

## **Resurgence of Japan in the global economy**

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In the past 5 – 6 years, the Japanese economy has been plagued by various problems. The country has been facing a prolonged recession. The banking system is in a mess. Accounting and disclosure practices have been far from transparent. Many companies are saddled with excess manpower and unproductive investments. To complicate matters further, Japan's politicians have been happy to maintain the status quo, instead of trying to speed up the reform process.

But now it looks as though Japan's ability to rebound in the global business environment, is being underestimated. There are clear signs that Japanese companies are changing. *Risutora* (restructuring) is currently the buzzword among the business community. Many companies have moved production facilities overseas, slimmed down supplier networks and rationalised the distribution network. Bankruptcies are increasing. Workers are now ready to take up part-time jobs.

Change is particularly visible in Japan's highly complicated distribution system. Consisting of several layers of intermediaries and driven by a web of personal relationships, distribution has often been the Achilles heel of many a foreign consumer goods company trying to enter Japan. Now, foreign retail groups like The Gap (US), Carrefour (France) and Starbucks (US) are expanding their presence in Japan. The rapid rise of the relatively unknown retail chain, Uniqlo in the last few years is a clear evidence of change. The new breed of retailers is more customer oriented and professional and more concerned about the merits of the deal rather than personal relationships.

It is true that the Japanese companies are learning a few lessons from their American counterparts in corporate restructuring. But it must also be emphasised that many of Japan's management practices have been misunderstood by outsiders in general and westerners in particular. Lifetime employment, which has been equated with complete loss of flexibility in cutting payroll, has not been as much of a problem as widely perceived. Japanese companies pay a large part of the compensation in the form of bonus. During a bad year, companies can cut the bonus sharply and even postpone it to the next year. This enables firms to cut their salary bill significantly. Also, many large firms in Japan employ large numbers of temporary workers. If there is a slowdown, such workers lose their jobs. Moreover, Japanese companies have ensured that the benefits of lifetime employment outweigh the disadvantages. Since people normally do not leave their jobs, companies invest heavily in training and continuing education of their employees. Workers are encouraged to pick up a broad range of skills and get the big picture. The only problem is that such training has made workers generalists. Specialisation which is important for radical innovations has been missing. As Nakato Hirakubo puts it, (Business Horizons, 039, 1999), "The world market is filled with mass-produced Japanese cars and electronic products, but the country has never been able to foster world class retailers, information/ communication service providers, security firms and insurance companies. In fact, almost all breakthrough technologies, new financial products and new types of services that require creativity and specialised knowledge are developed outside Japan."

But, Japanese firms are good learners. They are realising the need to change with the times. Many of them have announced lay offs. Jobs are increasingly being created by small and foreign firms which do not believe in life-time employment or seniority based promotion. The younger Japanese on their part are more risk-loving and less loyalty bound. They are more prepared to change jobs if good opportunities arise.

Of course, all this is a far cry from the hire and fire culture of places like Silicon Valley where adjustments during a downturn are super fast. But then this could be a blessing in disguise. It is now an established fact that enduring organisations cannot be built in a culture where downsizing is done indiscriminately. Employee loyalty is a must in today's knowledge oriented business environment. A high manpower turnover is the last thing companies can afford.

Meanwhile, Japanese companies like Softbank and NTT DoCoMo have proved to be mavericks. They have encouraged innovation and individual initiative. Companies like Sony, of course have always believed in giving employees plenty of freedom to operate. Uniqlo, mentioned earlier, has a young empowered management team which, is rewarded with stock options.

Even as the Japanese are embracing western management concepts, major gaps have been exposed in the US style of corporate governance. The recent Enron debacle has exposed many loopholes in American disclosure practices. Excessive focus on shareholder wealth maximisation and intense pressure on CEOs to deliver results have led to unintended consequences. Many CEOs have resorted to unethical practices to meet quarterly earnings forecasts. Who knows, the Japanese style of management, famous for its long-term orientation could be making a strong comeback?

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