

JMA 2012 Proposal for Management Innovation

# Co-evolution

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JAPAN MANAGEMENT ASSOCIATION



## **Introduction**

Japanese companies face a harsh environment today. Amid fierce global competition, even key companies—those that have been the driving force behind Japan’s economy for years—find themselves in a difficult position. Despite committed efforts to reform management, Japanese companies do not yet have in place a solid growth model for the future. What has brought success in the past no longer does so today, and corporations appear to have lost their confidence.

The fact is, however, that in the postwar period Japanese companies consistently produced technologies and products that commanded the respect of the international community, and these companies developed their businesses based on these innovations, leading to the nation’s extraordinary economic growth. Japanese companies must continue to be trailblazers in every age. Corporate executives must show resolve and take action to bring out the strengths of their companies by engaging in ongoing management reform.

To address this situation, the Japan Management Association (JMA) set up three study groups in 2011 to discuss what Japanese companies should do to continue to thrive, the obstacles that lie in that path, and the actions that should be taken to overcome them. The study group of Asian experts and specialists offered warm messages of hope, cheering Japanese companies on, encouraging them to have confidence, and offering management suggestions.

JMA marks its 70th anniversary this year. For almost three-quarters of a century, we have worked with Japanese companies to solve the management issues they face, including management efficiency, operational efficiency, quality control, and skill development for middle managers and employees. Reviewing and reflecting on our accomplishments to date, we must consider what role we should play in the future.

Focusing primarily on bringing a new era in corporate management, the proposal described herein aims to help ensure the sustainable and healthy growth of Japanese companies. It would be our greatest pleasure if this proposal were to provide corporate executives with an opportunity to review their management style and actions and help them gain confidence about their future course.

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## **Chapter 1. Identification of Challenges: Ensuring the Sustainability of Japanese Companies**

### **1) People**

To identify and solve the challenges facing Japanese companies today, it is necessary to reflect on the traditional strengths of Japanese companies and note changes taking place inside and outside these organizations.

What are the traditional strengths of Japanese companies? First is the leadership and ethics demonstrated by corporate executives with their strong sense of mission. Second is the diligent and earnest workforce. Through this combination of management and employees, the third strength is generated, that of advanced technology and the ability of workplaces to achieve goals and solve problems. Fourth is the creative measures Japanese companies take to create strong bonds between management and employees, symbolized by middle-up-down management. Finally, a company's group of subcontractors who tackle challenges together with the company over the years also constitutes a key strength of Japanese corporations.

These strengths reflect the sense of unity shared by management and employees. This solidarity has even been described as a "monolith." Indeed, Japanese companies have put into daily practice the saying, "A company is its people." This management style of valuing employees has been the source of the strength of Japanese companies. In such an environment, employees have been able to concentrate solely on their work and have thus displayed great creativity and ingenuity.

Today, however, changes are taking place in the very structure of Japanese society as well as among working people, including the acceleration of population aging with the decline in the birthrate and the decrease in the "hunger" among workers to strive for higher levels of excellence. It appears today as if workers no longer have satisfaction and meaning in their jobs and have lost their sense of purpose in working. More and more people experience job insecurity and as a result cannot plan their future. In the workplace, relationships among employees, which are cultivated through collaborative work, have weakened, while more than a few people struggle with mental disorders.

These issues related to people together represent a weakening of companies' human resources foundation, and we need to thoroughly rethink work itself as well as work styles. It is also necessary to ask ourselves once again whether Japanese companies today truly value their people.

## **2) Corporations and organizations**

The primary significance of the economic activities of corporations and organizations is to create value and solve social issues. Japanese society faces a variety of challenges, including an aging population with fewer children, the risk of large-scale natural disasters, and a potential energy crisis. These problems also provide opportunities for companies to find a new *raison d'être* for themselves.

For companies to provide society with new value requires innovation and creativity. If these elements are lost, it will be difficult for them to continue to survive. Many companies that used to consistently produce attractive products and services and that used to be praised for their creativity have been sluggish for a number of years now, having lost their former glory.

