# That Sinking Feeling:
# Titanic Problems Grip the Japanese Economy

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The long-term health of the Japanese economy is threatened on many fronts— the declining consumer base and labor force, an aging population and aging infrastructure, imported energy and food dependence, the growth of China and the coming growth of India as major competitors, and much more.

This paper looks at problems common to the major companies that lead this nation. Most of them are already showing signs of "intellectual *kuudouka*," the hollowing out of innovative corporate thinking, combined with the dumbing down of their employees' knowledge base. Japan's decision to sit out the "global war for talent," and the general lack of 21st century-ready leadership are also beginning to affect even the largest, most powerful companies. Most interesting, a few top executives at big firms are beginning to admit that their companies cannot solve tomorrow's problems with yesterday's skills. They are confiding (off the record) that their younger employees, who would normally rise up the promotion ladder and take over as the new leaders of these firms, are already lacking the skill sets needed to manage a global company going forward. Some senior executives have gone so far as to say, in effect, "Japanese workers simply don't have what it takes to run our company in the future."

Already, we have seen giant, "too big to fail" industrial stalwarts (e.g., Sharp, Nissan) acquired by foreign buyers, and other pillars of export industry (Toshiba) being sold off piece by piece. The core problem at these companies is not a lack of capital, lack of brainpower, or lack of hardworking staff; they are blessed with all of these things. But the lack of globally aware, professional leadership that understands the disruptive changes of the 21st century has in effect steered the Nippon Maru straight into an iceberg.

My assertion is that Japan has succumbed to "Titanic Syndrome"—many companies and citizens are still enjoying themselves on the upper decks, largely unaware that the economic ship of state just hit something big and the engines are slowing down. While the well-to-do in the First Class Dining Cabin are wearing fashionable clothes and eating delicious meals, there is cold seawater rushing in down belowfew voices are raising the alarm.

*The biggest crisis is that there is no sense of crisis.*

The solutions to this situation may be as difficult to contemplate as the consequences of doing nothing, but it is possible that rural prefectures may be able to take the lead in making Japan great again.

***Key Words :*** *innovation, entrepreneurism, intrepreneur, war for talent, business revitalization*

## 1. SILICON VALLEY IN JAPAN?

A friend of mine was a young, near-genius computer programmer who started his own company while still a teenager. He was named Entrepreneur of the Year in the US, and eventually sold his company to his friend, Bill Gates, who wanted to absorb its unique technologies into Microsoft. Retiring in his mid-thirties with a very comfortable bank account, my friend became a global consultant, advising both corporations and governments about how best to develop innovation-driven thinking and foster entrepreneurial spirit in their own organizations.

What he found was that people all over the world had the same model in mind for what they wanted to achieve: create a local version of Silicon Valley.

He told me that he had worked on similar assignments for private- and public sector projects across the globe, including in Russia, Africa, Japan and elsewhere, all with the ostensible aim of helping to build a new Silicon Valley in those locales. That seemed like an interesting and even worthwhile project, so I asked him why he seemed so frustrated.

"They don't get it," he said. "I mean, the really important part is the part they don't get."

As he explained it, his clients clearly understood that start-up businesses in the past 30 years have provided massive growth to the US economy, and they all want that same kind of growth driver for their own economies. But when they look at Silicon Valley, they see only a small geographical area populated with lots of very smart people, many with high salaries, and oceans of venture capital pouring in. They think the recipe for duplicating that is to get lots of their own bright engineers together, add lots of money, build a little Olympic Village-like space for them to live and work in, and stir with motivational speeches. Then they fully expect to replicate the kind of entrepreneurial output that Silicon Valley has been producing for decades, which will kick-start rapid growth in their own economies.

"They miss the key point," he went on. "Yes, there are a lot of smart people in Silicon Valley, and there's a lot of cash floating around, and a whole atmosphere filled with dreams of making it big, but that's not what makes it work. The key is not the brainpower or the mentoring or the access to capital, but the total *environment*.

"For example, if you go into any start-up in the Valley, you'll see rooms full of bright people shouting at each other, contradicting each other, challenging each others' assertions and promoting their own ideas. You'll see Chinese and French and Vietnamese and Indians, Germans, Israelis, Finns, and more, all 'exchanging ideas' in loud voices, often all at the same time. That's what drives Silicon Valley — the human diversity also means a diversity of opinion, and the American setting means they have the total freedom to disagree with each other or anyone else, and do it publicly, and then propose something better. That's the fuel that keeps that creative engine running 24/7.

