

OPERATIONS & MANUFACTURING

The Art and Practice of Japanese Management

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Japan's extraordinary postwar industrial success was defined by lean production, consensus and continuous improvement. But lately it has been the country's perceived weak points, such as lifetime employment and over-regulation, that have come to the forefront of the debate on Japanese management. But new ideas are emerging with the younger, more flexible generation of Japanese managers, which means there will still be plenty for the outside world to learn from Japan. Adapted from "The Witch Doctors" (Times Books, 1996).

by [John Micklethwait](#) and [Adrian Wooldridge](#)

Japan's economy may have sputtered on the macro level during the early 1990's, but many of its factories and businesses remain awesome global powerhouses. How has Japanese management evolved?

It might seem far-fetched to argue that Japan's postwar growth has anything to do with management theory.

After all, the average salaryman, relaxing at the end of a 10-hour day with Yakitori and sake, hardly spends his time talking about Drucker-san and Peters-san. Indeed, critics of management theory happily point out that Japan has only a few business schools, none of them very prestigious, and that, 30 years after arriving, Western consultancies are still struggling to make ends meet. It is because they do not have to pay the consultancies' inflated fees, the argument goes, that companies have more money to devote to "real" investment; and because they are not tempted to follow the latest management fashions that they can develop a coherent, long-term strategy.

The skeptics are right in one respect. Japan has so far produced only one first-division guru of its own, Kenichi Ohmae (though a generation of young pretenders is emerging).

Many of the "gurus" who appear in this article are business people, rather than professors. Nevertheless, they have thought about management just as broadly as Drucker, Peters and others have, and their names are no less associated with theories on how to run businesses.

Moreover, in their central criticism, the skeptics are plain wrong. Japan owes a huge debt to management theory -- in particular, to a group of American theorists whose ideas inspired the Japanese to come up with "lean production." In the best study of that revolution, "The Machine That Changed the World," James Womack, Daniel Jones and Daniel Roos present their conclusions in no uncertain terms: "Lean production is a superior way for humans to make things. It provides better products in wider variety at lower cost. Equally important, it provides more challenging and fulfilling work for employees at every level, from the factory to headquarters."(1)

Lean production was the offspring of a set of ideas about quality that Japanese businesses first encountered during the postwar occupation by the Americans. In a nutshell, these ideas focused on the importance of getting things right the first time rather than spending a lot of time checking afterward -- an obvious enough notion but one that went against the grain of the standard corporate model of the time, which assumed that quality was something you checked after you had built your motor car or other complicated product. Indeed, you had a quality department to take care of that very thing.

Even today, Japanese managers speak of Joseph Juran, A.V. Feigenbaum and, particularly, W. Edwards Deming in the same hushed tones that people normally reserve for a deity. Since 1950, an annual Deming Prize has been awarded for excellence in manufacturing, and winners are featured on Japanese television. Having been more or less ignored in America in the early 1950's, Mr. Deming and his friends were given the red-carpet treatment in Japan. Wherever they lectured, the halls were packed to the gods with engineers and production managers. Whatever they wrote was immediately translated into Japanese and devoured by managers the length and breadth of the country.



The Japanese realized that their goods were hopelessly shoddy by international standards. They were also awe-struck by the might of the American economy and the sheer profusion of American products. So American gurus who were willing to visit Japan and talk about quality were manna from heaven. Even so, there were specific reasons why Mr. Deming's ideas seemed so attractive in Japan. Businesses in a grotesquely overcrowded country do not have the space to keep large quantities of inventory hanging around for months. After the war, Japan could not afford to waste precious raw materials on throw-away products or inferior machinery. Japan also lacked the migrant workers who provided Henry Ford with his factory fodder; and a surge of industrial unrest made it clear that Japanese workers were no longer willing to be treated as mere production costs. Perhaps only a nation that loves sushi could have such an instinctive understanding of "just-in-time" delivery.

