What Does "Restructuring" Mean in Japan and How Far Has It Progressed?

By ***Bradley Richardson***

RESTRUCTURING is a word often heard in Japan these days. In politics "restructuring" often refers to Prime Minister Koizumi Junichiro's policies to privatize off-budget public programs. But in the economic field, "restructuring" is frequently used vaguely. Economists and government officials often point to a need for greater restructuring without saying exactly what it is. Nevertheless, close attention to actions taken by specific Japanese companies and industries over the past decade shows clearly that restructuring has been going on in many companies. Furthermore, many different kinds of restructuring activities can be identified.

The Context

In the 1950s and 1960s, the Japanese economy boomed with nominal GDP and GNP reaching as high as 12% in some years. Several Japanese industries excelled on a world level in terms of efficiency and product quality in this period. By the late 1980s, the economic environment facing Japan had changed dramatically compared with the past. The Japanese yen's value relative to the dollar was three times the 1960s rate, there were trade barriers in some overseas markets and Japanese companies faced competition from other Asian countries where labor costs were a fraction of those in Japan. Several Japanese industries, especially automobile and consumer electronics manufacturers, had moved part of their operations to the United States, Europe, China or Southeast Asia. By the 1990s, in the face of these trends, several of Japan's domestic manufacturing industries were running at 10-30% below capacity and calls for restructuring were frequently heard.

Different Meanings

Generally, restructuring refers to measures to restore or improve a company's or an industry's economic health. Quite a few different strategies have been followed in pursuit of this goal. Some companies or industries have aimed at cost reduction by downsizing staff, or by pressure on suppliers to cut prices. Others have sought to make their corporate organizations more efficient. Still other firms or sectors have hoped to succeed by turning to new products, manufacturing process innovations and new research initiatives. Finally, some companies have relied on guidance from healthy firms.

Two Japanese industries – steel and electronics – provide many of the examples of restructuring in the account that follows. Once the most advanced steel industry in the world, the Japanese industry has struggled recently to keep up with technological change and survive competition from makers in other countries, including those from East Asia. Similarly, Japan's electronics industry, although contributing an estimated one-third of the manufacturing sector's income, has had many problems as the result of the ups and downs of the so-called "silicon cycle" and increasingly rapid changing technology. Both Japanese steel and electronics companies have struggled to survive during much of the 1990s and beyond by adoption of multiple combinations of restructuring strategies. There were also examples of restructuring from other industries and some of these are included where they illustrate specific restructuring applications.

Restructuring as Organizational Change

In many cases, in Japan to "restructure" has meant taking actions to reshape corporate organizational relationships, especially lines of authority and accountability. Matsushita Electric Industrial Co., one of Japan's major electronics and electrical goods makers, is a good example of what is meant by organizational restructuring. The Matsushita group had grown to over 300 companies by the early 1990s, and achieved a widely recognized success in home appliance markets as well as trying to turn itself into a major global force in electronics. Originally, Matsushita companies were set up so as to compete with each other. Matsushita Konosuke, the group's founder, felt that the different group companies should manage their own individual corporate strategies, even if this led to intra-group competition between firms. However, by the 1990s, the group's decentralized structure was seen as an impediment to effectiveness in the face of rapidly changing markets and technologies. Nakamura Kunio, the president of the Matsushita from 2000, chose instead to install a top-down management structure by which formerly quasi-independent firms were turned into closely monitored subsidiaries of the main company. Using stock swaps to make group companies into direct subsidiaries, Matsushita closed plants and collapsed 100 group businesses into 14 core units. Nakamura called his transformations a "destruction and creation policy," arguing that decentralization may have suited the Matsushita group in periods of high growth but centralization was necessary in a sluggish economy.

Centralizing corporate organizations was quite popular in Japan in the 1990s, as was indicated by the numbers and types of firms choosing a top-down business format. Among companies choosing a centralized corporate model was Nippon Telegraph and Telephone Corp. (NTT), one of the world's largest telecom companies. However, NTT chose a different path to centralization than Matsushita and others by creating a holding company to guide overall group strategy. NTT was the first firm to adopt a holding company format, which had been outlawed during Japan's early postwar occupation-led *zaibatsu* reform.

However, new legislation made NTT's move legitimate, and, before long, several other firms had opted for a holding company structure.

Centralization was not the only management restructuring option in recent Japanese experience. Decentralization, more like that in Matsushita's early days, was the choice of some other companies. Oki Electric Industry Co. cut the number of its divisions from 21 to 15 in 1999 while giving each division more autonomy than had previously been the case. Sumitomo Corp., one of Japan's top trading companies, followed what its president, Oka Motoyuki, called "management by centrifugal and centripetal forces." In practice, this meant that different units within the giant trading firm were given autonomy to make business decisions even if this meant undertaking heavy risks. However, the other side to Oka's decentralization policy was a threat that there would be severe penalties for failure, including the possible dismissal of leading executives.