Perhaps Japanese companies have lost the ability to envision a new level of affluence and the creativity to solve new problems. This is not necessarily due entirely to external factors but seems in many cases to be due to internal factors that hinder creativity.

Thus, developing a new corporate structure and fostering a new level of creativity are major challenges for Japanese corporations and organizations. They must shift their focus from performance, efficiency, and the short term to value development, creativity, and the medium to long term. They must eliminate internal factors that impede value creation and they must promote diversity, aiming to develop a new corporate structure that facilitates creative activities.

## **3) Relations with the international community**

Japan is geographically located in Asia and is part of the Asian community. Home to about half of the world's population, Asia continues to grow at a rapid pace every year. Japan has long maintained close ties with its Asian neighbors, and Japan's trade with and direct investment in the region account for a large share of the world total and continue to increase every year. Moreover, Asia has high expectations for Japanese companies in relation to Asia's further development.

It is also true, however, that despite an investment record in Asia of more than 50 years, Japanese companies have a declining presence in the region. In contrast, multinational companies, enterprises from emerging countries, and local companies are strong in the fiercely competitive Asian markets.

Facing the challenges of a shrinking Japanese market and decreasing competitiveness in international markets, Japanese companies must work hard to develop their presence in Asia and the world and find an avenue to new growth.

## Chapter 2. Proposal for Management Innovation

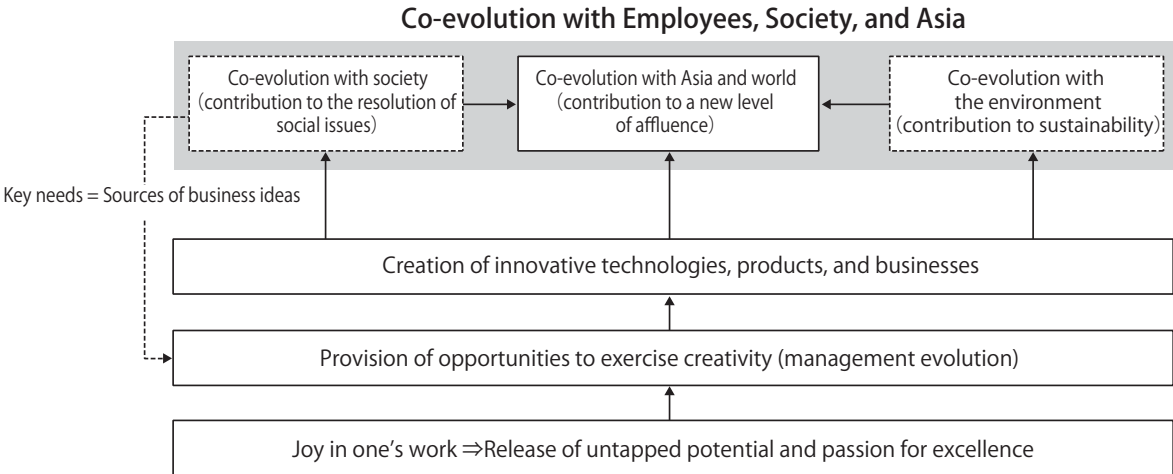
### Co-evolution: Developing together a new level of affluence in Asia by creating value through the Japanese work style

Co-evolution (evolving together) is a biological concept, meaning “evolution involving successive changes in two or more ecologically interdependent species (as of a plant and its pollinators) that affect their interactions” (Webster’s Ninth New Collegiate Dictionary).

What is the *raison d’être* of a company? It is to achieve sustainable growth through the work of employees, who, under the shared goal of providing society with significant value, tackle challenges and do things that cannot be done by others and thereby gain the strong support of customers, the community, and society. Co-evolution in the context of corporate management means that the company aims to develop together with employees, customers, and society through its activities and its existence.

