

Successful cases of managing innovation

Originality in management

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Yamato Transport is a company that delivers parcels about the size of a box for tangerines for ¥1,000 and by the next day to almost any location in Japan. A very precise physical distribution system covering the whole country makes this task possible.

The strategic change of the company from a large volume industrial transportation to a home-delivery parcel service was initiated by then managing director, Mr. Masao Ogura, who later became president and then chairman of the board, a position he currently holds. (Yamato Transport can be considered as “NTT (*Nippon Telegraph and Telephone*) of the physical distribution” from a macro-economic perspective. *Yamato Transport’s Parcel Express Service was inaugurated in 1975.*) At first, all directors opposed the change. But, after exercising considerable persuasion, Mr. Ogura obtained their agreement and made a decision to start the new business. Other large trucking companies, such as Nippon Express, considered Yamato’s move as incredible.

At that time, trucking companies were actively concentrating all their resources on long-distance, large volume cargos. Yamato Transport’s decision to change its strategy went against the industry’s main-stream.

Here is another part of the story that can also be considered unconventional. In 1979, the parcel express business showed some success after initial difficulties. Yamato stopped doing business with Mitsukoshi (a department store company) and Matsushita Electric Industrial (Mitsukoshi had been an important customer since the beginning of Yamato’s establishment) even though the founder (the father of Mr. Masao Ogura) repeatedly advised against a decision that would imply a lack of respect towards Mitsukoshi.

Further, Matsushita was the company’s largest customer, accounting for 60 percent of total sales at the Osaka Branch. Nevertheless, Yamato Transport decided to drop these two important customers.

What was then the reaction of Yamato’s competitors? “They’re out of their minds.” However, they had to admit later that Yamato’s decision had been right, as the parcel express business explosively expanded until the present.

Matsushita Electric Industrial’s custom-made bicycles... The next case is that of Matsushita Electric Industrial’s Bicycle Division. This division developed a new business called POS, an acronym for Panasonic Order System. It is an easy-order system by which a customer goes to a bicycle shop, orders a bicycle that fits his or her body structure and, two weeks later, receives the custom-made product.

This system was created by Mr. Atsushi Komoto, who never had any relationship with the bicycle division until he was appointed its head. He was a novice in the bicycle business. Mr. Komoto had been working at Taiwan Matsushita Electric, and I had had several opportunities to talk with him. Komoto consulted with his subordinates about his easy-order idea, but the reaction of all the veterans at the bicycle division was negative: “We are tired of that idea. We are already producing order-made bicycles for professional bicycle racers, but it is not a profitable venture.” People who did not oppose the initiative were cool.

Nonetheless, the new system was a great success. It was accepted to such an extent that we have a comic book titled *POS*, written by Fujio Fujiko, the author of the famous cartoon *Doraemon*.

Up to this point I have been talking about unconventional strategies. But this idea of unconventional [approaches] applies not only to strategies but to other fields as well. For example, it also applies to personnel management.

Nomura Securities' self-renewing personnel department...

Nomura Securities' personnel department is also unconventional. Consequentially, Nomura Securities frequently is a subject of conversation. The company is famous for the youth of its managers and a "keep young" management style. At age 35 an employee can become a head of a branch, at 45, a director, and at 55, a president. Recently these figures are being further decreased by two or three years. While conducting interviews at Nomura Securities for my research on its "keep young" management style, I came across a topic even more interesting — the two-year rotation system for the employees working in the personnel department. (*Nomura Securities is a company with approximately 10,000 employees, 5,000 of which are men. The section of the personnel department that evaluates these 5,000 people and decides important personnel matters is staffed with less than ten people.*)

The employees at this personnel department, without exception, are rotated every two years. For example, at one time, the head of the sales section at its Kyoto Branch was appointed chief of the personnel section at the head office, located at Nihonbashi in Tokyo. After working there for two years, he was transferred to the Hiroshima Branch as deputy chief of the sales section. In this section of the personnel department not even one employee specializes in personnel affairs.

When referring to Nomura Securities personnel practices to some people working at the personnel department of other firms, I usually got the following comments: "That is a personnel department composed of amateurs. In two years one cannot master all the knowledge required to run the department." As I replied that the company has been having excellent profitability, they would answer in return: "Well, it's just a result of good

luck in the game of *zai-tech* (financial technology)". "Really," I would say, and change the subject matter.

I wanted to investigate the matter further in order to collect materials for a book that I was writing. So I visited Nomura's head office and talked with the managing director, Mr. Genji Ashiya, who was in charge of personnel affairs at that time. What follows is a dialogue I had with Mr. Ashiya, who is now the president of Ichiyoshi Securities in Osaka.

