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Examining Technology Management Trends in Japan, Korea and China: Interview with T.W. Kang, Managing Director of Global Synergy Associates

T.W. Kang is Managing Director of Global Synergy Associates, a management consulting firm based in Tokyo. His list of Fortune 500 clients includes Philips, Siemens, Daimler Benz, Intel, National Semiconductor, Samsung Group, and Mitsubishi Electric. He has served on the board of directors of NEC Electronics and a number of high tech ventures including Synaptics, Inc., SiPort, Inc., and gEM Services, Inc. Prior to that, he spent a decade at Intel Corporation. He is author of six books in English, Japanese and Korean including GAISHI, The Foreign Company in Japan, and Is Korea the Next Japan?, and has been a guest commentator on CNN, NHK and KBS (Korean Broadcasting System). He received his BSEE degree from M.I.T., and an MBA from Harvard Business School.

By Keith W. Rabin, KWR International, Inc.

You wrote a book named Gaishi: The Foreign Company in Japan in 1990 when you were working at Intel in Tokyo. What was it like for foreign companies operating in Japan in those days and how have things changed in the last 22 years?

Some changes have occurred since 1990, mostly to the benefit of foreign companies (Gaishi) although the importance Japanese customers place on QCDS (quality, cost, delivery, and service), which is the central theme of the book, remains unchanged.

A drastic shift is that back then, Japan used to be THE major market in Asia, but China has now assumed this position. That changes the perspective of foreign firm's headquarters as they contemplate the positioning of their subsidiary in Japan (namely gaishi) within their global strategy. But it is important to remember that Japan still remains a market to be reckoned with, and one that has become easier to operate in.

A huge challenge for the gaishi used to be securing the best human resources in Japan. Graduates of the University of Tokyo and Japanese who spent time at renowned Japanese firms, used to scoff at the prospect of working for foreign firms, but not anymore. This is because large Japanese firms have announced plans to downsize by tens of thousands of people. A head-hunter in Tokyo engaged by a gaishi recently told me, "Boy, I only need one."

An example of a true paradigm shift is "Hallyu" which refers to the recent flood of Korean drama, pop culture, products, and even management techniques into Japan. Less than a decade ago, I went into a consumer electronic shop in Tokyo looking for a washing machine, and as I was looking at a Korean product, a store attendant came up to me and told me to ignore Korean goods as they are "crap." Just a few days ago, however, the Nikkei reported the only TV selling well at leading consumer electronic shops is a Smart TV by LG. Nowadays even I receive numerous requests from the Japanese to lecture about the "secrets of Korean management."

This shift is truly a once-in-a-century phenomenon since the self image of the Japanese as the foremost Asian people came to be as a result of their victory in the Sino-Japanese War of 1894-95 and continued until recently.

Japanese companies used to lead the world in applying technology to consumer products such as the Walkman and video games which achieved tremendous success in world markets. Despite this early lead, however, Japanese firms have not been particularly successful in marketing personal computers, mobile telephony and now smart phones outside Japan. Do you have a view on why this has been the case?

In speeches I often ask, "why is it that the sole country which has the ability to produce all the parts that make up a cell phone only has a few percentage points of global market share?" The first reason is for many Japanese firms, the Japanese domestic market has been just large enough to sustain (but slowly erode) their overall profitability, reducing their motivation to reach out to global markets. On the other hand, Dutch and Koreans cannot survive solely or even mainly on their domestic market, so expanding abroad is a"life or death" choice.

Source: Technobuffalo

This is closely related to the second reason, which has to do with "hybridization of human resources." As companies everywhere try to enhance global competence, they need human resources with experience in at least two functions such as product development and marketing, and preferably two geographies. The Japanese have strong pride and tradition in craftsmanship, which in a number of instances supersedes the pragmatism required in selecting industry standards and business models. Witness how the Japanese tried pushing their own cell phone standard and lost out against GSM, which allowed then relatively unknown Nokia of Finland to become number one. Witness how Sony, who created the market for portable audio (Walkman) and I'm sure can still make the most compact hardware audio receiver, could not come up with a content delivery vehicle ala iTunes. They allowed Apple to walk all over them.

