KENICHI OHMAE THE ART OF JAPANESE BUSINESS

The Mind of the Strategist

The Art of Japanese Business

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For Marvin Bower, my role model, with admiration: and for Jeannie, Soki and Hiroki, my family, with love.

About the Author

As an adviser to top management, author, and speaker, Kenichi Ohmae has been described as "Mr. Strategy" in his native Japan, where he heads the office of McKinsey & Company, the international consulting firm. Some of Japan's most famous and internationally successful companies regularly seek his help in shaping their competitive strategies, and his counsel is likewise much in demand among U.S.- and European-based multinationals.

As a director of McKinsey & Company and co-leader of its strategic management practice, Ohmae has served companies in a wide spectrum of industries: industrial and consumer electronics, office equipment, photographic equipment, industrial machinery, food, rubber, and chemicals. His special interest and area of expertise is formulating creative strategies and developing organizational concepts to implement them.

During the past six years Ohmae has produced five books on strategy (three of them runaway best-sellers in Japan) and more than twenty-five articles on strategy-related topics as well as several other books on various aspects of Japanese culture. Besides scientific papers in the Journal of Nuclear Engineering and the Journal of Nuclear Materials (he holds a Ph.D. in nuclear engineering from the Massachusetts Institute of Technology), his publications in English include articles in Chief Executive, European Management, and The McKinsey Quarterly. This is his first book to be published in English.

Born in 1943 on the island of Kyushu, Kenichi Ohmae

now makes his home in Yokohama with his wife, Jeannette, and their children, Soki and Hiroki. His spare-time interests include music (he is an accomplished clarinetist), sailing, and scuba diving.

Foreword

This is an important book for top executives and others concerned with the subject of strategic planning. Its Japanese origins alone make it worthy of consideration.

In the past two years, American business readers have been deluged with scores of books and articles purporting to unlock the secrets of Japan's global business success. The "keys" supplied by the authors of these treatises make an imposing bundle: consensus decision making, lifetime employment, "Japan, Inc.," a "shame" culture, longer planning horizons, kanban production systems, quality circles, Zen Buddhism—you name it. Each of these affords some measure of insight. But until now, none has unlocked the central enigma.

Has Kenichi Ohmae done so in this book? Although my company, PepsiCo, Inc., has a significant involvement in several major Japanese industries (e.g., soft drinks, snacks, and restaurants), I cannot judge with certainty.

But I am convinced that Ohmae has come very close to the heart of the matter. He has done so not by explaining the whys and wherefores of Japanese business prowess (although the book is full of fascinating case examples) but simply by enabling the reader to look through the eyes, and think with the mind, of an extraordinarily talented Japanese business strategist. Ohmae is not a journalist or an academic; he is an active professional strategist with a clientele that includes some of the world's largest and most sophisticated companies and an

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unmatched reputation as a consultant and author in Japan. He has hands-on experience in helping to fashion winning corporate strategies.

Ohmae's book contains many original and provocative insights. Yet for all its substance and subtlety, it is genuinely easy reading—simple and personal in tone, lucid and logical in style. It is, in fact, not an easy book to put down. At the same time, most of the chapters are self-contained and can be read separately. This is a book you can come back to.

One of Ohmae's most valuable contributions is that his book is focused more on the substance of strategic planning than on the form. Thus, the reader can learn how a strategist goes about generating a real competitive edge, not just what to cover in strategy exercises. This special focus makes the book worthwhile reading for the chief executive as well as for line managers.

Not all the ideas in these pages are new. After all, this is a book on fundamentals. But fundamentals as Ohmae expresses them are worth reexamination, and not only because they are seen in a distinctive context. In my experience, it is the fundamentals that too often get overlooked by corporate strategists. It is no small part of Ohmae's accomplishment that he is able to present them with a freshness that conveys something of the excitement of discovery.

The directness and acuity of this strategist's mind come through on every page of the book, which combines depth and power with refreshing simplicity. To be sure, the businessman who reads it only to find out "how the Japanese do it" will be rewarded with a rich harvest of facts and insights. But the reader who wants to develop planning skills—to learn how to focus on generating real

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competitive ideas—will find the book remarkably stimulating. This is what gives *The Mind of the Strategist* unique and universal worth.

Andrall E. Pearson President PepsiCo, Inc.

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Introduction

As a management consultant employed by an international consulting firm, I travel widely and talk with hundreds of senior executives in Europe, North America, and Asia. Almost without exception, I find that these business leaders, many of them older and far wiser than I, are keenly interested in what I have to say about business strategy. The reason is quite simple: I happen to be Japanese.

