

110th ANNIVERSARY GREEK-JAPANESE FRIENDLY TIES



JAPANESE BUSINESS MANAGEMENT: FACING THE POST-CRISIS NEW GLOBAL ECONOMIC ENVIRONMENT

Athens, November 26, 2009

Gikas A. Hardouvelis*

**** Professor, Department of Banking and Financial Management, Un. of Piraeus
Chief Economist, Eurobank EFG Group***



JAPANESE BUSINESS MANAGEMENT
FACING THE POST-CRISIS
NEW GLOBAL ECONOMIC ENVIRONMENT

THEMES

**INTRO: COMMENTS ON THE
EARLIER PRESENTATIONS**

**I. THE CURRENT GREAT GLOBAL
RECESSION**

**II. FORECASTS OF THE GLOBAL
ECONOMY FOR THE NEXT
DECADE**

**III. CAN PAST SUCCESS PERSIST?
OPEN QUESTIONS**

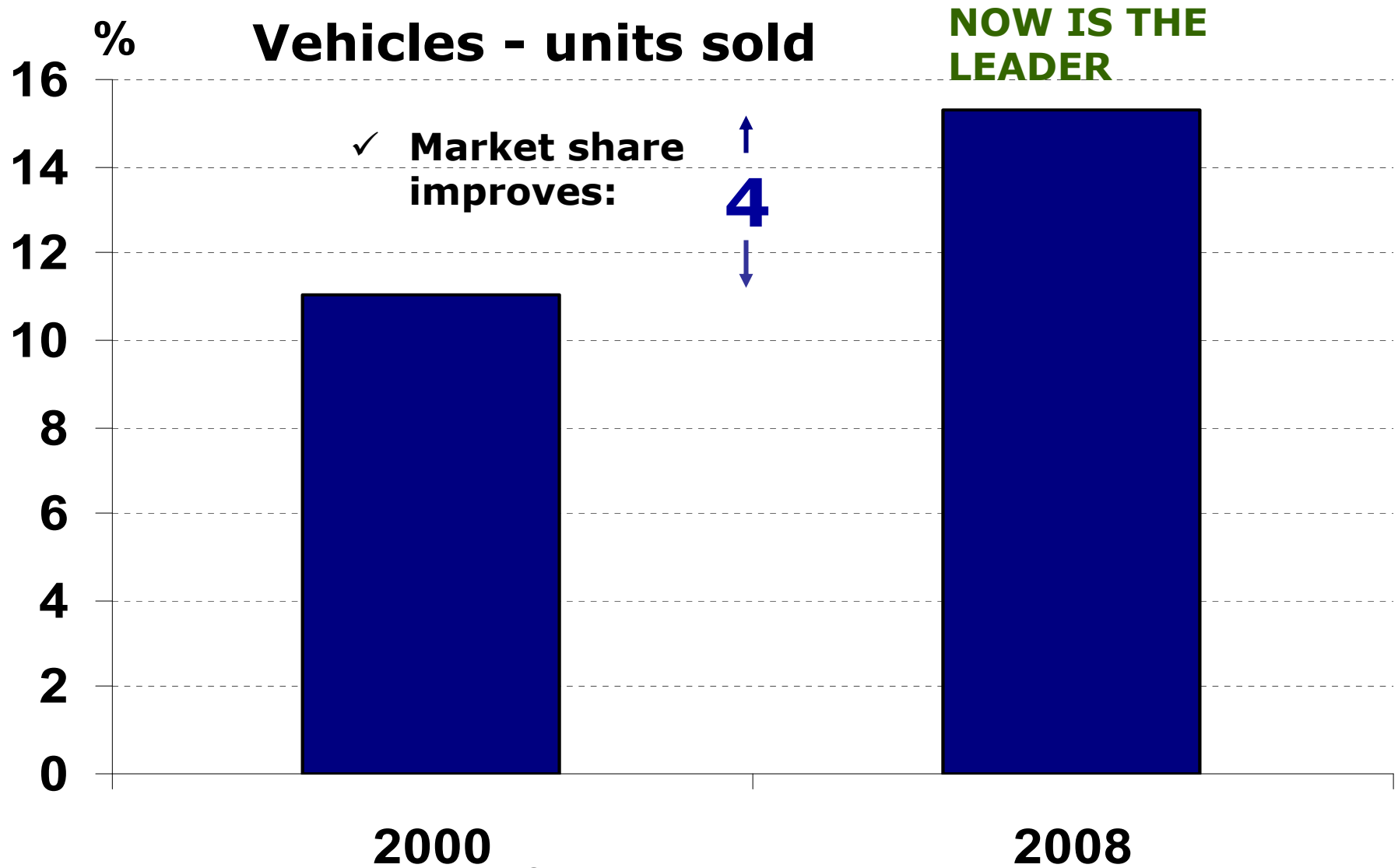
INTRO: Two successful Japanese companies point to the future

- ✓ **We heard two great speakers discuss the unique characteristics that make their companies special**
- ✓ **Both Toyota and Nintendo are world leaders in their respective sectors**
- ✓ **From a country of 127 million, they have managed to expand to the world of 6.8 billion**
- ✓ **Innovation, continuous improvement and forward looking behavior characterizes both**
- ✓ **Paying attention to customers, respecting people, respecting the global environment, are also critical for delivering the quality products that customers need in an efficient manner, compatible to society at large**

INTRO: The Toyota Way

- ✓ Today we learned that what made Toyota successful is the **TOYOTA WAY**, built on two pillars:
 - i. Continuous improvement (Challenge, KAIZEN, GENCHI GENBUTUSU)
 - ii. Respect for people (respect others, teamwork)
- ✓ TOYOTA WAY is not necessarily trying to be the best or reach the peak immediately, right away. It is rather a process of eventually becoming the best or reaching a peak. Toyota says “look into yourself and make yourself better this year, improve.”
 - ❖ **Counter-example:** One of the causes of today’s financial crisis is “**short-termism**” – paying overwhelming attention to current – rather than long-term profits. This is the opposite of the Toyota Way.
- ✓ TOYOTA WAY is not equivalent to what economists call “maximization of long-term profits” either. Rather, it is constrained maximization, where the constraint is respect for others and for society.
 - ❖ **Example:** Today we face a major environmental challenge, and the TOYOTA WAY includes environmental responsibility as a constraint of its business. This may hurt short-term profitability but eventually leads everyone to recognize the importance of the constraint, hence improving long-term profitability.