The Lean, Mean Machine

The original ideas might have come from across the Pacific, but it was two Japanese -- Kiichiro Toyoda, the head of Toyota, and Taiichi Ohno, his right-hand man -- who transformed these theories into a new system of production. They did so by turning themselves into students of management -- visiting American plants for months on end during the 1950's and studying mass production, to see what made it so successful and how it could be bettered. They found the system rife with *muda* -- a Japanese term that encompasses wasted effort, wasted material and wasted time. Nobody except the assembly worker was adding much value, they noticed, and the emphasis on keeping the line running at all times meant that errors multiplied endlessly.(2)

The two executives eventually put all the pieces together to produce an entirely new system of production -- dubbed the Toyota manufacturing system by Toyota and "lean production" by almost everybody else. Its genius was to shift the focus of manufacturing from economies of scale to "economies of time."

It did this in three ways. The first was by making every employee a quality checker, responsible for spotting errors as they happen and correcting them immediately. Instead of installing a quality department, as its American rivals did, Toyota gave workers the right to stop the production line as soon as they saw errors.

The second improvement came from introducing "just-in-time" production. In the rest of

the world, manufacturers made their components "just in case" they were needed. They filled bins, pallets and warehouses with days' or even weeks' worth of costly parts, which gathered dust until they were finally needed. The Japanese started making components "just in time," with parts arriving just as they were needed on the production line.

The third way to save time was "demand pull." Components in Western factories were traditionally delivered by "supply push" arrangements, with goods piling up when they were not needed. With "demand pull," they are made to order. At Toyota, for example, a *kanban*, or card, is attached to every box of supplies describing its contents. Returning the card to the supplier automatically reorders a further shipment.

This procedure challenges the entire basis of mass production, which was (and in many parts of the world still is) the dominant manufacturing philosophy. Mass production depends on two things, economies of scale and specialization. Workers, it is supposed, need to get more and more specialized in order to do their jobs more efficiently. And factories need to get bigger and bigger to achieve economies of scale. However, as the Japanese realized, this system also entails two costs.

The first is the inability of a classic mass-production system to respond to rapid changes in demand. Mass producers tend to be much keener on keeping standardized designs in production than in experimenting with new products, partly because of the heavy costs of changing the



production line and partly because their specialized workers are happiest with what they know. A change in fashion may mean that the factory has to close down for months as machines are recalibrated and workers retrained. It may also force producers to throw away huge quantities of expensively stored but now obsolete inventory. By the time it is capable of mass producing the new product, the demand may have changed once again.

The second cost is an unacceptably high rate of faulty products. Large batches make it difficult to detect defects. This means that a defective part may not reveal itself until the finished car finally breaks down. It is easier for the next person on the assembly line to

check a small batch. And a worker making only a small batch is likely to feel more like a craftsman, and less like a cog in a huge machine.

In fact, the trouble with mass production is that it usually produces its economies of scale by reducing jobs to drudgery. By contrast, lean production continues to engage at least some of the intellectual gifts of the workers. The employee can see the impact of his workmanship -- good or bad -- on the company's manufacturing process. Pats on the back from his colleagues result from a job well done, scowls from a job skimped.

Lean production also involved rethinking the boundaries of the firm -- in particular its relationship with its suppliers. In the West, auto makers have been through two stages. First, they tried to make virtually all of the car themselves, setting up their own parts-making divisions. When the fashion turned against such "vertical integration," Western companies then opted for a second system based on competing suppliers. They provided a large number of suppliers with a detailed drawing of what they wanted and then offered a one-year contract to the supplier who could come up with the best price.

The classic form of Japanese supply-chain management, again pioneered by Toyota, works in a different way. The suppliers can be formally separate companies, or they can be members of the same *keiretsu* (linked by cross-shareholdings). Either way, the parent company treats them as partners, rather than playing them off against one another. The suppliers provide the goods "just in time," in return for long-term relationships with the main manufacturers. Companies cement these relationships by sending mid-career managers to high-level positions in supplier companies or other members of a *keiretsu*. This means all parts of the supply chain can pool resources and also share information -- thus once again cutting down on time-wasting. Even today, Toyota can design and build a car twice as fast as Detroit can.

