

P R O F I L E

Spreading the Risk

There is a groundswell of interest in the management techniques developed by Kagayaki Miyazaki during his long and successful career with Asahi Chemical Industry Co., Ltd.

With the yen's rapid appreciation since the September 1985 G-5 meeting of central bankers and finance ministers from France, Japan, the United Kingdom, the United States and West Germany, the Japanese economy has been buffeted by the cold winds of recession. This slump has been especially pronounced in steel, shipbuilding, textiles and other export industries.

Yet Asahi Chemical seems to have the right chemistry for weathering the storm, and more and more people are realizing this. Much of the company's success is attributed to diversification, but this diversification is not a recent response to the current climate. Miyazaki and Asahi Chemical have been diversifying for the last 26 years.

Today, these efforts are paying off for Asahi Chemical, and business is understandably taking a renewed interest in Miyazaki and his methods. Much of the Miyazaki wisdom is found in a book that he wrote last year entitled *Learning to Think like a Director* (original title: *Miyazaki Kagayaki-no torishimariyaku-wa ko benkyo-seyo!*, Chuokei Shuppan, 1986). This book has rapidly moved to the top of the business bestseller list, and it was already in its seventh printing as of mid-January.

In August 1961, Miyazaki was appointed president of Asahi Chemical at the youthful age of 52. Drowning in red ink and just barely able to

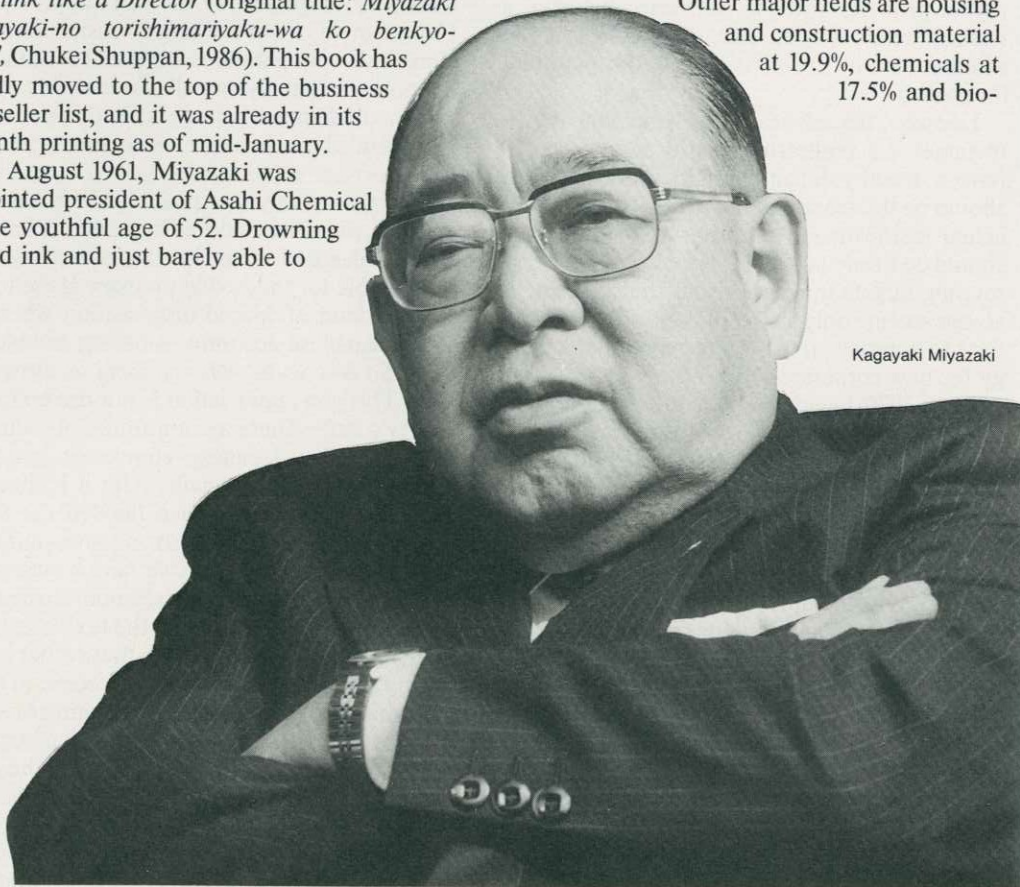
pay stockholder dividends, Asahi Chemical bypassed several vice presidents and executive directors with more seniority and turned in desperation to Miyazaki. At the time, Asahi Chemical was a small chemical fibers company in the hinterlands turning out rayon filament in Kyushu's Nobeoka City. Of the seven big synthetic fiber companies in Japan, Asahi Chemical clearly ranked at the bottom of the list in terms of profitability.