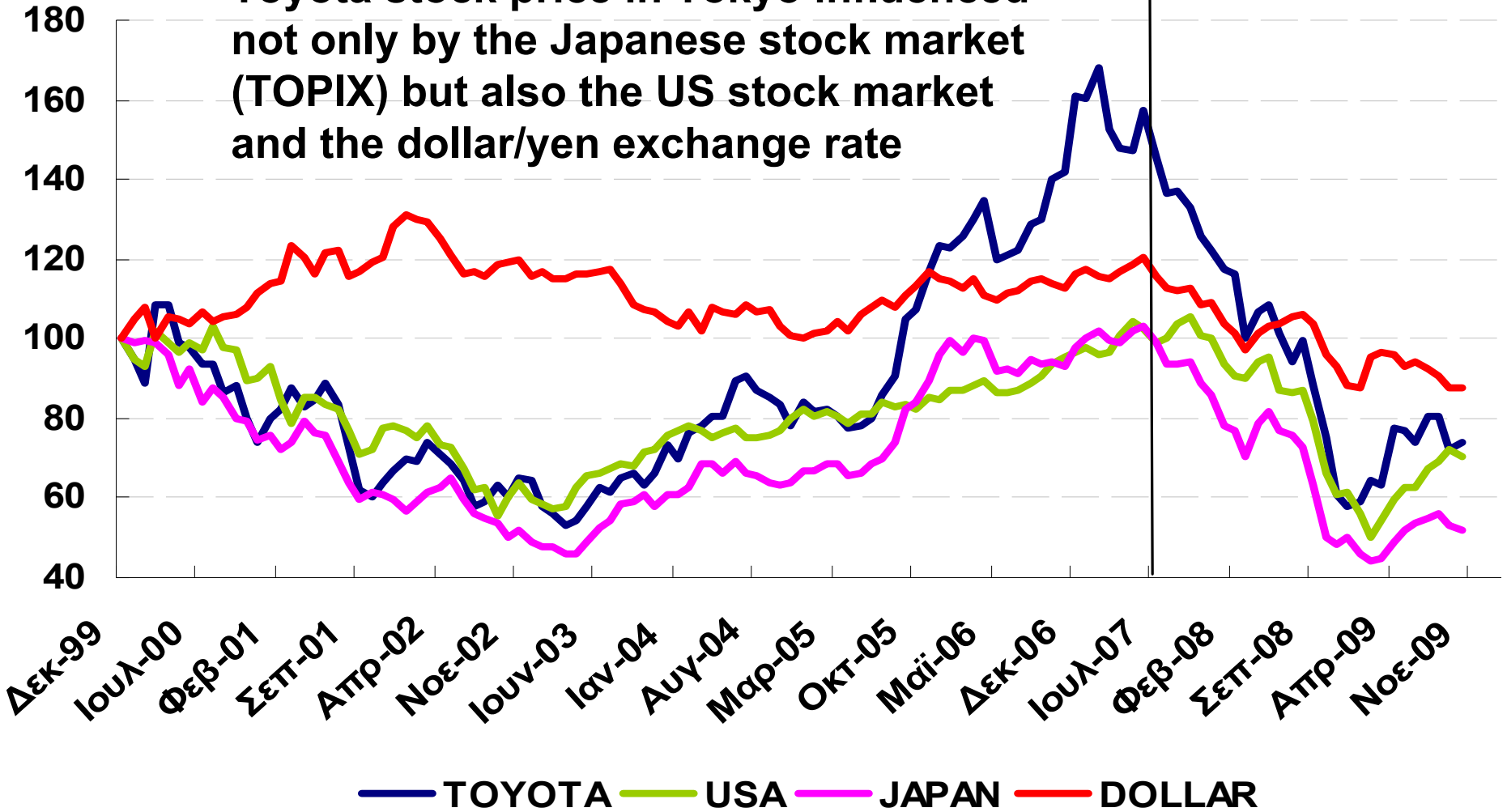
INTRO: Toyota's global market share improved during the last decade



Source: Toyota in the World, 2009
Scotia Economics, Canada

INTRO: Toyota's global presence is evident in market perceptions

✓ Toyota stock price in Tokyo influenced not only by the Japanese stock market (TOPIX) but also the US stock market and the dollar/yen exchange rate



