A Talent to Compete

By Yotaro Kobayashi

Much of the success that Japanese companies have enjoyed in Japan and overseas has come about because of their ability to build quality into their products. A great deal of the credit for this success must be attributed to the Japanese policy of giving the people who are directly concerned with production the authority to get the job done and of ensuring the total commitment by management to quality.

There are a lot of factors that go into competitiveness, including price, quality and reliability. The improvements in Japanese living standards and the yen's appreciation have wiped out any advantage lower labor costs may have given us, but we are still cost-competitive because we have automated many of the labor-intensive processes and because of our highly trained work force. Above all, the fact that we are quality-competitive in many ways offsets our price disadvantage against products from less costly producers.

Competitiveness depends on much more than natural resources. For many years, economists believed that the theory of comparative advantage determines which products a country should make or buy. In the dynamic reality, applying this theory is both very difficult and misleading, and we need other concepts which have more practical utility.

Disregarding the static use of the theory of comparative advantage, Japan has selected certain industries as having strategic importance and concentrated its resources on developing those areas. Once these areas were identified as long-term priorities, the real question was how to maximize the comparative advantage of each industry in a dynamic world economy.

Some people have pointed to this and claimed that Japan was, and still is, protectionist. I disagree. If not subscribing to the unquestioning application of the theory of comparative advantage and disadvantage is protectionist, then Japan is guilty of protectionism; but Japan made these strategic industrial policy decisions in disregard of such theories, and the results (automobiles or consumer electronics for instance) have proven that the decisions were after all attuned to the realities of the world economy.

The same is true for a company. Fuji Xerox, for example, started out as a sales outlet for products from the parent company. Following the first oil crisis, we realized that the only viable strategy for long-term survival was to design and manufacture competitive products specifically fit for our market, which meant at that time that we had to change our concepts almost 180 degrees.

Best and better

A company should concentrate on doing the things it does best and try to do them better. You have to serve your core customers. But at the same time, you also have to seek to expand the customer base. You have to spend time on both—how you divide the time is up to you. You decide what the key markets for the future are, both in terms of products and in terms of customers, and try to be there when the future arrives.

This is basically the approach that was taken by Japanese automobile manufacturers, consumer electronics manufacturers, and the other Japanese companies that are now household names worldwide. Their approach may not fit very well with the theory of comparative advantage, but it is hard to argue with the results these companies have produced.

On the corporate level, Japanese companies have used this approach to improve product quality and to do other things that companies elsewhere were not doing. They refused to give up. They refused to accept a position of inferiority. The really great advances are achieved when people have their backs to the wall, because only then are they forced to discard conventional thinking and to look for new solutions. Strange as it may sound, part of America's problem is that American companies have had it too easy.

The Japanese employment system, though not without its faults, is one major advantage Japan has over the United States, because it imposes the need to find productive ways out of problems. The very ease with which U.S. companies can lay people off means there is less incentive to consider other options.

American companies face stockholders' concerns about short-term profits, which places the company at a disadvantage over the long term. Japanese stockholders are more interested in long-term gains.

Until recently, Americans saw competitiveness mostly in terms of price. Product competitiveness—having products that attract and win customer loyalty—is even more important, however. If you don't have attractive products—quality products—it doesn't matter how price-competitive they are. This is not a new concept to American companies, but they are only now rediscovering it.

American has recognized that it has a problem, and there is considerable rethinking taking place now—considerable effort to see what went wrong and why. One school of thought that was in vogue for a while said there is no need to make

things—that you should concentrate on the development and design end and have somebody else make them for you. But it turns out that development is not viable in the absence of manufacturing.

Development and design have to work hand-in-hand with manufacturing, or you end up with empty abstractions rather than commercial products. American companies realize that they are well behind Japan in the area of manufacturing technology—the link that ties design and development together with manufacturing. They recognize the problem, and there has been a shift in their priorities. The new drive is to make manufacturing more efficient.

Money and status

At the individual level, the best minds in America do not want to work in factories because the big money and the social status are in management. American does not put its top engineering graduates into production. Whereas the U.S. graduates in engineering are likely to end up in an office, in Japan they are working in production.

This is a major difference, and it suggests that the American economy has steered away from manufacturing. Even though much of the manufacturing technology that Japanese companies rely on originated in the United States, Japanese companies have improved the technologies to the point where Japan is clearly in the lead. In the United States, the gap between management and labor seems too wide, and this is one of the things that is delaying the American manufacturing renaissance.

There is still vast gulf between white collar and blue collar in the United States, with very little communication between the two. You can attribute this to the rigidity of the American labor movement, the status attached to managerial positions, or whatever you want, but the fact remains.

When I went to business school 30 years ago, the curriculum emphasized, among other things, manufacturing. But since then, the emphasis has shifted to moving money around to get the best return. Now manufacturing is back in favor, and there have been more MBA (master of business administration) students interested in manufacturing lately. The problem is that MBA graduates can't find places in manufacturing. The people in manufacturing are scornful of these newly minted MBAs. I can see why the blue-collar people might be resentful after having been ignored for so long, but it is important for America to recognize that management has to have hands-on experience.

As part of this effort, American management has become more aware of "the Japanese advantage." But it is not easy to understand the Japanese approach. Communication remains a problem—this cuts both ways. People use words that mean one thing one way, but then other people take them in other ways and some very sound suggestions are drowned by the polemics.