***Kaizen* and Consensus**

If lean production represents the core of "the Japanese miracle," there are two other ingredients that, until relatively recently, were also considered indispensable parts: the doctrine of continuous improvement, or *kaizen*, and the value of consensus, especially when applied to long-term strategic thinking. A good way to look at both is through the work of Kenichi Ohmae.

Mr. Ohmae is now best known inside Japan for his attempt to set up a new political party. But he began to write the books that made his name in the rest of the world while working as a consultant for McKinsey & Company.

For most of the past quarter century, outsiders, particularly American business people, have been fascinated and frightened by Japan. Mr. Ohmae has explained it to them -- showering his books with good insider examples of how Japanese companies work and usually criticizing American firms in the process.

Mr. Ohmae has generally tended to exalt the Japanese way of making new products through continuous improvement. Innovation, he argues, is useless unless it adds value for consumers. He tends to pour scorn on big R.&D. projects, such as high-definition television, and revels in meeting challenges incrementally, particularly in mundane fields. Can you make a better coffee machine -- i.e., not just one with lots of fancy gadgets but one that makes better coffee? Yes, we discover, if you add a water purifier, because the taste of coffee depends as much on the quality of the water as it does on how you percolate the beans. Can you make a better camera? Yes, if you get it to do the focusing for you (i.e., removing the human error that ruins most pictures) and include an automatic flash.

A strategy of churning out products with lots of minuscule improvements fits in quite nicely with lean production. After all, one advantage of a flexible assembly line is that it can be altered quite easily to incorporate a new insight and include a new innovation. It also means that you can smother your market with new versions of the same old thing. One classic example of this process was the Sony Walkman, which came in hundreds of different shapes and sizes. Japanese companies such as Sharp and Canon have often jumped ahead by mixing different sorts of technology, such as photography and office machines. One way Japanese car makers have generally outfoxed their rivals is by rapidly updating their model range and adding extras such as vanity mirrors and intermittent windshield wipers. By contrast, American and European manufacturers have seemed obsessed with a "one big solution" approach to research.

The trick of Japanese management is to marry this relentless incrementalism to a long-term strategy based on consensus. Mr. Ohmae points out that while Western companies modeled themselves on the military, with clear lines of command and a rigid distinction between the officers (who do the thinking) and the rest, Japanese firms are rooted in village communes.⁽³⁾ "Grossly oversimplifying," Mr. Ohmae writes, "one could say that in

Japan every member of the village is equal and a generalist." Rather than issuing orders from on high, Japanese companies prefer to put their emphasis on *nemawashi* (consensus building) and *ringi* (shared decision-making). The hope is that every decision will spring from tireless discussion, with managers obliged to gain the enthusiastic support of their workers.

This emphasis on communal decision-making means that the Japanese have an idiosyncratic approach to leadership. Where American bosses are brash and bullying, their Japanese counterparts are modest and retiring; and where Americans live to make decisions, the Japanese prefer to let decisions make themselves. They like to compare leadership to air -- necessary for life but invisible and insubstantial. They rise up the corporate ranks by out-conforming their colleagues, religiously putting the group before the individual, and, having reached the top job, lead by consensus rather than command. It is not unusual for leaders to sit in silence throughout much of a meeting, while their underlings debate the pros and cons of policy. The art of leadership is to divine the will of the group, not to electrify the organization with charisma.

It also means that the Japanese have an idiosyncratic approach to forming long-term strategy. In the West, strategy has traditionally been clear and definite, drawn up by professional strategists and written down in formal plans. In Japan, it is a much looser affair, generated by the whole organization and expressed in terms of visions and missions rather than precise plans.

