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Abstract	Vitalization of internal organization of a firm varies in terms of its concept and method depending on the adaptation of the firm's main products to the industrial environment. In the case where a firm is enjoying a steady growth with its main products adapted well to changes in the industrial structure, the firm may be vitalized by enhancing the employees' challenging spirit. There are many ways to do this: flat organization; 'philosophy of praise' by the top management; improvement of personnel rating system, etc. There are other cases where the growth is stagnant even though the main products are well adapted to changes in the environment, probably because of the lack of proper management activity. In such a case the president needs to take the lead in revolutionizing the awareness of the employees through infiltration of the sense of crisis, declaration of a lofty business goal, and president's visits at worksites. If a firm's growth is retarded due to the failure of its main products in adapting to changes in the industrial structure, restructuring of the firm is necessary. For that purpose, employees' knowledge must be deepened through various programs : specialist development program ; mid-career recruitment; capability development; and appointment of talented people to new business sections.
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VITALIZATION OF INTERNAL ORGANIZATION

by

Ryûei Shimizu

ABSTRACT

Vitalization of internal organization of a firm varies in terms of its concept and method depending on the adaptation of the firm's main products to the industrial environment. In the case where a firm is enjoying a steady growth with its main products adapted well to changes in the industrial structure, the firm may be vitalized by enhancing the employees' challenging spirit. There are many ways to do this: flat organization; 'philosophy of praise' by the top management; improvement of personnel rating system, etc. There are other cases where the growth is stagnant even though the main products are well adapted to changes in the environment, probably because of the lack of proper management activity. In such a case the president needs to take the lead in revolutionizing the awareness of the employees through infiltration of the sense of crisis, declaration of a lofty business goal, and president's visits at worksites. If a firm's growth is retarded due to the failure of its main products in adapting to changes in the industrial structure, restructuring of the firm is necessary. For that purpose, employees' knowledge must be deepened through various programs: specialist development program; mid-career recruitment; capability development; and appointment of talented people to new business sections.

1 Significance of Vitalization of Corporate Internal Organization

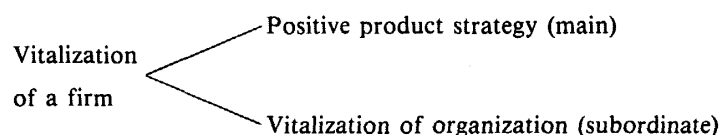
1-1 Vitalization of Internal Organization of a Firm and a Firm's Vitalization

Vitalized internal organization of a firm refers to an organization constituents of which maintain good communication, with everyone filled with challenging spirit and a high morale. A vitalized company means a company where there is a good cycle of management process, i.e. top management → business strategy → organization → products → environment → business performance → corporate culture → top management → in such a company, new products and new businesses keep coming, sales volume and profits rising, people filled with high morale and motivation, creativity displayed in every aspect, energy filling the entire company. A vitalized company is able to cope with any change in the environment. While vitalization of a corporate internal organization concerns the aspect of 'people' alone, vitalization of a firm covers every aspect of the firm.

Vitalization of internal organization and positive product strategies are two most

effective means the top management can control in vitalizing the firm. Since product strategies form the core of business administration and the internal organization is to be structured accordingly, product strategies are the main factor and vitalization of internal organization, a subordinate factor (See Fig. 1). For simplification, internal organization of a firm will hereunder be referred to as organization.

Fig. 1 Two means for a Firm's Vitalization



Methods of vitalization of an organization and positive product strategies interact with each other. When either one of them is successful, it causes a partial good cycle among them, having employees display creativity, which forms a nucleus of the firm's growth. Development of a new product, in particular, urges people to change angles of looking at things, which in its turn, helps developing human capability, motivating people and activating the entire company. Then it goes back to another new product development and new business development, completing the cycle. An extensive survey conducted by the Business Behavior Division of the MITI clarifies the fact that the interaction be-

Table 1. Relationship between Selection of Business Goals and Business Results

	1975	1976	1977	1978
	Business results	Business results	Business results	Business results
New product development	<u>2.904</u>	<u>*5.100</u>	<u>*5.188</u>	<u>*5.095</u>
Share expansion of main product	2.889	5.028	5.132	4.852
Cost-reduction	2.718	4.976	4.707	4.951
Diversification/Business conversion	—	—	—	—
Others	2.685	4.672	4.973	5.085

1979	1981	1982	1983	1984	1985	1986
Business results	Business results	Business results	Business results	Business results	Business results	Business results
<u>*5.205</u>	<u>*5.082</u>	<u>5.082</u>	<u>*5.185</u>	<u>*5.332</u>	<u>*5.344</u>	<u>*5.257</u>
5.053	4.865	5.007	4.901	4.901	4.849	4.977
4.770	4.883	4.878	4.685	4.548	4.422	4.525
—	—	—	—	—	4.668	4.420
4.743	4.809	5.067	4.536	4.712	4.804	4.927

Note: Business results is synthesized from growth rate and profitability. The underlined figures show maximum value in each year and those with * are statistically significant at a level of 5 percent. The author has been the Head of Management Abilities Committee in MITI since 1974, which has conducted above survey.

tween activation of organization and positive product strategy promotes corporate development. Large companies in any industry which have always placed an emphasis on new product development in their business goals have maintained high levels of business results, not only in high economic growth period but also during low growth period following the oil crises (See Table 1).

1-2 Activation of Organization Linked with Product Strategy

Actual methods of vitalizing corporate organization can be divided into three broad categories, according to the product strategy.

Fig. 2. Methods of Vitalizing Organization in Relation to Adaptation of Major Products to External Environment and Pattern of Corporate Growth

Growth	Steady growth	Stagnant growth
Main products adapted well to structural change in environment	Enhancement of organizational effectiveness (Improvement of challenging spirit) (1)	Awareness revolution of employees (Revolution of awareness) (2)
Main products not adapted well to structural change in environment	_____	New education & training (Deepening of knowledge) (3)

- (1) The case of a company growing steadily with its main products adapted well with structural change in the environment

In this case, a double approach of positive new product development and constant cost reduction for stable products is applicable. In the area of technology, and marketing, strengthening of R & D and sales promotion efforts are made respectively. As of today (1991), this strategy is adopted by many companies in such sunshine industries as automobile, electric appliances, and pharmaceuticals. More specifically, strategies taken by these industries are: setting of project teams for new product development; establishment of flat organization by setting up product-wise or regional divisions; changing of awareness of the middle management; change from a demerit mark system to a merit mark system; and reformation of personnel rating system. All of these strategies are geared toward enhancement of the employees' *challenging spirit*.

- (2) The case of a company whose growth is stagnant despite good adaptation of its main products with industrial structural changes, due to the lack of proper management activity

Such a company is typically plagued by red-tapism which prevents it from taking a proper measure to cope with a new situation. Or it has the tendency to make light of the market, after experiencing the success of mass-production system and that of the doctrine of technology for technology's sake, failing to accommodate market needs. In such a case, such strategies as cost reduction of improved products as well as stable products, and sales promotion are adopted. Sales promotion effort must be made by every member of the company, with the president himself taking the lead in contacting cus-

tomers. This is necessary because unless sales are promoted and profit is increased, other measures cannot be adopted. Activation measures that are applicable include: breeding of a sense of crisis among all the employees; clarification of business philosophy and business goal by the top management; visits by the top management to actual worksites; and awareness revolution through all the above measures. Here, *awareness revolution* forms the core of organizational activation.

- (3) The case of a company whose growth is stagnant due to the failure in adapting its main products to changes in industrial structure

This is a case where strategy of new business development and business diversification, as well as that of major cost reduction for stable products are useful. A company in this condition is ready to move into any field which seems to become profitable in future and where they have competitive advantage in terms of either technology or marketing. At the same time, it tries to reap as much profit as possible from its main products while they are demanded, by making full use of its knowhow, and by pursuing whatever possible technological improvement, quality enhancement and cost reduction. Eventually, it tries to convert its business line drastically over a long period. This is what is called restructuring strategy. At the moment, companies in marine, steel, shipbuilding and textile industries are implementing this strategy. Measures adopted to restructure business include: development of specialists and experts through education and training programs; mid-career recruitment; various capabilities development; and establishment of new business sections. Here, improvement of ability to cope with new situation through *deepening of knowledge* is an essential part of organizational activation effort.

What follows is a discussion of the cases (1), (2) and (3) in this order.

2. *Organizational Reformation for the Improvement of Effectiveness*

In the case where a company is growing steadily with its main products adapted well to the environmental changes, its organization is likely to be activated of its own accord. A good cycle of: constant new product development → increased necessity of changing employees' viewpoints to cope with it → capability development following changes in viewpoints → further new product development → keeps urging organizational activation. This process may be sped by the following measures: organizational reformation, including flat organization and decentralization; conversion from a demerit mark system into a merit mark system, or 'philosophy of praise': reformation in thinking of the middle management; and revision of personnel rating system.

2-1 **Organizational Reformation**

An organization becomes rigid in a long time, however excellent it may be at the beginning. This is due to the elementary human ability of learning. When a person gets accustomed to a job, he finds it easier and wouldn't like to change it. Because of this human nature, any organization needs to be reformed intentionally every now and then, so that it may remain activated and flexible. This is especially the case with a company, enjoying a steady growth without developing any particular new product or new busi-

ness, because its main products are adapted well to environmental changes. Fundamental purposes of organizational reformation is to promote communication within the organization and to arouse challenging spirit of the constituent members in order to have them display their creativity. This is generally done by enhancing vertical communication by rearranging the organization into a flat one, as well as by exposing middle management members to the outside atmosphere and holding them responsible for decision making. Shoji Sumita¹⁾, president of East Japan Railway Company, explains that railroad organizations such as that of ex-JNR (Japanese National Railways) is destined to become rigid. Emphasizing that rigidity resulting from the learning process of human beings is a fate of organizations and that higher efficiency of an organization can be achieved only by constant effort to break that rigidity, he explains, 'A railroad company is essentially very conservative. It repeats the same operations every day once the train schedule is fixed. There are little stimuli. Because of safety concerns, you are very cautious about changes in the status quo. The outdoor staff, however, cannot improve their efficiency unless their worksite is activated.' Yohei Mimura,²⁾ chairman of Mitsubishi Corp. also points out inherent rigidity of organization and stresses the necessity of continual organizational reform. He says, 'Organizations and structures are best when they are born, and they start deteriorating immediately after that. Whenever a new endeavor is suggested, it is administrative section and accounting section that usually object to the idea. It is because people of sections not dealing in products, including administrative and general affairs sections, live for uniformity and consistency. It is important to form the habit of reviewing organization frequently.'

