

# THE **Canon** STYLE:

## Successful Japanese-style Management



Fujio Mitarai, chairman and CEO of Canon Inc.

**F**ujio Mitarai, chairman and CEO of Canon Inc., addressed the importance of patriotism in his speech when he became chairman of Japan's leading business group Nippon Keidanren (Japan Business Federation).

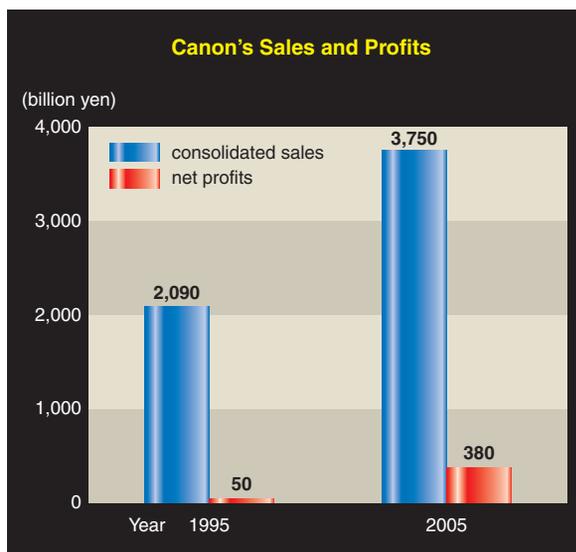
"Without a love of country, a man will not be able to understand other peoples' feelings or pains or respect for other countries. Fukuzawa Yukichi (prominent educator and writer, 1835-1901) said, 'If you love your country, you have to establish your personal independence first whether you are a government official or a citizen. If you have more energy to spare, help other people to become independent.' I believe that true patriotism is completely unrelated to anti-foreignism or militarism. People's love of country is one of the most important sentiments that should be fostered from childhood as the spiritual foundation of members of society or citizens of the world."

Nippon Keidanren chairman who is often dubbed as the prime minister of the business establishment has immense influence over the political and economic circles. Upon hearing this prime minister of the business establishment advocating the importance of patriotism, some people may feel like he is barking up the wrong tree. However, it appears to me that Mitarai's management philosophy that has built Canon into one of the best companies in Japan is reflected in his words.

By **Masaomi Ise**

Let me show in figures how Canon has changed under Mitarai's leadership. During the 10 years since 1995 when he took over as its president, Canon's consolidated sales increased 1.8 times from 2,090 billion yen (20.9 billion USD) to 3,750 billion yen (37.5 billion USD). Its current term net profits multiplied about eight times from 50 billion yen (500 million USD) to 380 billion yen (3.8 billion USD). Mitarai thus turned Canon into Japan's leading international high-tech company.

When Mitarai became president of Canon, he first embarked on the elimination of loss-making operations. Canon withdrew from seven businesses one after another, which were specifically the personal computer, liquid crystal display, word processor, electronic typewriter, optical magnetic disk, optical card, and liquid crystal color filter businesses. As a result, Canon lost sales of about 73 billion yen (730 million USD) but resolved its deficit of 28 billion yen (280 million USD).



This kind of efficiency-oriented business conduct is a favorite of American companies. When withdrawing from a business, American companies do not even hesitate to implement massive layoffs of employees that are no longer required or to sell out a whole venture including its workers to some other company. However, this disposal of underperforming businesses is not easy for Japanese companies that stand upon

the tradition of lifelong employment. Because Japanese companies cannot drop their employees, they continue deficit-ridden businesses reluctantly, which results in creating a drag on the entire corporate performance. This is a common pattern seen among Japanese corporations.

Nevertheless, Mitarai pressed ahead with the disposal of businesses while maintaining lifelong employment. It was based on his original management philosophy.

### Source of Competitive Power

Mitarai says that there are a lot of Japanese employees who regard the company they have joined as a country like the country of Canon or the country of Hitachi, and offer the company their allegiance. They begin to like and take pride in their company simply because they have joined it. They, therefore, do not easily take up different employment unless something very unusual happens. Good or bad, love it or hate it, this is the Japanese culture.

If those employees sharing a common destiny become aware of what they have to do and begin working on their own initiative, the company can become very strong. The company will no longer lose excellent personnel even if it declines a bit or has to cut their salaries. A lot of foreigners mistakenly think that Japan has a system of lifelong employment. Actually, however, there is no such system in Japan. In addition, there is no agreement for lifelong employment between the employers and employees in their job contracts. The employment situation in Japan is not so different from that in other countries including the "contract societies" of Europe and the United States. The only difference is that, in Japanese companies, both the management and workers take lifelong employment for granted.