To the Western mind, producing plans like this is a recipe for disaster. But, according to Mr. Ohmae, the Japanese can do it because it fits in with their general approach to employment. The system of lifetime employment means that core workers identify with the long-term future of the company. The habit of rotating people among different departments means that they soon come to think like strategists. And the convention that everybody must start on the shop floor means that senior managers know what is going on in the guts of their organizations.

The Sun Also Sets

The success of lean production, consensus and *kaizen* was extraordinary. By the early 80's, Japanese companies were beating the Americans ragged in everything from price to quality, and the skies of the Pacific were dark with aircraft carrying managers to Japan to

study companies like Sony and Toyota. Bookstores were full of volumes with titles such as "The Art of Japanese Management" and "The Intelligent Person's Guide to Kaizen." In the late 80's, Americans looked on impotently as Japanese companies bought Rockefeller Center, Columbia Pictures and other totems of Americana. In "Rising Sun," a thriller about corporate skulduggery in Los Angeles, Michael Crichton even paid Japanese managers the ultimate compliment of demonizing them. Americans seemed obsessed by two racist stereotypes of the Japanese: they were either clever little Asians producing ever smarter gadgets or fiendish strategists cunningly working together toward the same unstated goal. Management books -- even those by Mr. Ohmae -- only reinforced these myths.

Yet by the mid-90's, all those books on the secrets of Japanese management were yellowing in the remainder bins and Mr. Ohmae was becoming better known as a critic of Japan rather than an apologist for it.

What had changed was not just that Japan's companies were struggling against a prolonged recession and an expensive currency, crippling though these were. The prevailing wisdom was that Western companies had learned everything they needed to know about Japanese management; now it was the Japanese who would have to learn from the West.

There is no doubt that the West -- and America in particular -- has caught up quickly. Three decades after he had been spurned in his own country, Mr. Deming was rediscovered in June 1980, thanks to an NBC television documentary, "If Japan Can, Why Can't We?" The day after the program was broadcast, Mr. Deming's phone started ringing, and he spent the rest of his life (he died in 1993) giving seminars and being feted by American bosses and politicians. In America, "total quality management" was the most influential fad of the 80's. In 1987, the American Government created an equivalent of the Deming award, the Baldrige. One of the most successful adopters of the new approach, Motorola Inc., claimed that, in 1987-92, T.Q.M. added \$3.2 billion to the company's bottom line.(4)

Western manufacturers have also learned the secrets of "lean production," largely by forming joint ventures with Japanese companies. The Ford Motor Company purchased 24 percent of Mazda in 1979, giving Ford's senior managers full access to Mazda's main production complex in Hiroshima.(5) The General Motors Corporation formed a joint

venture with Toyota in California, transforming one of its most unproductive, strike-ridden plants into a model of efficiency. The ease with which Japanese "transplant" factories put down roots in North America and England proved that lean production was not something that could flourish only on Japanese soil.

And some Westerners improved on what they learned. Companies such as Motorola and the Chrysler Corporation have formed close links with their suppliers without subjecting themselves to the rigidities that have often bedeviled Japan's *keiretsu* system. "The traditional *keiretsu* are no longer the model of best practice," said Jordan Lewis, an expert on producer-supplier links. "For this, one has to look to the West."

To some extent, the role of master and apprentice has been reversed: even Toyota has had to turn to Ford to discover how to improve the relations between its engineers and its shop-floor workers and to Chrysler to learn about "value engineering" -- a new way to speed up car production by using more interchangeable components in different models.

All Too Japanese

Having given away its secrets, Japan, many argue, retains exclusive rights only to those things that nobody else wants. The system of lifetime employment has kept Japanese companies horribly fat, while the weakness of shareholders has allowed some firms to remain hopelessly unfocused. The country's white-collar sector is only two-thirds as efficient as its equivalent in Europe and America. Japan's overregulated economy discourages innovation and imposes high costs on businesses. In "creative" industries, such as software and multimedia, which are booming in the West, Japan is way behind, isolated by language and hampered by a conformist educational system. Japan's universities are sleepy finishing schools, not vital sources of innovation; and Japan's banks are reluctant to invest in unproved companies.