Even a company free from such organizational rigidity must modify its organizational structure in accordance with changes in the environment so that it may maintain and develop its business over a long term in rapidly changing environment of today. Here, Greiner's Organization Growth Theory³⁾ — a theory that a firm's organization is changed according to an internal factor, i.e. increased scale of the firm — does not apply, and it seems more accurate to say that companies adjust their organizations to changes in the external environment. Under the same environmental changes, however, different presidents perceive different problems, and therefore, strategies formulated and sections strengthened differ depending on their judgement.

While there is no fixed pattern in the way organizations are reformed to cope with environmental changes, there are two common ends to be achieved: (1) to achieve a long-term growth of a company through appropriate adaptation to the rapidly changing society; and (2) to increase communication between the constituent members through the reform, in order to enhance their challenging spirit and activate the whole organization.

When exposed to the same changes of environment, such as deregulation, innovation in information and globalization, a leading city bank adopts one way of reforming

1) Shimizu, Ryûei; Interview Survey of Presidents of Big Companies and Leaders of Other Fields (11) <MITA SHOGAKU KENKYU> Vol. 33, No. 2

2) *Ibid.* (3) Vol. 3, No. 3

3) Greiner, Larry E.; Evolution and Revolution as Organization grow, Harvard Business Review, July-August 1972

its organization, and another such bank, another way. The Mitsubishi Bank, Ltd. conducted an organizational reform in 1986. Under the reform, the firm set up International Division to handle international business, and Securities Division, Business Division and Information Development Division for securitization, strengthening of investment bank function and computerization, respectively. It also established Enterprises Division to strengthen its commercial bank function in Japan. Hisaya Nara⁴⁾, vice-president, expresses his thought, 'In view of imminent arrival of the age of an all-out war for internationalization, we will concentrate our effort on three operations, namely, international business, investment bank business and domestic commercial bank business, with the motto of "Universal Banking".' The Dai-ichi Kangyo Bank Ltd. changed its organization from one consisting of four head offices to one with seven, and made month-by-month profit posture of each head office apparent. Also, it set up Capital Market Division for comprehensive management of fund money and bills of exchange by one manager, while at the same time, developing and selling global financial products such as interest rate swap and currency swap. Nobuya Hagura⁵⁾, president of The Dai-ichi Kangyo Bank Ltd., states, 'In order to cope with changing environment, corporate constitution must be strengthened. It is also crucial to put up a system to manage assets and liabilities with constant consideration given to profit.' Thus Mitsubishi Bank aims at developing itself into a 'Universal Bank', while Dai-ichi Kangyo Bank emphasizes strengthening of profit control. This exemplifies that under the same environmental changes, different companies of the similar size in the same industry take different ways of reforming organizations and what strategies are worked out. Despite the differences in perceptions and measures, however, there is only one purpose for organizational reformation — long-term maintenance and development of company through appropriate adaptation to environmental changes.

Sumitomo Chemical Co., Ltd. reorganized its organization in 1987 from one with six divisions to one with fourteen headquarters. A management office was set up in each of the following departments: Basic Chemicals Sector, Fine Chemicals Sector, Agricultural Chemicals Sector, and New Business Sector. The president, Hideo Mori⁶⁾, says, 'The reorganization aims at narrowing down the scope of responsibilities of each manager so that everyone can have a whole view of the company.' Minoru Onishi⁷⁾, president of Fuji Photo Film Co., Ltd., states, 'Adaptation to environments is critical to a company. There is no form of organization which is eternally true or universally applicable to every company.' In Fuji Photo Film, the organization is divided into eight Strategic Business Units (SBU's), each of which embraces all the necessary functions from R & D through sales and marketing. For example, Ashigara SBU is charged with every function regarding photosensitive materials, from product planning, R & D, production and sales, under the supervision of the chairman of the SBU. Jiro Furumoto⁸⁾, president of Asahi Glass

4) Shimizu, Ryûei; Interview Survey . . . (5) <MITA SHOGAKU KENKYU>, Vol. 30, No. 5

5) *Ibid.* (7) Vol. 31, No. 2

6) *Ibid.* (5) Vol. 30, No. 5

7) *Ibid.* (5) Vol. 30, No. 5

Co., Ltd., is going to introduce project manager system into his company. He remarks, 'I have a plan to change our organization into a flat one in the shape of a Japanese paper-weight. It would have a division manager, under whom department managers, section chiefs, and chief clerks would be located on a same level. Then, managers would try to make decisions prudently to save face.' In the above examples, Sumitomo Chemical, Fuji Photo Film, and Asahi Glass set up a flat organization consisting of small divisions, giving each division uniqueness, totality, as well as responsibility for making decisions, in order to arouse challenging spirit of the employees.

Flat organization, however, has a danger of dispersing corporate management effort, reducing effectiveness of the entire organization. This led to the birth of the idea of integrating the flat organization by a 'lateral system'. Toppan Printing Co., Ltd. is implementing this idea by establishing Business Administrative Department within its head office for managing sales and technology of nearly ten divisions, which are set up by product groups and by regions, beyond divisional boundaries. The firm has also concentrated all its research laboratories in one place by investing some ten billion yen. The president, Kazuo Suzuki⁹⁾, expresses his thought: '(The new organization) shortened the time we take for making judgement. Although we have basically a vertical organization, a lateral system is now taking shape. We have integrated various research laboratories, such as precision electronics research laboratory and packing materials research laboratory. We have made a saloon where free discussions can be held any time. Since employees can express themselves there freely without minding their bosses, a form of inter-divisional activity is coming up.' Kaoru Hirota¹⁰⁾, president of Sekisui Chemical Co., Ltd. says, 'We have an organization divided vertically into small divisions. Each division is given a full responsibility about itself. We have also established Corporate Constitution Improvement Committee, which is a cross-functional, lateral system. The committee deals with such issues as financial improvement, relations with affiliated companies, as well as methods of sales promotion and cost reduction in factories.' Thus, Sakisui Chemical aims at enhancing morale of employees by adopting a divisional system, giving each division uniqueness and totality, while at the same time, it attempts to promote communication among different divisions, to activate the whole organization and to boost up its effectiveness through a lateral system.

2-2 Change from Demerit Marking to Merit marking

There is a major shift from demerit marking to merit marking in the minds of the top management of large firms. According to demerit marking, a failure in any endeavor would mean minus points in personnel rating, and therefore, attitude of not doing anything new and not making a failure is admitted. The tendency is likely to prevail in companies with long history, large companies, and those which have many stable products. The tendency was accepted in those days when efficiency of producing and selling stable

8) *Ibid.* (10) Vol. 32, No. 2

9) *Ibid.* (7) Vol. 31, No. 2

10) *Ibid.* (6) Vol. 30, No. 6

goods with long life cycles was much sought after. Whereas now, when demands are more personalized and diversified, products life cycles getting shorter and new product and new business development pursued, such a tendency is becoming outdated. Merit marking, on the other hand, does not reproach failures; rather, it encourages people to challenge something new without minding failures. This new way of evaluating people is becoming a more popular way of activating organizations. Hiroshi Hidaka¹¹⁾, president of Takashimaya Co., Ltd., attaches importance to merit marking system, saying: 'While the principle of ability has been part of our management and promotion system, ability has held only around ten percent of the total personnel rating system. I think that from now principle of ability and that of seniority should divide equally between them in the system. Failure record doesn't matter to me. I urge our employees to switch their thinking from demerit marking to merit marking.' Ryuzaburo Kaku¹²⁾, president of Canon Inc., denies demerit marking: 'Our basic policy about employees is to let them have their own way to activate organization. In evaluating their work, we give A mark to a success through effort, B mark to a failure despite effort, and C mark to no failure without effort.'

Managers wanting to activate their organizations are required to have 'philosophy of praising' their employees. Out of A. H. Maslow's five steps of needs, i.e. physiological needs, safety needs, belongingness and love needs, esteem needs and needs for self-actualization, the last three are satisfied best by being recognized by others. According to F. Herzberg's Hygiene Theory, such hygiene factors as wage and working conditions may decrease dissatisfaction when they are fulfilled, but they do not positively motivate people. In order to motivate people positively, motivating factors, such as sense of achievement and approval, which are satisfied only when people are praised, are necessary. Kaoru Hirota¹³⁾, president of Sekisui Chemical Co., Ltd., is for the philosophy of praise, in other words, merit marking. He mentions 'Let's begin with praising people. Let's praise for whatever small thing done by employees. We must recognize an employee who has done something and failed, causing a loss on the part of the company, for his braveness. The person who has failed feels sorry enough. If we scold him, his feeling will be hurt and only chagrin and repulsion will remain in his heart.' Generally, companies where bureaucratic system is developed tend to have demerit marking system based on 'philosophy of scolding'. It is worth noting that increasing number of companies advocate merit marking system centered on 'philosophy of praise' for arousing challenging spirit in the employees so that they may cope with major changes in the environment.

Praise is most effective if it is given by the president. And to let it be known publicly inside or outside of the company brings even better results in motivating the employees. Shigekuni Kawamura¹⁴⁾, president of Dainippon Ink and Chemicals, Inc., attaches importance to evaluation by the top management, skipping over one by the middle management. He says, 'To motivate people, we must have them do as they please. We shouldn't

11) *Ibid.*(9) Vol. 31, No. 6

12) *Ibid.*(5) Vol. 30, No. 5

13) *Ibid.*(6) Vol. 30, No. 6

14) *Ibid.*(7) Vol. 31, No. 2

set financial restriction for that purpose. And the result of work should be evaluated by the top management, because middle management tends to give a greater priority to checking than to evaluation.' He continues, 'People today like to be the center of attention. To announce recognition in a house organ or through other means with photographs of people who were recognized would multiply motivation.' If, however, praising some people only leads to demotivating others, it does not make sense as organizational vitalization. So, the point of praising employees for the purpose of activating organization is to 'praise the average people when they have done something small that is good'. Managers must always think about motivation of *everyone in the organization*. Praising those who would always receive highest prizes in competitions is meaningless. In fact, the reverse is true. These people are accustomed to hearing praising words and are little moved when praised. And those who are not praised are vexed at the praise being directed to 'always the same people', which results in demotivating them. People who are not used to praises get moved deeply by a praising word by their manager. 'Something good' can be anything. To motivate everyone is the key.