I asked: "When I talk with personnel people of other companies about Nomura's personnel department, they say that it is a department of amateurs. What do you think?"

"After all, Professor, what do personnel people do?" he asked back.

"Well," I said, "they evaluate employees and make decisions regarding their positions, promotions and the like." "Who are the employees?" he asked further. I replied: "In the case of Nomura Securities, people working in sales offices, and salesmen, I would say..."

"Who are most qualified to evaluate salesmen and make decisions regarding personnel matters?"

"Obviously, people who understand sales problems."

"Who are they?"

"They are those who are really selling, aren't they?"

"Therefore, in our company, employees working in sales evaluate other employees working in sales. What is wrong with that?" he explained.

I said, "I see."

And then, I asked Mr. Ashiya, "In other companies, factory employees or sales employees are evaluated by people who enter the personnel department and stay there for their whole careers, and who have never worked in the company's operations. Aren't their personnel management practices irrational?"

"You are right," he answered.

After listening to Mr. Ashiya, I became completely convinced of the validity of his reasoning.

“It’s absurd” and “I see”: key success factors

At first glance, the system by which Nomura Securities rotates its personnel department’s employees every two years looks irrational. It goes against the conventional wisdom of not letting amateurs run the personnel affairs of a firm. However, upon listening very carefully to Mr. Ashiya’s explanation, we cannot do less than say, “I see!”

At that time, I was in the reception room at Nomura Securities head office. I still remember vividly the evening scene when I realized that the combination of “It’s absurd” and “I see” are two key factors for managerial success. After that, I re-examined diverse research materials and found a considerable number of examples that confirmed my theory.

We have previously discussed that Yamato Transport changed its strategy completely, and concentrated on the business of home-delivered small parcels when other competitors were pursuing with all their might the business of long-distance, large-volume transportation. Executives of other companies considered Yamato’s strategy as unconventional and irrational. Then, in what sense was the other factor of “I see” included in the strategy of Yamato Transport?

Market, know-how and a model — Three points have to be considered. The first one is that there was a market. At that time, small parcels could be sent only through the Japan’s National Railways or the Post Office. “Bring it. We’ll deliver it.” “Hmm... I’ve sent it, has it got there?” “I don’t know.”

Market... That was the situation. An “Uncle Sam will foot the bill” attitude prevailed and there was increasing dissatisfaction on the part of the public. Therefore, the first rationale is that there was a need to be met.

Know how... The second rationale is that the company had accumulated know-how through the years. Yamato Transport had become a large company using as one of its main pillars the business of delivering goods for Mitsukoshi. The company had been doing home delivery of Mitsukoshi’s parcels for many years, and had accumulated the know-how required to do the home-delivery express parcel service.

Model... The third point was the case of United Parcel Service (UPS); it is a successful

company for small parcels operating in the United States. There was a precedent in America; a model to follow.

Mr. Ogura understood these reasons, so he was not discouraged by the opinions of outside executives who maintained that Yamato’s strategy was ridiculous.

Then, what can we say about Matsushita Electric Industrial’s easy-order POS system for the bicycle business? In this case the rationality of the “I see” applies as well. First, we could say that there were market needs... a trend towards “de-massification,” and personalization, that is, people disliking being just like everybody else. In recent years this has been an important market trend and one which is becoming more intense. So, there was an increasing demand for the bicycles which fitted customers’ individual requirements.

Then, is it possible to manufacture bicycles following an easy-order system? Yes, it is possible for two reasons. The first one is related to the information technology revolution. Your order made at bicycle shops can reach the factory in real time through facsimiles.

The second one is that, thanks to flexible manufacturing systems (FMS), it is possible to manufacture bicycles one by one. Considering these two technological developments, the satisfaction of demands in the bicycle market through an easy-order system was not so inconceivable.

I have been saying that “It’s absurd” and “I see” are two critical factors for management success. Putting it a little more formally, the “It’s absurd” strategy means an unconventional strategy. It aims at being different from others. “I see,” on the other hand, represents the rationality of strategy. In order to achieve success in business, we have to combine two factors: uniqueness and rationality.

Respected innovation versus disdained innovation — Unconventionality or differentiation can be divided into two types. The first type gains the respect of competitors and other companies: “Ah! What they are doing is very good. It’s beautiful.” The second is the type of differentiation I have been talking about today from the beginning: the “It’s absurd” differentiation. This type of differentiation invites other companies, including competitors, to scorn and make fun.

