

La Lettre du GERPISA n°128, January 1999, Leading article

Japan is in a crisis, Toyota and Honda are doing fine

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Advocates of "lean production" have become less boisterous ever since current events have reported daily on the "bad health" of the Japanese economy. Under discrete pressure from the international community fearing contagious effects, the Japanese government, after years of hesitation, has resolved to pay off the huge debts of local banks, notably by nationalizing a certain number of them, thus going against public opinion and the electorate who do not want to pay for irresponsible banks.

Hence, all is not well in the land of the Rising Sun, despite the "Japanese model" that everyone seemed eager to imitate in order to survive the upcoming century. Already in 1994, we at GERPISA declared that there was no such thing as one Japanese model, but at least two completely different industrial models (Toyota and Honda), that other Japanese constructors had not succeeded in constructing a coherent socio-productive model which would have guaranteed them longlasting profitability, that Toyota had undergone a labour crisis which forced it to change models instead of profit strategy, and finally, that a universal industrial model did not exist, and never had, which would allow a firm to overcome all the incertitudes of the market and labour. The opposing viewpoint often invited us then to observe the obvious growth in Japanese automobile sales and the positive financial results of the manufacturers. Once again, prevailing discourse, commonly-shared opinions, correlations transformed into causalities, duration of trends, ex post rationalizations taken for reality, fascination with the "one best way" all synthesized into a unique version, which rejected a patient authentic analytic approach on the basis of field studies in order to comprehend diverse situations and actions. Indeed, it is always possible to enjoy brief success at the bookstore or in the conference room, but this also makes it possible to misconstrue both the public and scientific debate for many years.

Naturally, yesterday's flatterers are among the most virulently critical today. They are even the ones who are now "preaching" to the Japanese, as they did in the recent past to European and American constructors. Be it on the macro-economic, social, or firm level, the best solutions today, according to them, can be found in Anglo-American firms. Well, what do you know ! When will the next turnabout come ?

Japan is doing poorly, very poorly. Firms are firing, others are going under. The Japanese are very pessimistic about the future and are increasing their savings instead of consuming, which accentuates the recessive spiral. Nissan, Mazda, Mitsubishi, Suzuki are losing money. Nissan, in the throes of its sixth year in deficit (a record which essentially afflicts Europe or the United States), seems to even be seeking out an alliance with another Japanese or foreign constructor to get out of the dead end it is in. On the other hand, Toyota and Honda are doing well, so let's not come to rapid conclusions about Japanese constructors !

Toyota had two problems to solve at the turn of the 1990s : a latent labour crisis which then exploded with the stretching out of overtime hours during the "speculative frenzy", and an automobile supply which was not adapted to transformations in the markets it partook in. The first problem concerned its "firm governing compromise", and the second its "profit strategy". It was able to rapidly redesign a new compromise with its workers based on more acceptable means in order to implement its "permanent reduction of costs at constant volume" strategy. It then took inspiration from European labour reform experiences of the 1970s in order to "humanize" work in its plants, whereas European and American constructors were now only thinking of implementing "just-in-time" methods, reducing cycle durations, and indexing salaries based on individual performance. A curious exchange indeed, one that should be added onto the long list of history's paradoxes.

Insofar as automobile supply is concerned, Toyota also rapidly copied the models of innovative cars that other constructors had taken the risk of launching, thus revealing new market segments (recreational vehicles, mini vans, etc.). In the same vein, it took control of Daihatsu in order to be more present in the small automobile segment. As such, it simply conformed to its strategy which consisted in reducing costs and thereby avoiding risks that could emerge.

However Toyota did not only content itself with copying. It also took the initiative of commercially launching a hybrid model, the Prius. Was this just a publicity stunt that Toyota could afford thanks to its financial status ? In fact, Toyota was surprised at the success of Prius, and can not satisfy demand. It is discovering that the strategy of innovative vehicles requires a capacity to rapidly reconvert production lines and workers so that they may manufacture these new successful models. It is also announcing other innovative models. Will it then change profit, strategies, privileging innovation and flexibility to the detriment of a continued reduction in costs at constant volume, or will it attempt to render them compatible, something no one has succeeded doing yet. It will be important to closely follow Toyota's trajectory since a new profit strategy might just be in the process of being born, this constituting an even rarer phenomenon than the emergence of a new industrial model. Honda is also doing very well. However, like Toyota, it had experienced difficulty at the beginning of the 1990s. Adopting an "innovation and flexibility" profit strategy, it was under the impression during the "speculative frenzy" that emerging demands were those of "yuppies" and that they corresponded to luxury sports car vehicles. As a result, Honda almost missed out on the new recreative vehicle market.

Being innovative does not necessarily guarantee success. That is why it must be accompanied by flexibility (reconversion, low-level integration, low break-even point), hence the term "innovation and flexibility" strategy. This was Honda's case. Its flexibility allowed it to overcome its error and make up for lost time by eventually commercializing recreative vehicles that are now among the leaders in their category. However, Honda can not simply act in reaction to events, it must also rediscover innovation by launching new automobile concepts which correspond to the expectations of social categories which are emerging from more competitive labour relations. The pertinence of the profit strategy, and their capacity to change "firm governing compromises" do not, however, protect Toyota and Honda from the Japanese economic crisis, especially if it were to persist and become worse. Internal performance means little when faced with brutal variations in monetary rates and the collapse of demand. This clearly explains why they are pursuing their development in North America and Europe.