"When I went to Russia, they had everything — lots of space, great design architecture, tons of cash, and lots of super-smart engineers. But they were all Russian engineers. I told them that a roomful of smart Russians would be about as productive as a roomful of smart Americans or Israelis or whatever —good, yes, but not great; interesting but not game-changing. If you want real breakthroughs, you have to put a lot of very different ideas into the pot and stir vigorously."

I asked him if he thought the Silicon Valley model could work in Japan.

"Are you serious? It's virtually impossible to do that in Japan. First, because you could never find such a diverse group—Japanese want to talk to other Japanese, and maybe throw in a few token *gaijin* so long as they are respectful of the group and not too noisy—and secondly, there is a clearly defined hierarchy within every group. No young engineer is going to interrupt a famous *sensei* to tell him that he's wrong or that what he's proposing is misguided or that it just isn't the best way to solve a particular problem. Younger people, no matter how brilliant or creative, learn to keep quiet and show deference to their superiors. This is why so many Japanese Nobel laureates do their ground-breaking work overseas and why they say the Japanese system is designed to stifle innovation rather than promote it.

"The bottom line is that there are very few places in the world like Silicon Valley. It grew because it is quintessentially American: No one cares where you came from or how old you are or what degree you have from what university. You could be wearing a hand-tailored suit or a T-shirt and sandals, it really doesn't matter. The only thing that matters is what's going on up here—" he tapped his head. "And even there, 'smart' doesn't cut it. Everybody's smart. You have to know how to *use* your brain in ways that other people don't."

He said that everyone in the US is tired of hearing the expression *thinking outside the box*, but only because it became the mantra for Silicon Valley for years, and then everyone copied it. It means that thinking the way your professors did or the way some world-famous expert does is just repetition, not innovation. Today, the competition to create something new and game-changing is fierce, and what looked totally radical this morning may seem merely average tomorrow. In cutting-edge companies, there is a palpable pressure to be different, to think in different ways, to be original, and to try to change the world. That same spirit infects everyone from every nation who comes to work in Silicon Valley. It is that electrified intellectual environment that turned the Bay Area into what Bill Gates used to call an 'IQ magnet.'

"Can you imagine that kind of environment happening in Japan during our lifetimes?" my friend asked rhetorically. "I certainly can't."

## 2. SEISMIC SHIFTS IN STRUCTURE

While I detest uninformed, overly generalized criticism of Japan, I had to admit that my friend understood this culture better than most people, and his unflattering description of a hierarchical, routine-driven, conformist society that stifled innovation was not far off the mark.

All the same, I think we need to ask ourselves: *So what? Is that really such a big deal?*

Japan doesn't *need* to recreate Silicon Valley. Japanese companies have been leading the world in innovating cars, cameras, home electronics, and dozens of other things for half a century. Japanese-made products, especially a wide variety of small machined parts, are world leaders in quality and precision. On the large-scale manufacturing side, it is true that Japanese companies didn't invent most of the things they produce, but as new technologies have come along, Japanese ingenuity has consistently created smaller, lighter, cheaper, and more functional versions of these same products and in the process turned Japanese brands into household names.

So where is the problem?

The problem is that this old, well proven business model of value-added manufacturing and exporting finished goods is aging faster than Japan's population. It is true that copying someone else's original work can be extremely profitable (Microsoft's version of Apple's "windows" interface sold vastly more copies than the original), but the number of players in the international arena is much greater than just a few decades ago, and they are far more capable of out-doing the Japanese at the copycat game than they were in the past.

Do Japanese companies have good, original technology? Of course they do. In all the fields where Japan was traditionally strong as a manufacturer and exporter, there is still considerable product innovation. But most of that innovation boils down to refinements to existing products (e.g., cars, cameras, electronics), not breakthrough technologies that shake the world. And all too often, these clever refinements, even when well patented, seem to appear simultaneously around the world, often sporting other brand names before the original even becomes famous.

Manufacturing is certainly not dead, but to create anything with economic impact requires game-changing products combined with endless in-house refinements that keep competitors and copycats always one or two steps behind. Both Sony (with its Beta line of VHS products) and Steve Jobs at Apple learned painful lessons about the limited value of originality by itself. The difference is that Jobs responded by building a turbo-charged, innovate-or-die business model based on creating radically original products linked to an even more high-powered marketing machine, then constantly improving those products before his rivals had even copied the previous versions, then upgrading the new versions again and again. Jobs showed that game-changing originality in both technology and marketing, combined with constant, in-house innovation can be a recipe for massive corporate wealth.