What gives these criticisms added bite is that they are being made by Japanese as well as Americans. The more sophisticated Japanese managers are stocking their libraries with Western management books and littering their conversations with words like "downsizing" and "re-engineering."

The Japanese are also beginning to question two of their mooted strengths: *kaizen* and consensus. While Japanese companies have continued to churn out ever smarter versions

of the same thing, industry-changing products have tended to be made elsewhere. Sony and Matsushita devoted their energies to making ever more complicated Walkmans, but American firms were inventing the real breakthroughs in consumer electronics, such as the personal computer and the cellular telephone. By the mid-90's, for all their extra wing mirrors, Japanese cars were beginning to look the same. Indeed, the extra wing mirrors were cluttering up production. What was needed were simpler, bolder designs.

Meanwhile, the emphasis on consensus has made managing foreigners difficult. Japan's multinationals traditionally concentrated on exporting rather than investing abroad, partly because they felt that their manufacturing system was so Japanese that it could not survive on foreign soil. Now, thanks to the high yen, fears of protectionism abroad and globalization, they have no choice. The Nomura Research Institute predicts that, by 1998, almost 40 percent of the production of Japan's five biggest electronics groups will be offshore. In 1994, Toyota produced 48 percent of its cars overseas; by 1998, that portion will be around 65 percent.

The basic lean-production system has actually been relatively easy to export. However, merely getting people to manufacture things efficiently is often not enough. Clever multinationals have been able to engage their foreign workers' brains as well as their hands. Yet Japanese salarymen have famously found it impossible to manage hairy artistic types: witness Sony's and Matsushita's nightmares in Hollywood. But the cultural insensitivity of many Japanese executives can even make it difficult to manage humble production workers. Sanyo Electric provoked an angry strike in Indonesia when it refused to allow 33 female assembly-line workers to wear traditional Muslim dress, citing safety reasons.(6)

Western employees in Japanese banks complain that there is a two-tiered management system -- a dummy one in the host country and a real one between the Japanese management and their bosses in Tokyo. They are forever making decisions, they murmur, only to have them countermanded by a telex from Tokyo. In 1991, a Congressional committee looking into the employment practices of Japanese-owned companies in the United States listened to a litany of complaints: that a handful of Japanese made all the most important decisions, in collusion with the head office; that a "rice paper ceiling" stood between the non-Japanese employee and serious promotion; that the Japanese discriminated on the grounds of race and sex; and that the Japanese were unwilling to listen to ideas from foreigners. Consensus, it seems, is only consensual if you are

Japanese.

While the rice-paper ceiling has deterred foreigners from working for Japanese firms, xenophobia has also kept able Japanese from working abroad. Fearing that a spell away from headquarters may handicap them in the promotion race, many salarymen refer to "overseas banishment." Mothers often stay at home so that children can continue in Japanese schools, an arrangement that imposes huge strains on families. Those children who spend any length of time abroad run the risk of being ostracized at school and accused of "smelling of butter."

Japan's dithering over innovation and internationalization seems to reflect a failure not just of particular business leaders, but of Japan's whole approach to leadership. All that concern about consensus was fine when Japan's economy was growing by 10 percent a year. But a flat economy is testing the ability of bosses to make hard choices. They have to get rid of surplus workers (or at least retire them early) and decide which line of business to focus on. Competition from tightly managed Western companies means that Japanese companies need to make decisions quickly. And Japan's increasing involvement with the rest of the world, through joint ventures and overseas operations, means that Japanese managers can no longer rely on a decision-making process that is comprehensible only to their fellow Japanese.