Now, 26 years later, Asahi Chemical is the industry leader. Today, Asahi Chemical has annual sales of approximately ¥774 billion (for the year ended March 1986; about \$5 billion at the rate of ¥155/\$), and current profits are approximately ¥38.9 billion. As such, it leads second-place Toray by ¥150 billion in sales and by ¥11.1 billion in profits.

Asahi Chemical has demonstrated astonishingly broad corporate strength. Its traditional field of synthetic and chemical fibers now accounts for only 27.6% of the company's sales, and thus has been relegated to the company's second-most important field of operations. At 31.5% of sales, petrochemicals are more important.

Other major fields are housing and construction material at 19.9%, chemicals at 17.5% and bio-

**Interview with
Kagayaki Miyazaki,
chairman of Asahi
Chemical Industry
Co., Ltd.,
by Seiji Ono**



Kagayaki Miyazaki

**Every good company
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a healthy deficit.**

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Efforts to improve generate energy for corporate growth.

technology, pharmaceuticals and foodstuffs at 3.5%. In addition, there is also a very promising fledgling electronics division manufacturing computer circuits and peripherals.

Upon assuming the presidency, Miyazaki concentrated first on turning the corporate structure around and getting the company out of the red. Then he moved quickly to consolidate these gains by diversifying into petrochemicals, foodstuffs, pharmaceuticals, housing and construction materials and electronics. As a result, he was able to turn the company away from hanging by the single thread of textiles and to give it a broad base in a wide range of fields so that it would be able to balance the business cycles against each other.

Ordinarily, one manager would have one single management philosophy, but Miyazaki seems to have many. This is evidence of a flexible mind able to see all the possibilities and a basic outlook that continues to be that of a young businessman.

For example, his assertion that every good company should have a strong division that is running a healthy deficit may seem illogical at first, but it is in reality a philosophy born of his zeal for diversification and improvement. If a company has a division running a healthy deficit, everyone will pitch in and try to make the improvements needed to get that division out of the red. It is this effort that is the lifeblood of corporate growth. And the difference between a healthy deficit and an unhealthy deficit lies in whether or not the division has the potential for growth.

Likewise, the advocacy of performing at 70% of target is a rephrasing of this admonition to have a healthy-deficit division, since the 70% should be the score that the company gets for its actual performance and the remaining 30% should be future potential. Thus Miyazaki keeps revising targets upward so that the company is always scoring only about 70% and so that the efforts to improve on that score generate the energy for new corporate growth.

Since 1979 Japan has been a net importer of textiles (from filament to finished garments), and Miyazaki is today not only the leader of the Asahi Chemical group but the dean of the Japanese synthetic textile industry. Two decades ago, the Japanese industry was faced with trial and tribulation as a result of Japan-U.S. trade friction in textiles. At the time, Miyazaki emerged as the industry leader, coordinating opinion within the Japanese industry and forcefully stating the Japanese industry's position vis-à-vis the United States. It was then that Miyazaki founded the Japan Textile Federation as part of the effort to unify the industry, and even today he serves as its chairman, taking the lead in the effort to protect the interests of the industry as a whole on such difficult issues as multilateral trade negotiations and restructuring.

What kind of a year will 1987 be for the textile industry? What are Asahi Chemical's goals?

These were just some of the questions that the *Journal* put to Kagayaki Miyazaki.

Question: *The yen has taken another jump upward since late last year. Given that the textile industry is heavily dependent upon exports, I would expect profits to be hurting throughout the industry. What is the outlook for 1987? What is on the industry's agenda for this year?*

Miyazaki: The textile industry exports a lot. If you include semifinished goods, nearly 50% of the total Japanese output is exported. So the industry is very vulnerable to yen appreciation and other exchange fluctuation. Even so, such is not to say that there are no benefits to be derived from appreciation. In both natural fibers and synthetic fibers, the raw materials are cheaper because of the yen's appreciation. Still, textile prices fell even before the industry had time to enjoy these cheaper costs, and everybody is having a very difficult time of it. This is a time that will make or break a company depending upon the quality of its management.

Q: *In addition to getting hurt by eroded export competitiveness, the Japanese textile industry is also facing increasing competition here at home from Taiwan, Korea and other low-cost countries. Imports have jumped recently.*

A: This is too big an issue for management to handle by itself. Even if the Japanese manufacturers try to stabilize domestic textile prices, they get hit with cheaper imports—imports made cheaper in large part by the yen's appreciation. For example, we are trying to restructure and slim down our operations while still maintaining continuity of supply, but all of our efforts will be for naught if import volume is higher than anticipated and the balance between supply and demand is once more upset.

Of course, it would be possible to control these imports with international agreements and the GATT safeguard and other clauses, but it will not be possible for the textile industry alone to call for this kind of special dispensation when the entire Japanese economy is having trouble.