As to hybridization along geographic lines, suffice it to say Japanese firms in general are still reluctant to send their next-in-line-for-president type of human resources to emerging markets.

On the other hand Korean firms have been achieving tremendous success in areas such as electronics where Japanese firms had dominated and Samsung is now said to earn a larger profit than all Japanese electronics companies combined. That is interesting as Korean firms have traditionally looked to Japan as a model. Do you have any thoughts on how Korean firms have become such effective competitors and are there any lessons Japanese companies can learn from their experience?

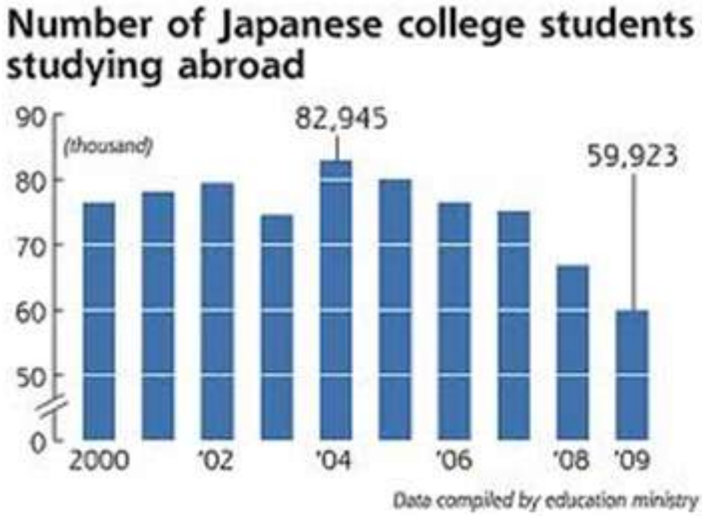
First, to be objective, the relatively strong yen versus the relatively weak won has given the Koreans tail winds and the Japanese head winds. Also, Korean firms have had a relatively favorable corporate tax burden compared to the Japanese. In fact some Japanese firms complain this difference in burden would enable the building of one additional manufacturing facility every year. The quality of Korean management has also improved significantly over the last decade and a half.

I still remember a time when I could not convince Samsung to study Western competitors; only the Japanese were worth studying. Today, Korean firms benchmark not only the Japanese but also Western firms from smaller European nations. This shift happened around the time of the Asian financial crisis of 1997. The instinct to survive brought real meaning to words of Korean corporate executives such as "change everything except your wife and family."

Also, from the early nineties onward after South Korea and China established diplomatic relations, Korean firms began targeting emerging markets where the Japanese did not have an established presence, and where spontaneity, the Achilles heel of Japanese organizational execution, is key. They dove into the BRICs markets by developing "regional specialists," i.e., Koreans who would speak their language, move with family to their country, and permeate society there. Samsung alone has several thousand such specialists around the world. This is one kind of the human resource hybridization I referred to above.

From a macro perspective, despite the fact the Korean government has shifted both right and left in the last two decades, one consistent thrust has been to turn South Korea into an FTA hub. They now have FTAs in effect with both the EU and the US, in addition to a host of other nations. Korea is also aggressively pursuing their next target – China. By contrast, the current Japanese administration has not yet sought to gain entry into Trans-Pacific Partnership negotiations due to domestic considerations. Here again, one is reminded of a reversal of roles. Preceding the Russo-Japanese War of 1905-06, the Japanese masterfully crafted alliances with England and the US, effectively checkmating the isolated Koreans. Today, it appears Korea is the one forging FTA alliances with strategic nations, and Japan is the one that is the laggard.

Many people believe Japanese culture has become increasingly insular and point to facts such as far fewer Japanese students now study overseas or are as globalized as their parents. Do you believe this is the case and if so what effect will this have on Japan, doing business there, and the ability of Japanese firms to compete in foreign markets?