2-3 Awareness Reformation of the Middle Managers

Middle management of large firms tend to oppose reformation. They have worked their way up the corporate ladder through hard work for a dozen or more years since graduation from universities. They have, in the meantime, incessantly accumulated management knowhow. Naturally they cannot bear seeing the system totally changed when they start feeling at ease with it. They are also very busy with operational decision making and daily management activity. They are not sufficiently exposed to outside atmosphere compared to the top management, nor have they developed a habit of contemplating major changes in the environment. Nobuya Hagura¹⁵⁾, president of The Dai-ichi Kangyo Bank Ltd., has replaced a sectional system by a deputy manager project system, which enables quicker actions to cope with environmental changes. He explains, 'Anyhow, people of the middle management are the most conservative. So I decided to change them first in activating the organization.' Isao Nakauchi¹⁶⁾, president of the Daiei Inc., is more thoroughgoing, and expounds that the middle management is unnecessary. He declares, 'There is no department or section in our company. Instead, project teams are organized. SBU system is adopted. The president and computer suffice for handling routine work. Middle management is not necessary. As we have POS, we don't need shop managers either.'

As a matter of reality, however, large firms commonly have many people in the middle management, who enhance communication between the top management and rank and files, and execute key duties including operational decision making, daily management and worker motivation. Teruo Tani¹⁷⁾, president of Matsushita Electric Industrial Co., Ltd., emphasizes the importance of ways of thinking and attitude of the middle

15) *Ibid.* (7) Vol. 31, No. 2

16) *Ibid.* (7) Vol. 31, No. 2

17) *Ibid.* Vol. 30, No. 4

managers. He states, 'Employees of Matsushita Electric are very diligent. They lead everyday worklife following the example of those who are ahead of them by five to ten years in terms of service years. They work obediently without complaints. Nothing can be changed without changing those who show an example, i. e. department and section managers.' Kaoru Hirota¹⁸⁾, president of Sekisui Chemical, also stresses the importance of middle managers, saying that the ability of the employees depends largely on the ability of the middle managers who manage their subordinates. He mentions, 'I tell every middle manager to evaluate each subordinate by clarifying answers to the following question; if the ability of the subordinate in question could have been different under a different manager, or if there was a mistake in the recruitment. I believe an employee's ability depends greatly on the first manager he works with.' Many other presidents are of the opinion that middle managers are to be appraised not by the financial achievement they have made but by the number of excellent subordinates they have fostered. Activation of middle managers is essential for the activation of an organization.

In activating middle managers, training and education conducted and supported directly by the top management is indispensable. It seems difficult for middle managers to serve as product champions and take the lead in activating the organization as pointed out in some literature in the U. S.¹⁹⁾ It is because in Japan, where lifetime employment system still persists, if a middle manager takes an initiative in challenging something new and fails, most likely does he become alienated in the organization, unless the president gives a consideration, based on merit marking, or there is a well-arranged personnel rating system.

Hiroshi Ueda²⁰⁾, president of The Seiyu Ltd., attaches an importance to middle management education conducted by the top management. He states, 'I regard shop managers' education as of crucial importance. I would like to foster the middle managers, who are at the forefront of operation of the organization, by giving them education positively, delegating powers and exposing them to outside atmosphere. I want to see an entrepreneurial spirit in them. For that purpose, we must renovate thinking of the top management first.' Hiroshi Hidaka²¹⁾, president of Takashimaya Co., Ltd., says, 'Currently we hold seminars for executives and department managers. So far, it has been difficult to convene sales department managers for such seminars due to an apparent reason that business comes first in their minds. Department managers are given a significant role of communicating president's ideas to field personnel, as well as that of drawing opinions from young workers and female workers, who are informed better of new consumer behaviors. I have designed the seminar to cultivate such ability.' He emphasizes that an initiative of president himself is vital to the training and education of the middle management.

The purpose of training and education for the middle management is, like that for

18) *Ibid.* (6) Vol. 30, No. 6

19) Maidique, Modesto A.; *Entrepreneurs, Champions and Technical Innovation*, in "Generating Technological Innovation," Edited by Roberts, Edward B., Oxford University Press, 1987.

20) Shimizu, Ryûei; Interview Survey . . . <MITA SHOGAKU KENKYU> (7) Vol. 31, No. 2

21) *Ibid.* (9) Vol. 31, No. 6

rank and files, to enhance challenging spirit. Yasushi Komatsu²²⁾, president of The Sumitomo Bank Ltd., advises middle managers to try to achieve a step higher than where they are. He says, 'I always tell them to think as if they hold a position higher than their own. For example, I tell section managers to think with the mind of a deputy general manager.' Osamu Hashiguchi²³⁾, president of The Hiroshima Bank Ltd., also tries to stimulate challenging spirit of the middle managers by telling them 'to work three times harder than the ordinary people if other managers work twice as much.' Training and education alone, however, are not enough for boosting up the challenging spirit of middle management. Nobuyuki Nakahara²⁴⁾, president of Toa Nenryo Kogyo K. K., starts with developing voluntariness of newly assigned middle managers by organizing them under the president. He explains, 'First of all, we formulated a long-term target and permeated it throughout the company. Then, we established a new organization, called 'triple board system' consisting of a board of section managers, a board of department managers, and a board of directors. In the respective board meetings, I have section and department managers make presentations, with guidance and support provided by the top management, so that they may get the feel of participation in the management.' What is practiced by Toa Nenryo is a more advanced way of activating middle managers compared with ordinary training and education.

It comes to a conclusion that in a large company, the key to activate its internal organization is to activate the middle managers, who tend to become most conservative, and that to successfully implement it, the president himself must take the lead in conducting education and training, and must satisfy the need for self-actualization of middle managers.

2-4 Reformation of Personnel Rating System

Reformation of personnel rating system is the last resort to be employed for activating internal organization. For, in effect, in Japan, personnel rating system is part and parcel of corporate organization. How one is evaluated by others is one of the greatest concerns in the Japanese life, and recognition by others stimulates one's will to challenge and creativity. And the people's challenging spirit and creativity are the source of profit for the company. According to Yuji Naito²⁵⁾, president of Eizai Co., Ltd., 'No creature is so sensitive as humans about how they are regarded by others. The essence of management is to guarantee impartial personnel rating (to deplore inequality is insufficient) as well as to keep enthusiasm excited.'

Generally in personnel rating systems adopted by firms today, one is evaluated by one's immediate boss and a manager above the boss, as well as by the personnel department. If one is a general employee, he is evaluated by his section manager, the department manager, and the personnel department. It is because the immediate boss knows

22) *Ibid.* (5) Vol. 30, No. 5

23) *Ibid.* (9) Vol. 31, No. 6

24) *Ibid.* (3) Vol. 30, No. 3

25) *Ibid.* (7) Vol. 31, No. 2

the person best, and that the personnel department can adjust imbalances of evaluation existing between different sections. In pursuit of continuity and adjustment of imbalances, however, staff of personnel department are seldom rotated, making the evaluation criteria tend to be rigid. Typically, while members of other departments are rotated every three to four years, those of personnel department get rotated once in five to ten years. This situation causes a firm to fail in adjusting itself to environmental changes effectively despite the president's outcry for activation of organization or various organizational reforms. In such a case, people in the personnel department lose sight of what those in the sales department, for instance, are actually doing and fall into a trap of judging them in light of their old values and experiences or in light of the rigid common sense in the company.

More and more companies are attempting vigorously to reactivate their organizations through a thorough review of their rigid personnel management system. Koichi Mizuguchi²⁶⁾, president of NRI & NCC Co., Ltd., intends to assign best people to the personnel department and rotate them every two to three years. The Nomura Securities Co., Ltd., too, has started recently to rotate their personnel department staff once in three years. These companies plan to make intervals of rotation of personnel department staff shorter to keep the department from becoming rigid and to facilitate its coping with the new situation flexibly. Kaoru Hirota²⁷⁾, president of Sekisui Chemical, says, 'I have assigned a person with an experience of managing our worst affiliated company to the post of personnel department manager. He understands subtleties of human nature. I keep telling him to be impartial from every perspective in doing his work.' Osamu Hashiguchi²⁸⁾, president of The Hiroshima Bank Ltd., intentionally appoints people with unique, not 'personnel department-like' backgrounds to the department with the aim of activating organization. He says, 'Staff of personnel department used to remain unchanged for five to ten years. Now they are rotated more frequently. Those who have no experience in personnel administration are positively assigned, although it met a great deal of resistance in the beginning. I have assigned a person without any personnel administration background to the post of personnel manager, and a person who has been managing various branches throughout his career to the deputy personnel manager and personnel consultation office manager.'

An attempt is being made to change the way of thinking of the personnel department by means of changing thinking and awareness of people. Haruo Takeda²⁹⁾, president of The Tokyo Marine and Fire Insurance Co., Ltd., says, 'Our company used to have an atmosphere that marketing for corporate customers is given a greater priority than marketing in regional communities. Things are totally changed now. We concentrate talent in regional marketing sections in order to cause a revolution in thinking.' In this way the company changed the value system which prevailed in the company. Osamu Hashiguchi³⁰⁾, president of The Hiroshima Bank Ltd., explains in what way the specific

26) *Ibid.* (9) Vol. 31, No. 6

27) *Ibid.* (6) Vol. 30, No. 6

28) *Ibid.* (9) Vol. 31, No. 6

29) *Ibid.* (4) Vol. 30, No. 4

evaluation criteria was changed along with prevailing value system in the company: 'Basically, our branch managers are treated well. The highest category for paying bonus is rank A, which is applicable only to branch managers, while that for the personnel in the head office is A' (lower than A). Whereas the system has been inappropriate; rank A has been applied lavishly to managers in the head office, and almost without exception to personnel department manager. That is strange.' As a result of the change, the bank's organization is activated, and its business is enjoying a rapid growth.

