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Michael E. Porter, Hirotaka Takeuchi, Mariko Sakakibara, *Can Japan Compete?,* London: MacMillan Press Ltd., 2000. 208 pp.

Japan can compete if it *chooses* to compete by moving "beyond just quality competition to competing on strategy and innovation", according to Porter *et al*. (p. 189). What is, of course, implicit in this statement is that change is needed in Japan, and it will not take place automatically. The authors in essence argue that Japanese companies should learn to develop distinctive strategies, and if mindsets change toward a new approach to competition, Japan has the capacity to move rapidly again.

To be able to outline the key parameters of a 'new Japanese model', which is considered inevitable to revitalize the Japanese economy, the authors start with an analysis of Japan's postwar economic development in Chapter 1. Their central argument is that, in contrast to what is often assumed, Japan's problems are rooted in microeconomics, in "how the nation competes industry by industry" (p. 2). The emphasis on industries and firms in explaining competitiveness, when considered together with the provocative title *Can Japan Compete?*, invites a discussion of the national competitiveness debate. It is useful here to remember that the debate had largely intensified following the publication of Krugman's (1994a) article "Competitiveness: A Dangerous Obsession"[1]. Krugman had severely criticized the proponents of national competitiveness by stating that competitiveness is only meaningful at the firm and industry level, and when applied to a nation, competitiveness is nothing more than 'a fancy way of saying productivity'. Although the title *Can Japan Compete?* seems to suggest otherwise, Porter *et al*.'s approach is, in fact, in the same line as Porter's 1990 book *The Competitive Advantage of Nations*, where he argued that we must abandon the whole notion of a 'competitive nation' since no nation is competitive in everything. Nations, instead, are relatively more competitive in certain groups of industries but not in all. Then, to understand the competitive structure and potential of a nation in full, one should focus on industries and firms and the characteristics of the micro-economic business environment, which shapes the context that allows firms to gain and sustain competitive advantage.

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1 The debate can be best followed from the writings of Krugman (1994a and 1994b) and subsequent *Foreign Affair* articles by Prestowitz *et al*. (1994) incorporating the responses to Krugman, and finally Krugman's responses to these responses (Krugman, 1994c).

After identifying Japan's problem essentially as a micro-economic one, Chapter 1 introduces the basic rationales regarding the need for a new paradigm that will explain Japan's postwar economic trajectory and outline the implications for government policy as well as elements of a new approach to competition and management. It is argued that three warning signs, -namely, the fact that Japan is competitive in a narrow range of industries in world markets, Japanese corporate profit rates are low by international standards, and Japanese 'domestic' industries are largely uncompetitive- are of particular importance in this respect. Statistics show that there is loss in position even in industries in which Japan was historically competitive (e.g. televisions). Furthermore, there are not many emerging industries in Japan, and the existing ones by-pass new growth areas such as software and biotechnology, which leads the authors to conclude that "something has been increasingly holding back innovation and renewal in Japan" (p.12).

Chapter 2 proceeds to outline the well-known elements of the Japanese government model, such as the targeting of priority industries, protection of the home market, restricting FDI and competition, official sanctioning of cartels, and government sponsored cooperative R&D projects. The key question raised in this chapter is whether or not the Japanese government model can discriminate between Japan's successful and unsuccessful industries. To explore this, Porter *et al*. conduct detailed case study analyses of twenty competitive and seven uncompetitive Japanese industries.[2] As a result of their analysis, the authors conclude that since the key aspects of "the government model was almost entirely absent" (p. 29) in the broad sample of competitive industries they examined, the Japanese government model cannot explain Japan's competitive success. Instead, they identify alternative, unexpected roles of the Japanese government that contributed to the competitiveness of these industries, such as imposing stringent standards, which triggered innovation. In the uncompetitive industries, on the other hand, the government model was prevailing, especially in the form of intervention in competition. Although Porter *et al*.'s aforementioned results challenging the conventional wisdom concerning the role of the Japanese government in these industries raise a real question mark in one's mind, it is debatable that case study evidence in and of itself could suffice to reach such a strong conclusion. It is, in other words, not easy to provide a clear-cut answer to the age-old question regarding the ideal role that the government should assume in the economic development process, which remains an unresolved issue.