Japanese companies possess a variety of strengths, including high ethics, advanced technology, quality control capabilities, and outstanding teamwork. Additionally, Asian executives expect to learn from Japanese companies about their unique human resources development practices and thoughtful customer services. These are the fruits of Japanese companies’ management efforts, and they were developed through employees’ committed and sincere efforts. This is the Japanese work style which our nation boasts to the world.

For Japanese companies to grow hand in hand with Asia and continue to create new value as a way to continue to thrive, they must seriously reflect on the merits of this Japanese work style. Then, they need to release employees’ untapped potential and passion for excellence and develop a management structure where creativity can be maximized. By so doing, they will be able to produce innovative technologies, products, and businesses, address problems in Asian society, and together create a new level of affluence in Asia. In addition to leveraging the strength of the Japanese work style, Japanese companies also need to learn from leading companies around the world. In this way, co-evolution with employees, society, Asia, and the world will be achieved. To this end, we offer the three proposals below.



## **Proposal I. Co-evolve with Employees Based on People-oriented Management**

Creativity and ingenuity as well as cooperative actions and attitudes are distinctly human qualities. People-oriented management means valuing these qualities, thereby enabling dynamic teamwork and consistently creating new value. People-oriented management must be seen as essential to a company's sustainability.

To ignite employees' passion for excellence, company executives must effectively communicate the corporate mission and vision.

### **1) Use the joy found in work to inspire employees to tackle challenges**

Employees are people. Unlike machines and equipment, each has a will. Positive actions from employees do not arise from corporate executives' imposing their views on them. Rather, employees begin proactively tackling their work with creativity and ingenuity when they understand and see their roles and goals as their own. Employees' initiative is ignited not by persuasion from executives but by understanding and recognizing their roles and goals as their personal mission. This brings productive results.

Corporate executives should always encourage employees to think about the purpose of the company, the contribution their work makes to society, and the mission of their business division. Employees will be inspired by sharing their thoughts about these matters with their colleagues. The more challenging the objectives and goals, the greater the joy will be when they are achieved. Corporate executives must be attentive to make sure their employees are experiencing joy in their work.

Leading companies have a distinctive culture. Corporate culture gives direction to employees in their day-to-day work. If employees correctly understand what is expected of them, they can decide immediately how to act in a given situation. Corporate culture cannot be easily imitated by other companies because it represents the wisdom the company has accumulated over the years. Corporate culture is a company's true or fundamental strength. Corporate executives have to not only inherit corporate culture but also tailor it so it remains relevant to the times.

