Innovative Trends and Strategies for Japanese Corporations to Succeed in the Global Market

ISIS Malaysia

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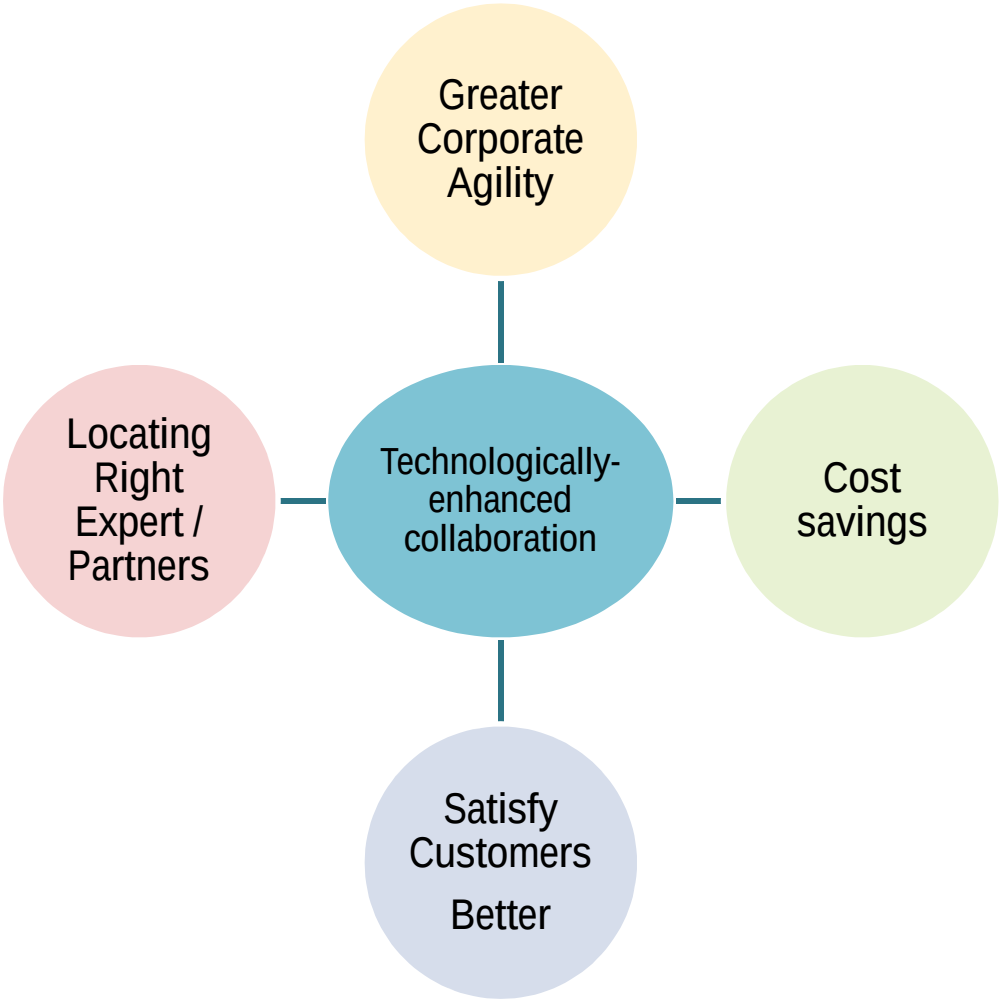
Outline

- Trends in business innovation
- Trends in Japan
- Tapping on Japan's strength & potential
- Global opportunities
- Strategies for Japan
  - Future markets
  - Mindsets of global innovation nations and leaders

The next revolution in business innovation

- Likely to come in the form of **technology-enhanced collaboration**
- Business has reached a point of diminishing returns from further automations of processes
- Improved collaboration remains a largely untapped source of competitive advantage. (CISCO, 2008)
- As Japan continues to relocate and outsource more of its operations in developing countries, the HQ spends more time interacting with its globalised subsidiaries
- With the rise in globalised services, more complex interaction and collaboration is required among global experts, joint partners or global service units
- Collaboration allows producers to connect with customers or knowledgeable partners; realign with changing customer needs and tastes
- Collaboration allows different global units to learn from one another