There are many instances in which the “It’s absurd” differentiation, which is scorned at by

other companies, is more effective than the differentiation that gains respect. Is this due to chance? No, I don't think so. Disdained differentiation is better than respected differentiation, why? There are two reasons. The first reason is that other companies are slow to imitate "absurd" ideas. "Ah! What they are doing is very good. Let's do it, too." This is the kind of reaction prompted by the type of differentiation that wins other companies' respect.

In a fiercely competitive market such as Japan, respected new products such as Minolta's A7000 camera, or Funai Denki's home bakery equipment are imitated almost immediately by other companies and a tough competition starts. The originator of the idea does not even have time to obtain the entrepreneurial profits.

On the other hand, there will be no immediate imitation in the case of "absurd" strategies, since other companies tend to think "That's ridiculous!" "Poor guys..." Only later, when success becomes quite obvious, the attitude changes to "It seems that they were right, let's try it anyway." Thus, the company can enjoy the promoter's profits and, sometimes, can build a strong position in the market.

The second reason is related with the nature of innovation. What is innovation? Briefly, innovation means denying existing conditions, or changing the existing order of things, or values, or systems.

How do people react when innovation occurs? The side that is surpassed, or whose ideas are denied, often reacts negatively and their evaluation of the new ideas is derogatory: "That's impossible," "Nonsense!" "Poor guy..." This attitude is understandable, since being outdone by others is not pleasant.

Consequently, when a strategy, a product, or a project is really innovative, negative reactions are to be expected. I do not mean that all innovations are initially rejected, but it is a fact that there are many cases of innovations that receive a negative initial evaluation.

Thus, when you develop something new and upon showing it to your competitors, or to university professors like myself, you get derogatory judgments, please relax — it is likely that your new development is truly innovative. If your case is further backed up by the rational "I see," it is likely that the two most important conditions for managerial success are met.

On the contrary, if, upon seeing a new business, product, or strategy of your competitors, your reaction is "That won't work," or "It's nonsense," then, you should be careful, because the innovation might turn out to be excellent.

History teaches us that this is not only a Japanese phenomenon, but something that also occurs in the United States and Europe, where there are many examples of companies that go through difficult experiences. Upon seeing innovations, they scorn and call them "absurd" and treat them like toys. And then, they are defeated by toys.

If someone tells you "It's absurd," please relax, because you are probably on the road to success. If you tell someone else "It's absurd," please take your time to think twice about the innovation you have just seen.

Imitative innovation and seeking advanced models — Some people think that the type of strategies or management practices characterized by the "It's absurd" and "I see" expressions can only be expected from highly creative individuals. Is this really so? Probably not. Imitation of good models is a good way to develop creative strategies; this method can be practiced by many ordinary people. I am using the word "imitation," but, speaking less formally, I could equally say "answering the test while looking at the answer sheet," that is, cribbing. Cribbing is an important method to develop creative strategies.

The world, our society, is not evenly developed. There are advanced places and backward places. Writing his or her company's test sheet while looking at the answers given by more advanced companies is part of a manager's job.

Where are the advanced models? There are basically two sources. One of them is foreign countries. For Japanese companies, foreign countries mean the USA and European countries.

As I mentioned earlier, one of the idea sources for Yamato Transport's parcel express was America's United Parcel Service. Using my new terminology, we could say that Mr. Ogura, while looking at UPS, took it as a reference and wrote his company's answer sheet.

In fact, since the Meiji Era, many businesses raised up in Japan and many people made fortunes on the basis of answering their own answer sheet while looking at foreign answers. Before World War II, people introduced things from Europe that were not available in Japan, taking into con-

sideration timing and adopting the new products to local conditions. After the War, the United States became the model.

The Haseko Corporation... I would like to give you an example. Haseko Corporation is a large company that builds apartment houses. The company entered the apartment house business in 1968. At that time, the company was no more than a medium-sized company with its head office in Osaka. From that time on, it specialized in the growing business of apartment buildings and grew very quickly to become a leading company.

Why did the company enter the apartment building business? In 1960, Mr. Takehiko Hasegawa, then the company president, visited Europe to attend the International Exposition of Architecture in Berlin. And he saw apartment houses of several stories. Ah! Perhaps, this type of construction will become common in Japan's large cities such as Tokyo and Osaka. He just wondered when?

The first boom of apartment construction coincided with the Tokyo Olympics, but the buildings erected during this first boom were targeted to a minority of high-income people. The apartment building boom for the masses started in 1968. Mr. Hasegawa said "Let's go now," and constructed the first building at Ashiyahama in Hyogo Prefecture. Following its first building, the company specialized very quickly in the business of constructing apartment buildings.