What that really implies for Japan is that the traditional model of refining and manufacturing someone else's technology can no longer drive the economy. Other countries can manufacture smaller, cheaper, lighter, more functional things just as well or better than their Japanese rivals. The value-added manufacturing model is no longer strong enough to sustain a major economy such as this one. Japanese politicians and bureaucrats have frequently turned to exports as a sure-fire way to pull the economy out of recession, but the days when that strategy will work are surely coming to an end.

### (1) Hollowing-out

The export industries that supported Japan in the past now have networks of factories overseas, and with the Japanese population shrinking every year, the makers know that the domestic market will become less and less important. Thus, manufacturing goods in Japan, both for domestic consumption and for export, will steadily become a smaller part of their business. In that sense, the old fears about *kuudouka* (the hollowing-out of Japanese industry) are coming true, not because of the high yen, but because of the inexorable globalization of business and the weakening of the Japanese consumer economy.

Of course, the old industries and the old models will still keep the economy afloat for a few years. Diehard optimists will point out that the stock market is doing well, listed companies are showing record-high profits, and unemployment is low. In that sense, the economy looks strong. And surely manufacturers will try to adapt to changing market conditions, vary their product mixes, and so on. And yet, the medium-term result is inescapable: the copy-build-export model is nearing its sell-by date.

One result is what most of the CEOs I met with in Tokyo explained: More and more of their consolidated profits will come from abroad as the Japanese head office becomes steadily less profitable.

Once again, one needs to ask: Where is the problem? If Japanese companies are booking profits, what does it matter if those profits are generated overseas?

The answer is that it matters a lot because the Japanese economy is continuing to hollow out. At one level, that is a predictable result of macro trends that began long ago. However, it is not this geographic hollowing-out that is the real cause for concern. The greater problem involves an intellectual hollowing-out, and that phenomenon has multiple aspects: 1) Japan is not fostering the kind of entrepreneurial thinking needed to create new industries and boost GDP domestically; 2) Japan is not even participating in the global war for talent; and 3) the increasingly negative effects of traditional corporate systems of training and promotion are now putting Japanese companies at a competitive disadvantage compared to foreign rivals. (I will take up these topics in order below.)

One thing I discovered after meetings with many Japanese business leaders and discussions with many others who have a broad perspective on current trends, is that even as the overseas branches of many corporate groups are growing stronger and more profitable, their parent companies back in Japan are becoming weaker and less able to compete internationally. Not because of bad technology or inferior products, but because of the growing mismatch between the 21st century skills they need and the 20th century skill sets they are comfortable with.

### 3. ENTREPRENEUR WASTELAND

I am not a big fan of US politics or policies, and yet I am much impressed with how the United States, a huge, mature (read: old, sluggish) economy in the 1970s, managed to shift gears quickly and turn the young digital industry into a powerful engine to drive new growth. It seems obvious that the only way for a mature economy to grow significantly is to create new businesses and new fields that generate outsize profits and attract global investors. Yet the success America has achieved thanks to this phenomenon (it is certainly not a “strategy”) is remarkable. New, upstart companies, from Apple in the 1970s to Snapchat, which went public this year, have generated *trillions* of dollars in market capitalization, and nearly as much in sales. This is a shot of adrenaline for an economy that only very recently depended on cars, steel and agriculture to underpin its GDP.

In 1980, Japan’s nominal GDP topped $1 trillion, while that of the US was around $2.8 trillion. Now, Japan’s GDP stands at roughly $4.5 trillion, while the US is $19 trillion[1)], and the gap is still widening. Where does this difference come from? Among other important factors, the biggest contribution to this huge surge in US GDP growth was the birth of dozens of successful, new “Internet businesses.” Those “digital economy” companies alone pumped trillions of dollars into US commerce, wages and stock markets, while Japan has continued to rely on its traditional export industries for growth.

Other countries — most of Western Europe, Russia, Israel, Canada, Singapore, China, Australia, and India, to name a few — have ben rushing to emulate America’s success. This is why my friend was asked by half a dozen nations to teach them how to “build a replica of Silicon Valley” in their own back yards. Foolish though the idea may be, the motivation behind it is sound. At least these national governments understand the need to foster entrepreneurs, help them create new businesses, and help those businesses to grow.

The same cannot be said for Japan.

Japan’s traditional approach to global commerce—exporting value-added manufactured goods—is by no means dead, but it will never be the powerful growth engine that it was in the past. Fierce international competition and the declining consumer population at home have seen to that. Consequently, Japan today, much like the U.S. a few decades ago, desperately needs to grow a host of new-economy companies, what many refer to as Internet companies, although the Internet is usually little more than a sophisticated tool for them to do their business.