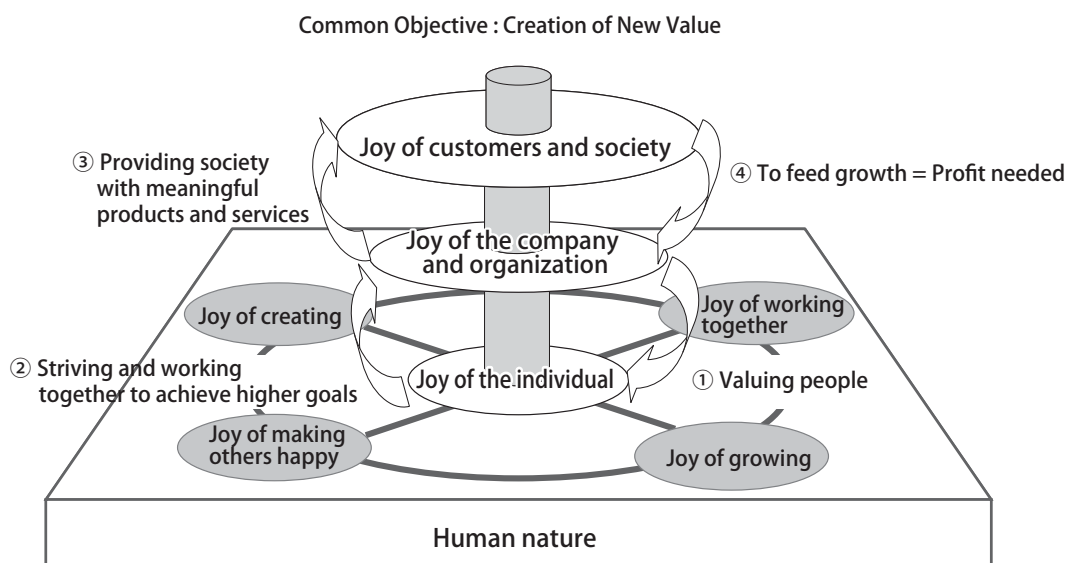


## 2) Harness the advantages of diversity under the banner of a common vision

Every employee has unique views, talents, abilities, and strengths. Amid fierce global competition, organizations need to have a diverse range of people. The higher the degree of heterogeneity, the greater the synergy the organization can create, generating tremendous creative energy.

However, heterogeneous groups also have tremendous potential for clashes and divisions. Advancement to a higher level can be achieved only after overcoming healthy conflict. For this reason, corporate executives need to raise high the banner of a common vision and have deep, ongoing dialogue with employees. Furthermore, no efforts should be spared to make sure information is distributed to employees. When employees see the company's purpose, objective, and vision as their own, group cohesion will increase and teamwork will be facilitated.

Under the banner of a common vision, or in other words, around a common objective, new value will be created, as the joy of the individual, the joy of the company and organization, and the joy of customers and society are linked together. The organization in this virtuous cycle is a next-generation organization capable of continuously creating value. The Japan Management Association is promoting KAIKA Action as a movement to create such organizations. KAIKA Action is a new value creation activity aiming to simultaneously achieve the professional development of employees, the revitalization of organizations, and the development of organizations' social contribution.



## **Proposal II. Shift the Organizational Focus from Management to Creativity**

Creativity cannot be managed. The organizational focus sets the parameters for creativity, and employees are acutely aware of it. The only way to enhance creativity is to improve the environment. Corporate executives must be ready to change their organizational focus.

### **1) Change the mindset of middle management from that of manager to that of entrepreneur**

Problems arising from organizational bloat have deep roots. When an organization grows in size, emphasis on management—rather than creativity—intensifies in no time. More and more middle managers start to focus exclusively on organizational management, rather than on new business development. Walls appear between organizational units, and this creates distance between management and employees. To ensure creativity, people with these kinds of focuses must not be appointed general managers. If that happens, opportunist or submissive employees will increase in number, while innovative employees will not be able to give full rein to their talents. As a result, the organization will be filled with inward-looking employees.

This kind of issue cannot be solved by just leaving matters up to the division in charge. Corporate executives must assess the situation themselves and take the necessary actions. It is very difficult to change the mindset and actions of employees, and only executives can address any resistance and move the organization in the desired direction. Many corporate executives claim to make reforms, but employees are checking whether they are serious. If executives carry out reform thoroughly and resolutely, employees' actions will change and standard practice will improve. To do this, executives must speak earnestly to employees, telling them their thoughts about the company and talking to them about the company's objective and direction. Executives must change systems and, if necessary, even involve themselves in performance reviews.