Source: Daily Yomiuri

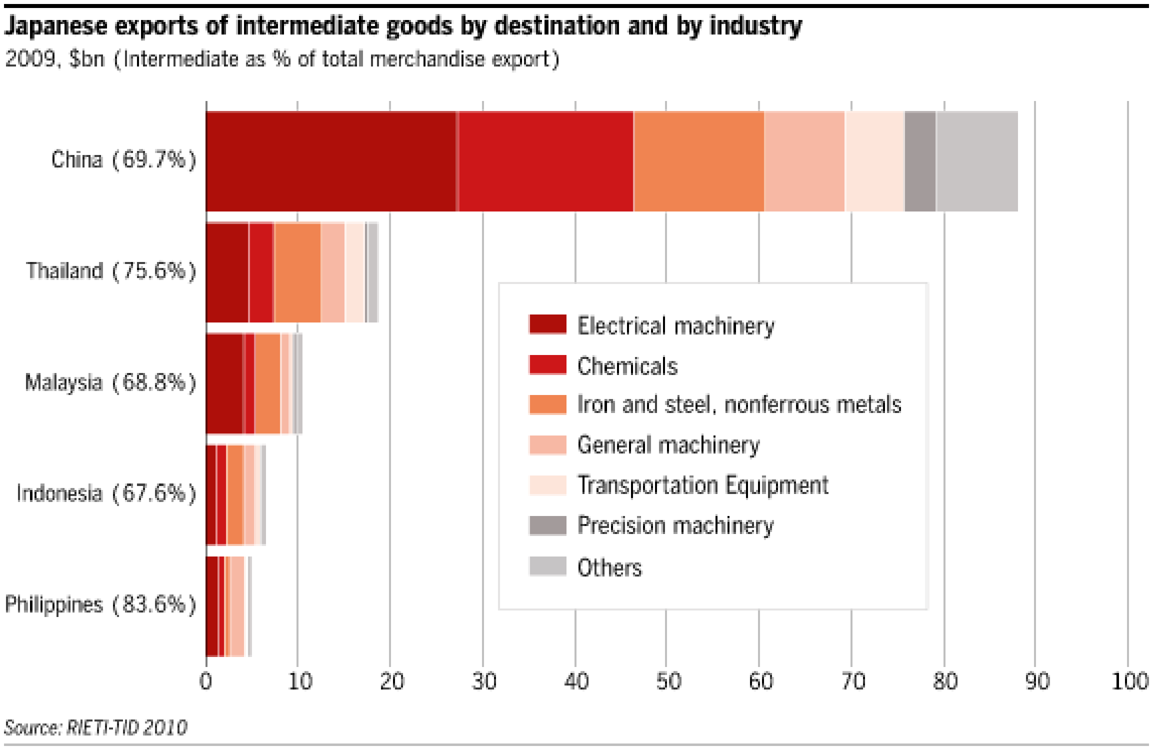
While I wish Japanese youth reached out more overseas, I do sympathize with them. Employment of new college graduates has been dismal for the past few years, and when students are asked about spending time abroad, they complain that competing with their Japan-based classmates and coping with schedules and procedures of Japanese corporate employment does not give them the leeway to do so. One bright spot is although firms are quite conservative about hiring new college graduates, they are aggressively holding career fairs to secure foreign students in Japan, and Japanese who have studied abroad.

However, having observed the globalization patterns of the Japanese over the past three decades, the bigger picture is there is still no consensus that diversity is beneficial to them. The Japanese are what I call a "monoethnic culture." That is a nation that emphasizes in its schools that its identity is anchored in a single ethnic race. Intriguingly the only other Asian nation that fits this description is Korea. In such nations, making the leap of faith from ethnic cohesion to ethnic diversity/pluralism cannot be construed in the same manner as with other nations with a more inherently diverse base.

Interestingly, Sony and Samsung have dealt with this problem in two very different ways. Sony has truly diversified its officers and directors – a Welsh-American Chairman (CEO until recently), Japanese operating executives, and a board of directors from multiple nations such as Britain and China. Meanwhile, there are no foreigners in Samsung's executive ranks or board. But, as mentioned earlier, Samsung has taken its own Korean executives, and immersed them into uncharted lands. The question of which approach is better for a "monoethnic" backdrop, is still subject to debate, although recent results tend to bode well for the latter. And, I suspect the cost for Sony of effecting close communication and focus despite such diversity in a "monoethnic" backdrop is appallingly high.

When analyzing the changing nature of Japanese business, some analysts highlight a shift from branded products to an orientation that emphasizes key components and technologies in which awareness of Japanese dominance in the category only becomes apparent during supply chain disruptions such as the Fukushima disaster. Do you believe this is the case? If so, why is this happening and what are the implications for Japanese firms and the technology industry?