Does Japan lack the brainpower to drive hundreds of promising start-ups? Absolutely not. We know that Japan has armies of talented researchers and engineers who are fully capable of producing cutting-edge products (most of the really high value-added circuitry in an iPhone, for example, is designed in Japan). These engineers could either be starting up their own businesses or mentoring younger people. But they are not. And the reasons are mostly social.

As others have often pointed out, Japan is not an entrepreneur-friendly environment. In addition to the impossibility of getting funding (a friend who

worked in the local venture capital market says that "In Japan, VC stands for Very Conservative"), the status of an entrepreneur is significantly below that of the custodial staff at any large company. But one of the biggest social problems has to do with the acceptance of failure. In all innovation-driven communities, from San Francisco to Berlin to Bangalore, failure is regarded as a badge of honor. Most start-ups fail, and the received wisdom of Silicon Valley is that it is only by surviving and learning from a string of failures that anyone learns how to run a successful start-up.
In Japan, simply choosing to start your own company is more often than not seen as a sign of failure. And if your little company goes bankrupt (which is almost a certainty considering that banks won't lend to it and respectable companies will refuse to do business with it), that failure carries a stigma that no sane person would bear. It marks you as someone who did not have the qualities needed to get a "good" job in the first place, then lacked the common sense to get a traditional not-so-good job, then foolishly decided to start up your own independent business, borrowed money from family and friends, and ultimately failed anyway, bringing shame on everyone. Such a person could not be trusted to park cars or walk dogs, much less hold down a responsible job, and no one in their right mind would think of marrying someone like that. In short, the social support network that is critical to developing start-up businesses is not simply lacking; Japanese society is the nightmare antithesis of that supportive environment.

## 4. WHERE IS JAPAN'S GOOGLE?

The logical response is: If Japan has many bright engineers but extremely limited opportunities or incentives for them to launch independent businesses, they should still be able to create great things inside established companies. This is the argument for intrapreneurism (using a company's own staff to create in-house start-ups). Yet, with only a few notable exceptions, few major companies are promoting intrapreneurism, much less working with small, unknown entrepreneurs at any level.
For many years critics at home and abroad have been saying, where are Japan's breakthrough technologies? Where is Japan's version of Apple? Where is Japan's Microsoft? Or Google? Or amazon or eBay or AirBnB or Uber or Snap or any other globally prominent multi-billion-dollar company? The few successful "Internet companies" in the past few decades—Rakuten, DeNA, the local iteration of Yahoo!—are unknown outside of Japan. In the parlance of the trade, they are Galapagos businesses: successful at home, invisible overseas.
Offhand, I can name only two successful global companies spawned in Japan in recent decades. One is Fast Retailing, a low-tech, mass-market retail firm that generates profits by selling cheap, Chinese-made clothing, often to Chinese consumers. The other one is Softbank, which in many ways epitomizes the kind of Silicon Valley hustle, creative spirit, and aggressive hubris that mark today's leading tech businesses worldwide. Investors and analysts alike heap praise on the management, its vision, and its aggressive growth strategies.
In fact, if Japan had produced only this one company to symbolize the ability of Japanese management and the power of Japanese ingenuity to compete toe-to-toe with global rivals, it could still be proud. Unfortunately, the company's CEO and main driving force only became a Japanese citizen after the company was founded, and he received all his higher education in the U.S. It was in the U.S. that he was inspired to create a new business, then brought his innovative thinking and passion back to Tokyo.
That leaves Fast Retailing as the only globally successful Japanese company in the past 50 years.[2)] Let that sink in. While leading engineers around the world were creating Google, Amazon, Yahoo!, Facebook, Twitter, Salesforce.com, Uber, AirBnB, and dozens of other high-tech giants, Japan gave the world a new place to buy T-shirts and fleece jackets.
As the developed world has been transitioning from a resource-and-manufacturing-based economy to a knowledge-and-digital-based economy, Japan has been trying to build more cars, cameras, TVs, and refrigerators. Rather than fielding cutting-edge Japanese firms to challenge or bypass the global heavyweights of the digital economy, Japan has remained wedded to its old 20th century manufacturing industries to support GDP.
To be fair, these industries are also integrating state-of-the-art technologies, Internet connectivity, IoT, etc. into their new cars and cameras and toaster ovens. But that brings up the argument of whether you want to base your economy on creating iPhones or mass-producing iPhone clones. Today's global competition does not ignore the value of clever, well designed incremental improvements on existing designs. But it gives much greater value—both on Main St. (in the consumer marketplace) and on Wall St. (with massive stock valuations)—to companies with original business models. Unfortunately, Japan is enjoying neither accolade.

