

# Challenges in Japanese Corporations in an Open Global Economy

By Peter Lorange

Japanese corporations have generally been in the forefront of international competition for quite some time. Within areas such as consumer electronics and the automotive industry we have many examples of innovative new Japanese products. Some of the most famous international brands are owned by Japanese firms. Still, with the present pressure on the Japanese economy, one might ask: what would be the priority of Japanese-based corporations in order to acquire and maintain international success? The following are my observations on the subject.

## Self-renewal for growth

A critical issue for all leading corporations, Japanese as well as non-Japanese, is the ability to develop new products and/or services in such a way that they offer advantages to the customer that he himself has not yet realized he may need. This ability to see new business opportunities before others, not yet obvious to everyone else, provides a key basis for internally-generated rapid growth. Equally important is the ability of the organization's members to actually implement a plan of action to follow up on this opportunity, so as to rapidly expand in a way that secures dominance in the new business idea. The following diagram proposes a practical approach for a company to assess its business portfolio and its growth-generation potential:

Let us provide examples of Japanese-

Do we see unusual growth opportunities?	Yes	<b>Pioneer/Experiment</b>	<b>Rapid Expansion</b>
	No	<b>Restructure</b>	<b>Dominate/Defend</b>
		No	Yes

Do we presently have the resources in place?



Peter Lorange, president of IMD

based corporations where one can raise questions regarding the ability to develop a balanced portfolio.

The successful, rapidly growing firm—the one that “sees” new opportunities early—needs to be truly willing to experiment; it will often have relatively more pioneering activities in its business portfolio than its competitors. These would be combined with a somewhat smaller number of initiatives in the rapid growth area, supporting a significantly lower number of business activities in the dominate/defend area and, finally, hopefully few business activities that need to be reconfigured. This portfolio picture must be seen in the global business context; it is not enough to be strong in Japan if one is weak globally.

First, let us consider Kirin Beer. Fifteen years ago, Kirin had a market share of 61% of the Japanese beer market. Today the share is little more than 40%.\* Through various innovations, such as dry beer and ice beer, a number of other beer makers—

most notably Asahi—have been able to build new business segments, thereby lessening Kirin's dominance. Its position has been further weakened by their competitors' use of pioneering, rapid expansion initiatives, coupled with Kirin's own lack of such initiatives. An important lesson to be drawn from this is that a firm's own, aggressive pioneering of new business ideas for serving the customer is critical. In general, with the strong competitive domestic market in Japan, one would expect Japanese-based multinationals to have an advantage over many foreign firms—there are few, if any, economic environments which are better suited to develop pioneering, new business ideas, and to test them out, than the Japanese market. The Japanese automotive industry has consistently benefited from domestic innovation.

A second lesson to learn has to do with the need to scale up a new business idea internationally, and not to be satisfied with conquering one's home market alone. Here, we have another good example from an outstanding Japanese company, Kao, which developed micro-size detergents. When these detergents came out some ten years ago, they represented a revolution; the consumer no longer needed to carry around huge detergent bags, but could be served just as well with much more compact packages. Major competitors such as Procter & Gamble did not have this product technology. Kao did an outstanding job of manifesting itself as No. 1 in the Japanese market, but was not able to take its success in a significant manner into the international arena. Lack of international implementation capability prevented Kao from taking maximum advantage of its pioneer initiative; the rapid expansion was local, not global. The lesson here is that today's winning organizations must

\* The Nihon Keizai Shimbun, June 24, 1998

have the capability to quickly implement new business ideas globally. It is not enough to be No. 1 at home.

### The international side

Therefore, the two conditions necessary for successfully developing internally-generated growth are the ability to create new pioneering initiatives, as well as the ability to expand rapidly globally. These require a truly international competence, through the development of effective teams of executives from diverse cultural backgrounds, different countries, and varied experience-based backgrounds. Many Japanese-based multinationals would benefit from this approach to innovation and globalization. By having more international teams, one would expect that both the ability to pioneer and the ability to implement effectively will be strengthened.

A good cross-cultural understanding, including multilingual abilities, will thus be critical. An understanding of the key macro-cultural differences among the major markets must be a priority. While several Japanese-based multinationals have made great strides in developing an effective international competence, others need to emphasize this much more.

### What about the financial sector?

As we all know, the Japanese financial sector is currently facing a number of challenges. These include the development of an intensified global competitiveness by Japanese-based financial institutions themselves, which will be facilitated once governmental protection of the Japanese financial sector is diminished. This will call for important "investments" precisely in the capabilities that I have discussed: innovation with regard to the financial products offered so as to serve one's customers in new ways, and also how to be able to implement revolutionary ideas in a more global context. Japanese-based financial institutions



IMD in Lausanne, Switzerland

must concentrate on major competence growth here.

There is another side of the challenge facing the financial sector—namely, how to revise its lending policies so as to emphasize the internally-generated growth initiatives of its clients. The financial sector must work closely with companies which show great promise in the long run—i.e., companies which demonstrate the ability to generate business via internal methods. This means that the banking sector will have to provide financing for pioneering/rapid expansion business initiatives and to assess the overall portfolio balance within a company, as a way to determine the commercial risks—not merely looking at the pioneering and rapid expansion initiatives out of context from the rest of one's client portfolio. Such a progressive business lending policy—backing client companies that are poised for business success—will also be essential for both the banks themselves and Japanese-based multinationals who need to depend on a strong financial sector to succeed.

### What about the Government?

Anything that can be done to support the discovery of new business opportunities and to rapidly take advantage of such opportunities will be advantageous. This could affect any aspect of life in Japan. In general, the regulations of certain industries tend to hinder the industries' capacity to see

new opportunities, and implement business in an international, competitively open arena. Thus, the government will have an important role to play in gradually deregulating those sectors of the economy where it has not yet been done, most importantly the financial sector. Needless to say, this process must go hand-in-hand with providing firms the opportunity to innovate, to discover new business possibilities, and to implement them globally.

Deregulation cannot be one-sided, but must occur in conjunction with new and relevant competence building, to avoid further stumbling blocks.

### The increasingly critical role of executive development

A successful company's future competitive advantage will depend upon its ability to attract and develop strong executives with the relevant competencies. Here, an international focus is critical, as has already been noted. Typically, new business opportunities are most frequently spotted by keeping a global point of view, and they can be implemented effectively only in a global context. Japanese-based multinationals will therefore increasingly have to invest in executive development activities, which will expose their own executives to non-Japanese peers in international learning environments. IMD's contacts with Japanese-based multinationals have been increasing considerably, especially because we can offer Japanese executives what may be the most international context for learning and interacting with executives from all over the world. **JJTI**

*Peter Lorange is president of IMD (International Institute for Management Development).*