Outcome of technology-enhanced collaboration



Connect and develop

INNOVATING WITH	EXAMPLES
RETAILER CUSTOMERS	P&G works with retailers like Wal-Mart on marketing, finance, supply-chain/logistics and market research experts
SUPPLIERS	CISCO researches with suppliers, able to discover emerging technologies across globe
COMPETITORS	To reduce costs and get products to customers faster, P&G and Clorox, competitors in household products JV to produce stronger stretchable trash bags and Glad Press'n Seal wrap
NON-RETAIL CUSTOMERS	3M exchange ideas with customers

Lafley A. G. & Charan R. (2008) Game Changer: How you can drive revenue and profit growth with innovation

Tapping on Japan's strengths and potential

Trends in Japan

- Beset by an aging population and restrictive immigration policies
- Fears that a slowing rate of savings and private investment will result in Japan's basic manufacturing industries consolidating and downsizing and losing competitiveness
- Increased competition from the NICs and slower growths in advanced export markets will impact Japan's traditional markets.
- As the Japanese economy matures, the propensity to import will increase, and its industrial base will give way to a more service oriented structure

Japan's strengths

- Ahead of Asian countries technologically in many areas- car manufacturing, household electrical & electronics, games, etc
- Large corporate savings, low gearing and high per capita income
- R&D spending is 3.5% of GDP one of the highest, close to Finland in 2007

Japan's potential

- Services would be the new area of growth
- A large percentage of population in older age group can provide a testbed for health and luxury products
- High demand for financial services and financial innovation to provide better returns for the surplus savings

Global opportunities

- A combination of both a strong currency, low gearing and high savings among corporations can be seen as an opportunity for Japan to do the following:
- Buy over foreign firms, purchase foreign capital and assets
- Set aside more for R&D, especially outside Japan where experts are cheaper (75% of new R&D centers being planned are in China & India, according to BCG survey)
- Global R&D allows companies to do research 24-7
- Hire experts given the availability of experienced jobless people in US (financial) and India (IT)
- JV with partners - Many willing partners who want Japan's technology and expertise (Asia, Africa & Latin America)
- Surplus savings can be used to import and upgrade technology (According to Japan's MOF, depreciation charges exceed aggregate capital spending among big companies since the 1st qtr of 2009; as at 1st qtr 2010 it now exceeds 1.5 trillion yen)
- Savings can also be used to commercialise new patents and research findings

Strategy for Japan

Address constraints, build on your strengths, leverage on collaboration & global opportunities

- Develop innovation in new areas of growth in services to cater to aging population demand – Japan has the highest number of people in the older age group to test-bed new innovations eg in health, financial, insurance products and other services
- To remain innnovation leader for manufacturing – Develop Asian technology by collaborating with foreign partners especially in nations with surplus scientific and engineering workforce and shift some R&D to other countries where there are surplus young engineers and scientists
- To develop pool of skilled labor for future – collaborate to build education centres in Asia or liberalise Japanese colleges to increase foreign students intake in areas where expertise is needed
- To encourage innovation, use enhanced technology collaboration to make the global company more agile and closer to customer, learn new markets and encourage collaborative discussions among education centres

SERVICES

Future markets

- Domestic services market - Japan has a natural domestic market for financial, insurance and healthcare
- This can be developed for future markets in emerging countries
- The global emerging middle class now stands at two billion people who spend USD 6.9 trillion a year, a figure which is expected to rise to USD 20 trillion - twice current US consumption - by 2020 (McKinsey, July 2010)
- The GDP of emerging markets will grow to be about 1.3 times the size of advanced economies in 2050. China will be approximately twice the size of the United States in purchasing power parity (PPP)