There are aspects of Japanese management that are excellent. This is clearly evidenced by the number of technologies only the Japanese can exclusively provide the world. Once the Japanese have such high leverage in these "upstream" core materials, equipment, components and building blocks, their focus on the Japanese way of craftsmanship and management seems more than appropriate; why fix what isn't broken?



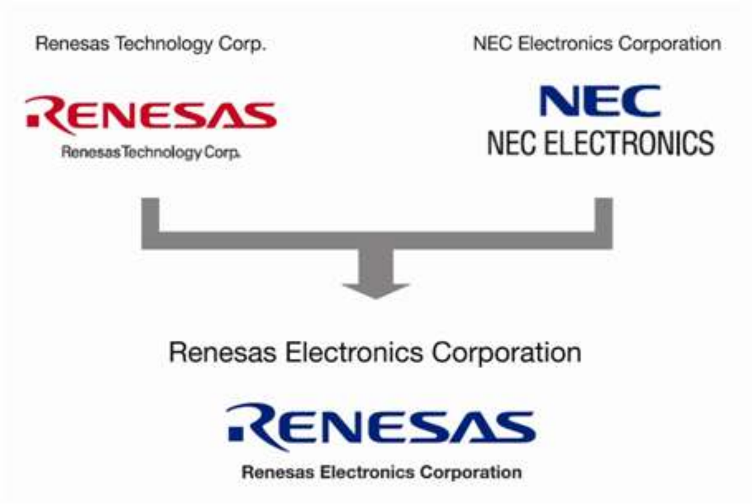
Source: beyondbrics

However, I have seen analysis that indicates that the business scale (size) of the upstream sectors is much smaller than sectors further "downstream" that include branded goods. I suspect that such scale unfortunately does not support the welfare of a population base of 130 million people. That is why globalization is a challenge that very few can avoid.

You served as a board member of NEC Electronics, a major Japanese technology company. What led to this appointment and what was it like working on the board of a major Japanese firm? How does the role of a board of directors differ between Japanese and US firms?

NEC Electronics was the semiconductor arm of the NEC Group, and as a semiconductor business, had been the number one player in the world. They lost share continually until they had gotten into a chronic loss situation. That's when they made the decision to accept me as their first independent board member although I am a foreigner, and an ex-Intel executive, an intense competitor in the past.

Both the company and I had to feel our way forward in the relationship. I insisted I wanted to be an active board member, and attend not only board meetings but top executive sessions where decisions were actually made. This was a groundbreaking experience for a number of reasons. First, there is no consensus in Japan the company belongs exclusively to the shareholders and maximization of shareholder wealth should be first priority. Second, board members of Japanese companies typically do not engage in what I call "offensive corporate governance," i.e., attaining consensus with management on corporate objectives and strategies that maximize shareholder wealth. On the other hand, companies expect the board to perform "defensive corporate governance," such as the prevention of legal non-compliance and maintenance of a certain level of transparency. Therefore, they rarely engage outside board members in strategy formulation. This is aggravated by the fact firms typically do not accept industry insiders as outside board members, and therefore, deep discussions on strategies rarely happen.



Source: I-Micronews

However, due to NEC Electronics' critical situation, I felt compelled to take a stronger role. In the beginning, I was afraid there would be no option left to turn the company around. After judging an "organic" turnaround of the company was practically impossible, halfway through my tenure, I found a potential non-Japanese merger candidate that had the following benefits: a) synergies from similar customer sectors but complementary regional strengths and technologies, b) diversification of yen currency concentration, c) a counterpart that had already restructured but was undervalued for a specific but irrelevant reason, and d) a strong CEO and management team. And, this structure would have allowed NEC to hold on to a majority share. With many influential supporters, we were able to develop a dialogue between the two companies to the point where investment banks and lawyers were involved on both sides assisting the two management teams to put the deal together.

It is still heartbreaking for me this deal did not go through. Instead, NEC Electronics merged with a Japanese competitor, and after two years and over $2 billion dollars of new cash infusion, the combination is already almost out of cash and in dire straits. In the meantime, the non-Japanese firm mentioned above turned around its valuation and its stock price went up several-fold. Perhaps, the last grand option to turn around the Japanese non-memory semiconductor sector and to save the employment of many NEC Electronics people might have been lost.