$$RET_{TOYOTA} = 0.34 + 0.61 RET_{JAPAN} + 0.30 RET_{USA} + 0.44 RET_{DOLLAR}$$

$$Adj R^2 = 0.36, SD(RET_{TOYOTA}) = 7.1\%$$

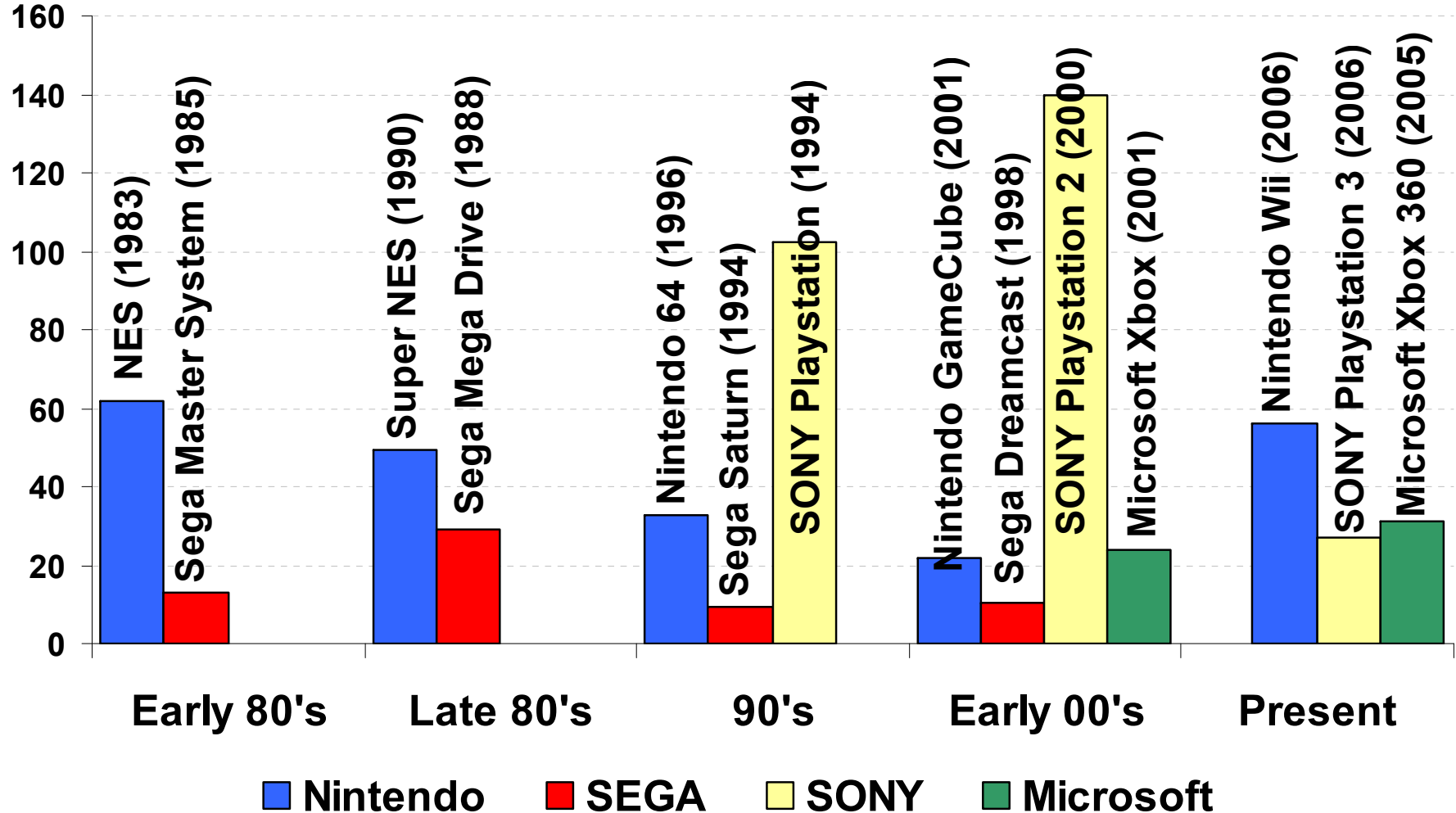
INTRO: Nintendo's volatile market

- ✓ **The electronic games market is very volatile, it can take a company from the abyss to the sky and vice versa**
- ✓ **Unlike automobiles, games are not an absolute necessity and depend on population tastes, which can easily change**
- ✓ **The company has to always come up with a new game, a new way of playing the game, a "NEW SURPRISE"**
- ✓ **Nintendo was recently resurrected because it changed the way the game is played and the definition of the game**
- ✓ **Business is no luck. Rather Luck = Preparation X Opportunity**

INTRO: Cumulative sales figures for game consoles by generation

- ✓ High volatility in the sector
- ✓ Nintendo regains market share
- ✓ Date of product release in parentheses

Mill. of units

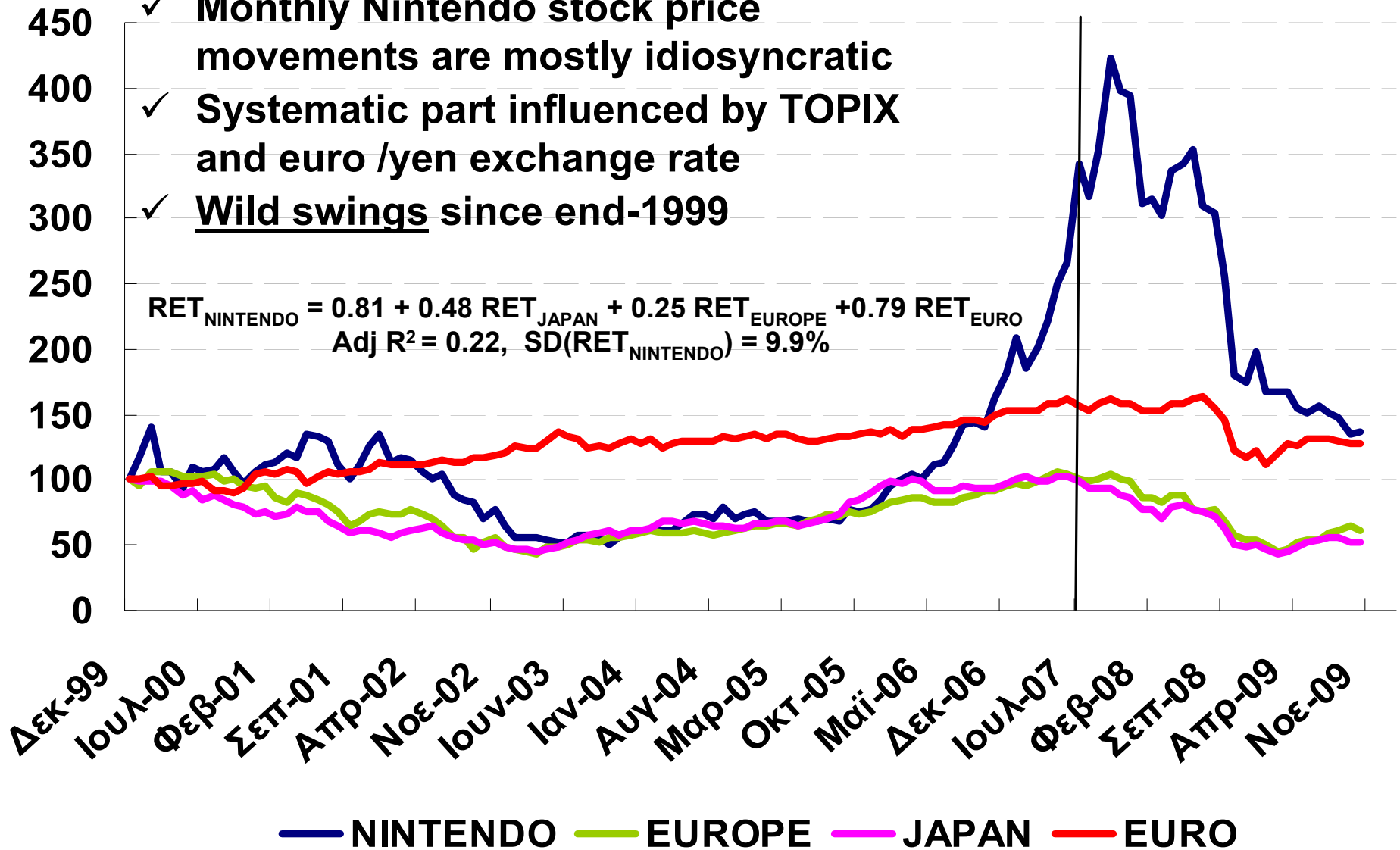


INTRO: Nintendo's stock price swings reveal industry's uncertainty and volatility

- ✓ Monthly Nintendo stock price movements are mostly idiosyncratic
- ✓ Systematic part influenced by TOPIX and euro /yen exchange rate
- ✓ Wild swings since end-1999

$$RET_{NINTENDO} = 0.81 + 0.48 RET_{JAPAN} + 0.25 RET_{EUROPE} + 0.79 RET_{EURO}$$

Adj R² = 0.22, SD(RET_{NINTENDO}) = 9.9%



INTRO: The post-crisis new global environment requires Japanese – style management