Creativity, originality, and innovation are the buzzwords for this new business paradigm, not just in Silicon Valley, but all around the world, and for all kinds of companies and businesses, including many that have nothing to do with manufacturing. And all this creativity is now happening in a pressure cooker, because the timelines to commercialization — the lead time from interesting idea to mass production — are growing shorter and shorter, and the pressure on businesses to operate at Internet speed is growing painfully acute.

When we look at Japan, we must wonder how much longer the world's third-largest economy will be able to sustain itself. Viewed from any perspective of the "Internet economy," Japan seems stuck in the 1990s, a prisoner of 20th century thinking that dominates middle and senior management's view of the world. One conclusion is that Japan is weighed down by so many problems that it is not only losing this new global competition, but has simply stopped trying to compete.

## 5. LOSING THE WAR FOR TALENT

There is yet another competition where Japan seems to be missing the boat, and this one is truly frightening for the future of the whole economy. It is a competition for scarce, high-value resources in the global marketplace, one every bit as fierce as the competition for oil or gold or rare earth minerals. Access to this scarce resource is now considered *essential* to building and growing any successful company in any field. This competition was easily foreseeable, and major corporations in the West began to prepare for it decades ago. Simply put, it is a war to find, hire, and leverage the power of innovative, creative, globally aware staff. In other words, a competition for outstanding *jinzai*.

Today there are thousands of new companies being created every week, many in Asia, Eastern Europe, even Africa, and all of them are looking for roughly the same type of talented staff. As more developing economies continue to create even more new companies, the demand will keep on rising, regardless of the extremely limited supply of such people to fill those jobs.

Nor is the competition limited to corporations. Nations have joined this "war for talent," because they see impact that attracting such talent has had on the US economy. The US has always been an "IQ magnet," and the first- and second-generation immigrants who created some of the biggest tech companies in the world have added vast, almost unimaginable sums to the US economy. Other countries don't expect identical results, but they do hope to gain as much as possible for their own economies by attracting high-end talent.

For years now, countries such as Canada, Australia, and Singapore have actively worked to attract immigrants with specific educational and/or business qualifications, because they understand the power that such people (or their offspring) may bring to whatever country becomes their new home. These countries, as well as Ireland, Sweden, New Zealand, Israel, and others, are investing heavily in higher education and focusing on creative training to help foster the kind of "digital world" talent that will command the most attention in the years to come.

As nations, they are actively competing to attract "the best and brightest" from around the world, not only to their universities, but also to top corporations and to communities of small, entrepreneurial start-ups, where such creative talents can grow and these young people can share ideas with others of the same type from around the world. If any of the small enterprises they create shows even a modicum of growth potential, there are networks of well-connected and well-funded organizations, both private and public, to support and guide their growth.

Of course, there is one major economic power in the world that has almost completely ignored this trend. Japanese universities do make an effort to attract foreign students and researchers, but not a big effort. Both the national universities and the best private schools are under-funded, and there is no coordinated central government program to prioritize the acquisition of foreign talent. Courses at most Japanese universities are taught exclusively in Japanese, whereas foreign students from China, India, and other places have a wide selection of universities in other non-English-speaking countries (e.g., Germany, Austria, the Netherlands, all the Scandinavian countries, Greece, Singapore, Taiwan) where entire degree programs are taught in English. In other words, other countries choose to offer programs in English in order to attract smart, creative students from all over the world. They understand that if you want to be a contender in the economic battles of the next decade, you need to attract the best and brightest from around the globe.

The most prestigious Japanese school, the University of Tokyo, only began an English-based program five years ago and still has only a small handful of courses in English. The number of foreign applicants to that program has actually *de*creased since its inception.[3] A large majority of foreign students who win admission to other international schools prefer to study elsewhere. This does not bode well for Japan.

How can Japanese universities, with their limited funding, aging infrastructures, parochial faculty, and scarce English resources, attract the world's best students? And if they don't succeed in attracting a few, where will Japanese businesses find smart, creative, original thinkers who understand Japanese culture to lead their organizations in the future?

**1) The company with the best people wins**

This highlights the real crisis looming in Japanese companies. The real global war for talent is at the very top of the human resources pyramid, the senior executives who can run an international business. There is an incredibly fierce competition raging all across North America and Western Europe and on across Asia, India and beyond to find, secure, and retain those people. Companies understand that their very existence may depend on their ability to attract these executives, which brings to mind another old Silicon Valley saying: "The company with the best *people* wins."