The Durban Company... And here's a second example. Durban is a subsidiary of Renown established in 1970 by Mr. Kiyoshi Onoe, who was at that time Renown's president. Durban is a leading manufacturer of gentlemen's clothes.

Once, a magazine journalist asked him, "It was a hard decision, wasn't it?" Mr. Onoe answered: "Not at all, success was guaranteed. After all, there were precedents." Mr. Onoe's answer had three parts. The first one was related to the United States and West Germany. Around 1965, Mr. Onoe started to conceive the idea. At that time businessmen who wanted to dress neatly wore tailor-made suits. Ready-made suits were looked down upon. But at that time, in the United States and West Germany, the proportion of ready-made suits for gentlemen was already 95 percent. Mr. Onoe thought, "In due time, the same thing would occur in Japan."

By then, Mr. Kensuke Ishizu had already started a

new business of ready-made suits for the young generation and the diffusion of these suits grew fast. The change towards ready-made clothes was also clear in what was Renown's major business, ladies' articles. While in the past ladies would buy plain cloth and have their dresses made by a dressmaker in their neighborhood, they had already shifted their consumption habits and started to buy ready-made dresses. While looking at these examples, Mr. Onoe gave the go-signal in 1970.

Is the US still a place for advanced models?

I have been talking about the United States, but recently, due to a series of problems, people are starting to say that the country cannot serve as a model any longer. Nonetheless, I believe that it is not a country that can be disposed of so simply.

I visited the United States last summer and had the opportunity to think carefully about what I saw there. In particular, I think that the Americans are very skillful at creating new businesses. Consequently, we could say that if America is the father of new businesses, Japanese companies and Japanese executives should nurture the "babies" and benefit from that. We should think about this kind of division of roles.

The degree of advancement of Tokyo is a point that also should be emphasized. It is the capital of the nation, but, more importantly, it is a world center comparable to New York, London or Paris. Tokyo has developed to such an extent that, for a Japanese executive, Tokyo's development is the seed of his company's profits. Looking at what is going on in that city, looking at the trends and taking advantage of them is something that no executive can afford to ignore.

I talked awhile ago about answering the examination sheet while looking at the answer. The answer, I said, can be found in foreign lands, particularly in the United States. Moreover, I have pointed out the importance of a leading city such as Tokyo. The answer [models] can also be found in an advanced industry.

Previously I mentioned Matsushita Electric Industrial's bicycle division and its easy-order system. At some point in time, Mr. Komoto became head of the division. It was a challenging appointment for him because, generally speaking, the bicycle business is difficult in Japan. It is a mature business; we might even say that it is a declining business. The market is not expanding much, and Japanese manufacturers feel the pressure of price

competition from developing countries. In this context, Mr. Komoto conceived the easy-order system. Where did his idea come from?

It came from two different sources. The first one was the ladies' clothes section in department stores. One day, Mr. Komoto was walking around the ladies' clothes section in a department store and saw the following message written on a hanging screen: "It's not for everybody. This dress is just for you." That message awakened something in his mind.

The second source was the United States. Mr. Komoto gathered information on the market conditions in that country. He found two things. First, 7,000,000 sport bicycles were being sold every year in the American market. The bicycle was very popular as a healthy means of transportation.

In Japan, by contrast, the market size was 600,000 for sports bicycles per year. Since Japan's population is about half that of the United States, it was reasonable to expect market expansion in the future. He further found that in America there was a recent trend to assemble bicycles with one's own hands: it was a kind of hobby.

Thus, Mr. Komoto's sources of ideas were the ladies' clothes section in department stores and the American bicycle industry, that is, other advanced industries and foreign countries.

There are many examples of companies that write their own answer sheet by looking at the answers given by more advanced industries. Perhaps the object that has been most imitated in the search for answers is Toyota's production system.

Toyota's production system as a model —

There is in Osaka a men's apparel company called Melbo. For a number of years, its president, Mr. Sadayasu Shimizu, has been trying to develop a rationalized production process for gentlemen's clothes using Toyota's system as a model. At Toyota, parts enter the plant and four hours later a car exits the plant as a finished product. In a similar way, if a gentleman places an order for a suit in a department store in the morning, it should be possible for him to take the product home in the evening. This is Mr. Shimizu's goal.

Kawasaki Denki's story... As another example, let's take Kawasaki Denki. I remember president Noboru Kawasaki's talk on the fact that more profits were derived from customized pro-

duction than from large-batch production. With the help of a consulting group called NPS (New Production System), he implemented a customized production system.