Everyone thinks the Japanese possess some special magic that enables them to run rings around their competitors in world markets. As a Western-educated Japanese who knows the Japanese business world intimately but can speak the language of Western business leaders, I must—or so they seem to think—possess some measure of that magic. And I might, just possibly, be prepared to whisper the secret formula into their waiting ears.

Of course I am exaggerating. None of the businessmen I talk to really thinks that there is any kind of secret formula behind the performance of Japanese business in world competition. But they are dissatisfied with the glib explanations for that performance that have been so freely offered on television and in the press by many so-called experts on the Japanese way of business life. They are convinced that there must be more to it than "Japan, Inc.," consensus decision making, company songs, and quality circles. And they are right.

Except in a peripheral way, the insights from Japan that I may be able to offer my friends and readers on

Western business have little if anything to do with formulas and techniques. As a consultant I have had the opportunity to work with many large Japanese companies. Among them are many companies whose success you would say must be the result of superb strategies. But when you look more closely, you discover a paradox. They have no big planning staffs, no elaborate, gold-plated strategic planning processes. Some of them are painfully handicapped by lack of the resources—people, money, and technology—that seemingly would be needed to implement an ambitious strategy. Yet despite all these handicaps, they are outstanding performers in the marketplace. Year after year, they manage to build share and create wealth.

How do they do it? The answer is easy. They may not have a strategic planning staff, but they do have a strategist of great natural talent: usually the founder or chief executive. Often—especially in Japan, where there is no business school—these outstanding strategists have had little or no formal business education, at least at the college level. They may never have taken a course or read a book on strategy. But they have an intuitive grasp of the basic elements of strategy. They have an idiosyncratic mode of thinking in which company, customers, and competition merge in a dynamic interaction out of which a comprehensive set of objectives and plans for action eventually crystallizes.

Insight is the key to this process. Because it is creative, partly intuitive, and often disruptive of the status quo, the resulting plans might not even hold water from the analyst's point of view. It is the creative element in these plans and the drive and will of the mind that conceived them that give these strategies their extraordinary competitive impact.

Both in Japan and in the West, this breed of natural or instinctive strategist is dving out or at least being pushed to the sidelines in favor of rational, by-the-numbers strategic and financial planners. Today's giant institutions, both public and private, are by and large not organized for innovation. Their systems and processes are all oriented toward incremental improvement—doing better what they are doing already. In the United States, the pressure of innumerable social and governmental constraints on corporate activities—most notably, perhaps, the proliferation of government regulations during the 1960s and 1970s—has put a premium on the talent for adaptation and reduced still further the incentive to innovate. Advocates of bold and ambitious strategies too often find themselves on the sidelines, labeled as losers, while the rewards go to those more skilled at working within the system. This is especially true in mature industries, where actions and ideas often move in narrow grooves, forcing out innovators. Conversely, venture capital groups tend to attract the flexible, adaptive minds.

In all times and places, large institutions develop cultures of their own, and success is often closely tied to the ability to conform. In our day, the culture of most business corporations exalts logic and rationality; hence, it is analysts rather than innovators who tend to get ahead. It is not unreasonable to say that many large U.S. corporations today are run like the Soviet economy. In order to survive, they must plan ahead comprehensively, controlling an array of critical functions in every detail. They specify policies and procedures in meticulous detail, spelling out for practically everyone what can and what cannot be done in particular circumstances. They establish hurdle rates, analyze risks, and anticipate contingencies. As strategic planning processes have burgeoned in these

companies, strategic thinking has gradually withered away.

My message in this book, as you will have guessed by now, is that successful business strategies result not from rigorous analysis but from a particular state of mind. In what I call the mind of the strategist, insight and a consequent drive for achievement, often amounting to a sense of mission, fuel a thought process which is basically creative and intuitive rather than rational. Strategists do not reject analysis. Indeed they can hardly do without it. But they use it only to stimulate the creative process. to test the ideas that emerge, to work out their strategic implications, or to ensure successful execution of highpotential "wild" ideas that might otherwise never be implemented properly. Great strategies, like great works of art or great scientific discoveries, call for technical mastery in the working out but originate in insights that are beyond the reach of conscious analysis.

If this is so—if the mind of the strategist is so deeply at odds with the culture of the corporation—how can an already institutionalized company recover the capacity to conceive and execute creative business strategies? In a book entitled *The Corporate Strategist* that was published in Japan in 1975, I attempted to answer that question in a specifically Japanese context.