Of course, Japanese firms are not concerned about, indeed, not even aware of this frantic global competition, because the idea of hiring a CEO from outside the company is anathema, and any suggestion of hiring a *foreign* CEO is not merely radical but laughable.[4)] Consequently, 99.9% of all companies will do what they have always done—promote from within. That means promoting people with myopic, 1990s skill sets to navigate their business through the iceberg-filled seas of tomorrow.

If Japanese universities are not preparing students to meet these challenges and Japanese companies are not looking outside their own walls for leadership, what does that say about the future of the Japanese economy? Framing the question in another way, how serious is this *jinzai* problem?

For years I have asked the CEOs and Chairmen that I meet about the *jinzai* issue in general. I've noticed that many Japanese firms now mimic their Western counterparts in saying something like "People are our most important asset," but very few of them follow through with policies, funding, and active programs to put any substance behind those platitudes.

Almost a decade ago I talked to the CEO of a very large, old, well respected corporate group. Unlike most others I had met, he clearly understood the scope of the challenges facing his company in the future, and he was afraid. He surprised me with his candor and his grasp of the problem. He said that his company was already building a human resources training center (*jinzai ikusei senta-*) to both attract and train high-quality employees who might well become leaders of their international Group in 10 or 20 years.

I congratulated him. That sounded like a strategically sound, even visionary plan. I asked if the first training center would be located in Tokyo or Osaka? "Actually," he replied, "The first one will be in Germany."

That really impressed me. It is rare to meet a Japanese CEO who understands the changes in the global economy so well that he wants to prioritize employee development overseas, and sees that Europe was an ideal place to launch such an international enterprise. What about the second one? Would that be in Japan?

No, he said, the second one would probably be in North America.

"And the third?" I asked.

"Somewhere in Asia, probably Singapore," was the response. I was taken aback, and asked why he was leaving Japan for last.

There was a long pause before he said, "There are no plans to build in Japan."

I asked why not, already slightly afraid of what his answer might be.

The President paused for what seemed like a long time, looked down at his desk, and then spoke in a carefully measured tone: *Nihonjin wa kou itta koto ni muite inai kara* [Japanese people aren't suited to this kind of thing…]

Those words resonated with me for weeks. At first I thought they might be the isolated opinions of one man, an executive who spoke a bit of English, had traveled overseas, and was regularly in contact with foreign counterparts. Perhaps he didn't really mean what he said, and if he did, perhaps he was an anomaly in the Japanese business world.

But over the next several months I began to hear hints and echoes of this same sentiment when I interviewed many other top executives. No one was as blunt as that CEO had been in saying that truly innovative, globally aware thinking must come from overseas because the *honsha* staff were not capable of doing it. However, many of the executives I spoke to expressed strong feelings that a) the global business environment was changing very fast, b) that it was becoming increasingly difficult for their companies to keep up with these sudden shifts and transformations, and c) that they increasingly relied on information, opinions, and policy suggestions from their overseas offices. That all made sense, but there was always a hint of something more, a feeling that these men had visited enough companies overseas to understand how radically the world was changing and how little Japan was changing. They seemed to grasp the huge disparity between the capabilities of their own staff and the new skill sets and fundamentally different types of thinking and planning that were becoming common overseas.

This is part of the crisis I see looming in Japanese business. Even senior executives see that, in important respects, the rest of the world is accelerating while Japan continues to coast along as it always has. And, as my talk with that one CEO years ago showed me, some of them think it is already too late and have given up hope that their Japanese staff can ever manage a global enterprise effectively.

To my mind, this is the most frightening statement of all, and one that I cannot agree with. Regardless of whether that view is justified or not, there is no doubt that the lack of new blood in Japanese companies and the continual dumbing down of current employees is the single greatest near-term threat to the continued success, perhaps even existence, of Japanese business.

## 6. INSTITUTIONALIZING IGNORANCE

This nation is still ranked among the world's largest economies and its major corporations continue to advance globally each year. In that sense, Japanese firms resemble their counterparts in the US, Europe, and parts of Asia. Yet there are fundamental differences that set Japanese companies apart from all others in the international arena. One major difference is that corporate executives worldwide are expected to have studied the principles of management at internationally respected business schools, then put those principles to work in real-life management situations. In most cases, their management careers spanned multiple companies, often in different fields, so in addition to abstract "book knowledge," they have also learned some fundamental truths about leadership that apply to any company and any business. They may never have worked in a corporate accounting department or done sales or PR the way that a Japanese worker is expected to do on a *jinji* rotation, but they have decades of hands-on experience in managing and leading real companies.