One of the more important corporate governance stories emanating from Japan in recent years has been the case of Olympus in which a foreign manager with long-term experience with the firm alleged substantial improprieties and fraud. What are your views on this case? What does it say about the Japanese corporate system and implications for the future?

Mr. Woodford certainly did the Japanese financial markets a tremendous favor by uncovering the alleged corporate crime that persisted within Olympus for such an extended period. No question about that. The surprise is that the Japanese did not support him to take on the presidency of Olympus.

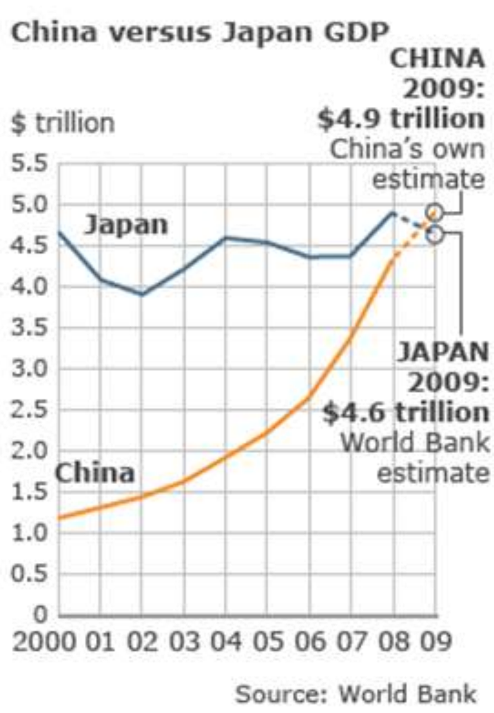
Source: Bureau of Investigative Journalism

As much as my curiosity might have been stimulated if he had, I can in some sense understand the skepticism. It is one thing to be a whistle-blower: it is quite another to be an effective foreign leader in a "monoethnic culture." Take a look at the record: out of Ghosn of Nissan, Stringer of Sony and Stuart Chambers of Nippon Sheet Glass, only the first can claim success, and it was mainly because Nissan was truly at the brink.

That is not to say Japanese corporations do not need to improve their corporate governance. A family member of Daiou Seishi who allegedly gambled away over 100 million dollars of corporate money is a case in point. CEO succession at Fujitsu exposed another sort of governance problem. Despite my claim Japan needs "offensive corporate governance," "defensive corporate governance" clearly needs hefty reinforcement.

In recent years you have spent a lot of time in China observing how it fits into global supply chains and working with Japanese and other firms seeking to take advantage of opportunities in this market. What can you tell us about this experience and how has global manufacturing and the technology industry changed as China has become a major factor both in production and as an emerging consumer of technology products?

Recently, I enabled the consummation of a joint venture between a China-based module manufacturing contractor and Mitsubishi Electric Corporation. In the early phases of China's economic development, foreign firms used China as a manufacturing base for global markets. However, as China's domestic market expanded, foreign firms have increasingly used their China based production bases as a source of advantage for securing Chinese customers.



However, this is easy to say, difficult to do. In a country as large as China, it is hard to believe how few locations have the combination of 1) reasonable cost, 2) prospect of developing good public/private sector relations, 3) access to stable, high quality labor, 4) good infrastructure and market, and

5) absence of an overshadowing competitor in the same space. On the other hand, it is reasonably easy to find a low cost location, but with low quality labor and infrastructure, combined with bureaucrats relatively inexperienced in dealing with foreigners. In this sense, the low hanging fruit in China may be gone.

But even considering the slowing of China's growth rate, China's population will urbanize at a rapid rate for at least the next five years, if not longer. This bodes well for high tech, particularly the industrial sector, as urban infrastructure will require much upgrading and expansion. Any global firm that even tangentially relates to such urbanization demand will suffer large opportunity loss without an effective China strategy.

Until about ten years ago the primary focus of Japanese firms was both on Japan itself and on delivering exports to mature markets such as the US and Western Europe. This is now changing as incremental growth shifts to the emerging markets. How is this changing Japanese corporate behavior and what particular challenges and strengths do they have as they seek to enhance their competitiveness in the developing world?