Coming down to the more micro level in Chapter 3, Porter and his colleagues investigate the effect of Japan's unique management model on corporate success. Again outlining well-known concepts such as achieving

2 Summary tables regarding the role of government in competitive and uncompetitive Japanese industries studied are provided at the end of the chapter.

high quality with low cost, lean production, long term employment, consensus building, the keiretsu, long term perspectives of the companies, and close ties with the government, the authors conclude that this set of management methods formed an internally consistent and coherent system, each part dovetailing with the others and with the government. However, beneath the dazzle of the high productivity-low cost performance of the successful companies were the low returns on investment and the sacrificing of profits for market share. With little pressure from shareholders and cheap capital available, companies maintained their unprofitable divisions and continued to imitate each other's best practices, missing chances for any real innovation. Meanwhile, another form of copying was going on. The generic and widely applicable Japanese management techniques were being adopted by U.S. companies focusing on narrower customer groups. In contrast, the Japanese companies, in their quest to serve all types of customers, were continuing duplicate investments, spreading themselves too thin.

The point made in this chapter is that the Japanese companies had not been able to find a balance between *operational effectiveness* (performing the same or similar activities better than competitors) and *strategy* (competing on the basis of a unique positioning involving a distinct product or service offering.) Strategy requires real innovation; an output or a process that sets the company apart. Establishing a strategy in this sense also means eliminating certain target markets, a move Japanese companies have found difficult.

While the losses associated (at least in the short term) with such a move have not been explained much in the book, Fujimoto (1999) gives a related example for the case of the automotive industry. He describes the problem of "fat design" faced by Japanese automakers in the late 1980s and early 1990s, where the product variety and model change frequency was deemed excessive, in addition to having too many model-specific parts, over-quality, and over-specification of the products. Many automakers, including Toyota, moved in the direction of "lean product design" in the mid-1990s as a major part of their cost reduction activities. However, Fujimoto reports cases of excessive simplification of new models, resulting in a loss of product integrity, lack of product differentiation, and perceived deterioration of design quality, which in turn resulted in customer dissatisfaction and losses of market share despite competitive prices. Thus there always seems to be a risk for companies to be unsuccessful in this subtle balancing act and to overshoot in the wrong direction. Porter *et al*. nonetheless provide examples of exceptions: Honda, Sega, Nintendo, and Sony are described here as companies having clear and unique strategies.

The crucial difference between *operational effectiveness* and *strategy* has been tackled by Porter previously in his *Harvard Business Review* article “What is strategy?” (Porter, 1996). The present book follows the argument introduced in this article: Operational effectiveness is not strategy. Strategy requires choosing a unique position, hence making trade-offs. It is the same rationale that led Porter to develop his well-known generic strategies: *cost leadership* versus *differentiation*. The sources of cost advantage are, however, of crucial importance in that the advantage is more sustainable if it stems from relatively favourable productivity rates, rather than easy-to-replicate labour cost advantages, for instance. Then, it follows that operational effectiveness may well be a good base for sustainable competitive advantage, to the extent that it can generate cost advantages based on productivity gains. In fact, the case of Japan is an illustrative example of this, since cost advantages based on increased productivity provided Japanese companies with competitive advantages for a period long enough for Japan to improve its standard of living considerably, even though the set of practices they introduced have now been copied by many companies around the world.

The core argument of the book is revealed in Chapter 4, which seeks to understand the roots of Japanese competitiveness. If it is not the conventional explanation which attributes much of Japan’s success to government policies and management practices, then ‘what does explain Japanese competitiveness?’ Porter *et al*. argue that the diamond framework, which is the product of Porter’s much celebrated earlier research published in *The Competitive Advantage of Nations* in 1990, can. Unlike the conventional explanations, it does discriminate between Japan’s competitive and uncompetitive industries.

