

# SMEs: The Source of Japan's Competitiveness

*Monozukuri, literally meaning "the production of goods," is a concept that lies at the heart of Japan's industrial competitiveness, and it carries connotations that go far beyond the simple manufacturing process. The Ministry of Economy, Trade, and Industry's Monozukuri Policy Study Group, for example, defines it as "the art and joy of making things as perfectly and efficiently as possible while respecting nature in terms of both the materials used and the environment." Because small and medium-sized enterprises account for an overwhelming share of companies in Japan, the development and evolution of monozukuri over the years have chiefly taken place at the SMEs.*

*Over the next 12 issues, Highlighting Japan will introduce some of the most outstanding SMEs in Japan, the first installment giving the spotlight to two companies whose world-leading technologies have earned them a Monozukuri Nippon Grand Award. To launch this new series on Japan's top monozukuri companies, industrial designer **Ken Okuyama**, one of the jurists for the award, discusses how the concept of monozukuri should be applied in revitalizing Japanese industry.*



Ken Okuyama

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**T**he real strength of Japan's manufacturing industry is its focus on the site of production. Management gives great authority to people running the factory floor, who tend to be highly educated and enthusiastic about *kaizen*, making improvements on an ongoing basis. This is the real strength of Japan's industry.

The problem we face today is that companies no longer have enough time, energy, or money to adequately train their employees, in spite of the fact that universities, graduate schools, and technical schools are not providing the necessary practical education. This has naturally had an impact on the activities on the factory floor. Japanese companies have made up for these shortcomings by mass producing quality products at low prices.

But there's a limit to what this approach can accomplish. In the face of intense price competition,

companies in other Asian countries have become quite proficient at mass producing products meeting a certain degree of quality standards at lower cost. Japanese companies cannot expect to win against these Chinese, Thai, and Vietnamese companies on price alone. This is a major dilemma facing Japanese companies today.

## "T-Type" Human Resources

So what should Japanese companies do? I think the best thing is for them to reembrace their *monozukuri* roots. There are many highly talented people working in production in Japan, so an effort should be made to refocus corporate activities on the factory floor. There's no need to overemphasize manual skills, though; rather, efforts should be made to develop new technologies and products using the latest technologies. This is a process that will play into Japan's strengths. Guided by a strong sense of direction, those new tech-

nologies should be utilized to create innovative new products.

What is required in promoting the revitalization of Japanese industry is what I term “T-type” human resources. By this I mean people who not only have deep, specialist knowledge [vertical dimension] but are also generalists familiar with a broad range of subjects [horizontal dimension]. Generally speaking, people with truly in-depth knowledge are also capable of broadening their horizons and becoming excellent generalists. By contrast, people who become managers without on-site experience aren’t capable of serving as effective generalists. T-type human resources possessing both depth and breadth—individuals who shifted from being specialists to generalists at a certain point in their careers and who are given management responsibilities—have been the most outstanding managers in Japan. This is also the source of Japan’s manufacturing strength.

The second key factor is the relationship between large companies and SMEs. Many SMEs work as suppliers for larger companies. An increase in the number of smaller companies with distinctive technologies, including those operating outside of Tokyo, would make a significant contribution to the revitalization of Japan’s industry.

In Italy, for example, many small companies are guided by the distinctive philosophies of their founders or are distinguished by the cultural milieu of the region in which they are headquartered. They have very distinctive corporate identities, and their products are also quite unique. In order to reinvigorate Japan’s regions, SMEs must be not just suppliers or subcontractors but have an identity of their own in the global market through distinctive products, technologies, and brands.

In a nutshell, the most important factors behind Japan’s revitalization are the fostering of individuals who are both generalists and specialists and the building of healthier relationships between large and small companies.

## Creating Distinctive New Products

To date, most SMEs have had a passive attitude toward their manufacturing customers. They tried to meet their clients’ every need at lower prices than anyone else. But the truth of the matter is that most customers don’t know what they really want either. And so when they get what they asked for, there’s no element of surprise.

For me, the true essence of manufacturing is to



The K.O 7 designed by Ken Okuyama.

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surprise customers with products that exceed expectations and that become a source of joy for users. Until now, the emphasis had been on supplying products and services in line with the conclusions of market surveys, but from now on it will be important to read ahead, offering proposals that far exceed customers’ expectations.

Most Japanese companies have been inept at surprising their customers. If they made greater efforts to do so, though, I think this would lead to the development of distinctive and innovative products. It will also be important for managers to have a firm vision and philosophy; companies with such vision will likely become very competitive in the years ahead.

I have worked with companies around the world, and I’ve noticed that Japanese firms that have adhered to distinctively Japanese management styles are doing relatively well. There have been many success stories of Japanese-style management taking root in the overseas plants of Japanese companies.

The factories operated in the United States by Toyota are a good example. They boast management-labor relations that could never have been achieved by General Motors, Ford, or Chrysler. American workers at the Toyota plants are enthusiastic about their work and have a very positive attitude, making ongoing efforts to improve the quality of the products. I think this is a revolutionary development. It’s not something that was built overnight, though; it’s a business model that Japanese managers have toiled twenty, thirty years to develop.

What I’m trying to say is that competition henceforth will focus not so much on price but on value. Japanese companies will have to ply their skills and energies to create such new value. There’s a limit to what humans—even professionals—can do with their imaginations alone, but if these ideas are brought together and a range of tools are used to give shape to those ideas, it’ll be possible to come up with something transcending the skills of each individual.

Creative people aren’t necessarily born that way; they happened to discover tools along the way that enabled them to give expression to those ideas. Such tools differ from one occupation to another, but it’s the people who have found them that have been successful. This is based on my personal observation, and so it’s something I can say with considerable confidence. 