Japanese firms are indeed shifting their emphasis to emerging markets. The basement floor of Jiuguang Department Store in Shanghai is full of Japanese high-end grocery and consumer items. What is intriguing is that renowned Japanese soup noodle (ramen) and potsticker franchises such as Ajisen ramen and Gyoza no Osho whose products trace their roots to Chinese culinary culture, have brought their dishes to China, and Chinese consumers are gobbling up their offerings. Uniqlo, a front-runner in the Japanese apparel scene, used to use Chinese production as leverage for its low cost strategy, but now they are moving upscale globally, and this thrust is hard to miss in their flagship Shanghai outlets. Uniqlo CEO Yanai

Source: Movida Japan

has declared any Uniqlo employee who is satisfied solely with domestic business will not be needed by the company.

One challenge for the Japanese in emerging markets is speed combined with spontaneity. Toyota has recently begun to seriously reinforce its efforts in China, but CEO Toyoda openly recognizes his firm is coming from behind. Toyota has also developed a large wall display in their marketing offices that shows the real-time status of all shipments and inventories in their delivery chain. Such techniques might serve as an effective response to Hyundai's efficiencies.

Source: Best Selling Cars Blog

Now that the world has accepted the attractiveness of emerging markets, costs have started to rise in these economies to the point that manufacturing is beginning to move back to the US. At the same time many key components and processes as well as related engineering and design talent has moved to emerging Asia. How will these trends be reconciled? Can manufacturing, particularly in higher-value-added sectors such as technology move back to the US or is the trend inherently limited? Despite the strong yen are Japanese companies also moving any of their production back to Japan or from emerging Asia to the US?

The question of where to locate production sites is a complex one involving many factors, not only cost levels. For example, a particularly sensitive factor in a political year like this is employment. But, there are also other factors such as proximity between product development and operations, and location of key players in the supplier ecosystem. Fairly easy to recall is Sharp's past assertion that its integrated flat panel facility in Kameyama was a showcase of how such plants can be competitive in Japan. Well, Sharp just asked Honhai of

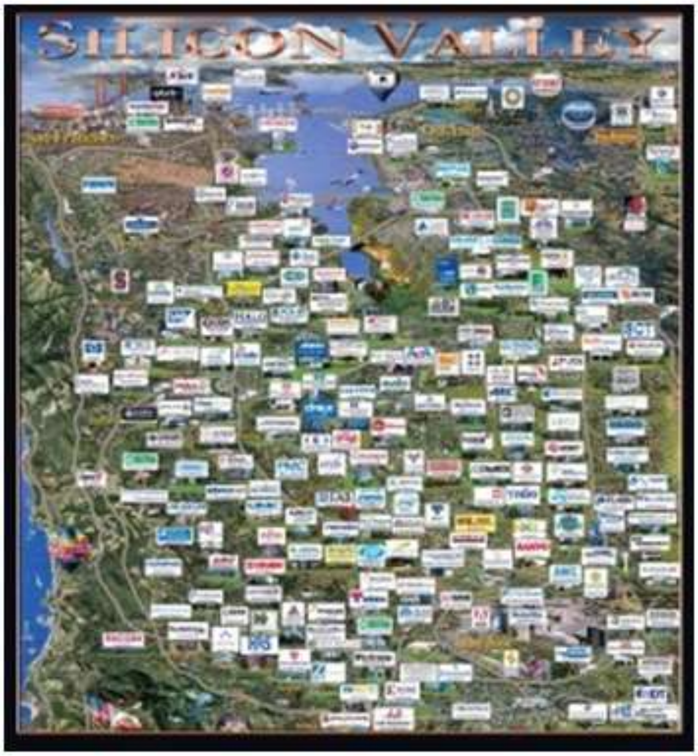
Taiwan to help by becoming one of its largest shareholders, and also by guiding Sharp's operational restructuring. On the other hand, in the "upstream" materials and key components segments that the Japanese dominate, it is not only economically affordable to locate plants in Japan, but also this may be essential to maintain the integrity of their management, organizational and operational practices.