In stark contrast to this, the vast majority of Japanese executives have never studied business or management. They rose to senior positions by showing a degree of competence at a dozen different posts within the same company, avoiding risk-taking at all costs, and never overtly fighting with any of their superiors over the course of decades.

Many observers point out that the *jinji* system in Japanese companies, which allows all employees, including future managers, to move around within the company and gain experience in multiple departments, is one of the strengths of the Japanese corporate system. This first-hand experience with different departments and different jobs provides invaluable knowledge to any future executive who needs to know exactly how the company works and what it is capable of. That is a persuasive argument, and I have long agreed with it.

Recently, however, as I talk with international businesspeople, business journalists, academics, and others who are active in the rapidly changing world of business outside Japan, I have come to realize that what was a good system 20 years ago may not be adequate to cope with the current challenges facing Japanese companies. Ideally, it would be nice if all senior executives (not just Japanese) had decades of hands-on experience in a variety of departments within their companies, but the reality is **there is no time** for that. Future middle managers and senior executives need to be learning management skills, leadership skills, and cross-cultural communication skills from an early stage in their careers.

In fact, Japanese companies' reliance on the old *jinji* system and senior-junior (*sempai-kohai*) relationships as the key to training may actually be counterproductive in today's business environment.

In most Japanese organizations, public and private, there is little or no information input from outside. Other than tidbits of new information gleaned from the occasional seminar, magazine article, or Internet post, the majority of what is known in any department has simply been handed down from one person to another, *sempai* to *kohai* for years. For example, when a young man joins the *Koho-bu* (PR department), he will be taught the basics of that job from an older person in the department who in turn learned those basics from his own superior, who also learned them from his *sempai*, and so on.

Of course, a few new elements have crept into the work and new responsibilities have been added, but the fundamentals of what is being handed down have not changed much in decades. What this means in practice is simple: even though the world is changing at incomprehensible speed and companies worldwide are struggling to keep up with the tsunami of new information and new business processes that are challenging every part of every organization, young Japanese are being trained largely with old information, knowledge that might have been valid at the end of the 20th century, but is nearly useless today.

Recent talks with people in various companies bear this out. Many young people say that after a few months they realized that their *sempai* was "clueless" about things that younger employees were at least aware of and wanted to learn more about. Younger people go to the Internet instinctively to find information and are surprised to discover that many of the things their *sempai* are telling them are completely out of date. When I ask about the section chiefs (*kacho*) or department mangers (*bucho*), young people just laugh and shake their heads. Hopeless. Older managers know a great deal about the company, its structure and operations and clients, but they know nothing about what is going on in the world outside the company. Thus, subordinates who would have respected them without question a generation ago now see middle managers as totally out of touch, “just old guys waiting to retire,” as one twenty-something worker in an electronics firm told me.

Sadly, this problem is not limited to areas such as PR or IT (two of many fields that are woefully behind the times compared to rivals overseas). It extends right up to the very top of the organization. The most senior executives of many of Japan’s largest and best-known companies are elderly men with no real business training other than years of attending endless meetings, playing golf, and drinking with clients. They have never studied corporate management in any formal way. They cannot speak or read any foreign language and have never lived or traveled overseas for any significant period of time. Most are uncomfortable with their own personal computers, much less their corporate IT systems, and have a shockingly poor grasp of the enormous revolution just beginning to transform the world through artificial intelligence (AI), the Internet of Things (IoT), big data, and so on.

In short, they are exceptionally well prepared to manage a Japanese company operating in a purely Japanese business environment in the year 1990. The problem is that the business world is evolving so incredibly fast that their counterparts overseas—chief executives with top-class MBAs, multi-lingual and multi-cultural corporate leaders who are well versed in technology and who understand the seismic changes that are already starting to disrupt every type of enterprise—freely admit that they cannot keep up with the pace of change. Privately, they say they are afraid that their companies may not survive the new era of global competition and they are genuinely afraid[5)] that their own managerial abilities may not be adequate to lead their company in this new, high-speed world where disruptive innovation is the norm.

I find this admission of insecurity strangely reassuring. If the most talented, best educated, and best prepared corporate executives are saying that they may not be qualified to manage their firms through the unimaginable turmoil coming in the next few years, that indicates a reasonable awareness of the scope of the problem. The frightening fact is, they may be right.