Emerging Sizeable New Aging Markets in Asia

	Period when elderly population ratio exceeds 14%	Period when total population begins to decline
1990 – 1995	Japan	
1995 – 2000		
2000 – 2005		
2005 – 2010		Japan
2010 – 2015	Hong Kong	
2015 – 2020	S. Korea, Singapore	S. Korea
2020 – 2025		
2025 – 2030	China, Thailand	China
2030 – 2035		
2035 – 2040	Vietnam	Singapore
2040 – 2045	Malaysia, Indonesia	Thailand, Vietnam

Source: Japan Centre for Economic Research

MANUFACTURING

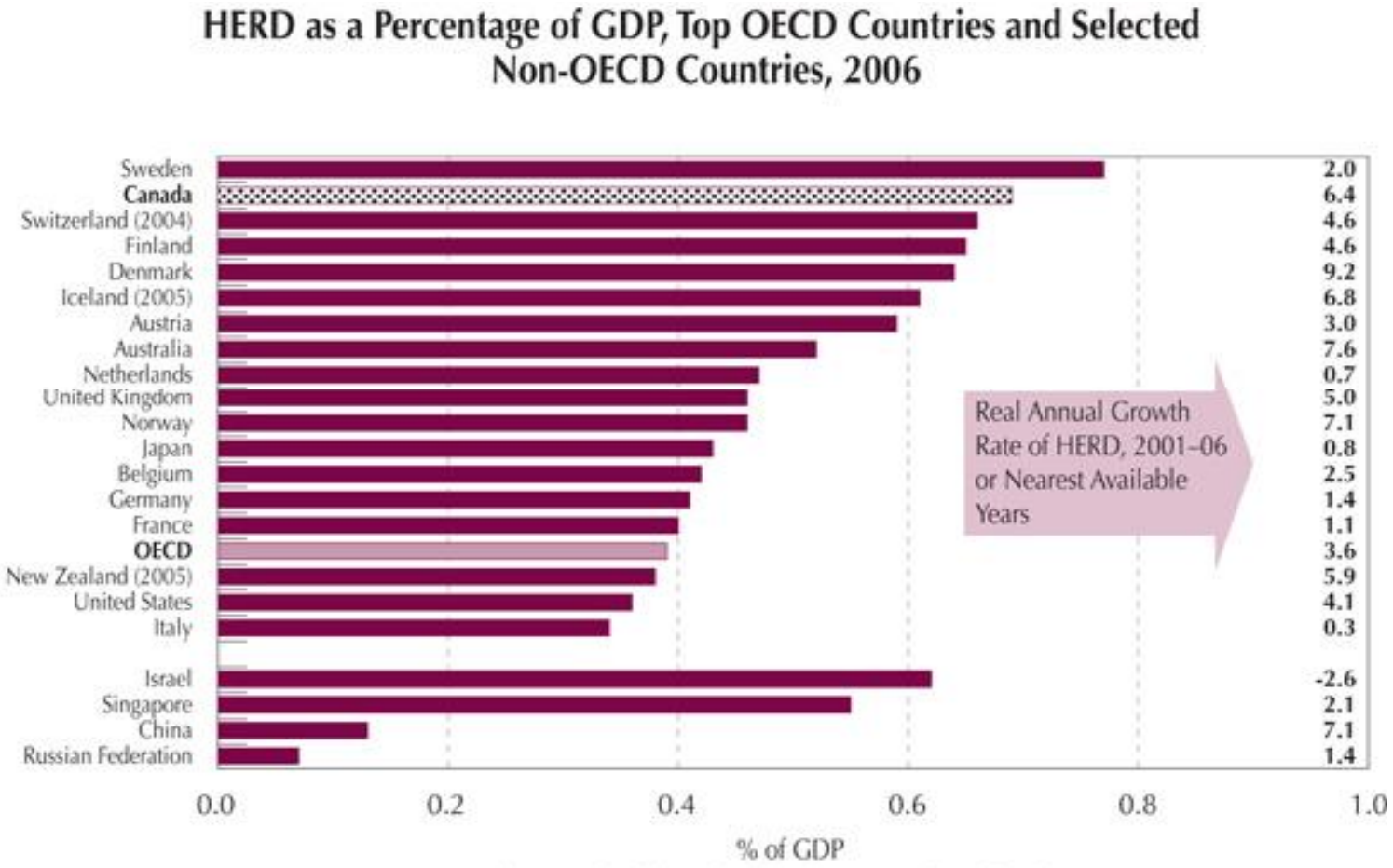
Mindsets of global innovation nations

- To succeed in the global market for manufacturing, Japan needs to be innovation leader
- Finland ranks second (after Sweden) in terms of R&D intensity among OECD (3.45% of GDP). Intensity of higher education doubled in past 15 years but Finland is not resting on its laurels
- Finland introduced a new innovation strategy in 2008 to sustain its success. The strategy orchestrates innovation across sectors, promoting not only high technology sectors but innovative solutions and applications throughout the economy and society
- Success comes with a price – Finland aims to set a 4% target for R&D expenditure as share of GDP in 2011. Japan is close to it.
- Esko Aho, Finland's former PM and president of the Finnish Innovation Fund says that "Finnish universities urgently need foreign teachers, researchers and students"
