

# Eye of the Innovator

Ken Moroi piloted Chichibu Cement to prosperity for a full decade before retiring to the chairman's suite in 1986. For the last 15 years at least, he has been both a corporate business leader, an advocate of innovative management strategies, and an eloquent establishment spokesman on the many challenges facing modern Japan. Although he has resigned his public-policy advisory positions, Moroi agreed to break his silence for *Journal* readers.

**Question:** *The Japanese economy seems to be doing very well with the double-barreled push from vigorous domestic demand and the success of corporate policies to restructure and internationalize their operations. Yet as the saying goes, what goes up must come down. What do you think Japanese companies should be doing to prepare for the inevitable slowdown?*

**Moroi:** For many years after the war, we had no choice but to devote all our energies to rebuilding the economy and regaining our place among the leading industrial countries. Without resources of our own, we made a concerted effort for over 40 years to import raw materials and transform them into mass-produced products for export to the global bazaar. Happily, this effort was more successful than many people had expected.

Yet this success has bred two new problems. One is the chronic surplus in our trade balance and all of the anxiety that this has engendered in our relations with trading partners; and the other is that our example has inspired strong competition from the Asian newly industrializing economies (NIEs) and elsewhere. Workers in the NIEs are well-educated and work just as hard as Japanese workers do. And since production costs in the NIEs are one-sixth to one-tenth what they are in Japan, these lower costs offset Japan's greater productivity to make them very competitive. Further complicating the situation for Japanese industry is the fact that global sales of mass-produced products are slow, forcing management to search for new business modalities.

There are a number of possibilities here. One would be to move production to countries with lower labor costs, since it is very hard to make ends meet in Japan. In doing this, it is imperative

that the company also transfer management and technological know-how to the local operation as well. This has the triple advantage of enabling the company to solve its own profitability problems and enabling Japan to reduce its trade surpluses by importing from these offshore operations, and, since most of the more promising countries are in Asia, of promoting Asian development as well. It is not surprising that this has been so eagerly embraced in the past few years, as shown in part by the sharp growth in the ratio of manufactures to total imports.

Another possibility would be to move production into North America or other major markets. This contributes to reducing the trade-balance disparity and works very much to the host country's interests in creating employment and fostering strong parts and other supply sectors. And the investing company has the advantage of assured access to a market without having to export.

**Q:** *Assuming that more and more companies will be moving their operations offshore—either to get closer to lower-cost labor or to get closer to their markets—what is to become of local Japanese*

*Interview with Ken Moroi, chairman of Chichibu Cement Co., by Toshio Iwasaki, editor of the Journal of Japanese Trade & Industry*



Ken Moroi



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*industry? Are we going to see the same kind of deindustrialization that other countries have experienced?*

**A:** Not necessarily. You have to remember that there is a revolution under way in Japanese consumer behavior patterns. In the past, Japanese consumers were avid customers for electrical appliances and other mass-produced durables that made their lives easier. Today's consumers already have these items, and they are looking for restaurants, health-care and other services that will enrich their lives and complement emerging social trends, including the movement of women out of the home and into the workplace. We have always had industrial transport, but consumer delivery services, for example, have come from nowhere to be a major business. I would expect this trend to accelerate, and I suspect we are looking at consumption aimed more and more toward making life more enjoyable—what I have termed the amenities of life.

Tourism, for example, is booming. This is another manifestation of the shift in consumer values. People are not simply traveling for sight-seeing, they are traveling to enjoy a diversity of leisure and recreational pursuits. They are golfing, playing tennis and going to the opera. And Japanese companies that want to get in on this action are investing quite a bit in providing the necessary facilities. At the same time, consumption criteria are changing in other ways. It used to be that the price-quality equation was all-important. Yet today, price and quality are taken for granted, and the emphasis is on novelty, design and personalization.

With each consumer seeking personal comfort and gratification, superior equipment alone is not enough. People want personalized products individualized to their own arbitrary preferences and quirks, and this splintering of values must in turn produce a vast atomization of production. Industry has to let a million flowers bloom, and it can only do this if it has the creativity to generate new designs and systems and the advanced technology to give them material shape. The consumer delivery business is a prime example. None of this could have happened if the companies had not had computers and information-networking systems along with their trucks.

I believe that Japan can avoid deindustrialization and achieve further growth if business will continue to develop new strengths and to marshal them to meet new demands. And by the same token, I would assume that these new capabilities and this new know-how would also be

applied overseas to promote economic growth there as well.

Japan's trade balance was in deficit for quite some time after the war, and working hard to mass-produce high-quality low-priced goods was in the best interests of the individual, the company, Japan and the whole world. This was a most providential convergence of interests, and, although the situation is radically different now that Japanese trade seems firmly in the black, I believe that we can achieve a new convergence of interests with this industrial restructuring for knowledge-intensive individualization.