Source: Nikkei Business

In low end segments, however, it is a fact that costs are rising particularly in the Eastern parts of China, and that is why in the aforementioned case of the China-based module manufacturer, they diversified their manufacturing location by expanding from their base in Shanghai westwards to Hefei. There, costs are significantly lower, and other factors tend to be reasonable, although not quite at Shanghai's level. Another strategy manufacturers are adopting is to diversify not only within China, but to other locations such as in Southeast Asia.

You spend a lot of time in Silicon Valley, which is universally admired as a focal point of new technology and venture financing all over the world. Japan and other countries have sought to replicate this model by developing closer relationships between business and academia, encouraging technology transfer and licensing and other programs that seek to foster innovation and commercialization of academic research. While some of these programs have shown results, none have come close to replicating the success of Silicon Valley. Are there lessons to be learned or is the success of Silicon Valley something unique to the US, that particular region or circumstances that cannot be replicated?

As a long time Silicon Valley player, my first reaction is that in a literal sense, Silicon Valley is not about silicon any more. Very few semiconductor start-ups, if any, are getting funded and few, if any, successfully exit. Fabless semiconductor venture opportunities used to be such that with an accumulated investment of around $30 million, one could reach a revenue level adequate for exit in three years by sustaining a gross margin of over 40%. Now, with the maturing of the semiconductor space, the numbers look more like $50 million in, five years to exit with a gross margin of 20%. And, that's when a venture is successful. It's now become a big boy's game.



Source: Silicon Angle

Having said that, Silicon Valley's great strength includes not only its ability to enable great innovation for world markets, but also its ability to reinvent itself. Silicon Valley has successfully morphed from semiconductors, to embracing the Information Super Highway (Yahoo, Cisco and Netscape) to social networking (LinkedIn and Facebook).

While Silicon Valley has been able to reinvent itself, it is true the rest of the world has been largely unsuccessful in inventing their version. The comparison with Japan is particularly illuminating. Just as the adversarial relationship between the large railroads and government that marks the early days of US capitalism contrasts sharply with the cooperative relationship between private entrepreneur Iwasaki Yataro (founder of Mitsubishi) and Okubo Toshimichi (Japan's first minister of industry) during modern Japan's early days, Silicon Valley had little if any guidance, help, or interference from the US government. In contrast, most efforts to replicate Silicon Valley around the world, including Japan, have been initiated and driven by government. Moreover, Silicon Valley is much more about small enterprises, and so traditionally big business oriented Koreans and Japanese have had a lower profile in Silicon Valley compared to the Chinese and Indians.

Thank you TW for your time and attention. Look forward to speaking soon.

The Japan External Trade Organization cordially invites you to the Japan Business Forum: New Initiatives for Sustainable Growth. This conference aims to inform U.S. companies and organizations on important policy changes and business opportunities prompted by Japan's recovery efforts following the earthquake and tsunami of March 2011. Government officials and industry leaders will also brief on and discuss the Japanese government's launch of a renewable energy feed-in tariff system this July.

Event details and online registration: www.jetro.org/JBF2012

This event is free to attend

WHEN:

Tuesday, July 17, 2012 1:00PM - 5:40PM (Reception to follow)

WHERE:

McGraw-Hill Conference Center

1221 Avenue of the Americas, 2nd Fl., New York, NY 10020 Map

We are pleased to announce three keynote speakers at the Japan Business Forum.

Yoshinori Suematsu, Senior Vice Minister for Reconstruction

"Promotion of Foreign Direct Investment in The 3/11 Disaster Areas"

Charles D. Lake II, Chairman of the Board of Directors, The U.S.-Japan Business Council Incorporated; Chairman and Representative, Aflac Japan

"Realizing Japan's Potential: A Business Perspective on the World's Third Largest Economy"

Takashi Hatchoji, Chairman of Hitachi America, Ltd.
"Reconstruction Support and Smart City Strategies"

Topics of discussion

- Japan's continued reconstruction efforts
- Special recovery zone initiatives
- Government subsidies for FDI
- Renewable energy policies, including feed-in tariff

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http://www.surveymonkey.com/s/SLB7SYW

The above site will be closed on August 31 2012. Your understanding and cooperation is highly appreciated.

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