

# **A Novel and Innovative Corporate Japan in the Post-quake and Globalizing World I: Introduction**

**Material prepared for a Special Seminar  
“Staying Power: Six Enduring Principles for Managing Strategy and  
Innovation in an Uncertain World”**

**by welcoming Michael A. Cusumano  
Sloan Management Review Distinguished Professor of Management  
Massachusetts Institute of Technology**

**January 16, 2012**

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# Program

## Part I:

- 13:30-13:35**      **Welcome Remarks, Michio Suzuki, Secretary-General, CIGS**
- 13:35-13:45**      **Introduction, Jun Kurihara, Research Director, CIGS**
- 13:45-14:45**      **Speech, Prof. Michael A. Cusumano**  
**“Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World”**  
**(『君臨する企業の「6つの法則」—戦略のベストプラクティスを求めて』(日本経済新聞社, 2012年) )**

## Coffee Break

## Part II:              Discussion, moderated by Jun Kurihara, Research Director, CIGS

- 14:55-15:55**      **Discussion Part I:**  
**(a) Platforms, Not just Products; (b) Services, Not just Products**  
**(or Platforms); (c) Capabilities, Not just Strategy**
- 15:55-16:45**      **Discussion Part II:**  
**(d) Pull, Don't just Push; (e) Scope, Not just Scale;**  
**(f) Flexibility, Not just Efficiency**

## Coffee Break

- 16:55-17:30**      **Wrap-up: A Novel and Innovative Corporate Japan**

## Just Prior to Professor Cusumano's Speech . . . I Assume

After finishing today's discussion, we will surely be more knowledgeable about “secrets of success” or “best practices” for Japanese companies that are under mounting pressures.

[the priority order among the six principles, or optimum mixes among six principles, which might vary according to one industry to another, or one country to another.]

Daniel Kahneman, winner of the Nobel Prize in economics, says the quality of leadership and management practices cannot be inferred reliably from observations of success because luck plays a large role. {1}

However, we will agree with Professor Cusumano who says “Luck clearly cuts both ways—good and bad. But outcomes need not be totally random. At Louis Pasteur once said, “Chance favors the prepared mind [*Le hasard ne favorise que les esprits préparés*].” {2}

1: Daniel Kahneman, *Thinking, Fast and Slow*, New York: Farrar, Straus and Giroux, 2011, p. 207

2: Michael A. Cusumano, *Staying Power: Six Enduring Principles for Managing Strategy and Innovation in an Uncertain World*, New York: Oxford University Press, p. 326.

# WRAP-UP: Six Principles and Corporate Japan

**Six Principles: Questions of Individual Principles and Those of Optimum Mix**

**Six Principles: Industry Characteristics and Country Characteristics**

**Appendix: Environmental or Institutional Context: Japan as a Case in Point [p. 324]**

Subsystem	1980s Strengths	1990s Weaknesses
<b>Economic</b>	Low Wages, High Savings, High Exports	Rising Value of Yen, Bubbles in Stock Market and Real Estate
<b>Financial</b>	Low Interest Rates, Lots of Capital for Investment, Protected Banks, Deficit Financing	Inefficient Use of Capital and Poor Investment Returns, Bankrupt Banks
<b>Political</b>	Stable, Conservative, Consensus Oriented, Sharing of Wealth through Subsidies	Struggles over Shrinking Pie, Political “Gridlock,” Slow/Negative Growth, Unemployment
<b>Social and Cultural</b>	Centralized and Standardized Primary Education, Shared Values, Hierarchy and Authority, Group and Individual	Weak Universities Too Much Emphasis on Rote Learning, Not Enough Individualism and Creativity
<b>Management and Employment</b>	Lifetime Employment in Large Firms, Seniority-based Wages, Company-based Unions, Consensus Decision Making, Long-term View, Institutional Shareholding, Just-in-Time (Lean) Production, Quality Control and Kaizen (Continuous Improvement), Low-cost Depreciated Supplier Networks	Reduced Flexibility, Do Not Reward Merit and Achievement, Inadequate Concern with Worker Welfare, Lowest Common Denominator Decisions, Little Pressure for Efficiency/Profits, Problem in Global Competition for Some Firms, Too Much Focus on Manufacturing, Traffic Jams, Diminishing Returns, “Shell Game” of Transferring Costs to Suppliers.