2-5 Switch to Ability-Based System and Current Condition of Treatment

Generally in Japanese companies, personnel rating of higher positions, such as directors and department managers, is based on ability, while that of lower positions is based more on seniority. It is due to the fact that the higher one goes up the corporate ladder, the greater the importance of his decision-making ability becomes. Recently, however, there is an increasing trend of introducing ability-based system for lower positions. In order to implement the ability-based system in a fair manner, elaborate evaluation criteria are prepared separately for different duties and positions. Some companies have even started making their criteria known to their workforce. It is to prevent suspicion from begetting fear, demoralizing the people. Despite the existence of such evaluation criteria and differentiated evaluation, however, in reality, it is not well reflected in payment. Such a system is at best used in calculating bonuses; it is seldom used in determining promotions and pay raises.

Tetsuro Kawakami³¹⁾, president of Sumitomo Electric Industries Ltd., attaches importance to seniority-based system. He says, 'If we divide payment system into ability-based and seniority-based ones, our company has the latter, geared to lifetime employment system. Considering the balance in the entire company, we cannot easily change personnel rating system nor seniority system. University graduates are promoted steadily up to section manager's level, then, there is a screening for further promotion. Our bonus system is composed of bands arranged in the order of seniority. A member of middle management who belongs to a certain band can never encroach upon the band above his own.' Terumichi Tsuchida³²⁾, president of The Meiji Mutual Life Insurance Company, explains how his company is moving into ability-based system: 'Our company had a seniority-based system when I was young. Even then, companies which were rapidly developing had a system of 'rewarding merits and punishing demerits.' Our company started shifting to a merit-based system several years ago. Now our employees are evaluated according to their ability and performance. The shift has taken place in several stages, at each of which the personnel management system was changed.' Yukio Kasahara³³⁾ president of Nippon Mining Co., Ltd., says, 'Until about fifteen years ago, our employees were promoted almost equally up to section managers according to their years of joining

30) *Ibid.* (9) Vol. 31, No. 6

31) *Ibid.* (10) Vol. 32, No. 2

32) *Ibid.* (6) Vol. 30, No. 6

33) *Ibid.* (7) Vol. 31, No. 2

the company. At most, there was a difference of a year or two at the department manager's level. Whereas now, there is a difference of a year or two at the section manager's level, and that of four to five years at the level of department managers. Making too much difference may bring about an adverse effect when performance is not very good. It may make some unlucky people.' Yohei Mimura³⁴⁾, president of Mitsubishi Corporation, explains, 'In our company, seniority-based system is generally applied to those below division manager level. Ability-based system is applicable to those who assume or about to assume division manager's position. For directors, a fully ability-based system is adopted.' The above-mentioned cases indicate that in Japan, seniority-based evaluation system still persists for lower positions, and that an increasing trend is observed that the higher the position is, the more apparent the shift toward ability-based system becomes.

Hiroshi Hidaka³⁵⁾, president of Takashimaya Co., Ltd., is determined to shift weight toward ability-based system into future. He expresses his thought: 'I think from now on we must make seniority-based and ability-based systems have a fifty-fifty ratio. We shall not, though, apply seniority system to those who are not competent.' Yoichi Tsuchiya³⁶⁾, president of Sanyo Securities Co., Ltd., advocates a perfect ability-based system. He mentions, 'In our company, everybody is paid according to his ability and performance. A section manager may get twice as much as another section manager does. In the case of department managers, the difference is three times.' Companies with long histories, not to mention young ones, are steadily changing the shift to ability-based systems in order to promote organizational activation.

In order to make this shift smoothly, many companies started to prepare different evaluation criteria for different jobs. Tadahiro Sekimoto³⁷⁾, president of NEC Corporation, explains, 'In order to put the right man in the right place, we have established a new mechanism which uses self-reporting system, as well as observation and development table. This helps us evaluate every employee on a continuous basis. To draw out ingenuity and originality as well as to evaluate them is the point of personnel rating, but how to do it varies depending on the type of job. We evaluate our research engineers by originality, while we evaluate sales personnel by their sense and actions to understand and satisfy the needs of our customers.' Yutaka Kume³⁸⁾, president of Nissan Motor Co., Ltd., mentions, 'Our employees are evaluated based on their outputs. We limit the number of personnel rating criteria in order to keep our organization flexible. Organizations tend to become rigid if there are many items of criteria. And evaluation should vary according to sections, for example, between R & D and production sections.' Thus, the company tries to increase satisfaction of employees toward personnel rating by arranging separate evaluation criteria for different sections and jobs.

34) *Ibid.* (3) Vol. 30, No. 3

35) *Ibid.* (9) Vol. 31, No. 6

36) *Ibid.* (3) Vol. 30, No. 3

37) *Ibid.* (6) Vol. 30, No. 6

38) *Ibid.* (4) Vol. 30, No. 4

It is, of course, natural that items of evaluation differ according to positions. For example, the most important item for evaluating department managers must be 'insight and foresight', which is followed by 'planning ability and creativity'. In contrast, 'planning ability and creativity' is given the highest priority in evaluating section managers, to be followed by 'technical knowledge and skill'.³⁹⁾

Although different evaluation criteria are arranged for different duties, they do not seem to make much difference in actual treatment, due to strong consciousness for equality and lifetime employment concept still predominant in Japan. The case of Sanyo Securities Co., Ltd. is rather exceptional. Sadakane Doi⁴⁰⁾, president of Daiwa Securities Co., Ltd., which belongs to the same securities business as Sanyo, says, 'In our company, those who are engaged in dealings and those who are doing other work are paid according to the same scale. Basically, we do not adopt job-based nor ability-based payment scheme. A dealer who makes several hundreds of millions of yen may at best get a little higher appraisal in calculating his bonus.' Yasushi Komatsu⁴¹⁾, president of The Sumitomo Bank Ltd., also stresses that people of different branches are treated equally, saying, 'In our bank, the same payment scale is applicable to branches which are thriving and those which are not.' Takuma Yamamoto⁴²⁾, president of Fujitsu Limited, states, 'We treat engineers who produce sophisticated software and other employees equally. It is because software is a product not of individuals but of group work. It is true, however, that complaints about the system have begun to be heard from female engineers who are smart in doing work.' It is about time some female employees with rational thinking started to feel discontent with the system of 'equal treatment.'

Thus, Japanese companies are changing items and criteria of their personnel rating schemes carefully in line with the shift from seniority-based to ability-based system. Nevertheless, they are yet to reflect the results of evaluation directly on the treatment, due mainly to the strong equality consciousness of the people.

As described above, a company which is developing steadily with its main products adapted well to changes in industrial structure takes three stages of organizational activation. At the first stage, the organizational structure is reformed to cope with environmental changes. At this stage, organization is made rather flat through introduction of SBU or through decentralization, in order to enhance vertical communication, to expose many people to the outside atmosphere, to hold them responsible for decision making, and to boost up their challenging spirit. This is a stage of activating organization *indirectly* by changing the framework. At the second stage, the top management positively pursues merit-marking system, or 'philosophy of praise', as opposed to demerit-marking system. The top management also plays a role in education and training of the middle managers, who otherwise may become a bottleneck in the organization, assisting their free concep-

39) Shimizu, Ryūei; *The Japanese Business Success Factors*, pp.176 ~ 180, CHIKURA SHOBO, Tokyo, 1989.

40) Shimizu, Ryūei; Interview Survey . . . <MITA SHOGAKU KENKYU> (7) Vol. 31, No. 2

41) *Ibid.* (5) Vol. 30, No. 5

42) *Ibid.* (5) Vol. 30, No. 5

tion of ideas and causing their awareness reformation. This is a stage at which thinking of the mainstay people is changed besides the framework. The third stage is a stage where even the personnel rating system — on which organizational operation is based — is changed, in addition to the top management's advocacy of 'philosophy of praise.' Reformation of the personnel rating system is a last resort for activating organization. But in view of the nature of the Japanese people that they care about how they are evaluated by others, as well as their respect for continuity, it is not an easy task to change their personnel rating system in conjunction with environmental changes. Therefore, it requires strong leadership of the top management. Aggressive leadership and support of the top management is particularly necessary in the stages two and three. Organizational reform by spontaneous activity of middle managers, such as one called 'product champion', is yet to become a reality in Japan.

3 Revolution of Thinking of Employees

If a company faces a stagnant growth, due to the lack of adequate management capability of some sort despite the fact that the main products are well adjusted to changes in industrial structure, the company can be vitalized by the top management's arousing a sense of crisis in the entire organization, as well as its clarifying the business philosophy and business goals. The top management should also visit worksites to contact employees directly to cause revolution in their thinking.

3-1 Sense of Crisis

To activate organization of a stagnant company requires to let its employees harbor a sense of crisis, but in order to do so, it is exigent that the top management itself have the sense of crisis. Having no sense of crisis may lead one to have no spirit to challenge new things. Conversely, having too strong a sense of crisis tends to have one grow timid and be dispirited. State-owned companies are inefficient anywhere because people working for them are free from the fear of bankruptcy and therefore, have little sense of crisis. One of the major factors making capitalist economy efficient is free competition. While Singapore Airlines is a state-owned company, it is managed very efficiently, producing gross profit which accounts for 4.1% of GDP in Singapore. Choong Kong Cheong⁴³⁾, the president, emphasizes that even a monopolistic state-owned company may increase its efficiency if it introduces free competition. He says, 'The key to success is our attitude toward competition. We compete freely with airline companies of the world. We allow any airline company to fly into Singapore, as far as reciprocal flying-in arrangement is agreed upon.' Where there is a competition, there is always a sense of crisis of a collapse. It is this sense that enhances people's morale, lets them display creativity and increases productivity. Too strong a sense of crisis, however, unnerves the people and strips them of their challenging spirit, leaving little hope for displaying creativity. In case a company is in financial difficulties and its employees have a very strong sense of crisis of bankruptcy,

43) *Ibid.* (10) Vol. 32, No. 2

as found in some cases of today's 'loan sharks', the management must calm down the sense of crisis rather than excite it.

In general, employees below middle management level tend to have little sense of crisis, who hope that they can somehow get out of their difficulty, even if their firm is in a critical condition. It is partially due to the fact that they are not exposed enough to external atmosphere. But it is more attributed to the fact that they intentionally keep themselves away from the reality. This is especially the case with companies having strong labor unions, including former Japanese National Railways. The management with sufficient exposure to the outside world should have a sense of crisis. Nobuyuki Nakahara⁴⁴⁾, president of Toa Nenryo Kogyo K.K., stresses the importance of the president's tackling reformation with a sense of crisis so that employees in the company may develop a sense of crisis. He says, 'In a company whose top management does not have a sense of crisis, middle managers and people below do not have one, or rather, cannot have one.'