I think that Japan should develop this unique culture from now on rather than aiming at Westernization. Japanese companies will then find another source for their competitive power. A good example is the case of Yoichi Kawabata who played a key role in Canon's withdrawal from the personal computer business. Kawabata was the head of Canon's wholly-owned subsidiary in California that was engaged in the development and designing of arithmetic circuits used as the heart of PCs. However, the odds were against this company

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because it did not belong to the Microsoft or Intel camp. To Kawabata who was in charge of this local subsidiary, Mitarai gave a strict order to bring all Japanese employees back to Japan.

The Japanese employees who had been dispatched to the subsidiary took objection to the order because they had become determined to live in the US and work on the PC business. Some of them even shed tears of frustration and disappointment. Kawabata says, "I myself felt like crying, too." By his eager persuasion, however, all of the employees finally agreed to go back to Japan. Then it was decided that the local subsidiary would be sold to Motorola, a major semiconductor manufacturer in the US. Most of the foreign employees of the subsidiary moved to Motorola.

#### **"Japanese Spirit" and "Western Learning"**

Kawabata was assigned to the Product Development headquarters with his 10 subordinates with whom he had returned from the US. For about six months, he was sunk in a state of apathy and did not know what to do next. While talking with the people around him, however, he gradually became aware of the fields to which he and his men would be able to contribute with their expertise in the designing of arithmetic circuits. At that time, the Copy Machine division was engaged in the development of a highly functional digital copy machine capable of delivering documents through networks and storing mass documents on its built-in hard disk. Kawabata's group developed a semiconductor chip equipped with various control functions, which reduced the cost and improved the processing speed and reliability of the digital copy machine.

Mitarai says he is happy to see that all of the employees transferred due to the disposal of businesses are actively working in the company. Although Canon withdrew from some businesses, it has made full use of the talents of its engineers in the businesses on which it is focused. Thus, Canon has realized "selection and concentrated operation of businesses" while maintaining the lifelong employment system.

"Selection and concentrated operation of businesses" is a management approach that the Japanese people learned from Western countries. But under Mitarai's leadership, it has been realized in the Japanese culture of lifelong employment. This "Japanese spirit with Western learning" is the style of Mitarai's management. This combination enabled Canon to dispose of underperforming businesses and concentrate its technologies and human resources into key businesses, and has brought a significant increase in its profits.

When the employees of a company share the same destiny of lifelong employment, they come to have a determination or a philosophy to work together to improve their company. The management also comes to have a sense that such highly-motivated and competent human resources must not be wasted. Then, rather than leaving the capable personnel stuck in a hopeless business, the management will have the courage to eliminate the business and transfer the personnel to other businesses.

#### **Canon's Genes**

Canon's policy of lifelong employment is based on the management philosophy of Takeshi Mitarai, the first president of the company. In 1943 during WW II, which was a year after he became

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president of Canon, Takeshi Mitarai abolished the day wage system for factory workers and introduced a monthly salary system instead. At that time, the social norm was to make clear a distinction between tenured office staff receiving a monthly salary and factory workers that worked by the day.

When being paid by the job, it is not easy for workers to secure their livelihood. If they become ill, they will lose their income instantly. Under the salary system, however, they will be able to enjoy a stable life as long as they work hard. After the salary system was introduced, a lot of capable workers gravitated to Canon, resulting in the company's steady development. Fujio Mitarai describes as follows about Canon's traditions handed down from the first president:

Takeshi Mitarai graduated from Hokkaido University and became a doctor, but later became the first president of Canon. Espousing the merit system and "familism," he aimed at building a company that could provide its employees with a stable and happy life. He created slogans such as "GHQ (Go Home Quickly)" and told the employees his view of putting one's family above one's job. This idea was very unique among the Japanese companies in those days. Such respect for man's life and dignity has been handed down as the genes of Canon. Canon has been ahead of the times also in introducing employee health examinations using an X-ray machine, five-day work week and home ownership systems. Canon has also adopted a system of dividing its profits equally among the company, stockholders and employees, which is often referred to as Canon's three-way split system. And yet at the same time, the company has made much of the merit system. The employees' awareness of their common destiny was developed in such a corporate climate.