The diamond framework is considered as a system of four interacting influences shaping the microeconomic business environment: ‘factor conditions’, ‘demand conditions’, ‘context for firm strategy and rivalry’ and ‘related and supporting industries’. The diamond has by now been applied to about 40 nations and regions by project teams headed by Porter himself, and other researchers have also conducted numerous studies on the framework.[3] Porter *et al*. argue that Japan is no special case and what is universally true about competitiveness of nations is also observed in Japan: “vigorous competition in a supportive business environment, free of government direction, is the only path to economic vitality” (p. 100). We should, however, state that the diamond framework, which provides the basis for such conclusions, has been the subject of much criticism[4], especially with regard to the indirect role Porter attributes to government.

Nevertheless, by the help of the diamond framework, Porter *et al*. not only provide a compelling explanation for Japan’s competitiveness, but also highlight key problematic areas, such as the lack of specialised skills

3 See, for example, Crocombe *et al*. (1991), O'Donnellan (1994), Öz (1999).

4 A detailed review of this literature can be seen in Öz (1999).

or domestic rivalry in the uncompetitive industries.[5] The authors mention a statistical analysis they conducted, which provides results that confirm their case studies and show that the intensity of local rivalry is the dominant factor explaining the international success of Japanese industries (p. 112). To substantiate their results, Porter and his colleagues also refer to a survey included in the *Global Competitiveness Report*, which is based on the diamond theory and used as a basis for ranking the quality of the microeconomic business environment. Accordingly, Japan's ranking has fluctuated between 18 and 14, which is well below its ranking in terms of GDP per capita, "meaning that Japan's current level of GDP per capita is higher than justified by the quality of its business environment – a danger sign" (p. 113). It is interesting to note that, even though it had a more optimistic outlook for Japan, the analysis of Japan in the *Nations* book (Porter, 1990) had essentially reached the same conclusions as the present book. In the former, Japan was seen as one of the few nations that are in the most ideal 'innovation-driven stage', where all the diamond elements are at work and their functioning and interactions are at their strongest.[6] This is clearly a much more positive assessment than the present book, although the idea of 'two Japans' and a sceptical approach toward government activism, targeting, cartels and cooperative R&D were all there in the 1990 book as well.

In light of their analysis in the preceding chapters, the authors focus on the agenda for the government in Chapter 5, which includes the relevant implications of their study and specific suggestions for the Japanese government. Accordingly, the Japanese government should "fundamentally change its approach to competition and redefine its role in the economy" (p. 160). The first priority is to carefully identify and continue what exactly worked in the past, such as high standards in basic education and in the areas of energy usage, safety, noise and quality. Then, microeconomic problems should be addressed, and a business environment favourable for innovation and entrepreneurship should be created by the help of policies designed in line with the diamond approach. Abandoning anti-competitive policies, promoting free trade, and modernizing inefficient domestic sectors are seen as inevitable steps in this direction.

Detailed suggestions on what companies should do in the slow growth era are provided by the authors in Chapter 6. While noting that in response to slow growth companies have indeed taken some steps such as reducing product variety, downsizing, and streamlining the organizational structure,

5 At the end of Chapter 4, the diamond conditions in the competitive and uncompetitive Japanese industries studied are presented in two detailed tables.

6 Porter (1990) thinks that it is possible to classify the economic development process into four broad stages -the factor-driven, investment-driven, innovation-driven and wealth-driven stages-, which are identified according to the prevailing sources of advantage in the nation.

the authors discard these as mere extensions of the operational effectiveness philosophy. According to the authors, the companies are trying to cure the symptoms, rather than the illness itself. What the Japanese companies really have to do initially is to break the taboo about being different, embrace creative conflict in the workplace rather than always seeking consensus, and prioritize customer groups. They need to loosen the links with the government and organizational clusters in order to allow distinct ways of competition to flourish. The "me-too" (*yoko narabi*) path of benchmarking competitors results in a price competition, does little to enhance competitiveness, and instead weakens the manufacturers with respect to the customers. The new competition paradigm clearly comes hand to hand with focusing more on profitability and return on investment and less on market share increase, thus eliminating the drive towards adding capacity and unrelated diversification.