**Q:** *Young people seem to be in the forefront of seeking what you call the amenities of life, and these people are also the driving force behind the shift in production. Yet some older people are complaining that the Japanese work ethic is breaking down. How does this affect management?*

**A:** Japanese management has long been said to be characterized by lifelong employment and seniority-based rewards. Yet these were means, and not ends. They were the manifestation of Japanese management best suited to an era of mass production. Yet the essence of Japanese management has to be worker satisfaction. Indeed, this is not simply Japanese management but the essence of good management anywhere. Today's young people take little satisfaction in repetitive work at a powerful mass-production assembly line. But if you give them something that they are interested in, they will take the initiative and do a bang-up job on it, even if it means extra hours at substantially the same pay. It is management's job to harness and direct this energy. And because it is these young people who bring forth the creativity and technology that I mentioned earlier, it is only obvious that society should move in those directions.

The same is true of Japanese companies overseas. We cannot expect local workers to adapt totally to an alien management system. The traditional Japanese management means are simply means, and it is imperative that we find the means that are best suited to local conditions—that we find ways to fire up local employees and make them enthusiastic about the job at hand. There will be times when the traditional Japanese methods will provide useful starting points, but there will also be times when they will blind you to the right answers. If you are going to go overseas, you have to go overseas mentally as well as physically. You have to stop thinking of yourself as a Japanese company and start thinking like a local company. This is perhaps the



biggest problem that Japanese companies are having today.

**Q:** *I do not think you are going to get any argument there, but what about the rank-and-file people who go overseas to work?*

**A:** This is another problem, and this is why I have been advocating hiring as many local people as possible and giving them the authority they need to do the job. You have to localize the whole operation, from top to bottom.

And here at home, I do not think we are going to get true internationalization unless we radically reform the educational system so it stops trying to mold everyone in the same pattern and starts trying to enable everyone to develop his or her abilities to the fullest—until it starts turning out people who are interested in testing themselves with challenging work instead of simply moving to a secure sinecure with a big company. We need individuals who want to go out and see what they can make of themselves. Only then will we have true internationalization.

**Q:** *Even given the many problems with Japanese education—including the overemphasis on academic credentials and the chaotic entrance exam system—many observers have credited education as a major factor behind Japan's economic success. How do you reconcile this?*

**A:** The education system was suited to mass production, and Japan was in a mass-production-demanding situation for over 40 years. The education was geared toward uniformity, and the clones that it turned out were very well adapted to a mass production era. But the times are different today, and different times demand a different educational system. The need today is for individual ability, and that is what the educational system should emphasize.

**Q:** *You have also been quite outspoken about Japanese agriculture. Some people—even many who have no quarrel with other agricultural imports—claim that rice is a special case and that allowing rice imports would be a death sentence for Japanese growers.*

**A:** Rice has long been the staple food in Japan, and I would favor self-sufficiency. But self-sufficiency is untenable at present productivity levels. Sure, we could go along for a while with state subsidies and all, but this simply transfers the burden from the consumer to the state, and it is not a long-term solution.

I am in favor of self-sufficiency, but it has to be internationally competitive. Of course, Japanese land and labor costs are high, so it will not be easy to bring production costs down to Thai or

American levels, but they should at least be halved from what they are now. Since consumer prices for rice are now about three times as much in Japan as they are in the United States, halving Japanese prices would still make them about 50% more than American prices. And if prices could be brought down to this level, I think Japanese farmers would be able to compete given their lower transportation costs, Japanese flavor preferences and other factors.

Once thing that will have to be done to halve costs is to consolidate farms so that a single farming family has about 20 hectares—about 16 times what it has today. This should not be all that difficult. But so long as we continue with the present system of rice subsidies, the part-time farmers who should not be in farming will stay in it for the money and the full-time farmers that we want will end up quitting. I know there are problems in trying to consolidate farms, but I do not see any other way to revitalize Japanese rice farming. And the problems are not insurmountable. Even today, many farm families are hurting for lack of anyone to take over the farm.

If we can do this and create an agricultural structure that is able to compete internationally, I would expect Japanese farmers to then make the effort they need to make in biotechnology and new distribution systems and to be just as productive and just as successful as any other Japanese industry.

**Q:** *Finally, let me turn away from broad social issues and ask about your own industry. The cement business has recently been doing very well with the boom in construction, but there is also fierce competition from imports. What is the outlook for the Japanese cement industry?*

**A:** Things are looking a little better now than they were a while ago, but I get the feeling that demand has already peaked out and is starting to fade. Excessive competition at such a time can only create problems all round, and I have argued that the industry as a whole should systematically restructure for the long term. Competition from imported cement is an integral part of the regime I am proposing, because otherwise companies would quickly get used to the lack of competition and would stop trying to cut their costs. If we cannot compete against imports, we should quit production in Japan and go offshore—becoming importers ourselves. If you look at the Japanese aluminum industry, there is virtually no refining done in Japan—for the same reason. What was true for them is true for us.

**Using traditional Japanese management methods overseas will sometimes blind you to the right answers.**

**Self-sufficiency in rice is untenable at present productivity levels.**