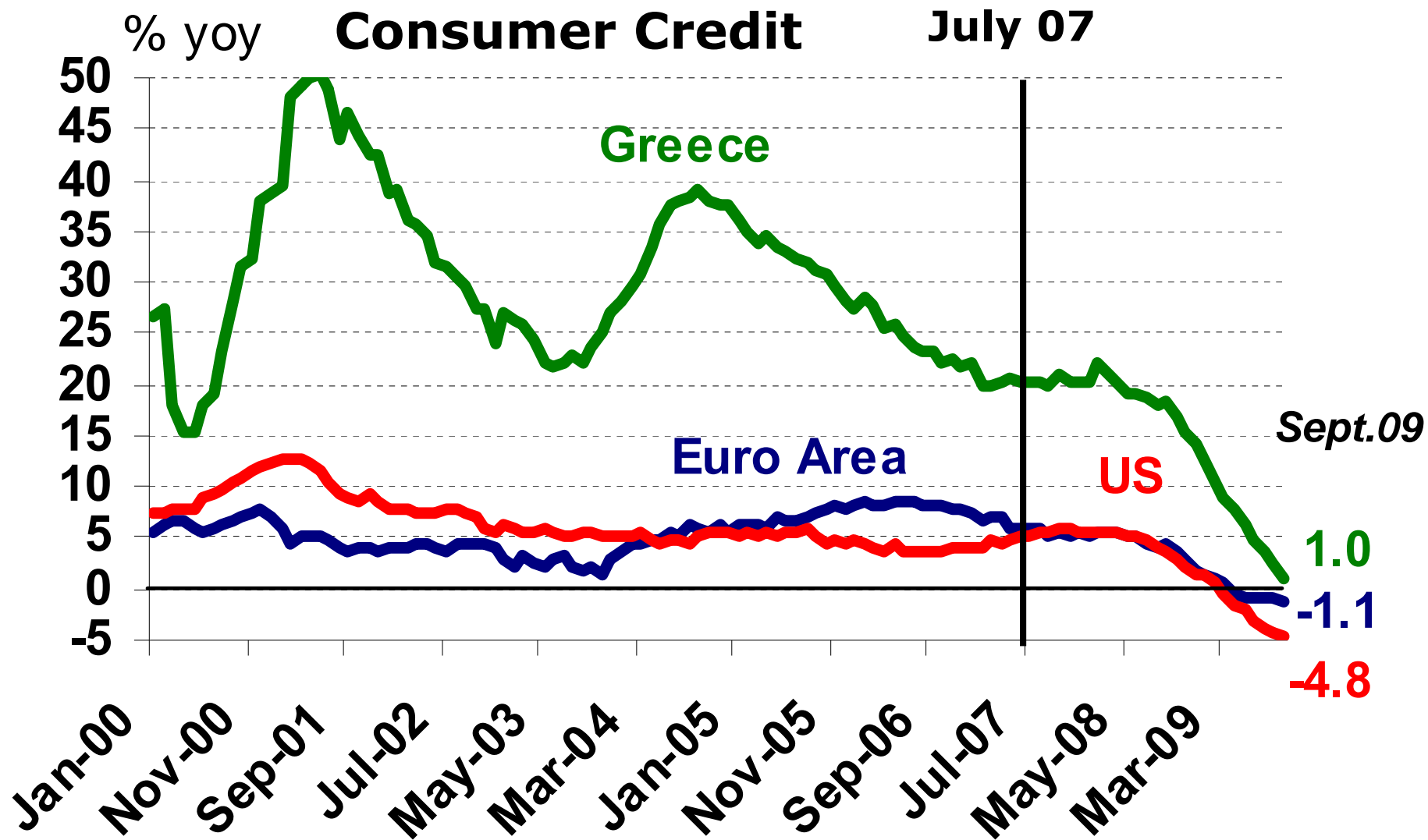
- ❖ **My subsequent discussion focuses on the global economic environment, away from the immediate corporate world or micro level, and closer to the external corporate environment or macro level**
- ❖ **We are almost over the worst financial crisis since the Great Depression; we ought to discuss it**
- ❖ **Difficult years lie ahead, which seem to require exactly the innovative type of Japanese management the two companies exemplify**
- ❖ **So the two companies in our panel face the future with significant competitive advantages**
- ❖ **Can their past success persist in the future?**



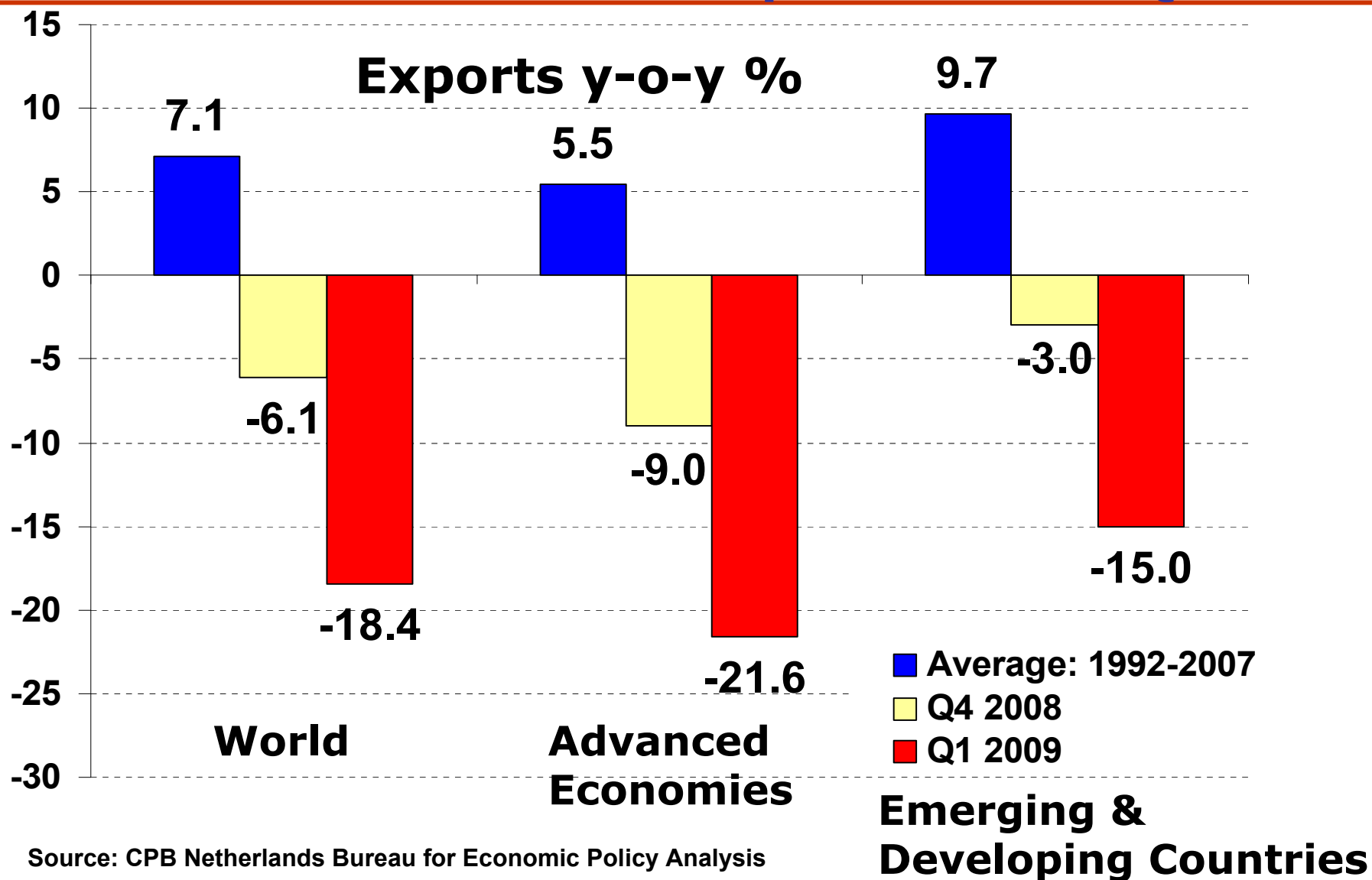
I.