While pointing out the necessity to adopt elements of the Western approach, the authors claim that Japan will not and should not be a clone of the U.S. On the contrary, Porter *et al.* suggest that the Japanese maintain their strong points. For example, the Japanese have the ability to work across functions and companies, and similarly their institutions are able to work together. The employees are highly educated, an important asset in the knowledge-based competition era. Likewise, the companies' long term perspective should be maintained despite emphasizing profitability. Companies also need to utilize their experience and expand their operational effectiveness philosophy to previously neglected areas, such as white collar productivity[7] and utilization of information technology.[8]

However, as mentioned earlier, Japanese management techniques are part of a system and cannot be considered in isolation. Any change that happens within the company needs to be reinforced with changes in the external environment and also in other parts of the company. To give an example, let us focus on the need to incorporate innovative thinking within the corporation. To encourage taking risks and trying out new ideas, this change would most likely have to be coupled with a modification of employee appraisals, perhaps moving closer to merit-based systems and away from seniority-based systems. This could bring about the question of how a Japanese advantage mentioned earlier, namely teamwork, would be sustained in a more individualistic corporate environment.[9] Similarly, one has to ask how mid-career employment could be made available for employees who are disgruntled (e.g. due to differing pay scales at the

[7] c.f. also Hori (1993).

[8] c.f. also Ohmae (1995).

[9] This could particularly be important in the area of product development, which is typically a cross-functional team activity in Japan.

same seniority level or because consensus is no longer sought) or not so innovative.[10] There need to be changes in the pension systems and hiring practices of organizations in general for a smoother transition.[11] Furthermore, in Chapter 5 the authors discuss the weaknesses of the Japanese educational system by pointing out the emphasis on memorization, lack of graduates in important fields such as software, business administration, and biotechnology, the impression that time spent in college is essentially a recuperation period after the intense preparation for entrance, and the tight control of the government on universities. The companies in turn have to rely on in-house training, which ends up perpetuating the traditional corporate culture and producing generalists, rather than the creative specialists needed for generating unique and ingenious strategies. Hence, the government has to lead a reform regarding how the universities are governed, how their curricula are designed, how professors are evaluated, how professors balance their efforts between research and teaching, how closer industry-university links can be established, and how research is funded.

As this example implies, any kind of new thinking a company wants to incorporate into its system in essence needs most, if not all, elements of Porter's diamond to adapt simultaneously, making the process of reform even more difficult. What is also difficult to assess is, after all this large-scale reform to adopt a more Western style approach, if Japan will truly not be a clone of the U.S. For the case of Japan, the embeddedness of the elements in Porter's diamond makes it difficult to keep portions of it intact while radically reforming others. Given that one thing leads to another, seemingly moving in a spiral, Porter *et al*. could have perhaps emphasized more the sequencing and timing of their suggestions, giving policymakers a clearer idea on where to initiate the loop of events and how to deal with the short term consequences

Can Japan Compete? may at first seem to be a book of interest only to people working in or on Japan. While on the whole focusing on Japan, the insights provided in the book will have wide appeal to any nation's policymakers and businessmen who feel their industries' performance has not been up to par. Sparing elaborate detail, the authors succinctly and clearly explain the interrelations between the elements of the Japanese economy, providing the reader an understanding of the intricacies unique to Japan. A great deal of empirical effort and the investigation of a wide array of data sources underlie this book, which add to its already-renowned theoretical framework. The result is an invaluable case reference for teachers and developers of strategy.

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10 In the past, companies would enter new businesses and send their incompetent employees to these new subsidiaries; an option no longer valid under the reform scheme offered by Porter and his colleagues in this book.

11 What this would imply for the concept of long-term employment is another facet of the redesign in corporate management.

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