- Innovator Visas are granted in several countries. For eg in UK visa for two years and leads to permanent residence. In the US, foreign-born innovators helped launch America's space program. Foreign nationals represent half of the masters' degrees and over 2/3 of the PhDs granted from U.S. universities in electrical engineering, the lifeblood of the

New approaches in education – its how we teach

- Finland spends more on most nations on higher education & has more PhDs in Science and Engineering. Recent structural changes were made in Finland's higher education systems to strengthen quality, effectiveness and internationalisation. The University Act was introduced to provide universities with more autonomy and financial power, management and decision-making systems to undergo reforms
- The US is using new approaches in teaching to foster more innovation. (Miller, 2010) For instance,
- Standard University – attempt to cross-fertilise ideas across different faculties such as MBA + engineering
- Purdue University – students interact with industry in special centres such as Bioscience Centre, Nanotechnology Centre and Healthcare Engineering
- North Carolina State University – 1000 ac site that mixed academic activities, commercial enterprises and nonprofit organisations for closer collaboration

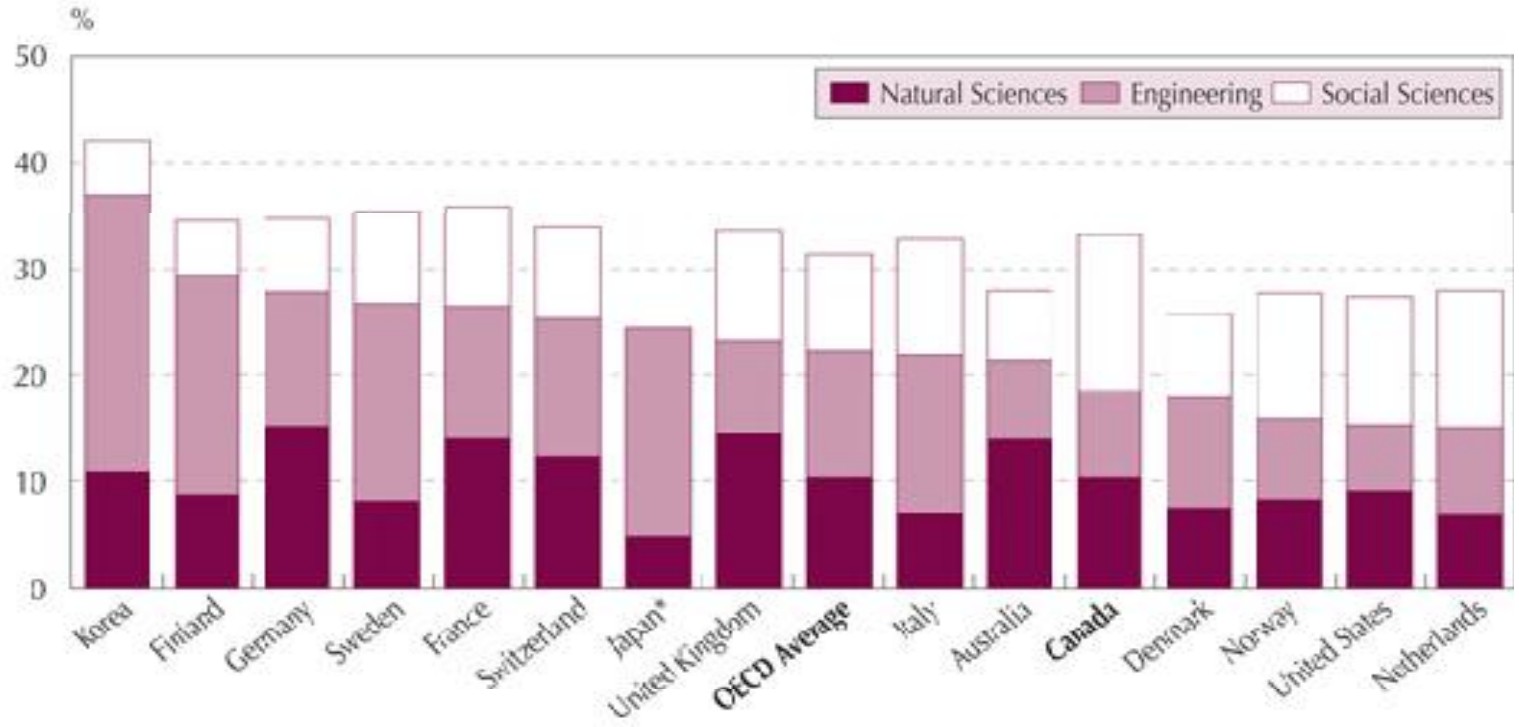
Finland ranks fourth in higher education R&D expenditure as share of GDP