THE CURRENT GREAT GLOBAL RECESSION

I. Bank credit growth declined with a six month lag



I. After one year into the financial crisis, international trade collapsed in 2008:Q4



I. The Great Global Recession of 2009 began in 2008:Q4

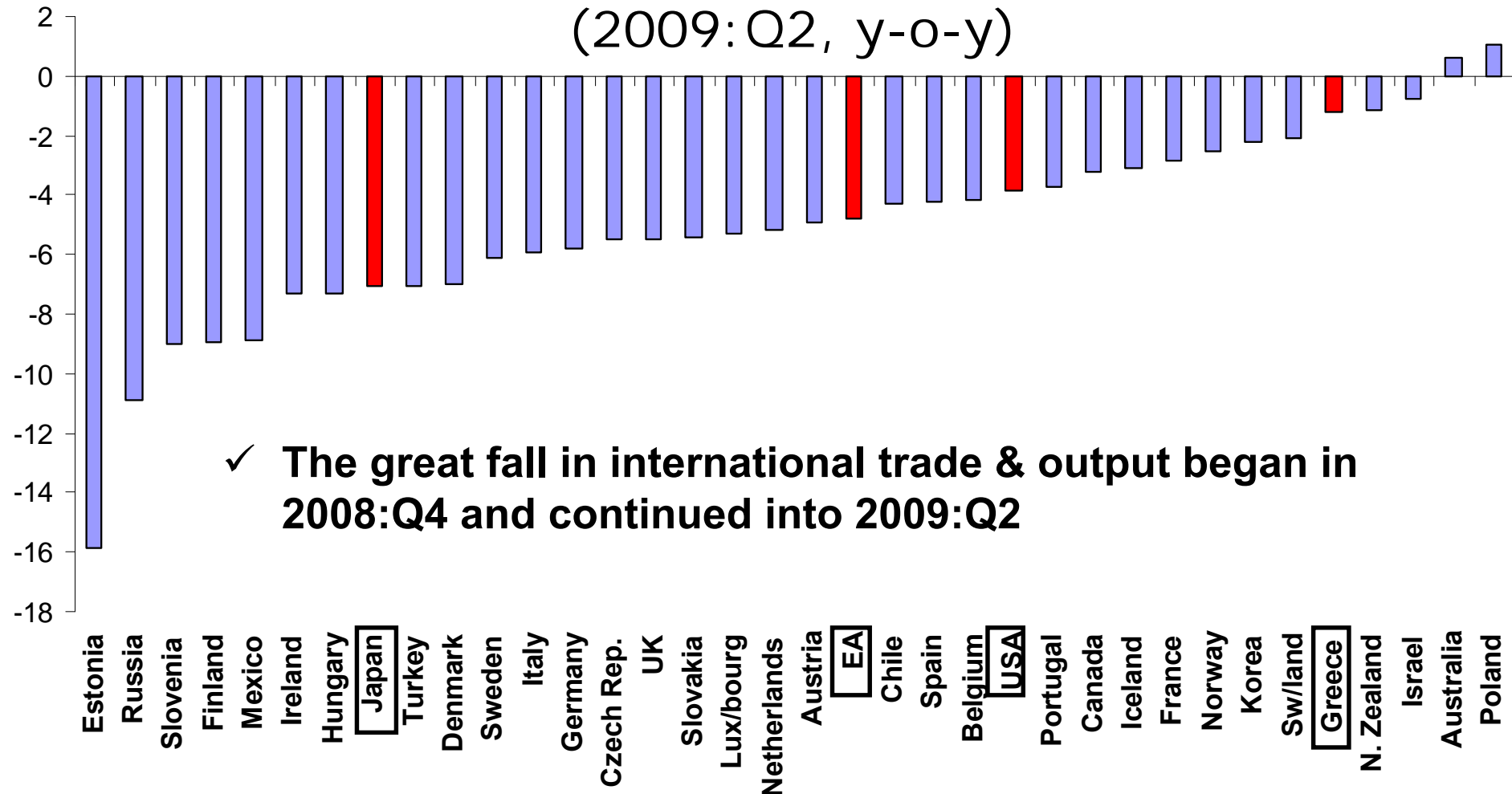


Source: IMF, World Bank

- ✓ Year 2009 is the first year of negative global economic growth since the Great Depression