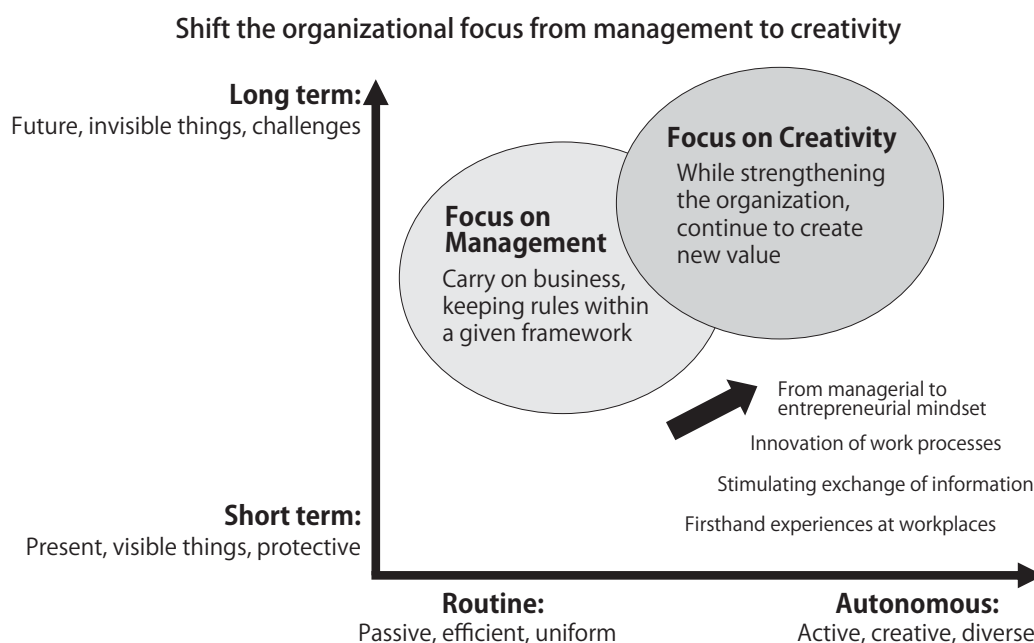
## 2) Innovate work processes and enhance organizational creativity

Imposing excessive rules on employees and attaching too much importance to inward-looking consensus building must be rooted out. Creativity blossoms in places where different ideas clash as people come together to reach the common objective of creating value for customers and society. People are gifted with creativity and ingenuity by nature. Creativity will naturally be brought out if employees experience joy in their work and no excessive control is imposed on them. Bold changes must be brought to past views on work, including the way of engaging in work and approaching work projects, hiring, personnel placement, and performance reviews as well as organizational structures.

Efficiency must continue to be pursued; however, if too much attention is placed on trying to enhance management results by making efficient use of people, it may hamper their motivation and creativity. Many transitive verbs are used in the management world, as seen in such phrases as “develop human resources” and “motivate employees.” Employees each have a will, however, and they develop themselves and motivate themselves. We firmly believe that, if those in managerial positions realize this and change their behavior, an organization’s atmosphere will improve.

People’s creative ideas and actions originate in the realm of the imagination. Without experience, however, no one can imagine. Due to overdependence on outsourcing and information technology, there are fewer opportunities to experience things firsthand in workplaces today than there used to be. Employees develop their ability to sense, notice, and intuit things through experiences at workplaces that have a stimulating environment. It is effective to train people through apprenticeships or secondment programs and other opportunities to test one’s abilities in different contexts. Japanese companies used to attach importance to these approaches. Today Japanese companies need to solidify the source of their creativity by investing time and effort in the development of human resources, instead of focusing on efficiency in the short term.

It is also necessary to create at the same time an environment that invites diverse ideas by making it easier to receive input from various sources through a variety of interactions both inside and outside the company.



### **Proposal III. Create a New Level of Affluence by Co-evolving Hand in Hand with Asia**

As an Asian country that has long experience in solving issues, Japan needs to help create a new level of affluence in Asia by addressing social issues. To this end, Japanese corporations should develop management to a higher level by thoroughly learning from leading companies and further refining Japan's unique qualities.

#### **1) Develop hand in hand with the local area**

For Japanese companies to grow hand in hand with Asia, we must think about what we can do to help enhance the lives of people in Asia. Growing hand in hand with Asia does not mean adding value to products by incorporating multiple expensive features that are not useful to Asians. Nor does it mean providing low-priced products by simply downgrading functional specifications. It means learning about the local culture and customs with humility and creating products tailored to the local context. In management resource allocation, it means placing emphasis on businesses that will bring affluence to the local society, including infrastructure development, improvement in life- and environment-related areas, and lifestyle enhancement.