# **A Novel and Innovative Corporate Japan in the Post-quake and Globalizing World II: Discussion**

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## Program: Part II

**14:55-15:55 Discussion Part I:**

- (a) Platforms, Not just Products**
- (b) Services, Not just Products (or Platforms)**
- (c) Capabilities, Not just Strategy**

**15:55-16:45 Discussion Part II:**

- (d) Pull, Don't just Push**
- (e) Scope, Not just Scale**
- (f) Flexibility, Not just Efficiency**

**Coffee Break**

**16:55-17:30 Wrap-up: A Novel and Innovative Corporate Japan**

# Introduction

**Platform & Service:** Two Principles, relatively new or understudied and

**Capabilities, Pull, Scope, and Flexibility:** Four Principles, having a longer history in management practice and research

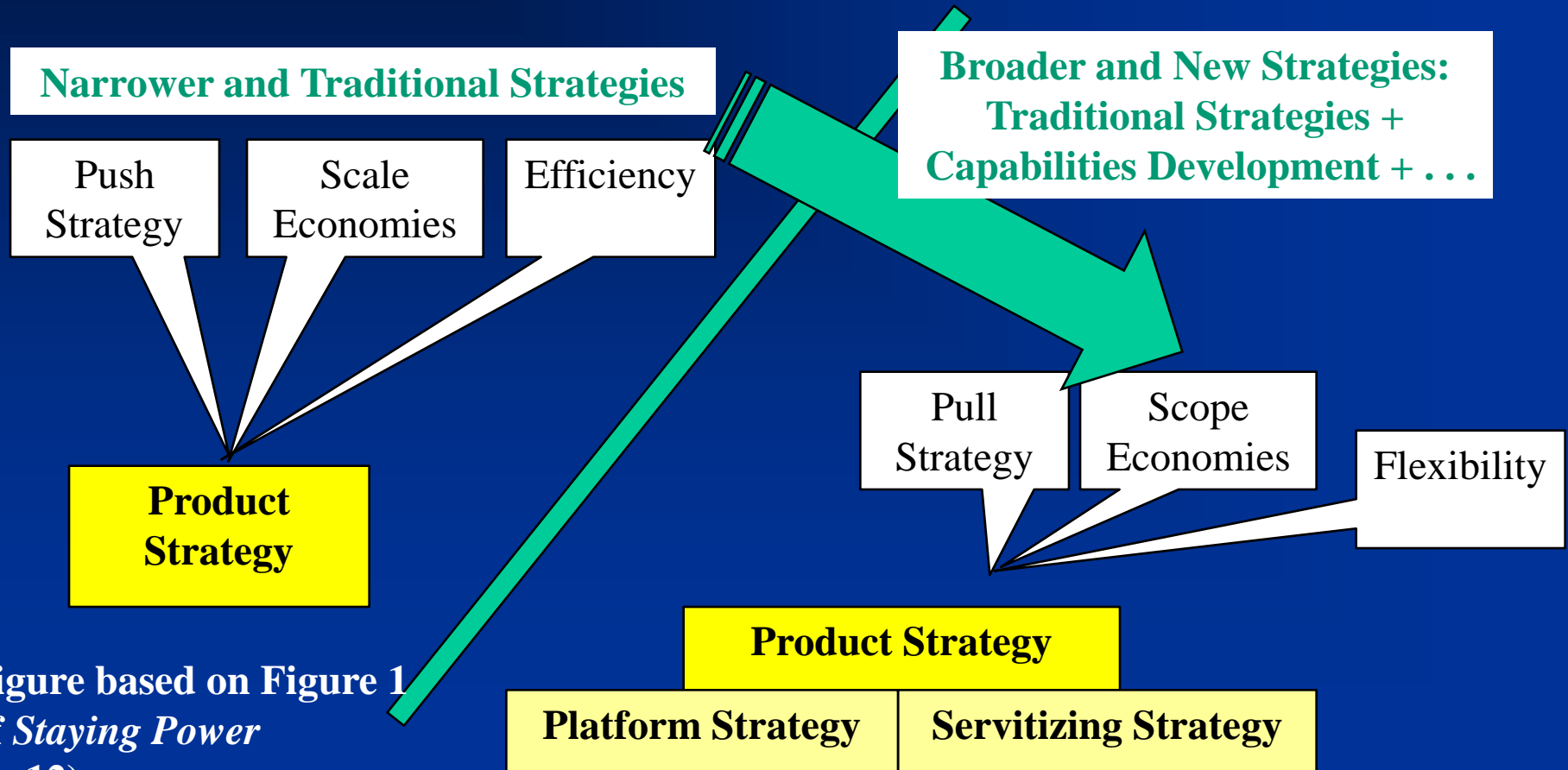


Figure based on Figure 1 of *Staying Power* (p. 12)

## (a) Platforms, Not just Products (i)

A Single-Product-Oriented Firm

vs.

A Firm Adopting a Platform or Complement Strategy

### *Impressive Lines*

**A platform or complement strategy differs from a product strategy** in that it requires an external ecosystem to generate complementary product or service innovations and build “positive feedback” between the complements and the platform. [p. 22]

**A network effect** means that, the more external adopters in the ecosystem that create or use the complementary innovations, the more valuable the platform (and the complements) become. This dynamic, driven by direct and indirect network effects or both, should encourage more users to adopt the platform, more complementors to enter the ecosystem, and more users to adopt the platform and the complements, almost ad infinitum. {4: See Boudrau, K. “Too Many Complementors? Evidence on Software Firms,” unpublished working paper, HEC-Paris School of Management, Nov., 2006} [p. 25]



## (a) Platforms, Not just Products (ii)

Platform or Product—or Both?

### *Impressive Lines*

Is it possible for a firm with Apple's creativity, foresight, and independence to think “insanely great platform” first and still produce such great products? [p. 42]