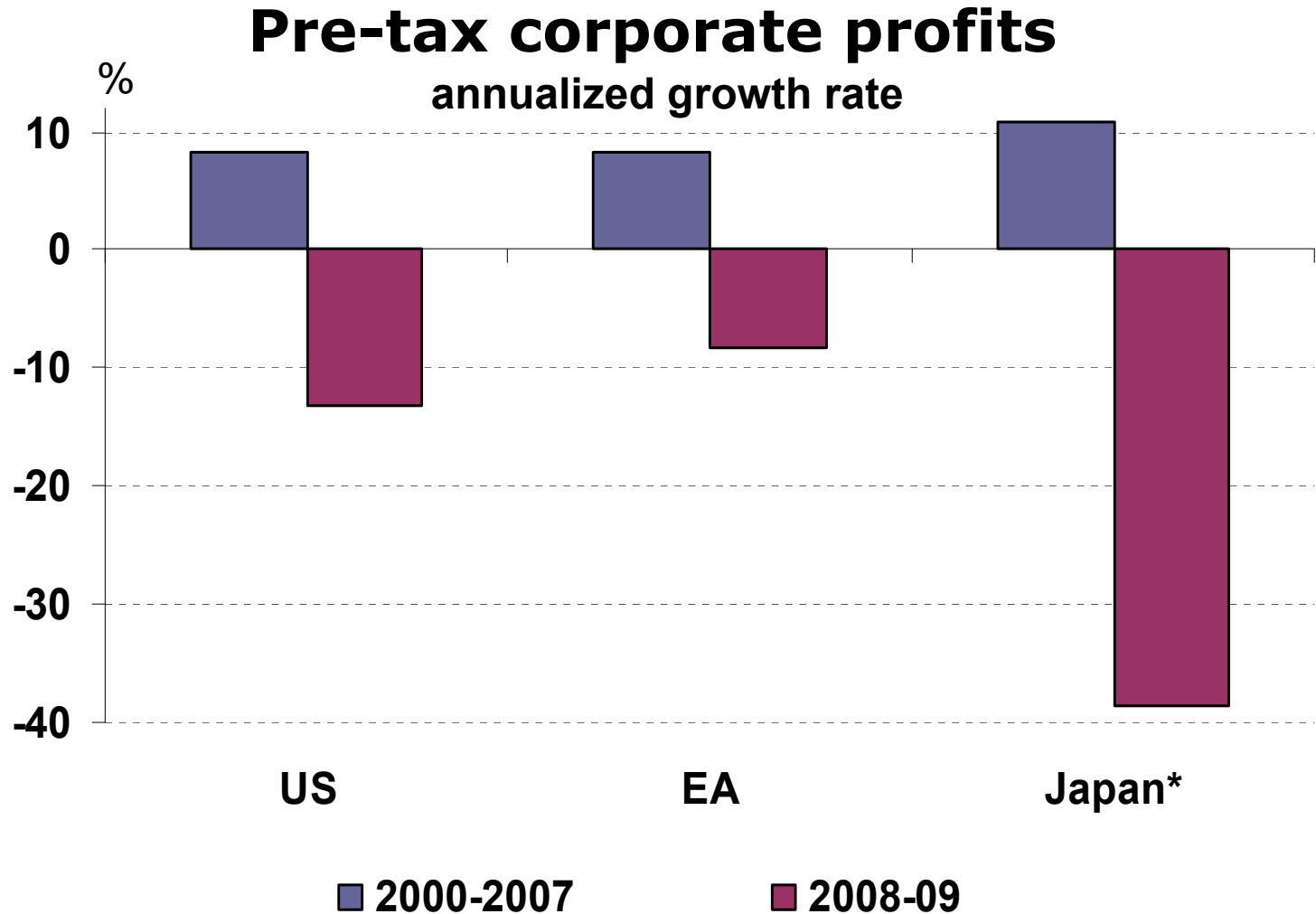
I. ... affecting all countries, as decoupling from the US proved to be a myth

Real Output growth (2009:Q2, y-o-y)



I. Corporations are hit: From profits to losses during the current Great Recession

Comparing the 6 quarters of the current recession with the average experience of the 32 earlier quarters:

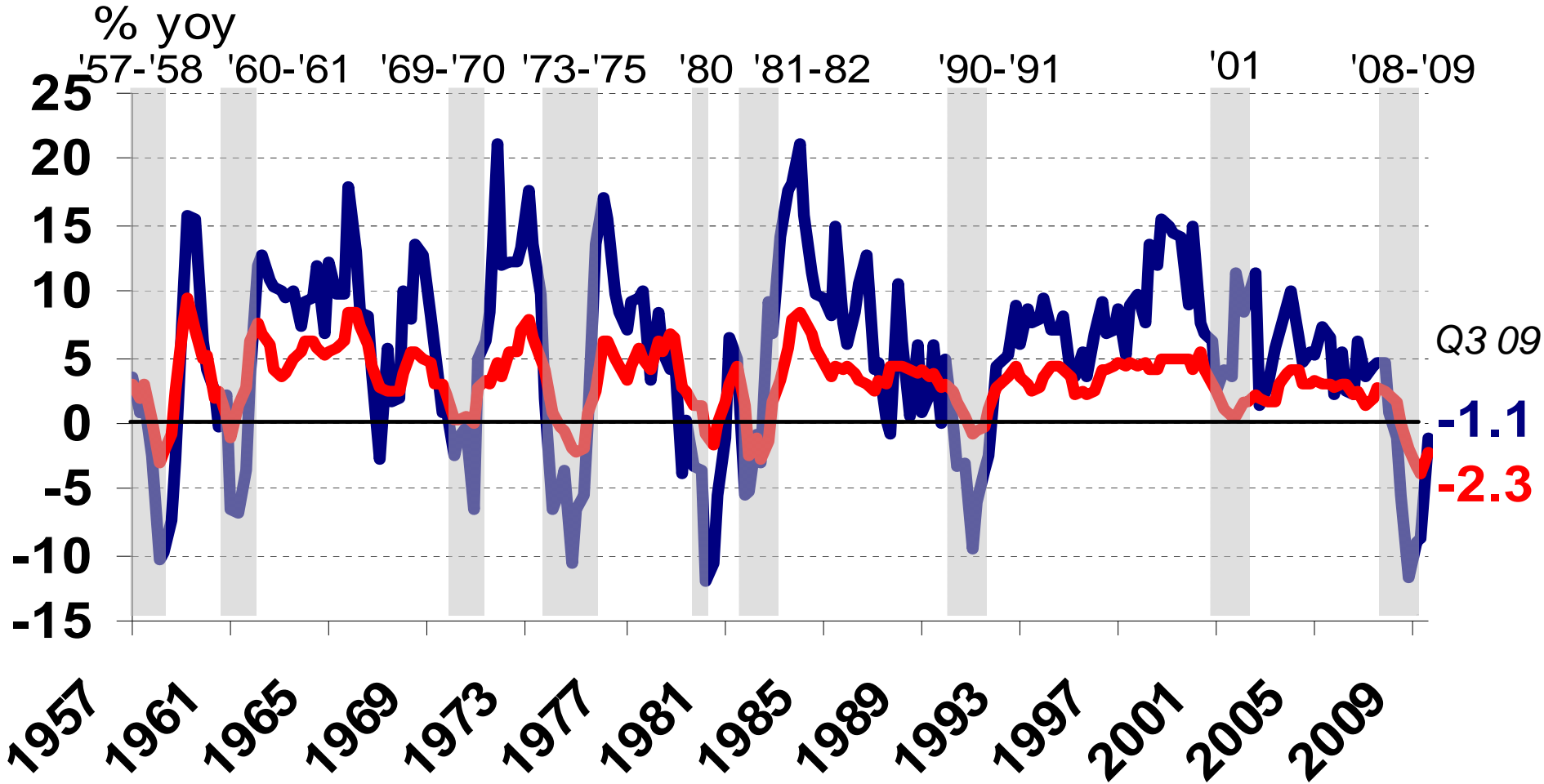


Source: Eurostat, Fed of St. Louis, Ministry of Finance Japan

* Non-financial corporations

I. Consumer durables are very sensitive to the business cycle

50 years of US experience



*Shaded areas indicate US recessions

— Real PCE: Durable Goods

— GDP

I. Expected recovery in 2010

- ✓ Recovery depends critically on central banks maintaining **liquidity** and governments maintaining **fiscal stimulus**
- ✓ The fear of **W-shaped** recession has subsided