In addition to centralizing or decentralizing intra-company lines of authority, some groups and individual companies followed "slimming" organizational strategies by reducing the size or complexity of their companies' or groups' organizations. For example, Mitsubishi Electric Corp. decided to cut its domestic group companies from 180 to 140 starting in 1999. Sony Corp. reduced the number of production facilities from 70 to 55 in the same year. Mitsukoshi Ltd. also followed a slimming strategy in 2003 by cutting its affiliated stores from 29 to 13. Hitachi Ltd. and Toshiba Corp., both companies with large numbers of subsidiaries – supposedly several hundred in the case of Hitachi – also divested themselves of some group companies during the 1990s. Mazda Motor Corp. by trimmed half of its sales outlets.

In addition to centralizing, decentralizing and slimming, another organizational strategy increasingly used in Japan in the 1990s and beyond has been the setting up of joint ventures or other kinds of corporate alliances. One of the best known joint ventures was created by NEC Corp. and Hitachi. They founded a new company, Elpida KK Ltd., by amalgamating the computer chip operations of the two "parent" companies. Joint ventures with overseas firms were also formed, such as that between Fujitsu Ltd. and Siemens Business Services (a 100% subsidiary of Siemens AG) to produce personal computers and servers. Other tie-ups between Japanese and foreign companies included Nippon Steel Corp.'s alliance with South Korea's Pohang and China's Bao Shan steel firms, or the Taiwanese and Korean alliances chosen by Sumitomo Steel and Kobe Steel. Other examples of intra-industry cooperation included arrangements by Hitachi, Toshiba and NEC, plus 10 other electronics makers, to jointly develop a new, wider silicon wafer. The Mirai Project (Millennium Research for Advanced Information Technology), in which 20 universities and 25 companies were brought together in Tsukuba by the Ministry of Economy, Trade and Industry to explore new semiconductor technologies is another example of multiple participant cooperation. This project is also an example of Japanese efforts to emulate the U.S. model of research ties between universities and industry. Banks and some firms in other areas of the economy also used mergers to combine two or more problem-laden companies to form a single stronger integrated corporation.

Restructuring and Employee Relationships

Many of the organizational changes discussed above resulted in layoffs of employees. Moving production facilities to other parts of Asia, which was going on during the same time period as multiple changes in organizational structures, also contributed to workforce reductions in Japan. According to some estimates, Japan in the 1990s had seven million jobs more than were economically justified, many of which were white collar positions. It is said that overstaffing was an explanation for Japan's high labor costs, which were above those in the United States at times and were also higher than those in the United Kingdom, Germany and France.

Downsizing staff in Japanese firms was not easy given the existing commitment of many large companies to so-called lifetime employment. Under the "lifetime" model, Japan's largest companies recruited blue collar workers and office staff from high-school and university students at the time of their graduation. Upon entering a firm, recruits expected to be employed until the mandatory retirement age, which until fairly recently was 60. Promotion and wage increases under this system were based on individuals' length of tenure as employees, i.e. seniority. Benefits typically included payment of often generous summer and winter bonuses, housing and transportation subsidies, and in-house basic medical care. The "lifetime" model was limited to male employees, and confined only to very large firms, although some mid-sized firms endeavored to provide similar benefits. There were suggestions as far back as the 1980s that the lifetime model led to hiring excess numbers of employees, especially among white collar workers. For example, NTT was said by critics to have "too many employees, to pay them too much and to be too rigid to change." Unflattering characterizations of unproductive "lifetimers" as "the race that sits by the window" were part of the business vocabulary of 1980s' Japan, and referred to the practice by which unproductive persons in mid-career ranks occupied window-side desks and often could be seen reading newspapers to pass the time.

Lifetime employment began to break down in the late 1990s as previous efforts to trim costs, such as employee transfers to subsidiaries accompanied by wage cuts, failed to adequately curtail high fixed labor costs. As opinions changed or opponents abandoned the fight, companies such as Mitsubishi Electric, Toshiba, Hitachi, Oki Electric, Matsushita Electric and Sony announced plans to cut a combined 71,200 jobs.