East Meets West: The Remix

Anybody who considers writing off Japanese management, however, should remember two things. First, that the country remains the world's leading center of manufacturing excellence. And, second, that Japanese businesses have a genius for turning adversity into advantage. Japan's lack of natural resources encouraged the Government to invest heavily in education. Two oil shocks and several steep rises in the yen have acted as powerful spurs to innovation. Several times before, Japanese car imports to the United States have dropped following steep rises in the yen; each time, Toyota City has found new ways to make lean production even leaner and come back to humble Detroit again.



Yet the process is different now because, for the first time in 30 years, the Japanese are trying not just to improve their own management models, but to merge them with Western ones.

One important thinker in this respect is Yotaro Kobayashi, the boss of Fuji Xerox, who is something of a hero to the younger generation of Japanese managers and who has spent much of the past decade insisting to his peers that his country's idea of consensual leadership needs to change. Mr. Kobayashi, a graduate of the Wharton School of the University of Pennsylvania, has spent years as the head of a joint venture with an American company.

He argues that Japanese bosses must learn how to make tough decisions and how to "market" them, both within their firms and in the world at large, so that employees and outsiders can see the logic of unpalatable choices. He also believes that Japanese managers need a dose of Western-style professionalism. Leaders should be carefully trained, not just allowed to emerge from the ranks. He encourages Fuji Xerox's rising middle managers to take responsibility for strategic decisions. He also likes to send a few to take American M.B.A. courses -- though he is careful not to give the impression that the firm is being turned into an American colony.

Mr. Kobayashi wants to introduce a streak of rebelliousness into the salaryman's soul: Japanese managers ought to challenge their business models rather than just endlessly improve them.

Mr. Kobayashi's own career was much influenced by a visit in the United States to the Aspen Institute, which puts on mind-broadening seminars for business leaders. He now has his own version in Japan where business people sit and listen to philosophers as well as people like Peter F. Drucker, and debate issues like the environment as well as questions about management.

A Dignified Retreat

Is Mr. Kobayashi just a voice crying in the wilderness? Consider two areas in which Japanese management has been slow to change: lifetime employment and multicultural management.

On the surface, Japanese companies have tried hard to hang on to the idea of a "job for life," doing anything to find new jobs for redundant personnel. In companies like Honda it is even possible to find male managers serving coffee in place of the traditional office ladies.(7) To avoid having to sack people, companies are cutting back on bonuses, preventing workers from doing so much overtime and freezing recruitment. Nissan used to take between 1,500 and 2,000 new recruits a year; it hired only 55 in 1995. Nowadays, Japanese graduates anxiously study the age-profiles of companies, which are published annually, to see if they have any chance of a career.

Yet there is movement. Western-style assessment procedures are creeping into big Japanese firms, and jobs are not as safe as they used to be. Despite their loyalty to the concept of "lifetime employment," firms are redefining what they mean by the phrase, arguing that it applies only to a proportion of workers, and whittling down that proportion as far as they can. A few are introducing "voluntary" early retirement for their lifetime employees.

As for the problem of dealing with foreign staff, the best Japanese companies have certainly begun to talk like "multicultural multinationals." NEC is putting all its products "into a global perspective in order to determine the most appropriate locations for design, manufacturing and sales."(8) Matsushita, once one of the biggest defenders of its home base, has now decided that it is a "multi-local" and talks about being a "global network manager."(9) Nissan is keen on creating a "global team spirit" and talks about using the entire world as a "knowledge base."

There are signs that this is more than just talk. More blue-chip Japanese companies are bringing foreign managers to Japan. Toyota now has shareholder meetings outside Japan. Toshiba is reorganizing every bit of its work, from accounting to technology management, on a worldwide basis, partly to get rid of duplication but also because there is no longer any such thing as a purely Japanese business problem.

The Japanese are also establishing global networks, in which people from "third countries" act as missionaries for Japanese management. Toshiba sends workers from Thailand to its plant in Malaysia, which has been operating for 20 years, in order to introduce them to Japanese production techniques. The two-way flow of ideas is already producing results. Both Canon and Toshiba, for example, have produced breakthroughs in audio technology by setting up laboratories in Britain.