The challenge here is to be **open, but not so open** that the platform leader makes it too easy for competitors to imitate the essential characteristics that make the original product so appealing. [p. 42]

It is important to realize as well that a company **does not have to be the first** to market or to have the best technology to become the platform leader and achieve the dominant market share in its industry. But platform leader and wannabes do need to encourage innovation around their platforms at the broad industry level. [p. 43]

## (a) Platforms, Not just Products (iii)

### The Concept of Platform Leadership

#### *Impressive Lines*

Based on the history of other platform technologies, where wars over incompatible standards often led to market confusion and wasted innovation, we can say that platform industries generally need architects. This is where **platform leadership** becomes important. [pp. 43-44]

We identified four “levers” or strategic mechanisms that companies . . . used to influence producers of complements. [p. 44]

The first lever we called the *scope of the firm*. [p. 44]

The second lever is *product technology (modularity of the architecture, and openness or accessibility of the interfaces and intellectual property)*. [p. 45]

The third lever is *relationship with external complementors*. [p. 46]

The fourth lever is *internal organization*. More specifically, platform leaders can reorganize to deal with external and internal conflicts of interest. [p. 47]

## (a) Platforms, Not just Products (iv)

Figure 1.2. The Strategy Spectrum for Levers 1 and 2 [p. 49]

		Level 1: Source of Key Complements	
		Mainly in-house	Mainly Outside
Level 2: Platform/ Interface Tech- nology	Mainly Closed	<i>Product-mainly Strategy</i> e.g., Betamax and Macintosh	Current iPhone?  Intel microprocessor?
	Mainly Open	Microsoft Windows?  Cisco router?	i-mode?  Red Hat (Linux)?

## (b) Services, Not just Products (or Platforms) (i)

“Servitize” Products and “Productize” Services

i.e.