The top management of today's companies must have a sense of crisis as to whether their firms will be able to maintain their positions and develop further in the face of uncertainties of the future. This sense and the insight into future are two sides of the same coin. The present industrial structure in Japan is undergoing a significant change, which is the second of its kind since Meiji Restoration. Highly sensitive sensors, super computers, optical fibers, optical disks, artificial satellites, etc. are causing information revolution in every field of industry. Companies failing to catch up with the revolution are fated to fall behind. In addition, strong yen and assets effect have drawn consumers' spending behavior to more personalized, more diversified and more sophisticated products, so much so that mass-production mass-marketing methods which have been valid are no longer so. In addition, the trend among young employees who constantly pursue something interesting rather than being patient with uninteresting work makes it difficult for their employers to maintain the style of personnel management which has so far been appropriate. Besides, skyrocketing land prices, which shattered the dream of owning one's own houses even after working for his whole life, have weakened his loyalty toward his company. In this sense, the Japanese style of management is now in jeopardy. Moreover, the Japanese automobile, household electric products, and semiconductor industries have become the world's leaders and have no longer models to follow as they had in the earlier days. And there are increasing uncertainties including that of return on investment in R & D, making efficiency of investment remarkably lower. In the meantime, industries in Korea, Taiwan and other NIES countries are coming after Japanese industries closely, benefited by limited uncertainties and higher efficiency of investment as they are given a model to follow. The speed of their overtaking is faster than that with which Japan tries to hold them off. Apparently the competition among Japanese companies is intensifying. A competent manager should have sharpened insight and keener sense of crisis with which to survive this age of uncertainty and changes.

A sense of crisis a president has may concern the lack of his own ability in coping with changing situation, or else it may be the one born out of his desire to take the lead

44) *Ibid.* (3) Vol. 30, No. 3

in the industry. Anyway, it is the sense of crisis that becomes the source of energy for a first runner. Ho Show Chung⁴⁵⁾, president of Yuen Foong Yu Paper Mfg. Co., Ltd., the largest papermaking company in Taiwan, emphasizes the danger of having the sense of security which encroaches energy for self-reformation and challenging spirit. He mentions, 'Being in a state of stability itself becomes an impeding factor for the growth of a company. It is especially true for a company rich in fund. Our company has never been in the red during the past over sixty years. This is a severe trial for us.'

As clear from the above, the sense of crisis which seeks constant self-reformation and insight into changing age and technologies are two sides of the same coin.

3-2 Clarification of Business Philosophy and Business Goal

Business philosophy consists of philosophy of the president and the history of the company. It is clarified when the sense of crisis is aroused in the president. Business goal is a concrete guidepost showing the way from the present to the future to be followed by the company. The top management trying to reactivate his company should not only incite a sense of crisis in the employees but indicate a new direction with clearly defined business philosophy and business goal. Hideo Mori⁴⁶⁾, president of Sumitomo Chemical Co., Ltd., indicates the managerial direction that the corporate activity would keep within the framework of manufacturing, not resorting to speculative investments and operations, based on his business philosophy of 'Creation of Values' derived from the precepts of the Sumitomo family, i.e. 'Never act thoughtlessly blinded by immediate profits.' And keeping in mind that creation of differentiated values is crucial in a manufacturing industry, he unfolds his business goal — 'High-tech oriented company with high earning rate'

In order for business philosophy and business goal to orient the employees to work in the same direction, they must be clearcut and have to be able to arouse sympathy within the employees. They have to be simple and clear so that they are understandable by the employees. Osamu Hashiguchi⁴⁷⁾, president of The Hiroshima Bank Ltd., indicates the new direction the bank is to move by a very simple business goal, i. e. 'Tomorrow's Bank, Today,' while Minoru Onishi⁴⁸⁾, president of Fuji Photo Film Co., Ltd., in promoting New Fuji Film Movement, puts up a simple business philosophy, 'I & I' (Imaging and Information) at the beginning of the fifty-first year of operation designated as the beginning of the Second Foundation Period. Ryuzaburo Kaku⁴⁹⁾, president of CANON Inc., is promoting globalization, declaring lofty but clear business philosophy — 'Coexistence of Human Race' and indicating concrete business goal — division of work between Japan, where high-tech system and software products are produced and other countries where products suitable for mass-production are produced.

Business philosophy and goal must win the sympathy of the constituents of the

45) *Ibid.* (9) Vol. 31, No. 6

46) *Ibid.* (5) Vol. 30, No. 5

47) *Ibid.* (9) Vol. 31, No. 6

48) *Ibid.* (5) Vol. 30, No. 5

49) *Ibid.* (5) Vol. 30, No. 5

organization, especially of the young people, so that they may vitalize the organization. Novel ideas of young people rejuvenate the organization. In general, the youth of today become enthusiastic about work which is both interesting and contributive to the development of their own abilities. It is all the more desirable if it is profitable, for they can use the money for doing more interesting things. In addition, new generation employees, having survived university entrance exam war, are keenly aware of misery they must feel should they lack in ability. They are not willing to accept work which is interesting but not leading to their ability development or ability improvement. A major reason why it is difficult for a restaurant business to retain employees, despite impressive business philosophy and a system to promote competent people to shop managers in a limited period of time, is that they know that they cannot develop their capabilities even if they continue working there.

In order for business philosophy and goal to motivate people, deep insight, strong belief, profound philosophy and noble character of the top management must be incorporated into them, and a clear vision about the uncertain future be indicated in them. Top management works out future plans visualizing about what his company would be like in ten or twenty years. It should be that they, observing at the top of the company, have more accurate insight into changes in environments both inside and outside of the company than general employees. Generally, founder-presidents construct their logic with which to foresee the future based on their past experience, while the second-generation or company-bred presidents, or former government-official-turned-presidents ('amakudari') establish their logic based on their knowledge of theory and history they learned in their universities. Foresight into future alone, however, is not enough to obtain everybody's consensus, nor is it enough to let everybody have challenging spirit.

It requires strong belief of the manager to lead his firm into a new direction by his business philosophy and target. It requires the firmness of the manager's will to move people's heart. Even if he has a strong belief, if the manager has superficial philosophy made up of stereotype virtues, he cannot move the employees' hearts. In addition, even if the manager has the nature of a demagogue, he cannot lead people unless he has a noble character. Noble character is judged by one's not doing something than by doing something. A manager who causes scandalous events, like those of women or money, cannot lead people, because people would feel deceived by his business philosophy or goal.

Business philosophy and business goal which are based on manager's high intelligence, logic and foresight usually have a focused vision of the future. In 1960's when the information age replaced the industrial age, Koji Kobayashi, the then president of NEC Corporation, was quick to declare his business philosophy of C & C (Computer and Communication), and changed the company's direction drastically along the line. At the present moment, the president Tadahiro Sekimoto⁵⁰⁾, has a new philosophy, C & C with IC, aiming at the creation of artificial servant of information age. Here, a 'C' being 'communication', corresponds to nerves, while the other 'C', 'computer', corresponds to brain, and IC, to cells. President Sekimoto, with the discernment that in near

50) *Ibid.* (6) Vol. 30, No. 6

future when the age of software arrives, 'those who control software control the world', is leading his firm into a new direction with a special stress in the development of software personnel. Yutaka Kume⁵¹⁾, president of Nissan Motor Co., Ltd., sees into the future that 'while automobile industry has reached its maturity stage in terms of its quantities, the demand will infinitely increase if the industry offers a new *car life* to consumers who are seeking convenience and pleasure of the new life-style.' He leads the employees with his business philosophy of 'Carlife Industry'. No longer does the firm emphasize 'Nissan of Technology'. Thanks to the current assets effect, Cima, Nissan's luxury car, is much in demand by consumers seeking new car life. The sense of crisis felt by the president has refined his intelligence, logic and insight, which are crystallized into his business philosophy and goal, which in their turn, show the direction the entire company should head for.

3-3 Presidents' Visits to Actual Worksite

The top management, after clarifying the direction the company should move into by means of defined business philosophy and business goal, must then infiltrate philosophy and ideas underlying the business philosophy and goal to his employees through visits to actual worksites (management by wandering). Visits to actual worksites is a means of informal communication between the president and the employees. In general, people retain illogical memory better than logical memory. Free, informal, illogical information conveyed through face-to-face talks with feelings is more easily put across to the other party than fixed, formal, logical information. Founder-presidents who have developed small enterprises into larger ones through frank discussions with their employees are usually good at communicating by visits to worksites. Amakudari, company-bred, and second-generation presidents tend to be poor in this technique. Chang Yung-Fa⁵²⁾, president of Ever Green Group of Taiwan, who built up the world's largest container shipping company in his lifetime, visits worksites with an open mind to understand the field workers' feelings, and discerns the movement of the world using the information obtained during the visits. He says, 'Managers of Japanese companies make rounds to banks everyday. I make daily rounds to workplaces.' Kozo Hamaguchi⁵³⁾, president of Tokyo Broadcasting System, Inc., while putting up high business philosophy i. e. improvement of audience type (not audience rating), stresses visits to jobsite. As a result, the business of the company is improving. He says, 'Whenever I have time, I go to worksites. I don't bring up work as the subject. I talk to them about women and liquor. All the same, our talk naturally develops into work. I see the company becoming more lively and doing better.'

In order for a top manager to communicate his feelings to his employees, he must, first of all, bear with the employees' naiveness, next, bear with his own naiveness, then become a naive person himself. The employees feel that their president is a great man

51) *Ibid.* (4) Vol. 30, No. 4

52) *Ibid.* (9) Vol. 31, No. 6

53) *Ibid.* (8) Vol. 31, No. 4

worlds removed from them. They feel that their feelings and the president's feelings are of entirely different nature. Therefore, the president has to convince them that he is like anyone else. A president is exposed to a tremendous amount of information, much more than what the general employees are, and his responsibility toward the company, as well as his mental attitude, is greatly different from theirs. Even if he has worked his way up from an employee to the president's position, he is likely to have forgotten the past. What the employees say mostly surprise him. He may think the remarks of young employees to be absurd. This is what has to be avoided. The manager needs to ask himself humbly if he himself is not wrong. Next, he should not be showy in his informal talks with the employees. He must talk from the bottom of his heart, and he should be able to stand his own naiveness. He must eventually learn how to forget his own naiveness, that is, he must be able to naturally express his true self without forcing himself to.