On the Japan side, just in the past decade I have met personally with at least 40-50 presidents or chairmen of major Japanese corporations. I was not conducting any formal survey, and when I began, I wasn’t even interested in their views about the changing global business environment or what those changes might mean for their companies. Gradually, I did begin to ask more questions, looking for hints about how these giant firms were responding to economic, social, and technological shifts that they could not control. The answers were quite varied, but I noticed one common thread—nearly all these executives felt extremely confident in their abilities to manage their companies regardless of any sea changes in their operating environment.

Many of them seemed isolated even from realities within their own companies, not to mention the world outside Japan, and most were surrounded, either by accident or design, with “yes men.” They obviously believed that the skills and knowledge they had acquired in the 20th century while working inside a single company inside a highly insular nation, having never studied in any business school, and having spent little or no time abroad, would be sufficient for them to lead their companies to even greater growth and success in the 21st century.

One of these proud, self-assured gentlemen was the former head of Sharp and another was the former president of Toshiba, both of them intelligent, well respected business leaders. Their companies did not fail because they were stupid, only badly informed and perhaps poorly equipped to deal with the needs of a new century. Of course, many if not most of their peers are in exactly the same situation, which means we can expect to see more buyouts of once-strong Japanese firms in the coming years.

## CONCLUSION

I believe the Japanese economy has developed “Titanic Syndrome”—the Dai Nippon Maru has already hit an iceberg, but no one is raising the alarm. The First Class Dining Cabin is crowded with well-to-do guests eating gourmet meals, wearing fashionable clothes and expensive jewelry, and enjoying the live music while chatting about social events. People a few decks below are doing the best they can to survive—buying inexpensive things, learning get by with less, and hoping that things will get better soon. But the brutal fact is that there will be cold seawater rushing in around their ankles before too long.

As with the Titanic, the biggest crisis is that **there is no sense of crisis**. Yet anyone who can see the damage already done and imagine the implications for the immediate future has reason to be concerned. Unless radical steps are taken to refloat the economy, the final outcome is a matter of *when* rather than *if*.

What can be done? Pessimists say it is already too late, but I disagree. There is no reason that young Japanese managers could not be trained to be the equals of their peers overseas. But that would take a generation of effort and big changes in secondary education, corporate personnel policies, and even Japanese society as a whole. Not an easy task.

In the near term, immediate changes are needed in the education system and the corporate hiring/promotion system, both of which are still operating as if this were 1995. Banks, established businesses, and society in general must learn to respect start-up companies and the process of fail-fail-fail-fail-WIN! that leads entrepreneurs to success. The media need to glamorize these independent thinkers who choose to follow their own path rather than go to work for a big company, so that society begins to change its views about failure; and companies must both support and work with start-ups to learn new ideas that can accelerate growth even in large firms.

In addition, big corporations must become proactive about creating and actively supporting their own intrepreneur programs, then using those programs to teach innovative thinking, problem-solving and fast decision-making to the rest of the company. Many of the changes that need to come about will be nearly impossible because of bureaucratic red tape or big-company lethargy. The best chance for success, both at the university, corporate, and government levels, is to try to effect progress outside of the big cities. This is where Japan's long-ignored rural prefectures can make a significant impact on the economy. By creating initiatives to change policies in their own governments and local universities, working proactively to attract foreigners to live and work nearby, and encouraging Japanese students of all ages to live for at least a year somewhere overseas, these prefectures can become models for how the rest of the country should operate. In the meantime, they will be rewarded with new business growth and an expanding labor pool of internationally minded workers who will help to revitalize these regional economies.

I believe it is the rural prefectures that can lead the way in making Japan great again.

## REFERENCES


1) US figures: Bureau of Economic Analysis data; Japan: http://countryeconomy.com/gdp/japan?year=2016
2) The only globally known Japanese companies that might seem to be exceptions would be the big video game makers (Sony, Nintendo, Sega, Capcom, etc.). However, all of them were founded before Apple Computer, so none qualifies as a "new" company.
3) http://www.japantimes.co.jp/news/2015/03/29/national/70-of-foreign-students-shun-offers-from-university-of-tokyo-degree-programs-in-english/
4) The only foreign CEOs of note were at Sony, Olympus and the current CEO of Takeda Pharmaceutical. The first two did not work out well, and the jury is still out on the third. That is 3 people out of approx. 4,000 listed firms.
5) Gowing and Langdon, *Thinking the Unthinkable: A New Imperative for Leadership in the Digital Age*, created by the Churchill 2015 21st Century Statesmanship Global Leaders Programme and supported by the Chartered Institute of Management Accountants; published through www.thinkunthinkable.org