Japanese do not understand what Americans mean when they call for a "free-market economy." Is there any such thing anywhere? What is a free-market economy? This is a term that has been around for a long time and is used to distinguish free from planned economies, but it is not easily definable.

Some people say we need a free-market economy; others argue for "fair" trade. These are all different concepts, and it is impossible to really discuss them meaningfully unless we look at what each of them means in the modern context and how they do or do not tie together.

One of the other problems complicating the transpacific dialogue is the tendency for trade issues to be used as political capital. For example, the posturing and pressures that the U.S. Congress brings to bear are not necessarily a positive contribution to the solution of trade issues because Congressmen sometimes speak to their constituents' fears rather than address the long-term good of the world economy.

Lack of effort

Pointing out that Japan does not import more of certain products despite the dollar's devaluation, some Americans conclude that Japan is "unfair." But from the Japanese side, we see that the tariff barriers have been lowered—such as in automobiles, where the tariff is zero—and non-tariff barriers have been dismantled.

This market-opening only creates opportunities. It does not guarantee success. If American companies want to succeed—if they want to sell in Japan—it is up to them to take advantage of these opportunities. But they have to do it for themselves. Nobody else can do it for them, and Japanese have difficulty seeing how

a case of lack of effort on the American companies' part must mean that Japan is somehow unfair.

Of course, I can see why American companies may have decided that a substantial investment is not worth the risk of failure. Not only is the American market very close at hand, it is also very lucrative. If they can make money that easily at home, why should they sweat and pant trying to earn a few yen in Japan? This is another major difference. If we had a massive market like that on our doorstep and stockholders screaming for short-term profits, I doubt if Japanese companies would be mounting much of an export effort either.

The marketing principles governing success in Japan are the same as those required in the United States. You have to know the market. You have to be able to see what your customer wants. There are all kinds of customers in all kinds of countries. Markets differ, but you have to decide who your customer is in your market and what he wants.

If American companies want to succeed in Japan, they have to make the effort. Only then can they talk about fair and unfair. The problem is that many have not made the commitment. Their backs are not against the wall, so they do not have to make an all-out effort.

America has many blessings. And being so blessed, it is for the U.S. to expend the extra effort that is needed. In a way, it has been to Japan's advantage that we have so little in the way of natural resources—because this deprivation forced us to make the effort. There is very little a person cannot do when his own survival is in doubt.

In discussing international competitiveness, one of the global trends that is a cause for concern is the tendency toward economic blocs. Even though it was not meant as the creation of an economic bloc, this is how a lot of people view the U.S.-Canada free trade agreement. The European Community will be integrated by 1992, with potential for becoming a closed economic bloc.

By and large, economic blocs are bad for world trade—and they could also have the effect of making companies inside the blocs less competitive because of the protection the blocs provide. When you get right down to it, the United States itself can be called a bloc. Since the U.S. market is so large, many U.S. companies are able to be content with what they enjoy in the bloc. This has been a factor keeping American companies inward-looking for a long time. But as I said before, if Japanese companies had had the kind of market America has, it is safe to assume they would have succumbed to the same temptation. In Europe as well, a "United States of Europe" is going to be very attractive—and hence psychologically very confining—to European manufacturers.

At the same time, integration will make Europe more attractive for Japanese companies, and this will mean that European companies will have greater competition from outside even as they become less able to compete outside. Until now, Japanese companies have had to manufacture for each country as a separate market. But when Europe becomes one market, it will be much easier to manufacture for Europe as a single market.

Providing the impetus

What will Japan and other Asian countries do in the face of these two giant economic blocs? I personally think that a world economy dominated by two major economic blocs would be unstable.

The best choice is for Japan to orient its economy more toward Asia. This means more intraregional trade. We need to be more open to imports from South Korea, Taiwan, Singapore, China and the rest of Asia. And if we do this, the result will be the natural formation of an Asian economic zone with Japan a leading player.

More importantly, we need to exercise cultural, educational and political leadership in Asia. Of course, there is certainly no great clamor for Japanese leadership in Asia today. Rather, there is alarm at Japan's growing might. I think in the long run the most stable arrangement would be one in which Japan shared leadership with other countries, such as China. Despite its economic problems, it is impossible to ignore China. But for the time being, since economics will be the driving force in vitalizing Asia, Japan is going to have to provide most of the impetus.

At the same time, we also need to improve our channels of communication with North America and Europe. Basically, we need to diversify the Japanese trade pattern and reduce our economic dependence on the United States. We need better balance and more diversity in our trade and economic relations.

One of the best ways to achieve this would be to open further the Japanese market to imports from Europe, Asia, Oceania and other areas. Another measure would be to encourage technical cooperation—primarily technology transfer—to enable the developing countries to build the export capacity they need.

There has been concern expressed, in the United States, for example, that Japanese technology transfer to the NIEs will raise their export competitiveness to a point where it will result in a flood of Asian products into the American market—that Japan and the Asian dragons are going to strike the American eagle down. Ensuring that the Japanese market is fully open is one way to avoid this flood.

Japanese companies must reassess their policies and priorities in light of the changing international climate as Japan moves increasingly into world markets to compete against the very best.

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