It is through this effort that the employees start talking freely to him, feeling that the president 'belongs to the same world as they do'. It is in such talks with employees that the president can find something which lie hidden in the depth of their hearts and changes that are occurring in them. He can grasp the general tendency of the society, as well as problems existing in his company. Movement of the hearts and thinking of the employees are more accurately obtainable through visits to worksites than through such semi-formal arrangements as suggestion system or small group activities.

3-4 Reforming and Revolutionizing Employees' Thinking

To revolutionize thinking of employees means to let them have new set of values and ways of thinking greatly different from those they currently have. The aforementioned measures of organizational vitalization to be employed by presidents — to have a sense of crisis, to clarify business philosophy and business goal, and visits to worksites — aim at working on the hearts of the employees directly and revolutionizing their thinking. When the employees' thinking is revolutionized, they start looking at changes in the conditions both internal and external to their company with a new point of view. They start feeling a new sense of crisis and understanding the significance of their new business goal. They would give fresh opinions to their president during his calls at their worksite, promoting their thinking revolution furthermore. This is the first step of a partial good cycle. These measures for thinking revolution are old tricks that are applicable to every company whose growth is in stagnation. These measures, however, do not always give effect as expected. It is very difficult to motivate young people who are spoiled in the affluent society to work along the line of the corporate policy. It seems necessary to rectify their self-centered way of thinking. Shunichiro Kodama⁵⁴, president of Kureha Chemical Industry Co., Ltd., places importance on mental framework before revolutionizing thinking. He says, 'Thinking revolution is to motivate people. But before that, I tell our employees to have firm, generous and warm heart. Priest Kenko once said that a man who is not suitable as a friend is one who does not know illness. To develop firm, generous and warm heart is the first step of structural improvement of hearts.' Selfish,

54) *Ibid.* (10) Vol. 32, No. 2

self-centered way of thinking may be growing in the present Japanese companies to the extent of a president having to say the above. Companies having to overcome imminent crisis may have to use whatever measures available now other than the above-stated common steps.

In order to cause revolution in thinking of employees, the management applies whichever measures that are easy to implement and can win the consent of the employees. Osamu Shoda⁵⁵⁾, president of Nisshin Flour Milling Co., Ltd., stresses the importance of starting solving an *existing* problem. He says, 'To revolutionize thinking is not easy. We must do something and show it to our employees. Generally, we know the problems about today, if not about the future. We know also the methodology. It is important that we start with this.' When Sunao Nakagawa⁵⁶⁾, president of Television Tokyo Channel 12 Ltd. was entrusted with the management of the TV foundation which was facing a crisis that threatened its survival, did everything available to him. He explains, 'Then, the foundation was doing a dilettantish business. No one identified oneself with the company. So I launched a thinking revolution. First, in order to strengthen our marketing capability, I invited the president and directors of Taisho Pharmaceutical Co. to a famous restaurant in Tokyo and asked the company to become our major sponsor. This boosted up the morale of our marketing personnel. Other things I did include having marketing people go to Kawasaki Daishi Shrine to receive purification ceremony, buy a rake (a symbol of good business), and put up the Japanese national flag and the flag of TV channel 12 in the entrance hall of the company. I did virtually everything to change people's attitude, including what appeared to be rather illogical.' Mitsuo Yamaguchi⁵⁷⁾, president of Graphtec Corporation, assumed the office of president of the company on the brink of bankruptcy at the request of the previous president. He tells his story, 'The condition of the company astonished me. It had a borrowing of 800 million yen as opposed to one billion 500 million yen of sales turnover. When the labor union made a request of the year-end bonus, all that belonged to the company was 500 to 600 thousand yen. So, what I did was to borrow three million yen from the union and paid employees' bonus with it. This unheard-of measure taught the employees something. It had the effect of implanting in their hearts that they must save their workplace. This was the beginning of our thinking revolution.' When a company is in a critical condition, thinking of its employees must be revolutionized by resorting to whatever means available.

Another useful means to cause thinking revolution is to advocate speedup of work. Kozo Hamaguchi⁵⁸⁾, president of Tokyo Broadcasting System Inc., states, 'I told the employees to step up the speed of work as soon as I became the president. It used to take a month to formulate a plan for a TV program, because of bureaucratic way of making decisions involving twenty to thirty seals. I had them reform this process to handle papers at a faster speed. The result is that the worksite has become very lively.' Sadakane

55) *Ibid.* (6) Vol. 30, No. 6

56) *Ibid.* (8) Vol. 31, No. 4

57) *Ibid.* (6) Vol. 30, No. 6

58) *Ibid.* (8) Vol. 31, No. 4

Doi⁵⁹⁾, president of Daiwa Securities Co., Ltd., mentions, 'I made it a rule to act promptly in any endeavor. I have developed our overseas strategies ahead of other companies. During a seven and a half year period after I had become the president, we started operations in one country after another, including Australia, Canada, Bahrain, Korea, China and Belgium. The positive attitude of management has been conducive to activating our company, giving our employees various dreams.' Speedup of work is very effective in activating companies.

To pull down walls seems to be another effective means. Haruo Kobayashi⁶⁰⁾, president of The Hachijuni Bank, Ltd., says, 'The door between directors' desks and the president's office is usually kept open, so that the directors and the president can come and talk to each other at any time. Both myself and the directors have the habit of exchanging what we have heard or seen within the day. Management is creation.' Yoshio Maruta⁶¹⁾, president of Kao Corporation, emphasizes the effect of 'large office system'. Concerning the firm's research laboratory he says, 'We have one large room where researches on molecular membrane are conducted in one corner, while in another, researches on magnetic powder are carried out, so that the researchers can see each other and get the feel of the other researches.' He thus emphasizes that large office system, in which employees can communicate with each other freely without having walls between them, is essential in this age of information. It helps in arranging information and enhancing accuracy of information.

There are various other measures to change thinking of employees and vitalizing the organization. In any case, a strong will of the president to push measures forward is a must. Without it, no measure works effectively.

As described above, in a company whose growth is stagnant for some reason although its major products are fitted to the changes of industrial structure, indirect ways of activating the organization mentioned in the previous section — flat organization, partial good cycle of new product development \Leftrightarrow capability development, 'philosophy of praise', and reformation of personnel management system — are not applicable. In such a case, the president must lead the employees with a keen sense of crisis, must make the sense infiltrated throughout the organization, while at the same time, stating a lofty business philosophy and business goal. He must also get into the hearts of the employees by visiting them at their worksites so that he may revolutionize the awareness of the employees. Strong vitality of the president to put anything into action, such as speeding up work, removing walls, establishing a large-room system is crucial. Changing the framework alone, such as establishing flat organization for enhancing communication and delegating decision-making, is not sufficient. The president has to go deep into the hearts of the employees and start changing their awareness, and cause a good cycle of: sense of crisis \rightarrow business philosophy and business goal \rightarrow visits to worksites \rightarrow revolution in thinking \rightarrow sense of crisis \rightarrow Reformation of personnel rating system

59) *Ibid.* (7) Vol. 31, No. 2

60) *Ibid.* (7) Vol. 31, No. 2

61) *Ibid.* (1) Vol. 26, No. 6

mentioned earlier may help in keeping the good cycle going over a long time.

4 Education and Training for Business Conversion

In the case where a firm's growth is stagnant because its major products are not adapted well to the structural changes in the industry, long-term business conversion or restructuring must be considered. A firm in such a condition needs to extend the life of the products, make maximum profit possible out of them while they are demanded, and invest the profit on new business development and diversification. At the same time, it must conduct education and training of specialists, positively carry out mid-career recruitment and separate some divisions to form subsidiaries as a way to restructuring the firm. Through these measures, the firm may induce reciprocal, partial good cycle between development of personnel's capabilities and confidence building, which in turn may activate the organization.

4-1 Education and Training of Specialists

Today big businesses in Japan face shortage of competent human resources despite a general surplus of personnel. Ongoing rapid development in the information revolution is bringing about drastic changes in the content and mechanism of businesses, which are producing shortage of people who can handle the new situation. There are too many people but too few talents. Shortage of capable people is a problem commonly faced by all the companies in the world. With an aim to invite companies from all over the world to be located there, the Economic Development Board of Singapore⁶²⁾ has established and is operating educational institutions from graduate school level to special vocational school level, besides enriching infrastructure including port and harbor facilities and telecommunication systems. These institutions aim at developing talented people who can manage new information media. Tokyo Electric Power Co., Inc. has been growing together with the Japanese economic development. Judging from the nature of its business, further growth of the firm is promised unless drastic technological changes take place. Despite this prospect, there is an increasing concern about their way of education and training. Wataru Mizuno⁶³⁾, vice president of the company, says, 'The newly emerging cogeneration system, which provides heat and electricity at the same time, is now being introduced into hotels and other facilities which consume large amounts of heat. To address this new situation, capability development of our employees is essential. Currently, university graduates account for 8% of the total workforce with the remaining 92% high school or lower educational backgrounds. We would like to increase the rate of university graduates to 20% in ten years. The company has a high school, which has been turning out stereotyped employees. I would like to give it more varieties from now on.' He explains that the firm, which has been well adapted to the environmental changes, is now putting a great deal of effort into education and training, in the light of further developments

62) *Ibid.* (10), Vol. 32, No. 2

63) *Ibid.* (3) Vol. 30, No. 3

in the external conditions.

The general trend of in-house education and training designed by Japanese companies is that there is a shift from the development of multi-skilled labor required to overcome short-term demand fluctuations to that of specialists and experts who have a genuine and creative ability to address changes in the industrial structure.