| | Real GDP growth | | |
|------------------|-----------------|-------|-------|
| | 2008 | 2009f | 2010f |
| USA | 0.4 | -2.4 | 2.8 |
| Euro Area | 0.6 | -3.8 | 1.5 |
| Greece | 2.0 | -1.3 | -0.5 |
| Japan | -0.7 | -5.5 | 1.4 |
| China | 9.0 | 8.5 | 9.5 |
| Brazil | 5.1 | 0.0 | 4.0 |
| Russia | 5.6 | -7.5 | 3.0 |
| India | 7.5 | 5.8 | 7.5 |

Source: EFG Research



II.

**FORECASTS
OF THE GLOBAL ECONOMY
FOR THE NEXT DECADE**

The crisis will leave its permanent imprints

II. A different world ahead

- ✓ Economics: **Slower global growth due to the crisis:** We are trading off current & future stability against future average growth
- ✓ Politics: Economic & political power → Asia and G-20, with the **crisis expediting the shift**
- ✓ Global Regulation: The Financial Stability Board gains power among IFIs
- ✓ **A different financial landscape**, as G-20 decisions will affect banks and increase the cost of financial intermediation
 - ★ Aim should be to avoid the excesses of the financial sector without imposing too much unnecessary cost
 - ★ Restrictions should be uniform across the globe and respect the **level-playing field**
- ✓ **Wall Street** continues to hold considerable **political power** against future regulatory restrictions

II. Slower future world growth ahead

The 2009 Great Recession was not the 1930s Great Depression or Capitalism's 1989, but is likely to leave its permanent marks

My view: Lower long-term growth in the next decade relative to the decade leading up to the crisis, due to:

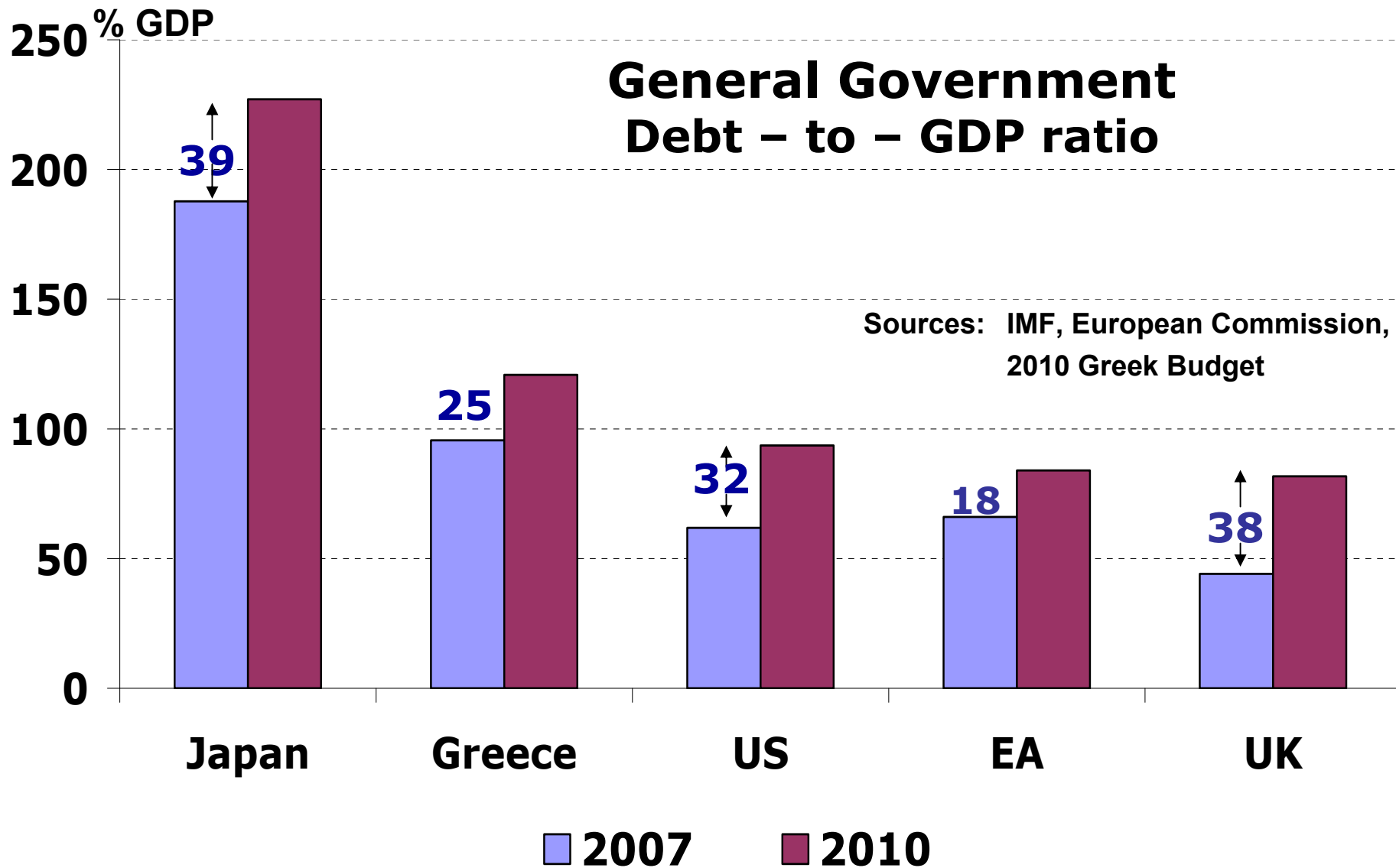
1. Higher real interest rates ahead

- ✓ Risk premia to stay high
- ✓ Higher demand for new bank equity capital will increase the cost of intermediation
- ✓ Fiscal debt will compete with private debt for funding
- ✓ Central bank intervention interest rates expected to go back up

2. Future de-leveraging of the government sector, hence restrictive fiscal policy

3. Mediation of global imbalances: The US consumer is forced to reduce leverage and increase savings – hence lower exports by third countries to the US