#### **A High-tech Company's Lifelong Employment**

The genes of Canon described above are still serving as the driving force of this leading high-tech company in maintaining its world-class technologies. In 1987, Canon ranked No.1 in terms of the number of patent applications in the US, outstripping IBM. Also in the past 10 years, Canon has always been ranked high. What has provided a platform for its strength in technological development is the employees'

awareness of their common destiny based on lifelong employment.

Because researchers do not have to worry about being let go even if they are unable to achieve results in the short term, they can apply themselves perseveringly to the development of innovative technologies that can determine the future of the company. The famous bubble jet technique used in ink-jet printers is a unique printing technique that heats tiny nozzles to produce a jet of ink droplets. Canon's engineers spent five years to develop this technology. The material for the nozzles was provided by the optical fiber development team, which created a hollow optical fiber 0.1mm in diameter. The development of the heat source was helped by another development team that was engaged in the development of a small-sized heater used for printing the calculator output to thermal paper. Thus, several different development teams worked together with a strong sense of a common bond and an awareness of their common destiny. On the basis of this tradition, Canon succeeded in the development and manufacturing of its products. In other words, Canon's strength of the "employees' awareness of their common destiny based on lifelong employment" has been fully exercised in its technological development.

#### **Canon's Guiding Principle**

Some people criticize the lifelong employment system saying that employees will become spoiled and will not work hard. Mitarai is aware of this demerit. It is true that lifelong employment can put

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employees at too much ease causing them to lose a sense of tension. Mitarai has stressed education of employees to make up for the demerit. Canon's guiding principle since its foundation is the "San-Ji (Three Selves)" spirit stressing self-motivation, self-management and self-awareness, which is, in brief, the spirit of self-responsibility. Mitarai has made efforts to bring this spirit home to his employees. Actually, however, this guiding principle is not something specific to Canon. I myself have this principle hammered into me. I think it is a global principle common throughout the world.

Mitarai says, "I have poured my efforts into education of employees. In particular, I have tried to bring home to the employees the spirit of self-motivation, self-management and self-awareness, which we have upheld since the company's foundation, aiming to nurture independent-minded individuals. But I am not forcing this principle onto the employees. I just put my message on our website to encourage the employees to raise an objection if they think something is wrong as a human without minding the company's reaction. I also place a message saying that, if they think what their bosses, including me, have told them is wrong, then they should stand up against it. I am thus telling them repeatedly to become independent individuals."

In this way, all employees become independent respectively with the spirit of self-motivation, self-management and self-awareness and work together being aware of their common destiny based on lifelong employment. How can such a company fail to grow?

### **True Cosmopolitan**

In 1966, Mitarai went to the United States to take up his new post in Canon USA, a corporate body based in New York. Since then, he worked for nearly 23 years in the US until he came back to Japan to become executive director of Canon headquarters. Based on his experience, he says: "True cosmopolitans are not stateless people. They are, for example, Japan-native or US-native cosmopolitans. They were born and raised in specific cultures and have acquired some specific qualities through their cultures. These qualities are like their instincts. The culture of a country and specific mind-set of its people are rather inherent to

a person who was born in that country. Based on these qualities, however, the person should learn about other countries to understand them. Then, if the person goes to some other country, he or she will be able to act as a citizen of that country. I think this is a true cosmopolitan. This applies not only to individuals but also to corporations. I am managing my company as a cosmopolitan in this meaning. This is my core being."

Mitarai thus runs Canon as an international high-tech company on the basis of the Japanese tradition of lifelong employment.

### **Japanese People with a View of the Nation**

As well as requesting young Japanese people to become cosmopolitan, I would like to tell them to take more of a view of their nation. The Japanese people have not held clear views about their nation ever since WW II ended. Upon hearing the phrase "view of the nation," many people and the media still bring up the image of militarism. But this is not right. Every nation in the world has its own culture and traditions, mind-set and behavior patterns, commercial and social customs, and laws and social norms that are all specific to the nation. To understand them properly is to have a view of the nation. I would like to say we should have a proper view of the nation in order to stand as a first-class cosmopolitan in the international society. The "employees' awareness of their common destiny based on lifelong employment" is one of the features of Japanese culture. Canon became strong by taking notice of this merit and developing it.

The same thing can be said at a national level. When Mitarai became chairman of Keidanren, he made a speech quoting Fukuzawa Yukichi's words such as "If you love your country, you have to establish your personal independence first whether you are a government official or a citizen." He envisions that, with a patriotic spirit, independent individuals will love their country and work together as a community with a single destiny. Mitarai knows that this is the starting point of the path toward a "strong Japan." ■

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