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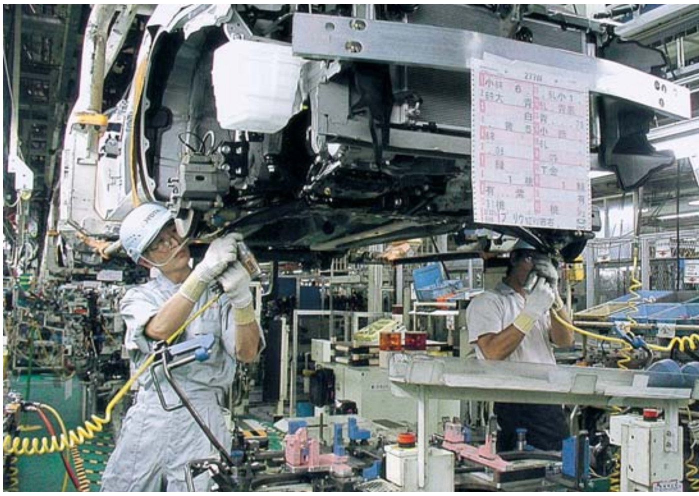

Assembly line workers install a hybrid engine in a Toyota sedan

Some job cuts were to be accomplished through natural attrition, some would result from early retirement incentive programs and some would come from restrictions on the hiring of new graduates. By 2002, 800,000 jobs had disappeared in the economy as a whole according to government figures, even though there were still deep divisions in management opinion on personnel policy and last ditch opposition by managers friendly to the "lifetime" system and company unions. As a result of corporate staff reductions and the general slowdown in hiring since the collapse of the bubble economy, unemployment in Japan grew from 2.1 million to 5.4 million persons in the last decade.

Various changes were also made in the relationships between companies and their existing employees. Staffing strategies included hiring part-time and other irregular workers, who typically receive less compensation than regular employees. Part-time and other non-regular employees may also receive limited or no benefits. The rate of employees who were hired out to various firms on a temporary basis by employment agencies increased from 17% of all employees in 1990 to 25% in 2001 as a result of these new personnel policies. Quite a few "progressive" firms such as Honda Motor Co. and Fujitsu also implemented merit or performance pay systems during the same period.

Restructuring as Product/Process Innovation

A kind of structural change that also included innovations in manufacturing processes took place when several electronics companies decided to streamline chip making operations via an organizational model called "electronics manufacturing systems" (EMS). EMS combined product development, design, procurement, manufacture, sales and post-sale service into one integrated series of processes. The objective of EMS strategies, which in some cases involved the physical consolidation of manufacturing facilities, was to lower costs through reducing communications and transportation expenditures. Five of Japan's largest electronics makers – NEC, Sony, Yokogawa Electric Corp. and Matsushita – invested in EMS arrangements in 2001 alone. Other examples of changes in manufacturing processes include the abandonment of old blast furnaces for newly constructed facilities in the steel industry or construction of mini-mills where scrap was turned into steel by electricity-dependent processes.

New products were another strategy employed by firms to help them survive the ups and downs of the "silicon" cycle and/or in or some industries compete successfully in the Japanese home market and abroad. For example, Oki Electric decided in 2001 to shift from hardware manufacturing to providing "electronic systems" for local governments. Fujitsu also expanded its software services in 2002 while Sony expanded its financial services operations. One steel firm even began a software service business.

Conclusion

The various kinds of restructuring described here are only a few examples of the restructuring activity taking place in Japan recently. Overall, many Japanese companies were committed to initiate restructuring strategies in the late 1990s and early 2000s. Despite the views of respected business experts such as Peter F. Drucker, who stated that Japan has yet to restructure significantly, the examples in this article are only a partial listing of the recent restructuring activity taking place in Japan. To be sure, not all restructuring plans were put into place and not all plans were successful. However, government statistics, such as those on companies' shift to part time and other kinds of employment and cuts in overtime payments and bonuses, would suggest that many firms were very seriously engaged in restructuring efforts such as those noted above.

In addition to the widespread examples of restructuring plans and activities, several different types of restructuring have been identified. Some companies and groups placed their bets on organizational changes – centralization, decentralization, slimming, downsizing or joint ventures and other kinds of cooperation. Other kinds of restructuring efforts resulted in job cuts or new combinations of traditional employment schemes with temporary hires, and other devices designed to cut Japan's high corporate wage bills. Finally, some firms chose to streamline production processes or enter new fields by making new, often advanced products or moving to new kinds of activity in the service sector. Often particular companies engaged in more than one type of restructuring at the same time. Restructuring in some cases involved "big brother" relationships between a problem-ridden company and a more successful firm in the same line of business or region. Some firms were also helped by so-called turnaround funds or government programs. Where mentoring was involved, strategies and solutions typically were of the kind we have enumerated above. JS

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