Finland spends more than most countries on higher education

S. Korea & Finland produces more science and engineering degrees in proportion to total

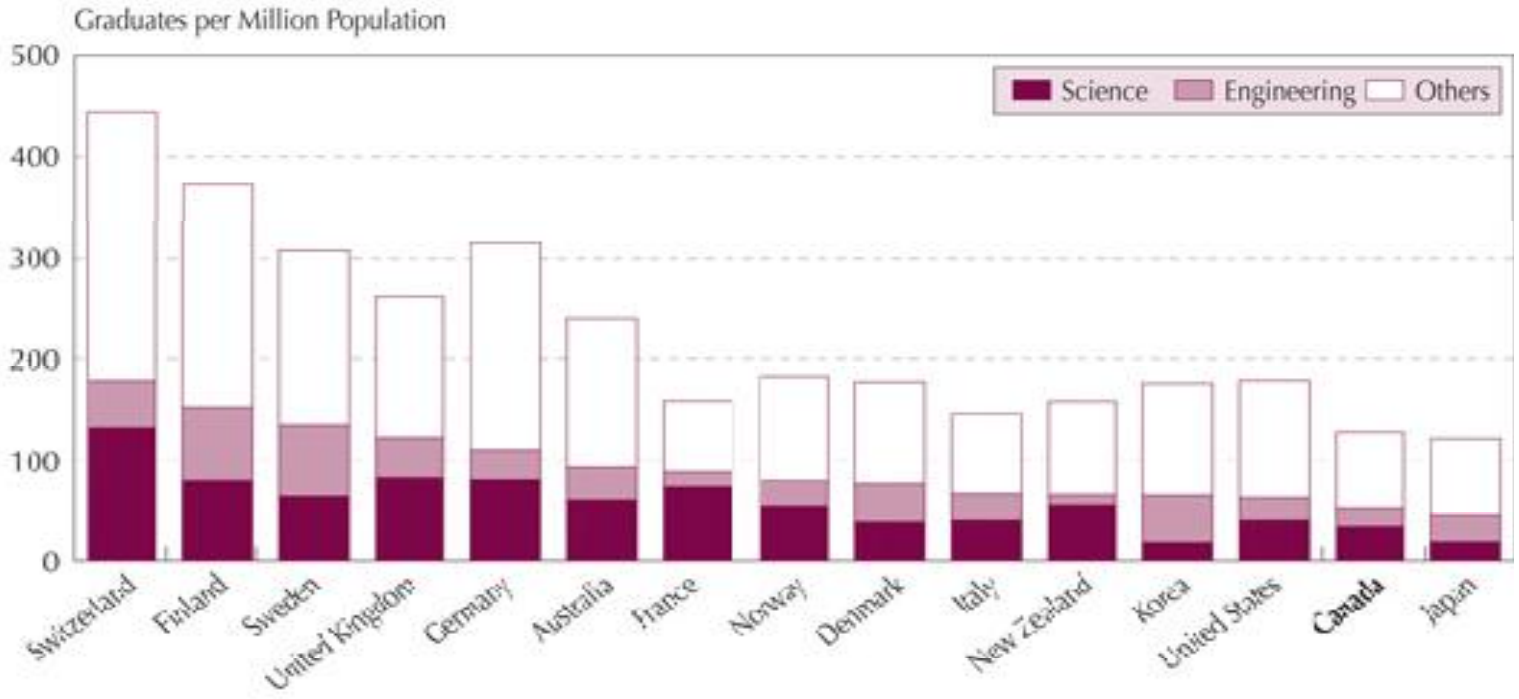
Science and Engineering Degrees as a Percentage of New Degrees, Selected OECD Countries, 2006