One of the leaders of the multicultural approach (and another ally of Mr. Kobayashi and Mr. Ohmae) has been Minoru Makiyara. Mr. Makiyara, who was born in London and educated at Harvard, spent 22 years serving abroad and speaks perfect English. He is so at home in the United States that his two children work for American companies and he is known by a nickname, Ben. In 1992, he was drafted from abroad (an unusual move in a Japanese company) to become president of the Mitsubishi Corporation, the biggest of Japan's dozen or so trading companies. (See "Thought Leader: Minoru Makiyara," in Issue 2 of Strategy & Business.)

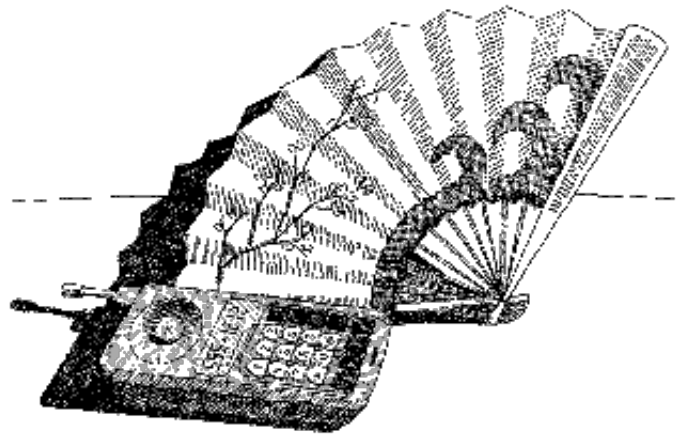
In the past, a trading house could survive as an importer-exporter, acting as an agent for foreigners in Japan and for Japanese firms abroad. However, as markets open up, this role is dying. Mitsubishi's future, if it has one, is as a more proactive global deal maker, using its contacts and its people to set up things like power stations and cable television networks around the world.

Ever since Mr. Makiyara's surprise appointment, he has tried to force his colleagues -- not always successfully -- to think in the same way that he does. One of his first moves was to ask all his senior managers to submit letters of resignation (so that he could use them if necessary). Mr. Makiyara has also tried to promote non-Japanese. And like Mr. Kobayashi, he is a keen supporter of letting Western thinkers into the company. But it is a hard slog. Western employees at Mitsubishi complain that they are on short-term contracts, while their Japanese colleagues have jobs for life.

For the moment, people like Messrs. Kobayashi, Makiyara and Ohmae remain the exceptions rather than the rule. But they have three things going for them. First, Japan's economy is becoming ever more global. Second, their strongest supporters are among the younger, more flexible generation of Japanese managers, who were bred on Disney and Nintendo and are now coming to the fore. And, finally, they are offering something new. Japanese management can change without merely becoming Western. That in turn means that there is plenty for the outside world still to learn from Japan.

Turning Japanese

Indeed, in some ways the world is becoming more like Japan, not less so. Even the most successful Western companies can no longer dominate entire markets in the way that General Motors or I.B.M. once did; they are also finding that they have ever less time to make money out of a new product.



By contrast, the best Japanese firms are used to overcrowded markets and instant imitation. Japan has nine car companies compared with America's three. Nothing remains secret in Japan for long: word leaks out at school reunions and through meetings with suppliers. Japanese firms have always lived in a world of "hyper-competition," as some management thinkers have called it.

This is no time to go back to the crude Japan worship of the early 80's, with "quality circles," morning calisthenics and thrice-yearly pilgrimages to Toyota City. Japanese companies are too bloated, and too weak at the type of "off the wall" thinking that seems to characterize America's most inventive companies.

But they are clearly learning fast, under the tutelage of men like Mr. Kobayashi, Mr. Makihara and Mr. Ohmae, and there are some things that they do much better than their rivals in the West.

As Westerners have learned in the past, it is always worth keeping at least one eye on the East.