In Japan, a different set of conditions from those in the West inhibits the creation of bold and innovative strategies. In the large Japanese company, promotion is based on tenure; there is no fast track for brilliant performers. No one reaches a senior management post before the mid-fifties, and chief executives are typically over 60—well past the age when they are likely to be able to generate dynamic strategic ideas. At the same time, the inventive, often aggressive younger people have no means of

contributing in a significant way to the strategy of the corporation. The result: strategic stagnation or the strong probability of it.

How. I asked myself, could the mind of the strategist, with its inventive élan, be reproduced in this kind of corporate culture? What were the ingredients of an excellent strategist, and how could they be reproduced in the Japanese context? These were the questions I addressed in my book. The answer I came up with involved the formation within the corporation of a group of young "samurais" who would play a dual role. On the one hand they would function as real strategists, giving free rein to their imagination and entrepreneurial flair in order to come up with bold and innovative strategic ideas. On the other hand they would serve as staff analysts, testing out, digesting, and assigning priorities to the ideas, and providing staff assistance to line managers in implementing the approved strategies. This "samurai" concept has since been adopted in several Japanese firms with great Success.

Such a solution would not fit the circumstances of the typical American or European company. Yet it seems to me that the central notion of my book and of a sequel published in Japan eighteen months later is relevant to the problem of strategic stagnation in any organization. There are ways in which the mind of the strategist can be reproduced, or simulated, by people who may lack a natural talent for strategy. Putting it another way, although there is no secret formula for inventing a successful strategy, there are some specific concepts and approaches that can help anyone develop the kind of mentality that comes up with superior strategic ideas. Thus the reader will find in this book no formulas for successful business strategy. What I have tried to supply

in their place is a series of hints that may help him or her develop the capacity for and the habit of strategic thinking.

It remains to say something about the content and organization of the book. The material on which it is based includes several Japanese publications of mine, including *The Corporate Strategists* (Parts I and II); *McKinsey: Contemporary Strategic Management*; an article, "Effective Strategies for Competitive Success," that originally appeared in *The McKinsey Quarterly*; and a monograph, "The Strategic Triangle," first published in the *McKinsey Staff Papers* series.

In citing my own writings as my sources, I am by no means advancing a claim to have invented or discovered all the strategic concepts the reader will encounter in this book. In one form or another, many of them have been the common intellectual property of informed business people for many years—at least since they were given definitive expression by such scholars as Peter Drucker, Theodore Levitt, Michael Porter, and probably many others. As a doer rather than a reader, I am not well versed in the works of established authorities, yet I cannot have escaped the influence of their ideas. My object in this book, however, has not been to break new theoretical ground but, in a sense, to put theory in its place—a place distinctly secondary to creative intuition in the tool kit of the successful strategist.

As for organization, Part I, "The Art of Strategic Thinking," concentrates on the basics of the mental process. Chapter 1 introduces the process and illustrates its analytical dimension. The next five chapters explore the directions which the strategic thinker may pursue in quest of innovative strategies, and Chapter 7 describes the nature of that pursuit itself.

In Part II the emphasis shifts from process to substance, examining how different kinds of strategies result from focusing on the different points of what I call the strategic triangle: company, customer, and competition. The final chapter of Part II explains corporate strategy, as distinguished from business strategy. Among other things it touches on the controversial concept of product portfolio management, a central tool of present-day strategic planning, and its role in the development of overall corporate strategies.

Part III is concerned mainly with environmental factors bearing on strategic thinking and strategy formulation, with an excursion to the present-day Japanese business scene, an overall perspective on the nature of strategic foresight, and a postscript chapter that summarizes my ideas on the formulation of successful strategy.

Since most of these chapters have been translated in whole or in part from the Japanese and the rest were composed in perhaps rather Japanese-accented English, I must ask the reader to be patient with any eccentricities of style or thought that he or she may encounter. (Speaking of "he or she," this is as good a place as any to emphasize that the consistent use of the masculine pronoun in referring to "the manager," "the planner," "the corporate strategist," and other *dramatis personae* of the book is a matter of grammatical convenience. It is also, in the great majority of cases in Japan, still the more realistic choice.)

It remains for me to thank my many colleagues in McKinsey & Company whose ideas and techniques I have drawn on freely in developing my approach to the problems of strategy discussed in this book. Although their thinking has contributed immeasurably to my own, they are in no way responsible for the uses I have made of it.