Research on Superior Companies in Japan

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Method

Japanese companies have made considerable efforts toward structural reform in the past few years.

If the sense of obstruction cannot be overcome, what are the reasons?

- The figures for the past 15 years were analyzed.
  - Profitability (ratio of ordinary profit to total capital), security (ratio of net worth to total capital), and growth (changes in ordinary profits)
- Companies showing good results were selected, and 30 to 40 of these companies were studied to determine the reasons for their success and the ways they differ from companies not doing well.

Examples of Superior Companies

Company	Ratio of ordinary profit to total capital	(Industry average)
Toyota Motor Corporation	5.95%	5.11%
Honda Motor Co., Ltd.	8.75%	5.11%
Canon Inc.	9.92%	5.83%
Nintendo Co., Ltd.	16.77%	6.77%
Mabuchi Motor Co., Ltd.	11.94%	–1.65%
Seven-Eleven Japan Co., Ltd.	18.99%	4.53%
Kao Corporation	14.60%	10.17%
Shinetsu Chemical Co., Ltd.	9.16%	3.75%
Shimano Inc.	6.30%	2.74%
Yamato Transport Co., Ltd.	8.07%	3.87%

Six Characteristics of Superior Companies in Japan

1. Scope of business—staying out of unfamiliar lines of businesses

It is extremely important that the top management be able to have an accurate sense of conditions on the ground.

In pursuing success, emphasis should be placed on ascertaining the circumstances affecting local production, goods produced, and markets. (“GENBA”, “GENBUTSU”, “GENJITSU”)

Example: Honda

When knowledge of a particular business is lacking, matters are left up to the person in charge of that business.

In difficult situations, decisions are avoided, postponed, or made by the mutual consent of subordinates.

→Slow downhill slide

Then if the top management does not understand a business, they should stay away from it, abandon it, or stop it.

A certain degree of narrowness in the company’s focus and correlations between a company’s technologies and products facilitate naturally occurring communications within the company.

They also produce synergistic effects.

Example: Quickle Wiper and Toilet Quickle were developed from technology used for paper diapers and sanitary items. (Kao)

2. Never accepting conventional wisdom and examples of success at other companies, but instead thinking hard for oneself

Top management that is logical in its approaches is a condition for superior companies.

Fundamental policies at superior companies:

Not watching other companies in the same industry, not reading books without thinking, and not trusting in the conventional wisdom of the industry

Example: Yamato Transport, Shimano

3. Looking objectively at one’s own company and uncovering inefficiencies

This is an age characterized by the selection of company management from “offshoot” locations.

In an increasing number of instances, top management posts are being filled by persons working in more or less peripheral departments and subsidiary companies who have proven the exception by returning to the head office and succeeding in carrying out reforms.

Canon:	Fujio Mitarai, President
Takeda Pharmaceuticals:	Kunio Takeda, President
Kao:	Takuya Goto, President

Why?

These leaders are able to make bold decisions because they have no ties to existing businesses or core businesses; it is also important to note that

(1) They have had the opportunity to view their own companies objectively from the outside, and

(2) They are better able to see inefficiencies, having come from outside the company's central divisions.

Promising personnel should be dispatched to small spin-off subsidiaries and overseas subsidiaries as early as possible in their careers so they may gain experience there.

"Offshoot" experience should be produced **by design** and not by accident.

4. Turning crises into chances for the company

Challenging times are particularly rich in opportunities for companies to strike out in new directions.

Example: Mabuchi Motor, Yamato Transport

Among the superior companies were some that attempted to arouse a sense of crisis to keep employees on their toes and prevent complacency.

What is at the heart of Toyota's production system?
—**"Stopping."** This is an important means of bringing problems to light.

"Give us the bad news first. We don't need good news."

Employees bearing bad news are given a "thank you" for discovering major problems that the company needs to address.

– A culture in which employees pursue problems
(specific methods for implanting a sense of crisis)

Bad companies only bring up good news (a group of "yes men").

5. Aiming for growth suited to the company’s stature and directly examining business risk

R&D and long-term investment suited to the company’s stature within the scope of the cash flow it generates itself.

Because of these, the company can make and patiently maintain bold investment decisions focused on long-term success without hesitation.

Example: Healthy Econa Cooking Oil (Kao)

6. A sustainable corporate culture of discipline (Most important point for corporate governance)

Embedded in companies showing good results is a sustainable corporate culture of discipline governing both managers and employees.

In addition to the discipline imposed by the capital markets, producing a durable superior company for the long term requires discipline in non-financial matters, specifically **in a sense of mission and an ethical code,** which serves as **a corporate culture.**

This view entails a corporate culture of working for the community and the greater society.
In the end, this will **lead to long-term and consistent development for the company.**

The top management at superior companies is **interested in products and customers**, while companies with poor results are **interested only in their valuation by the stock market.**

A company is an “organization designed to contribute to society (not for a brief spell but) over the long term by generating profits.”

The objective is continuing **social contribution**. **Profits** are an **essential means** to that end.

Having a corporate culture of working for society **enables a united sense of direction among employees.**

Diverging from this focus makes it difficult to join together employees and thus requires micromanagement of company operations.

The company will move ahead and the enterprise will last if employees’ sense of direction can be unified (i.e., if employees share values and a suitable corporate culture can be fostered), even without micromanagement by the company president.

Corporate governance is, as the term implies, the governing of the company as a whole.

This encompasses not only governance of the company managers by shareholders, but also control of company operations by all stakeholders (interested parties), including shareholders, employees, and customers.

The importance of “internal governance” by fostering and sustaining a corporate culture (vs. “external governance” by monitoring)

Corporate culture supplements or substitutes for many corporate governance measures.

The key to corporate governance is not a system but a sense of mission.

- Revisions to the Commercial Law (effective from April 1, 2003)

  Companies will be given a choice between a “one-tier system” (the US system), with only a board of directors that includes directors from outside the company, and the conventional “two-tier system” of company directors and auditors.

  ⇨ There are **no grounds for preferring the latter to the former.**

  ⇨ Canon and Toyota have adopted the conventional system, while Orix and Aeon have introduced the new system.

  There is no relationship between the “form" of corporate governance and the superiority of a company

Image of superior companies

The image of a superior company at which we finally arrive is **“a company that honestly and seriously thinks hard about its operations and then carries them out enthusiastically without blindly expanding beyond the business it understands.”**

While a “vigorous company” can last, a company that “only appears to be vigorous” cannot.

A company that disregards “being vigorous” and concentrates instead on “appearing vigorous” cannot survive.

There is No Relationship between the "Form" of Corporate Governance and the Superiority of a Company

Type A (US form)

(Managerial oversight and operational implementation separated; committee introduced)

Board of directors
(Auditing, remuneration, and nomination committees established)
+
Executive officers

(Example)

Company name	Ratio of ordinary profit to total capital
Toshiba	–6.77
Sumitomo-Mitsui Banking	–0.54
Sony	1.16
Komatsu	–7.78
Mitsubishi Trading	1.44

Type B

(Managerial oversight and operational implementation separated; no committee introduced)

Board of directors
+
Executive officers

(Example)

Company name	Ratio of ordinary profit to total capital
Ricoh	6.44
NEC	–9.38
Shiseido	4.15
Nissan	6.07
Unicharm	10.51

Type C

(Managerial oversight and operational implementation not separated)

Board of directors

(Example)

Company name	Ratio of ordinary profit to total capital
Canon	9.92
Nippon Steel	0.41
Toyota	5.95
Tokio Marine	0.90
Tokyo Electric Power	2.35