First Quarter, 1996

An Interview with Minoru Makihara
(Page 1 of 8)

By Joel Kurtzman

With about $176 billion in revenues, the Mitsubishi Corporation--a trading company headquartered in the Marunouchi district of Tokyo, adjacent to the Imperial Palace--is the world's largest company. It is also one of the most complex, with operations in 87 countries and joint ventures and investments in businesses as diverse as energy exploration, raw materials, space imaging, foods, textiles, chemicals, metals, machinery, information systems and multimedia.

Like the company, Minoru Makihara, Mitsubishi Corporation's president, is at home almost anywhere in the world. He grew up in London--his father worked there for Mitsubishi--and was educated in the United States, at the St. Paul's School in New Hampshire and at Harvard University. After graduating from Harvard, he went to work for Mitsubishi, where he held positions around the world, including the United States.

At Harvard, Mr. Makihara's roommate was Robert A.G. Monks, the American shareholder-activist and investor who was instrumental in forcing Sears, Roebuck & Company to sell most of its financial businesses and focus on retailing. The two men remain good friends and the 65-year-old Mr. Makihara credits Mr. Monks with influencing the way he manages the Mitsubishi Corporation. That includes helping him decide to use return-on-equity targets to measure performance, a management method that is still unusual in Japan. In Japan, where shareholder activism is rare, Mr. Monks recently gave a speech at the Keidanren, the most prestigious Japanese business group, at Mr. Makihara's invitation.

So how do you lead a company as vast as the Mitsubishi Corporation? One way you do it, according to Mr. Makihara, is through global "trust networks"--the myriad of value-adding business, personal, institutional and investment relationships that have been carefully nurtured, some for generations, by Japanese trading companies. These relationships move products, but they also move information. And while they link Mitsubishi to the outside world, they also serve as the glue that binds together the company and its seven business units. These relationships help Mr. Makihara understand what is happening inside each business unit and they enable him to know whether his messages about strategy and direction are getting through. Communicating effectively is a vital component of leadership, in Mr. Makihara's view.

Some of these relationships link the company to the Mitsubishi keiretsu--a group of 30 or so independent but related companies most of which share the Mitsubishi name and three-diamond logo and have common roots. Companies in the keiretsu--Mitsubishi Bank, Mitsubishi Mining and Cement, Mitsubishi Heavy Industries, among others--do business with each other to varying degrees and often own shares in one another. Once a month, the presidents of the companies get together for lunch. But while the related companies may join together in a crisis, Mr. Makihara says, most of what they discuss has to do with preserving their common name, reputation and heritage.

What follows are excerpts from a discussion with Mr. Makihara that took place recently in his Tokyo office.
An Interview with Minoru Makihara

S&B: How do you measure success in a company as vast and global as yours? How do you know when you're doing well?

Minoru Makihara: Up until now, it was really very simple—we measured the percentage of revenue that was profit. That was all right when our funds were limited and labor was cheap. But now the most prevalent measure we use is return on equity or return on investments.

S&B: That is unusual in Japan, isn't it?

Minoru Makihara: Well, it depends. R.O.E. is beginning to be very popular and people everywhere are talking about it. But you know, I think we were probably one of the first companies in Japan to introduce it as a way of managing.

S&B: By return on equity you mean return to your shareholders?

Minoru Makihara: Yes. It comes down to that.

S&B: Do you set targets, then, as to what is an acceptable R.O.E. for the company?

Minoru Makihara: For us, it depends on the business. We are divided into seven groups. We set an expected R.O.E. target for each group. We set it quite low for some of the groups. Our information technology group, for example, is working in the new field of multimedia. As a result, it has an R.O.E. target that has been set quite low.

But until the bubble economy burst, we didn't have to manage by looking at R.O.E. Japanese shareholders were not really interested in a company's performance as long as the stock prices went up and there were stock splits and so on.

S&B: Setting a target is one thing, but how do you know that it is set high enough? How do you know that you are getting the full potential from a business?

Minoru Makihara: Very simply, we don't know yet.

S&B: You don't?

Minoru Makihara: No. You see, in allocating equity to each business group, we had to look at past performance and we also formed some expectations. We are aiming at an overall R.O.E. of 8 percent by the year 2000. I'm sure that in the United States or Britain, people would say that's very low. But from a Japanese general shareholder's point of view, I think 8 percent is about right. It is an equilibrium figure where shareholders' expectations and what we see as a reasonable overall target meet. Based on this figure we assigned targets to each of our groups.

S&B: Which groups have the highest targets?

Minoru Makihara: Right now, for example, the food division has a very high target. And the newer businesses would have the lower targets.

S&B: Does R.O.E. become a strategic investment tool for you? I mean, if the food business has a high target, and it can make that target, do you aim your investment at that group in an attempt to get more of those high returns?

Minoru Makihara: Not exactly. If a business can achieve high returns then it will accumulate more equity and it will have more leeway to reinvest on its own. Right now we're still looking at the return ratios and the capital allocations that we've made in the past to determine whether they were right or wrong. That helps us so we can either increase the capital or raise the R.O.E. bar for a particular business. Eventually, I believe that we will have to fix R.O.E. at a certain rate. Doing that will create a greater incentive for each group to perform on its own.

S&B: Was one reason for going to an R.O.E.-based management system the weakness of the Japanese financial system?