* The value pertaining to social science degrees was unavailable.
Source: OECD, *Education Database*, OECD.Stat extract, January 2009.

Finland ranks second for science & engineering PhD graduates

PhD Graduates in Science, Engineering and Other Fields, per Million Population, Selected OECD Countries, 2005



Note: Countries are ranked according to their PhD graduates in Natural Science and Engineering fields.
Source: OECD, *Science, Technology and Industry Outlook*, 2008.

Mindsets of global innovation leaders

- Higher statistics on R&D expenditure alone not necessarily translated into more innovation
- Both the education and social system must nurture innovation leaders rather than followers
- Business leaders must tolerate high risks for high gains
- Need a conducive culture for innovation which is more egalitarian, collaborative and consensus-driven culture like in Finland
- An innovation climate which requires informal, flatter organizations and sophisticated researchers with many external contacts. Innovators will flourish in an entrepreneurial climate
- Today's successful global businesses embrace cultural diversity as long as talent can be recruited. As Japan is a mono-culture, there is a tendency for cultural closed-ness and Japanese global business leaders may face more challenges when leading subsidiaries in different countries with different cultures

Entrepreneurial attitudes in 2009

% of respondents	Perceived opportunities	Perceived capabilities	Fear of failure	Entrepreneurial intentions	Entrepreneurship as a good career choice
Japan	8	14	50	3	28
Finland	40	35	26	4	45
US	28	56	27	7	66
Norway	49	44	25	8	63
Malaysia	45	34	65	5	59
China	25	35	32	23	66
Hong Kong	14	19	37	7	45
ROK	13	53	23	11	65

Source: GEM Adult Population Survey 2009

- Many Asian countries including Japan and Malaysia has a strong risk aversion tendency.
- Japan scores lowest on entrepreneurship as a career choice.
- Japanese entrepreneurs are called datsusara, which means "a salaryman who has broken loose."

Challenges in corporate culture for innovation in a global marketplace

- For collaboration to work, need a conducive culture
- Dean Foster says that Japan, while highly consultative and consensus-driven, is very hierarchical in its orientation around organizations and relationships, and diametrically opposed to flattened organizational environment of Finland (even the U.S. not quite as egalitarian as Finland)
- Hierarchy stifles innovation (but can enhance “improvement” on already existing, and pre-approved, ideas).
- Japan excels at improving but less at innovating. The U.S. often innovate but not necessarily improves. Finland, with a culture of both extreme egalitarianism and extreme consensus-orientation, excels at innovating AND improving.
- Finland scores time and again as one of the world’s top three leading nations in innovation but Asian countries like Japan and China have not made it to the top 5

THANK YOU