What Japan Can Still Teach the West

Two of the greatest problems facing managers everywhere are cutting costs and managing knowledge. While Western companies have been making the biggest strides in those areas, Japanese managers can still teach them a trick or two.

On the cost-cutting side, Western companies are wearying of re-engineering, downsizing and delayering. So far, Japanese companies have been noticeably more successful than their Western peers at controlling costs without tearing out the innovative heart of a business.

This is not just a matter of having sacked fewer people. Japanese firms have encouraged the entire work force to help in reaching cost-reduction targets. In many companies, the walls are decorated with posters showing progress in cost control. At Topcon, an optical company, for example, the slogan is, "The budget is God."

Similarly, the Japanese reluctance to sack middle managers willy-nilly may also work in their favor. Yes, Japanese firms have often been slow to separate the wheat from the chaff. But in Japanese eyes, the middle manager is not an expendable link in the chain of command but the possessor of a valuable perspective on a company's business. In particular, the middle managers tie together two visions -- the strategic view of senior managers and the detailed operational view of front-line workers.

The other way in which the Japanese can help Western firms -- managing knowledge -- may appear to be an unlikely candidate, given that leadership in so many knowledge-intensive industries, from software to entertainment, belongs to America.

Nevertheless, a new generation of Japanese management thinkers, particularly Ikujiro Nonaka and Hirotaka Takeuchi of Hitotsubashi University, argue that the Japanese still have certain advantages.

Mr. Nonaka and Mr. Takeuchi start by admitting that Western companies are well ahead of the Japanese in managing the sort of formal, explicit knowledge that can be faxed or E-mailed. But, they argue, the Japanese are better at managing tacit knowledge -- the informal occupational lore, which is generated by workers grappling with everyday problems and passed on in cafeterias and at water coolers.

This skill allows companies to tap into the insights of the bulk of their employees, and insures that one man's hunch can become an entire firm's competitive advantage.

The most important trick is to encourage workers to spend as much time as possible together, informally as well as formally. Companies routinely divide workers into teams, often expecting them to stick with the same colleagues for years on end. New recruits work closely with "mentors" or "team leaders," learning far more from them than they do from formal training courses.

After-work drinking sessions and weekend retreats at hotels play an important part in

promoting informal understanding. Some companies even talk of "nommunication," a term that joins the Japanese word for drinking (*nomu*) with communication.⁽¹⁰⁾ Honda and Canon both make frequent use of "brainstorming camps" -- informal meetings in country inns in which project-development teams (and anybody else who wants to contribute) work intensively, but also drink sake, share meals and even bathe together in hot springs.

The point about tacit knowledge is that it is always there: a company does not have to create it, but rather remove the barriers that surround it.

Consider how that is done at Kao, a chemicals and cosmetics company. For starters, Kao holds all of its meetings in the open, allowing anybody to drop in, and half the space on the executive floor is given over to a "decision-making room." Kao's quarterly R.&D. conference regularly attracts some 1,800 people (out of a work force of 7,000). The company also encourages customers to phone in with suggestions and complaints, and receives some 50,000 calls a year. And it set up a computer network that gives all employees, however lowly, access to all but the most sensitive personal information. Even the president's expense account is on public view.

One problem with implicit knowledge is that it is difficult to push across borders, even when people share the same language. Yet while Japanese companies have a fairly bad record at extracting ideas from their foreign subsidiaries, they have also been fairly capable teachers -- particularly when it comes to teaching tacit knowledge about manufacturing.

In places as far apart as Wales and Tennessee, local workers are using "Japanese" methods to produce Toyotas and Nissans for their domestic markets. And they have learned their lessons well, often giving plants in Japan a run for their money when it comes to quality and efficiency.

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Illustrations by Keith Peters

FOOTNOTES

(1) James Womack, Daniel Jones and Daniel Roos, "The Machine That Changed the

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(2) James Womack et al., op. cit.

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