His decision was strongly opposed by the factory chief and all his subordinates. But, president Kawasaki made it clear that no alternative system was being considered, and then implemented the reform. Contrary to the expectations of those who had been against the change, production lead-times were reduced by one order of magnitude, inventories went down rapidly and profits began to become a reality.

At Daikin Industries... When I visited Daikin Industries' Sakai Factory, its head told me that the factory motto was "Abundant menu, fast delivery. (Small lot production of a large variety of products and fast delivery)." President Minoru Yamada ordered to change the system of large-batch production to a Toyota-like system of production for a variety of articles. In the case of Daikin Industries too, there was opposition from the factory chief down to many technicians and foremen. "I will do it according to my own faith," President Yamada said. Once again, the new production system worked very well.

Original thinking — I have so far emphasized cribbing, that is, answering the examination sheet while looking at the answer, as a method to develop unique, unconventional strategies that combine the "It's absurd" and "I see" elements. Nevertheless, occasionally it is necessary to use one's own wisdom and think oneself, without depending on already existing concepts.

I have already presented the two-year rotation system applied to Nomura Securities' employees working at its personnel department. Where did this idea come from? Was the method being practiced in other companies? No. Was it explained in some textbooks on personnel management? No. Then how was it created? I believe that it is the result of original thinking, of a process of going back to the basics of personnel management.

What is good personnel management?

It is the management that promotes, and advances employees (salesmen) who are good at their jobs and who are admired by their fellow salesmen because of their abilities and performance. On the other hand, what is bad personnel management? To put it simply, it is something that leads employees to ask: "How is it possible that this fool was assigned this responsibility? His perfor-

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mance does not deserve the promotion.” Who can best evaluate salesmen? Probably, those who have experience in sales can properly evaluate salesmen.

I think that Nomura Securities’ two-year rotation system was born out of the realization that a good personnel department could be organized by relying on people whose work experience could allow them to judge the performance of employees; and the only way to have this arrangement was by rotating field operating employees into the personnel department every two years.

Global curiosity, nurturing new ideas and historical perspective — “Many changes originate in the United States.” “It is important to look at Japan from a foreign perspective.” These two expressions belong to Mr. Setsuya Tabuchi, Nomura Securities’ chairman of the board.

Before becoming chairman, Mr. Tabuchi had been president of the company for seven years. During that time, he traveled abroad to observe the conditions in foreign countries four times a year, two weeks at each time. He understands the importance of looking at Japan from a foreign perspective, because if you look at the United States today you can vaguely imagine what Japan will be like tomorrow or the day after tomorrow. In my own words, “America is the real father of new businesses, Japan is the foster father.”

Last August, when I went to the United States for ten days, and visited Washington, DC; New York City; Orlando; New Orleans; Dallas and Los Angeles, I had opportunities to walk around and go to shopping centers and leisure establishments. In the United States, new businesses, buildings, and products are born one after the other. The country excels at creating new things.

However, the United States does not excel to the same extent in nurturing newly-born businesses. Consider for example the shopping centers. I was surprised by the novel ideas that I found there, but the buildings, their interiors, the physical layout of stores, the way of arranging articles, the toilets’ degree of cleanliness are not as good as in Japan.

I have referred above to how Japanese executives think of corporate strategies for their firms while looking at the answers given by Americans. Out of the new businesses born in the United States, Japanese firms select the most appropriate ones for Japan, bring them to this country, and nurture them to a great extent. Japan might not be excel-

lent at creating new things. But it is excellent at nurturing them.

To give a few examples, cameras, television sets and automobiles are products born in Europe or the United States, but they have been greatly improved in Japan, where they were converted into world-class products. Likewise, supermarkets, hamburger restaurants and convenience stores were born and developed in America, but they are being significantly improved in Japan.

I would like to recommend to Asian executives, that you watch carefully what happens in America and Japan. Looking at the movements in America, where new businesses are born, and the movements in Japan, where they are nurtured, useful hints for creating new businesses in your Asian countries can be obtained.

John Naisbitt, the well-known author of *Megatrends* wrote: “approximately 500 years ago the center of world trade shifted from the Mediterranean to the Atlantic. Nowadays, the shift is occurring from the Atlantic to the Pacific.”

The center of economic activity, particularly manufacturing, shifted from Europe, especially England, to the United States. Later, it shifted once again, this time to Japan, and now is in the process of shifting to other Asian countries. Without a doubt, this long-term, historical trend is very desirable for Asians.

Shutting up oneself in one’s own small world is not a good thing. It is necessary to look outside, to look at the great world that surrounds us. Please watch what is going on in the United States, Japan and other foreign countries. Look at industries apart from your own.

Try to understand historical, long-term trends, and ride on them. ♦