed that will allow frontier-seeking corporations to thrive and it, therefore, seems unlikely that corporate managers like Nomo will materialize.

Limits of a catch-up economy

The rapid development of the Japanese economy in the half century since the end of World War II has been called one of the world's wonders, but for the past three years the economy has expanded at a rate of close to zero.

Increasing numbers of car and electronics manufacturers, whose exported products remain competitive due to effective management techniques, are not building factories in Japan, opting instead to build them overseas. For this reason, there is rising concern over the "hollowing out" of the manufacturing sector and employment instability. Corporate restructuring is becoming ever more common, as companies strive to turn profits despite the leveling off of sales, and employment options for recent college graduates have narrowed sharply. Recent female college graduates, in particular, are facing what some call an "ice age" in corporate hiring policies.

Behind the Japanese corporate world's migration overseas is the high cost of production in Japan, which in turn stems from over-regulation. Takaoka Sueaki, chairman of the giant supermarket chain The Seiyu Ltd., gives the following example: "A container of ice cream made in Canada sells for ¥480 at Seiyu. Shipping costs

run about ¥90, of which ¥15 covers the cost of shipping across the ocean to Yokohama Port, and the remaining ¥75 goes for shipping to the Seiyu store where it will be sold." The high cost of overland domestic shipping compared to overseas shipping costs is a problem not limited to ice cream shipments; it is a frequently encountered obstacle. In Japan, the trucking industry is heavily regulated by the government, which stipulates everything from zoning to the minimum number of trucks in a given company's fleet. In addition, highway tolls are rising under current government policies that pool income from tolls all over the country to pay for new highways. In this context, then, if a new company is considering building a new factory, it would be strange not to think of locating it overseas.

How have things gotten so far out of hand? Many have come to see Japan's catch-up economy as the heart of the problem. Rising from postwar ruin, the Japanese bent all their efforts toward catching up and overtaking the industrialized countries. The centralized Japanese government leadership functioned well in this game of economic catch-up, which contributed to the expansion of Japan's economy. One day, however, people woke up to the fact that the Japanese economy had become a global leader. As one of the world's economic front-runners, Japan would have to take the initiative in researching and developing new technologies. There were limits, it was pointed out, to the game of catch-up Japan had played so well, a game in which the competition was limited by regulations while Japanese companies introduced foreign technology, improved upon it, and applied it to produce their own products.

In this time of historical change, Japan needed to exhibit creativity in all endeavors and regulations were now seen as inhibitors to change.

An inhospitable environment for newly founded companies

After World War II, even Japan had

its share of thriving entrepreneurial companies, including Honda Motor Co. and Sony Corporation. But according to the Ministry of International Trade and Industry, the rate of new companies being founded is extremely low.

In the U.S. during the second half of the 1980s, new corporate startup rates were at a high 13-14%. In Japan the comparable figure was 4-5%, with only 3% in the manufacturing sector. Three conditions are necessary for the creation of a hospitable environment for the formation and growth of new companies: capital, human resources, and an entrepreneurial environment. An "entrepreneurial environment" allows companies with an entrepreneurial spirit to thrive through the existence of competitive companies. The state of regulations, therefore, is a key point. In terms of human resources, the proportion of job openings to applicants has dropped in recent years due to the recession, so even though a young corporation with an uncertain future is basically at a disadvantage, it is relatively easy to guarantee a pool of good employees. But fundamental concerns still remain.

More important is the problem of securing a supply of funds. Despite the current fiscal relaxation and our existence in an era with historically low interest rates, companies that are just starting out have difficulty procuring capital. In the U.S., this need is in large part filled by so-called "angels"—individual investors and venture capital companies. In Japan, too, there are about 120 venture capital companies, but this number is only a sixth of the U.S. number, and qualitatively pales in comparison.

Government aid policies

For this reason, the government's economic plan announced on September 20, 1995 included a number of policies designed to help foster specific new businesses. These policies included the establishment of a system that would give the right to demand stock issues to company officials, the introduction of a merit-based salary system that would increase managerial remuneration

according to ability and success and the commitment to strive for a guarantee of adequate personnel for these companies. In addition, the plan detailed policies that would support the establishment of small and midsize companies through public funds, including making low-interest funds available through the public institution of the Japan Development Bank. In addition, the plan stipulated that if a company's expenditure on research and development exceeded 3% of its sales, even a company posting a loss could register on the "specially regulated over-the-counter (OTC) market." In the long run, only reforming the education system, so that it focuses on the importance of the individual, will create a fertile environment for people who, like Nomo, balk at no challenge, however difficult. In that vein, the Japanese can be said to be striving for a revolution of consciousness.

While not strictly a model for research and development, the business success of one small mountain village on the island of Shikoku illustrates the direction in which Japan needs to head. The people of Kamikatsucho, Tokushima Prefecture, decided that they wanted to make a marketable product. They went into the surrounding mountains and gathered the leaves of maples, persimmons, bamboo, camellia and other trees. These they sold as decorative "color" to Japanese restaurants. Their product was immensely popular, and the village eventually sold ¥100 million worth of leaves and greenery in a year. Cultivation was unnecessary since the leaves grew on their own in the wild. This success story is a real-life version of the fairy tale in which the leaves of trees turn into gold. People with the ingenuity to come up with a unique idea such as this and carry it out without being daunted by small failures are exactly the kinds of courageous risk-takers that Japan needs to nurture.

Hamano Takayoshi is a news commentator at NHK (Japan Broadcasting Corporation).