A Hybrid Product-plus-services Business Strategy

### *Impressive Lines*

The goals of most firms should be to find the right balance between product and service revenue, and then “servitize” products to create new value-added opportunities and pricing models as well as “productize” services to deliver them more efficiently and flexibly. [p. 68]

First, some services are indeed complementary and *enhance* the product by making it easier to purchase and use. Second, some services are complementary but mainly *extend* the product by introducing new users or adapting the product to changing environmental conditions. Third, in some situations services actually *substitute* for product purchases. [p. 78]

## (b) Services, Not just Products (or Platforms) (ii)

Table 2.1. Taxonomy of Services Offered by the Product Firm [p. 79]

Complementary		Substitution
<p style="text-align: center;"><b>Enhance</b></p> <ol style="list-style-type: none"> <li>1. Financing</li> <li>2. Warranty/Insurance</li> <li>3. Implementation</li> <li>4. Maintenance/Repair</li> <li>5. Technical Support</li> <li>6. Training in Basic Users</li> <li>7. Customization that makes existing product features easier to use</li> </ol>	<p style="text-align: center;"><b>Extend</b></p> <ol style="list-style-type: none"> <li>1. Customization that creates new features specific to a customer</li> <li>2. Training or consulting that introduces new uses</li> <li>3. Integrating the core product with new products</li> </ol>	<p style="text-align: center;"><b>Substitute</b></p> <ol style="list-style-type: none"> <li>1. Before product diffusion (e.g., early mainframe computing services)</li> <li>2. After product diffusion (e.g., software application hosting, automobile leasing, and temporary rentals)</li> </ol>

## (b) Services, Not just Products (or Platforms) (iii)

Dimensions of Business Models [Based on Figure 2.7 , p. 79]

Customers	Revenue Model	Delivery Model
<ol style="list-style-type: none"> <li>1. Mainstream Customers</li> <li>2. Early-adopter Customers</li> <li>3. Small Businesses</li> <li>4. Mainstream Enterprise Customers</li> <li>5. Early-adopter Enterprise Customers</li> </ol>	<ol style="list-style-type: none"> <li>1. Up-front License Fee</li> <li>2. Subscription/Software as a Service</li> <li>3. Advertising-based</li> <li>4. Transaction-based</li> <li>5. Free but not Free (bundled)</li> <li>6. Free, Revenue from Services</li> </ol>	<ol style="list-style-type: none"> <li>1. Local Client Installation</li> <li>2. Local Server Installation</li> <li>3. Remote Propriety (e.g., SAP)</li> <li>4. Remote Website</li> <li>5. Bundled as Part of a Hardware Product</li> </ol>

## (b) Services, Not just Products (or Platforms) (iv)

### Product Innovation, Process Innovation, and Services Innovation and Platform Disruption

#### *Impressive Lines*

Manufacturing firms often encounter **a specific “product process” life cycle**. In the beginning of their histories, these firms tend to pay more attention to product innovation and compete on the basis of innovative designs. If and when a “dominant design” emerges, then companies tend to shift their emphasis to the process side and focus more on efficiency in making this design. This is how mass-production technology emerged . . . . Service innovation is another aspect of the life cycle that might affect software and some other industries. [p. 92]

**Platform transitions** such as we have experienced since the birth of the computer could also generate as much or more revenue from services as from products, especially since many products are now free or low-priced. [p. 93]

## **(c) Capabilities, Not just Strategy (i)**

**What to do (Strategy and a Future Vision)**

**vs.**

**Who to Do (Organizational Capabilities and Operational Skills)**

### *Impressive Lines*

**Deep capabilities, combined with strategy, enable the firm to offer superior products and services as well as exploit foreseen and unforeseen opportunities for innovation and business development. [p. 114]**

**Most academics, consultants, and practitioners seem to agree that “distinctive” capabilities refer to specific skills necessary to design, build, and deliver products and services of significant value to customers and to do so better than the competition. [pp. 114-115]**

**We can follow Michael Porter of the Harvard Business School. He views “business strategy” as dealing specifically with how managers position the firm or a business unit in a particular market as well as how that organization chooses to compete. [p. 115]**



## (c) Capabilities, Not just Strategy (ii)

### Microsoft's Grand Strategy of Capability Development *Impressive Lines*

I want to summarize the key strategies that Richard Selby and I identified in our book *Microsoft Secrets* (1995). . . .

The first strategy dealt with how Gates organized and managed the company: *find “smart” people who know the technology and the business.* . . .

The second strategy dealt with how to nurture creative people and technical skills: *organize small teams of overlapping functional specialists.* . . .