Japanese companies should not aim exclusively at quantitative expansion; they should value maintaining stable relations with society. Hiring local people will increase local employment opportunities, but that is all. If Japanese companies have the will to actively help develop local industry and take the necessary actions, the positive influence of their presence will spread, enabling them to grow together with the local area.

Japanese companies must continue in the future to be worthy of emulation and to maintain a level that cannot be easily imitated. Moreover, they need to thoroughly learn from the local area and leading companies. By so doing, they will be able to refine Japan's unique qualities. They will bring management to a higher level by learning what needs to be learned, such as speedy management response, diversity, and motivation to achieve goals.

It is also true, however, that Japanese companies are not necessarily well understood by the local people. People may not have a proper understanding about why Japanese companies have set up there and why the companies take the actions they do. Japanese companies should make efforts to deepen local understanding of their company and of Japan in general. In addition to advertising, they should create more opportunities to provide the general public, customers, and employees with information on Japan via TV dramas and content using local media.

#### **2) Grow alongside local employees**

Promoting local personnel to managerial positions is a major challenge for Japanese companies. In particular, finding and developing executive candidates is the key to the success of a local subsidiary. Japanese companies need to identify promising persons and develop them into executives so that they can entrust them with the management of the local subsidiary. Developing corporate executives takes time. Every company has to realize that human resources development is a long process.

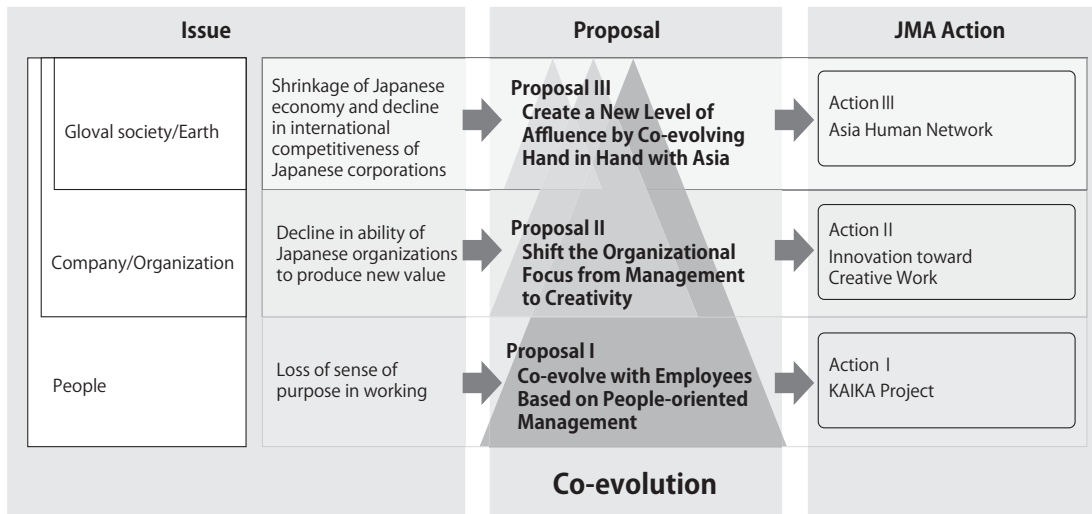
Japanese companies that are successful in Asia are dedicated to the professional development of their employees because they recognize that work quality and productivity are greatly influenced not only by employees' skills and capabilities but also by their work attitude and work ethic. Additionally, such companies' executives want their employees to develop professionally. Executives of local subsidiaries all say that they want their employees to be happy that they work at the company.

There is also much to be learned from local companies. For example, it would be beneficial to increase opportunities to learn together and grow together by having young Japanese employees work in collaboration with local subsidiaries or partner companies.

It should be also be remembered that Japanese subsidiaries and local companies need to develop together as local subsidiaries identify promising local companies and then offer them guidance and collaborative work.



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