Q: *So how is the industry going to survive?*

A: This yen appreciation is not the textile industry's fault. There are a number of industrial sectors where Japanese companies are very competitive internationally. And it is these industries' exports that have flooded the world markets and generated this massive trade surplus, as a result of which we have a strong yen and calls to increase Japanese imports across the board. Quite against its will, the textile industry is being lumped together with these other industries. I suspect it would not have come to this if the internationally competitive companies had been a little more moderate in their exports, moved to overseas production or done the other things that needed to be done to avoid this friction. But since you ask where we go from here, the answer can only be that we have to find a way to survive in accordance with basic economic principles. The Japanese textile industry has to rationalize, consolidate and modernize its

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operations until they are able to compete in world markets.

Q: *The United States is complaining that its trade deficit is ballooning again and that this is dragging the economy down, and Congress is once more up in arms with a plethora of trade bills. Most of these bills are aimed at Japan, and it looks as though the Japanese economy will have an even harder time of it if these bills pass.*

A: Fortunately, President Reagan has been largely committed to free trade, and he has vetoed what protectionist legislation Congress has passed. But with the Democrats having captured control of the Senate, there is a very strong likelihood that President Reagan will not be able to veto all of the protectionist legislation that crosses his desk. The thing that worries me is the possibility that we will end up with a bill demanding that Japan cut its exports 10% or imposing an import surcharge. I don't think these are realistic responses, but anything could happen. And if it does, we will have to take a long and hard look at what we can do given that context.

Since this will obviously have an impact on the textile industry, I am very concerned. When you think about all the trouble that could erupt, 1987 looks like it will be a very grim year.

Q: *A lot of people in different industries have complained about the ineptitude of Japan's trade diplomacy. The consensus seems to be that, while some appreciation was due, it has gotten entirely out of hand and that something is wrong. What do you think?*

A: I do wonder if something could not have been done to hold the yen's appreciation to a more acceptable range. I wish the currency negotiations had been handled a little better. Japanese management and workers alike are working as hard as they can, and we need a government that is able to keep these people from being thrown out in the cold. I get the feeling that the Japanese people are the hardest working anywhere. We need a government that will value these people's work and take care of them. This new sales tax that the government is proposing, for example, will do major damage to the textile industry. This is hardly the sort of thing you would expect from a responsible and responsive government.

The Japanese textile industry has a history going back over 100 years, and we have had a number of very difficult periods before. But each time we have gotten our wits together, worked our fingers to the bone and managed to survive. So despite the obvious perils of the present, I am hopeful that some way will be found to survive.

Q: *Given what you have termed "the obvious perils of the present," how does the Asahi Chemical group intend to survive?*

A: Asahi Chemical's textile division is very competitive. I tend to think of Asahi Chemical as a total-line chemical company, but the textile division is highly competitive in every area. Even in the area of regenerated fibers such as Bemberg and rayon, Asahi Chemical has devel-

oped a full-blown cellulose-processing industry with almost unbelievable rationalization and technical innovation. In acrylics and nylon too, we have cut costs by integrating production from raw materials through finished products, and the result is that we are fully and internationally competitive. We have constantly been replacing old equipment with new, adding new technologies and restructuring our operations to stay ahead of the competition. In polyesters too, although we are not ready to announce this in the trade journals yet, we have developed some very, very high-speed production equipment that should enable us to hold our own. At the same time, we are not simply looking at the traditional applications but are developing a number of new and innovative applications to keep the market buoyant.

Q: *The housing and construction material field is very sensitive to domestic demand. Given the government's push to stimulate consumer markets, do you expect this to be another mainstay in 1987?*

A: Of course the housing and construction material field is a highly profitable field, but the petrochemical field may reasonably be viewed as our most profitable overall. Because the petrochemical field involves so many specialized product applications, and because we are able to keep our costs down with integrated production from raw materials to finished products in the general-market field, we should survive here. Getting back to the housing and construction materials field, Asahi Chemical has recently been recognized as king of the mountain in the Tokyo-area housing industry. We are also the top manufacturer of lightweight concrete in Japan with a market share of over 40%.

Q: *What does the future hold for Asahi Chemical—or Asahi Chemical for the future?*

A: The basic vision goes beyond the current diversities to future success in all of our fields. We have great expectations for every field—textiles, housing and construction materials, petrochemicals and all the rest. We wouldn't be in them otherwise. Whether it is product and market development or research and technology, Asahi Chemical intends to be at the top. In the same spirit, we are pushing ahead in computers and electronics as well as in biotechnology.

I have long held that the company needs to have both capable management and a strong research program, and that this research has to find market applications. It doesn't do any good to do rarefied basic research if that can't be applied. You have to have the technology that's needed to produce products responsive to market requirements if you want to survive—and we intend to do more than just survive.

In short, technology, research and development and marketing are naturally essential to the corporate operation, but the rise or fall of the corporation is ultimately determined by whether or not it has a management methodology able to fully comprehend and incorporate all of these factors. ●

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