The third strategy dealt with how to compete by creating product portfolios and setting industry standards: *pioneer and “orchestrate” evolving mass markets.* In today's language, we would call this a strategy of **platform leadership.** . . .

The fourth and fifth strategies dealt with how Microsoft managed product development for the mass market: *focus creativity by evolving features and “fixing” resources, and do everything in parallel with frequent synchronizations.*

The sixth strategy dealt with building a learning organization: *improve through continuous self-critiquing, feedback, and sharing.* Selby and I noted:

“Companies filled with smart people can easily degenerate into a motley collection of arrogant and fiercely independent individuals, teams, and projects that do not share knowledge, learn from past mistakes, or listen to customers.” {32: *Microsoft Secrets*, 1995, p. 12} [pp. 146-147]

## **(d) Pull, Don't just Push**

**“Rational Planners”**

**vs.**

**“Incremental Innovators” and “Experimenters”**

### *Impressive Lines*

**The continuous feedback and opportunities for adjustment also facilitate rapid learning, elimination of waste or errors, and at least incremental innovation. [p. 156]**

**In mass production, firms generally have followed a push-style of management when market demand is relatively predictable and product variety limited. [p. 157]**

**First, pull versus push is really a fundamental difference in management philosophy. The former emphasizes continuous adjustments to real-time information and the latter emphasizes detailed planning and control. . . . Second, managers can use the pull philosophy to set their own company “clock speed”—that is, the pace they want to see for responses to feedback from customers, manufacturing facilities, the supply chain, product testing, or marketing and sales channels. [p. 196]**

## (e) Scope, Not just Scale

Factory Production

vs.

Craft Production

### *Impressive Lines*

Firms usually pursue synergies across different lines of business at the corporate level. But **scope economies within the same line of business** can be an important source of differentiation in markets requiring efficiency and flexibility, and responsiveness to individual customer requirements. [p. 204]

It is important to understand the software factory approach in terms of both technology strategy and organization theory. Scholars such as Joan Woodward, Charles Perrow, and Henry Mintzberg had already written about job-shop or craft versus factory production, routine versus non-routine tasks, and bureaucracy versus “adhocracy.” {12: Woodward, J., *Industrial Organization: Theory and Practice*, Oxford University Press, 1965; Perrow, C., “A Framework for the Comparative Analysis of Organizations,” *American Sociology Review* 32, (2, 1967): 194-208.; Mintzberg, H., *The Structuring of Organizations*, Prentice Hall, 1979} [p. 212]

## (f) Flexibility, Not just Efficiency (i)

Flexibility

vs.

Efficiency

### *Impressive Lines*

Agility seems essential to staying power—surviving and thriving over years and decades, and despite the ups and downs of markets and other unfortunate events. [p. 249]

Firms that succeed over long periods of time are actually changing the basis of their competitive advantage as the environment changes. {6: D'Aveni, R. *Hypercompetition: Managing the Dynamics of Strategic Maneuvering*, 1994} Kathleen Eisenhardt and Shona Brown in the latter 1990s studied this issue by looking at how firms can balance structure with the ability to endure transitions in fast-paced environments. . . .

More recent theoretical work has shown as well that unpredictable or fast-changing environments require less structure so that firms can pursue unanticipated opportunities and respond quickly to change, whereas firms perform better with more structure in stable environments. {8: Davis, J.P. et al., “Optimal Structure, Market Dynamism, and the Strategy of Simple Rules,” *Administrative Science Quarterly* 54, (Sept, 2009), 413-452} [p. 253]

## (f) Flexibility, Not just Efficiency (ii)

**Table 6.1. Organizational Structure and Technology [p. 252]**

Structure	Technology	Tasks and Problems	Characteristics
Machine Bureaucracy	Routine, Mass Production	Few Exceptions, Well Defined	Standardized and De-skilled Work, Centralization, Divisions of Labor, High Formalization of Rules and Procedures
Professional Bureaucracy	Engineering	Many Exceptions, Well Defined	Standardized and Specialized Skills, Decentralization, Low Formalization of Rules and Procedures
Adhocracy	Non-routine	May Exceptions, Ill Defined	Specialized Skills but Few or No Organization Standards, Decentralization, Low Formalization of Rules and Procedures
Simple Structure	Unit or Craft	Few Exceptions, Ill Defined	Few Standardized Specialized Skills, Centralized Authority but Low Formalization