Because of the life-time employment principle adopted by the Japanese firms, they cannot easily discharge their surplus employees even when their major products have become unfit to environmental changes. It is, therefore, essential that they retain their workforce and retrain them to acquire new skills for new technologies and jobs. Seiko is known to have succeeded in adjusting itself in a change from mechanical watches to electronic ones by retraining its many mechanical technicians into electric technicians. Such training of symptomatic therapeutical nature, however, is not valued by many firms. More firms are now endeavoring to develop specialists and experts needed to overcome structural changes. Yasushi Komatsu⁶⁴⁾, president of The Sumitomo Bank Ltd., lays stress on the importance of specialists: 'I intend to develop newly graduated people into experts as much as possible. Generalists can never become specialists nor can they manage specialists. By contrast, specialists can become generalists.' Haruo Takeda⁶⁵⁾, president of The Tokyo Marine and Fire Insurance Co., Ltd., puts emphasis on developing experts who have specialized knowledge in their respective fields but have ability to view things from multiple angles and to look at themselves objectively. He states, 'It is of critical importance that we foster experts rich in knowledge and experience. But they should not have a narrow outlook on their work. They should be able to learn new ways of looking at things from other worksites. In order to nurture an objective way of looking at a work of a department of the head office, for example, it is necessary to move out of the head office, to go to a branch office and get back to the head office. Then, you can have a view of the work with eyes of a contracting partner or a sufferer of inconveniences.'

Tadahiro Sekimoto⁶⁶⁾, president of NEC corporation, states, 'Now automated factory for producing small-amount multi-kind products is needed because of the current trend of diversification and post-standardization, which requires retraining of our employees to develop software skills. The proposition that 'those who control software will control the world' will be a reality in near future. Fostering software personnel presents one of the most impending problems we are now faced with.' When the demand for semiconductors declined, Katsushige Mita⁶⁷⁾, president of Hitachi, Ltd., 'moved the staff of the semiconductor sections to computer sections, in particular, to software sections. Software, like languages, is hard for the older employees to learn, and therefore, is taught mainly to young ones.' The above two presidents emphasize the importance of developing software personnel, among all the specialists. Takuma Yamamoto⁶⁸⁾, president of

64) *Ibid.* (5) Vol. 30, No. 5

65) *Ibid.* (4) Vol. 30, No. 4

66) *Ibid.* (6) Vol. 30, No. 6

67) *Ibid.* (4) Vol. 30, No. 4

68) *Ibid.* (5) Vol. 30, No. 5

Fujitsu Limited, lays emphasis on software education linked with education of other sciences and technology. He states, 'Unless software education is conducted during high school or university education, it is too late. Our company is now developing various software products. They include one that detects in advance a decline in the melting efficiency of a blast furnace as a result of falling of a mass of iron ore, coke and limestone. Another software product separates out molecules with molecular structure not fitted to a certain purpose. Engineers who produce these products must study computer software, along with iron melting technology and molecular design technology in university chemical courses.

As explained above, many firms are facing now shortage of talented people, and a special importance is attached to specialist education, and that development of specialists who can look at themselves from objective and multiple viewpoints, rather than those who know only about their specialities. Above all, development of software experts is being strongly sought.

4-2 Vitalization of Organization through Various Capability Development

Capability development of each member of a company is conducive to vitalization of the organization. Let's suppose that a drastic change in the environment is taking place which nullifies a certain knowledge or knowhow. If one having this knowledge or knowhow has hidden capabilities and confidence, he will convert his sense of crisis and tension into a positive drive to challenge something new. If he does not, he may ignore such a new development, or worse, object to those who try to positively tackle the situation on one pretext or another. So-called 'brilliant students' are good at putting forward theories which reject something difficult. Constant capability development of the top and middle management as well as rank and file will give them ability and confidence to take up any challenge for new businesses and will vitalize the entire organization.

A survey⁶⁹⁾ on human resource development schemes provided by Japanese companies for their employees indicates that the number of companies implementing eleven types of systems including the following is on a steady increase over the past ten years: training camp program; assistance for attending outside lectures/correspondence courses; study in universities in Japan or abroad or temporary transfer to other organizations; and paid leaves for education. To name the most popular human resource development programs implemented in 1988 by the companies surveyed: Assistance for attending outside lectures was conducted by an overwhelmingly large proportion of companies (91.0%), followed by training camp program (62.1%), management by objective through self-reporting (54.4%), and study in universities in Japan or abroad, or temporary transfer to other organizations (51.0%). Periodical seminars for college graduates and paid leaves for education are not very popular (less than 20%). The survey manifests that many companies are endeavoring to develop abilities of their employees by having them be exposed to the outside atmosphere. An outstanding increase in the number of implementing companies over ten years ago is observed in examination system for promotion (43.7%), which

69) MITI; Managerial Ability Indices (Manufacturing Section) 1988.

increased by 15 percentage points in this period. This clearly indicates that Japanese companies are shifting an emphasis to ability-based systems. In those companies which are positively conducting human resource development schemes, morale of the employees is apparently enhanced (see Table 2). Whether they are targeted at rank and file or the

Table 2. Relationship Between Human Resource Development Programs and Employees' Morale

		1977	1978	1979	1981
For Middle — Management	Passive (Number of carried out items, ≤ 3)	3.244	3.142	3.206	3.209
	Average (Number of carried out items, 4, 5, 6)	3.394	3.417	3.373	3.411
	Positive (Number of carried out items, ≥ 7)	<u>*3.607</u>	<u>*3.605</u>	<u>*3.597</u>	<u>*3.697</u>
For Rank and File	Passive (Number of carried out items, ≤ 3)	3.172	3.109	3.132	3.239
	Average (Number of carried out items, 4, 5, 6)	3.301	3.410	3.365	3.323
	Positive (Number of carried out items, ≥ 7)	<u>*3.650</u>	<u>*3.564</u>	<u>3.695</u>	<u>*3.605</u>

1982	1983	1984	1985	1986
3.193	3.159	2.996	3.094	3.144
3.390	3.274	3.291	3.387	3.355
<u>*3.609</u>	<u>*3.556</u>	<u>*3.516</u>	<u>*3.461</u>	<u>*3.598</u>
3.188	3.061	2.972	2.991	3.028
3.385	3.340	3.241	3.213	3.373
<u>*3.580</u>	<u>*3.500</u>	<u>*3.504</u>	<u>*3.550</u>	<u>*3.592</u>

Source: MITI, Managerial Ability Indices (Manufacturing Section) 1987.

Note: Eleven items of human resource development programs were presented, and according to the number of items implemented, answers were divided into passive, average, and positive. As regards employees' morale, the following question was asked. 'How do you rate the morale of your employees in comparison with other companies in the same industry? Please choose each applicable item for university graduate employees working in the head office and for junior/senior high school graduate employees working in factories/field. 1. Low 2. A little lower 3. About the same 4. A little higher 5. Very high.' Each response of the above question was quantified using SD method, then the addition of the values of university graduates and junior/senior high school graduates was divided by 2 to obtain a score. Underlined numbers indicate maximum values, and asterisk indicates statistically significant (5% standard) values.

middle managers, such human resource development programs give participants confidence and will with which to tackle environmental changes.

Mitsuo Yamaguchi⁷⁰⁾, president of Graphtec Corporation, tries to activate his firm's organization by giving each employee a dream of possibilities through human resource development. He explains, 'It is extremely difficult to educate and foster human resources. Of all the members of a company, 10% are good employees, another 10% are bad, and the remaining 80% are 'floating'. The point of in-house education is to increase the good employees. If we succeed in this, then the 'floating' people will turn for the better. Education is equal to management. Essence of education is to give employees dreams.' Kazuo Suzuki⁷¹⁾, president of Toppan Printing Co., Ltd., gives importance to arousing challenging spirit of the people and activating the organization through human resource development. He states, 'We have established the Human Resource and Work Development Center in order to retrain our employees positively. Currently, older employees are assigned to jobs by the management, but we expect that soon they will come to the management to ask for specific assignments themselves. We will maintain the Center how much cost it may involve.'

The above description of companies indicates that many Japanese firms strive to develop abilities of each member of their organizations with a long perspective, no matter how time-consuming and costly it may be, for the purpose of preparing the organizations for drastic environmental changes. They are endeavoring to cause a partial good cycle between human resource development and vitalization of organization. This is a most outstanding feature of Japanese companies operating on the principle of lifetime employment. This apparently is a less popular practice in foreign firms where job hopping is pervasive. It is to be noted, however, that Japanese companies, too, recruit people in their mid career in case business conversion is urgently needed and have not enough time for in-house education.

4-3 Adaptation to the Environment by Mid-Career Recruitment

Objectives of mid-career recruitment are to replenish talented people in rapidly developing or new business sectors and to activate the organization through 'new blood'. For medium-standing companies in the process of rapid development, mid-career recruitment has always been a common practice to supplement talented people, especially middle managers. This practice is increasingly getting popular among established, large firms as well. It is because companies have started to treat those recruited in their mid-career in the same way as those recruited fresh from universities on condition that they are under thirty years of age. And on the part of applicants, there is an increasing trend that they join blue-chip companies for the time being upon their graduation from universities, where they develop an eye for company quality through association with other companies such as their clients or suppliers, then choose companies they really want to work for. There are three basic strategies companies adopt in this age of rapid environmental changes:

70) Shimizu, Ryûei; Interview Survey <MITA SHOGAKU KENKYU> (6) Vol. 30, No. 6

71) *Ibid.* (7) Vol. 31, No. 2

1) to collect information; 2) to spot and recruit those who own the information; and 3) to acquire the entire organization which has those people through M & A. Apparently many Japanese companies have started to adopt the second measure.

Akihiko Otsuka⁷²⁾, president of Otsuka Pharmaceutical Co., Ltd., stresses the necessity for rapidly developing companies to recruit people in their mid career as follows: 'Our company has reached the third stage of organizational growth propounded by Larry E. Greiner, namely, the stage of growth by transfer of power. We cannot wait until people to whom we can transfer power are brought up in our company. We want to recruit people in their mid-career and educate them. We have a plan of recruiting a half of our workforce from among those fresh from schools and the other half from the labor market. For the purpose of promoting in-house education, we established last year Human Resource Development Laboratory.' Hisaya Nara⁷³⁾, vice president of The Mitsubishi Bank Ltd., is very prudent in mid-career recruitment, the bank being an established one. He says, 'We recruit people in their mid-career for international division and computer division. But we never entice them from their present companies. We usually recruit from among those who expect to come back to Japan after having worked for a long time in the World Bank. For computer division, we recruit those whom large computer manufacturers were compelled to dismiss due to recession. But we never employ those who hop from a company to another.' Another established bank, The Sumitomo Bank Ltd., does not recruit people in their mid-career as before. Yasushi Komatsu⁷⁴⁾, president of the bank says, 'We don't recruit people in their mid-career, although it is becoming popular among Japanese financial institutions. We want to develop new graduates into specialists.'