II. Current aggressive response by governments implies future restrictive fiscal policy

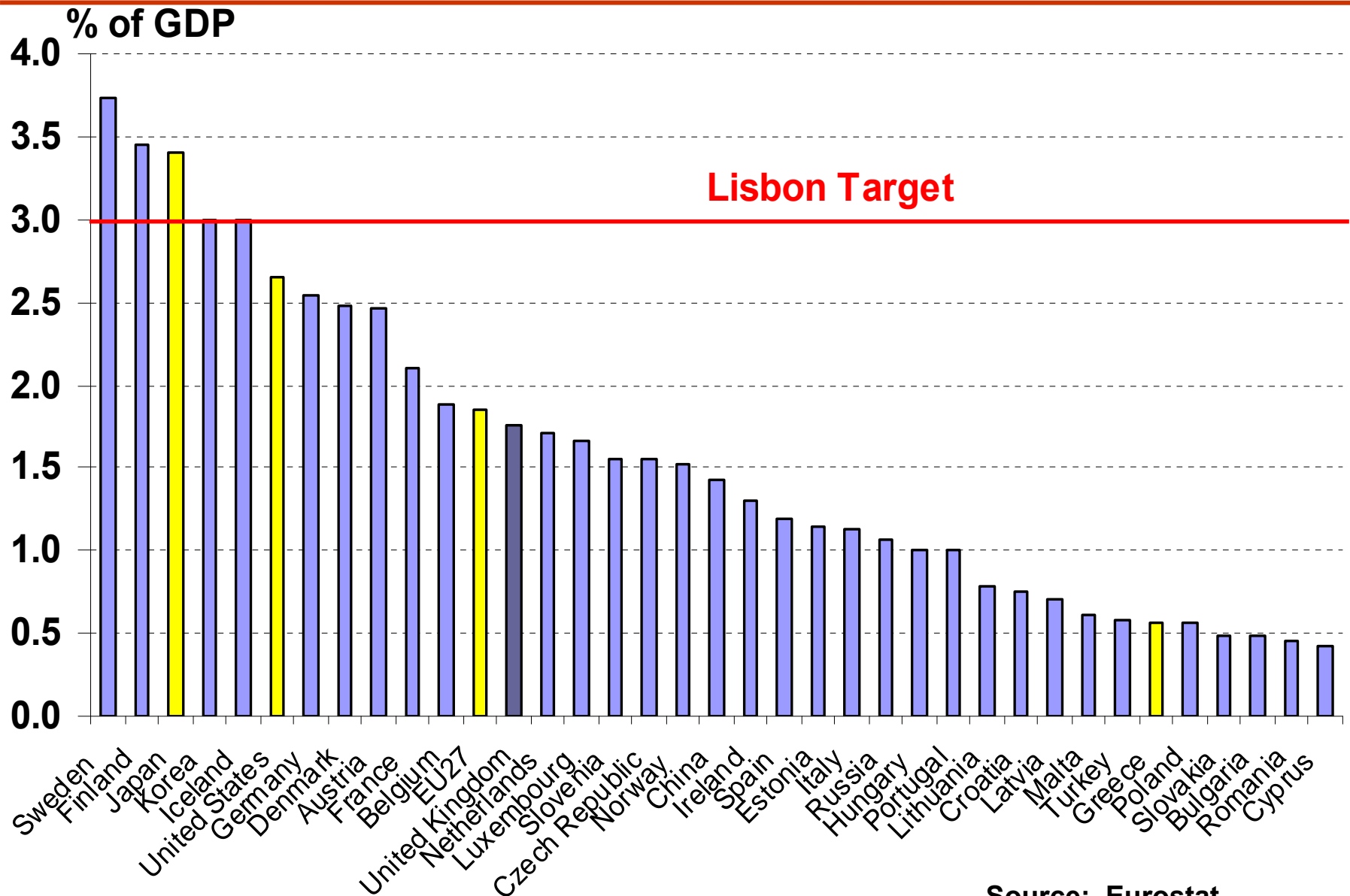




III.

CAN PAST SUCCESS PERSIST? OPEN QUESTIONS

III. Japan ranks high in gross domestic expenditure on R&D



Source: Eurostat,
2006 data

III. Japan ranks high in innovation

The Global Competitiveness Report 2009-10

Rank among 133 countries

| | Japan | US | Germany | Greece |
|--|-----------|----------|-----------|------------|
| 1. Capacity for innovation | 1 | 6 | 2 | 101 |
| 2. Quality of scientific research institutions | 15 | 2 | 5 | 77 |
| 3. Company spending on R&D | 2 | 5 | 4 | 101 |
| 4. University-industry collaboration in R&D | 20 | 1 | 10 | 90 |
| 5. Government procurement of advanced technology products | 49 | 4 | 45 | 91 |
| 6. Availability of scientists and engineers | 2 | 5 | 35 | 20 |
| 7. Number of utility patents granted in 2008, per million population (hard data) | 2 | 3 | 9 | 37 |

III. Will industry dominance of Nintendo/Toyota persist?

- ✓ Will innovation, the drive for excellence, attention to customer needs continue to be comparative advantages for the two companies and for Japanese companies in general?
- ✓ Do **competitors** have the ability to **copy** the Japanese management experience? If not, why?
- ✓ Have your company **business & investment plans** changed due to the crisis and its expected long-term aftermath?
- ✓ Is **financing** a major constraint for your company? Have financing terms changed due to the crisis?
- ✓ Has cost cutting – due to the crisis - affected your ability to invest in **R&D**?
- ✓ Will lower future economic growth reduce your investment in R&D?
- ✓ How well prepared are you to cope with a **W-shaped** recession – namely another dip in economic activity before a final recovery?
- ✓ What would make **Greece** an attractive **green-field** investment destination – i.e. for a production line or as a distribution hub for other countries?

III. Will industry dominance of Nintendo/Toyota persist? Additional questions

✓ For TOYOTA:

- ❖ Competitors are producing competitive models to your hybrid cars. Do you plan to respond and how?
- ❖ Many of your competitors (mainly in the USA) have been given government subsidies in order to survive the crisis. Does this constitute unfair competition?
- ❖ Will the financial crisis affect the fast-expanding Chinese automobile market, especially in the long term?

✓ For NINTENDO:

- ❖ In your Annual Report, you mention the risk of fast-changing consumer preferences in the consumer game market. How long do you expect the *Wii* product to carry you?
- ❖ Is a new generation of games coming out soon? Past history reveals a new generation every 5 to 6 years
- ❖ You rely on international trade and open markets. According to your experience, was there a rise in protectionism because of the crisis?



**THANK YOU
FOR YOUR ATTENTION!**