## **(f) Flexibility, Not just Efficiency (iii)**

**Sumo Strategy, relying on sheer power and overwhelming resources**

**vs.**

**Judo Strategy—Turn an opponent's strength into weakness rather confront the strength of the opponent directly**

### *Impressive Lines*

**Judo is the “art of hand-to-hand fighting in which the weight and efforts of the opponent are used to bring about his defeat.” [p. 284]**

**Four principles seemed to capture the fundamentals of judo strategy as we observed in the competition between Netscape and Microsoft:**

- \*Move rapidly to uncontested ground in order to avoid head-to-head combat.**
- \*Be flexible and give way when attacked directly by superior force.**
- \*Exploit leverage that uses the weight and strategy of opponents against them.**
- \*Avoid sumo competitions, unless you have the strength to overpower your opponent. [p. 285]**

# WRAP-UP: Six Principles and Corporate Japan (1)

## Six Principles: Questions of Individual Principles and Those of Optimum Mix

Principles	Questions
<b>Platform</b>	<ol style="list-style-type: none"> <li>1. How to Become the Platform Leader despite the Latecomer or Lesser Performer</li> <li>2. How to Develop Japanese Globalized Platforms</li> <li>3. How to Protect Japanese Globalized Platforms</li> </ol>
<b>Services</b>	<ol style="list-style-type: none"> <li>1. How to Combine Anew Products and Services</li> <li>2. How to Combine Foreign Products and Japanese Services</li> <li>3. How to Identify a Timing of Platform Transformation</li> </ol>
<b>Capabilities</b>	<ol style="list-style-type: none"> <li>1. How to Restore in Japanese Companies like Matsushita and Sony the Sense of Capability rather than Strategy.</li> </ol>
<b>Push</b>	<ol style="list-style-type: none"> <li>1. Does Toyota Continue to Maintain its “Push” Strategy from now on?</li> <li>2. Can Japanese Software Companies Develop Their Own “Push-style” Strategy?</li> </ol>
<b>Scope</b>	<ol style="list-style-type: none"> <li>1. New technologies are not well suited to scope economies.</li> </ol>
<b>Flexibility</b>	<ol style="list-style-type: none"> <li>1. How to Avoid Flexible Rigidity—Where to Be Flexible and to Be Fixed.</li> <li>2. How to Change Structure from “Professional Bureaucracy” to “Adhocracy.”</li> <li>3. Toyota: Victim of Its Own Excessive Flexible Strategy</li> </ol>

# WRAP-UP: Six Principles and Corporate Japan (2)

## Six Principles: Industry Characteristics and Country Characteristics

### Appendix: Environmental or Institutional Context: Japan as a Case in Point [p. 324]

Subsystem	1980s Strengths	1990s Weaknesses
<b>Economic</b>	Low Wages, High Savings, High Exports	Rising Value of Yen, Bubbles in Stock Market and Real Estate
<b>Financial</b>	Low Interest Rates, Lots of Capital for Investment, Protected Banks, Deficit Financing	Inefficient Use of Capital and Poor Investment Returns, Bankrupt Banks
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<b>Social and Cultural</b>	Centralized and Standardized Primary Education, Shared Values, Hierarchy and Authority, Group and Individual	Weak Universities Too Much Emphasis on Rote Learning, Not Enough Individualism and Creativity
<b>Management and Employment</b>	Lifetime Employment in Large Firms, Seniority-based Wages, Company-based Unions, Consensus Decision Making, Long-term View, Institutional Shareholding, Just-in-Time (Lean) Production, Quality Control and Kaizen (Continuous Improvement), Low-cost Depreciated Supplier Networks	Reduced Flexibility, Do Not Reward Merit and Achievement, Inadequate Concern with Worker Welfare, Lowest Common Denominator Decisions, Little Pressure for Efficiency/Profits, Problem in Global Competition for Some Firms, Too Much Focus on Manufacturing, Traffic Jams, Diminishing Returns, “Shell Game” of Transferring Costs to Suppliers.