Cases of mid-career recruitment for the purpose of activating the organization, besides those for filling jobs in new business sections, are on the increase. Takeshi Ishikawa⁷⁵⁾, president of Taisho Marine and Fire Insurance Co., Ltd. expresses his wish for organizational activation through new blood, while being aware of a certain danger contained in it. He mentions, 'A majority of personnel of regional offices were recruited in their mid-career. Such employees now number a hundred and fifty. We recruit also such specialists as dealers in their mid-career, but they are usually transferred from our affiliated companies, Mitsui Bank or Mitsui Trust & Banking Co., so we know each other well. In future, we will have to recruit more openly from various sources. We want people who would blow in fresh air into our company, enriching our knowledge and activating the organization. We don't want people who get easily assimilated into our corporate culture.' Kazuo Suzuki⁷⁶⁾, president of Toppan Printing Co., Ltd., explains the situation of the whole company starting to accept organizational activation through mid-career recruitment: 'We want to go ahead positively with mid-career recruitment. There has been an atmosphere in the company to reject those employed in their mid-career. Whereas now,

72) *Ibid.* (7) Vol. 31, No. 2

73) *Ibid.* (5) Vol. 30, No. 5

74) *Ibid.* (5) Vol. 30, No. 5

75) *Ibid.* (7) Vol. 31, No. 2

76) *Ibid.* (7) Vol. 31, No. 2

people like to gather around them to learn something new from them.'

Thus, mid-career recruitment, which was once observed only among rapidly growing medium-standing companies, is becoming a common practice among big businesses advocating seniority order and lifetime employment systems. And the purpose of the practice has developed from filling vacancies in their newly established business sections into vitalizing the organization. This, together with the shift to ability-based system, will definitely become a factor to undermine the typical Japanese management style represented by seniority order-based system and lifetime employment principle.

4-4 Establishment of New Business Divisions

Since a new business division will decide the fate of the company, it must be led by the most competent person, no matter how small the section may be at the moment. The person must also have a good personality, so that he can obtain necessary support from other people. Here, the most competent person refers to one who has substantial specialized knowledge about the new business in terms of technologies and markets, and besides, ability or capacity to expand the knowledge furthermore. Person with good personality refers to one who can win the trust of his colleagues and subordinates within the new division, but also of the top management, and his ex-colleagues and subordinates, from whom he can obtain financial assistance and information. Regarding the criteria to choose such a person, Jiro Kawake⁷⁷⁾, president of Oji Paper Co., Ltd., says as follows: 'I keep two points in my mind when I choose people. One is the evaluation of the person in question by others, and the other is whether the person matches the image as required by the post. I choose a person who satisfies the both.' This definitely requires both good personality and capability of carrying out work. By placing a person with these qualities as the head of a new division, the possibility of the growth of the division will become greater, and the adaptability of the entire organization to environmental changes will grow.

While a new business field should serve as a major breakthrough for getting out of the main line of the business, there has been a tendency in large companies with tradition that they send out only second-rate people to their subsidiaries. It is due to their belief that the main line of business should be given the highest priority, and new business fields, the second. This notion is undergoing a significant change now. What follows are the comments of top management of various companies who invariably say that they must spare best people for new subsidiaries and business partners. Tooru Kitaoka⁷⁸⁾, president of Nihon Cement Co., Ltd.: 'So far, all the directors have been selected from our cement division. I keep telling people that, from now, a division which turns out the greatest profit is the mainstream. We will place a person who stands foremost in a new field. It is no good if we place a second-rate person.' Tadao Suzuki⁷⁹⁾, vice president of Ajinomoto Co., Inc.: 'We send out first-class employees to our business partners, together with

77) *Ibid.* (1) Vol. 29, No. 6

78) *Ibid.* (1) Vol. 29, No. 6

79) *Ibid.* (1) Vol. 29, No. 6

those whom they can go along well. I also make it a rule to evaluate highly those who have worked hard in those partners.' Takayasu Miwa⁸⁰⁾, president of Kowa Company Ltd.: 'In general, failures in management of subsidiaries result from sending out people who are unnecessary in your company. You have to dispatch best and second best people to subsidiaries if you want their businesses to be successful. We should send those in their prime, between forty and fifty years of age.' Even in such a case where the main products of a company are not fitted well to the industrial structure and business conversion is essential, almost certainly does the company send out second-class people whom they do not want themselves. In order to rectify the situation, it is necessary that the management uses its power to send young and the most excellent personnel into new business fields and evaluate highly those who have worked hard there. This is the key to the success of converting business through development of new business fields.

Another common way of converting business is to separate and make independent those divisions which fail to adapt themselves to industrial structural changes and those which are overmanned. This has been considered as a transitional measure to cut away those divisions described above, whereas today, large firms use this positively as a means to conduct education. That is to say, they aim at improving the decision-making ability of their personnel by transferring them on loan to those divisions separated from them and having the personnel develop their sense of crisis and responsibility. At the same time, it is expected that those divisions be revitalized by changing their angle of looking at things. Kazumaro Kato⁸¹⁾, president of The Nagoya Sogo Bank Ltd., emphasizes that this has a double effect of reduction of the cost of the main body of the firm and improvement of the trust relationship with its business partner. He states, 'As a result of promoting transference of personnel to our business partners, we could curtail personnel cost and strengthen the channel with the partners at the same time. Since we transfer personnel at relatively young ages, at around forty-five, they can easily adjust themselves to the new environment, which pleases the business partners.' Susumu Okamoto⁸²⁾, president of Kanebo Ltd., stresses advantages of cost reduction and education by separation of divisions. He says, 'When the oil crisis gave a serious blow to the textile business, we separated divisions and established Kanebo Cotton Yarn, Kanebo Silk Yarn and Kanebo Food. We simplified our administrative system by detaching them. We gave them power to make their decisions by themselves.' From around 1982 to 1983, the firm started to retake over those divisions which produced sufficient educational effect as well as good business result such as cosmetics and boutique divisions.

As indicated above, in a case where the major products of a firm are not adjusted well to industrial structural changes and the firm's growth is stagnant, possibilities of business conversion must be seriously sought, and therefore, reformation or revolution of thinking of the people alone is not enough. Knowledge on the new business fields must be cultivated and deepened. Those who take charge of the new fields must first become

80) *Ibid.* (6) Vol. 30, No. 6

81) *Ibid.* (3) Vol. 30, No. 3

82) *Ibid.* (7) Vol. 31, No. 2

experts in the fields. Education for deepening the knowledge can be provided through on-the-job training, in which persons are held charge of new fields and the power of decision making is delegated to them, along with ordinary education and training programs. If education of knowledge is not possible within a limited period of time, the knowledge can be introduced from outside by mid-career recruitment. More important, the most excellent personnel both in terms of capabilities and personalities must be placed in responsible positions of the new business fields to allow them to keep acquiring new knowledge and developing the knowledge. Then, the adaptability of the new divisions will be enhanced centering around the personnel. For business conversion, education for deepening the knowledge in the broad sense of the word is essential.

5. *Summary and Conclusion*

Vitalization of internal organization is one aspect of vitalization of a company. While vitalization of a company refers to causing a good cycle of the whole management process from the top management to products and organization, vitalization of internal organization relates to a local good cycle. In vitalizing a company, positive product strategy plays the main role and vitalization of internal organization plays a supplementary role. Therefore, vitalization of organization needs to be considered in relationship with the product strategies of the firm concerned.

There are the following three patterns of relationship between environmental changes and product strategies.

- 1) The main products are well adapted to environmental changes and the firm is enjoying a steady growth.
- 2) Although the main products are adapted to the changes of industrial structure, the growth of the firm is stagnant due to the lack of appropriate management.
- 3) The main products fail to be adapted to industrial structural changes and the growth of the firm is stagnant.

Approaches to and measures for organizational vitalization differ depending on the three cases mentioned above. Enhancement of challenging spirit, thinking revolution, and deepening of knowledge are major activities required in the cases (1), (2) and (3) respectively.

In case (1), organization can be easily and automatically activated by a good cycle of new product development and capability development. But many measures are available for facilitating this process and vitalizing the entire company. First of all, organization is made flat by decentralization or establishment of SBU's, so that vertical communication may be promoted, decision-making ability be developed, confidence be built and morale enhanced. This is a way of activating the organization by changing the framework. Next, the top management vitalizes middle managers by advocating 'philosophy of praise'. Then, the 'philosophy of praise' is embodied in the personnel rating system. Bureaucratic system centering around middle managers and rigid personnel rating system, which are fermented without knowing it when the firm is steadily growing, are to be changed with the initiative of the top management, so that morale of the

employees be maintained and improved.

In case (2), an automatic organizational vitalization through good cycle of new product development and capability development, which is available in case (1), is not available. The president himself has to feel a sense of crisis and at the same time, has to infiltrate this sense among the employees. Then the president must go out of his way to make visits to worksites and communicate with them at the deep part of their hearts, besides indicating lofty business philosophy and business goal. He must also change the employees' thinking and cause thinking revolution, convincing them that they themselves, together with their company would have to face a collapse unless something is done. In contrast with case (1) where changing the framework, such as making the organization flat, can activate the organization, thinking revolution of the employees led by the president is essential in case (2). In order to do so, the president must resort to all possible means to get to the hearts of the employees.

In case (3), where the major products are not adapted to the industrial structural changes, raising the morale or thinking reformation are not sufficient. Will power or awareness alone does not lead anywhere. Instead, knowhow of restructuring and establishment of new business fields must be built in the company. This requires the development and education of specialists and experts who have not only in-depth and specialized knowledge, but can view themselves from multiple viewpoints. When there is not enough time for the development, the knowhow and knowledge can be introduced from outside by recruiting talented people with such quality in their mid-career. Then, a new business division can be set up for the purpose of restructuring, where most excellent people are positioned even if the division is small. The top management should evaluate the new division highly. The accumulated knowhow and knowledge, as well as new combinations of information which are created in the new division will bring about benefits to the company, which in its turn, gives confidence to the division, leading to further accumulation and deepening of knowhow and knowledge within the division. This is a local good cycle which induces the organization to be activated.

Organizations of huge companies of present age cannot be vitalized alone by motivation expounded by behavioral scientists, or flat organization or networking advocated by organization specialists. Measures to enhance challenging spirit including reformation of personnel rating system, thinking revolution including president's visits to worksites, and measures to deepen knowledge consisting mainly of education and training are required, with reference to the product strategies.