Minoru Makihara: No, not directly. The bursting of the bubble economy was of course connected to the overheating of the financial system and ultimately to the situation we are in right now. But the necessity for thinking about R.O.E. was based on the change in the expectations of the shareholders, of which in our case about 70 percent are institutional investors.
An Interview with Minoru Makihara

S&B: Many Japanese business leaders and commentators have criticized the United States for taking an approach to management that they say is too financially driven. Are you worried that an R.O.E.-based approach will draw the same kind of criticism in Japan?

Minoru Makihara: Theoretically, I think it is possible. But the main criticism of the United States has been that it is too financially driven and also too short term. We are not looking at this in the short term. To a certain extent, this is a corporate governance issue and governance in the United States is different from governance in Japan. In the United States, the shareholders are the owners. Period. They have the final say. But here it is an accepted fact that if you were to list who owns the company, it is first the employees and then the shareholders. So if you think of who owns the company more broadly—as we do—then you are obliged to think from a longer-term point of view. I think that is an advantage that will enable us to avoid making some mistakes.

S&B: Is it enough to prevent what critics in the United States and Japan call the “hollowing out” of the economy, which basically means sending jobs overseas?

Minoru Makihara: Well, if we are told, for example, that it will be very advantageous to move our manufacturing from Japan to China from the point of view of costs, that is something which requires careful consideration. But the discussion must be made very carefully and with a long-term perspective.

S&B: So how are the interests of the employees taken into account? Do they have representation on the board, as in Germany?

Minoru Makihara: No. Employee-oriented management is just part of our business culture, a result of having life-long employment.

S&B: But isn’t that changing? Nissan, for example, recently announced that it would lay off 7,000 workers.

Minoru Makihara: It is changing to some extent, in some areas. But if you look at these actions very carefully, you will find that these people haven’t been just laid off. Some Japanese steel manufacturers, for example, announced layoffs. But what they really did was relocate these people to other parts of the business. They have, in fact, been transferred and it takes them off the payroll of the main company but guarantees them their incomes.

S&B: This is the traditional method. But a lot of people in Japan are questioning whether the old social contract can survive when so much is needed in the way of efficiency and productivity gains. Do you think Japan’s social contract will remain in effect?

Minoru Makihara: Yes. I think life-long employment will remain, for the most part.
S&B: And how about outplacement.

Minoru Makihara: We do some of that. We have a group of people who are exclusively concerned with this problem. They tell some of our employees that within our structure and within certain age groups, we have too many people. These people are told that it makes sense for them to think earlier than they otherwise would have done about opportunities outside the company. They are then counseled and told what they might do and given opportunities to train themselves for positions on the outside. This shows the relationship between employees and companies in Japan.

S&B: A few moments ago you used the word incentive when talking about the business groups. What about incentives to increase individual performance within the company?

Minoru Makihara: Right now the bonus level is the same from group to group. At the moment, there are sufficient incentives for people to perform, based on the recognition that they achieve what we thought they ought to achieve. We have increased the proportion of employees' pay that is “at risk” over the past few years, so our salary structures have become performance-based. But you ask a very difficult question. We have had long discussions about whether, for example, bonuses should vary between the different groups depending upon the performance of that group. The answer so far has been no. The reason is that general trading companies have to do business even in declining areas. We feel that you can't penalize someone for having been assigned to work in a declining area.

S&B: So the current egalitarian system will continue, no matter where a person works in the company.

Minoru Makihara: It will continue at least for the short term.

S&B: I understand that Honda has been one of the first Japanese companies to change its pay structure so that it resembles a Western-style, merit-based bonus system. Will other companies do the same?

Minoru Makihara: I think you can do that in a single-line business like a commodity business or a manufacturing operation. But a trading company is different. I think it would be very difficult to do that in a multi-line business like ours unless you were prepared to split the company into seven separate groups.

S&B: There is a lot of discussion in business schools, within consulting firms and in companies around the world about the role of the corporate center. The question most asked is this: “How does the center add value?” How do you view the core of Mitsubishi with respect to how it—and you—add value to the enterprise?

Minoru Makihara: The corporate center has the responsibility of making certain that the company's overall morale is high. It has the responsibility of seeing that people are not too internally oriented—that they are really motivated to expand the business. Working on these morale or motivation issues is a very important priority for me. On top of that, there is the very important role of setting direction and in communicating that direction. Setting the direction of the company has become one of my priorities over the past years.
An Interview with Minoru Makihara

S&B: Why has direction-setting occupied you more over the years?

Minoru Makihara: Before the bubble economy burst, the direction was automatic. You could have everybody running in any direction and it seemed to work out all right. We were also still protected within the overall Japanese business and economic framework. But we are now finding ourselves in a much more competitive world. It is also a world that is rapidly changing and that requires a lot of thought as to the company's overall direction.

S&B: You mentioned communicating as one of your roles. How do you communicate messages within the company about the Mitsubishi Corporation's changing direction?

Minoru Makihara: It is a very complicated process but we have many channels of communication. We have formal channels, like convening monthly meetings of the 100 or so top people in the company, where we can talk with them. From these meetings we can start the process of letting the message filter down to the total organization. Of course, we also use E-mail. We use internal TV. We use occasions like New Year's to convey formal messages. Another method I use is to bring middle-level and young people into my office twice a month--about 40 to 60 of them--and I just talk to them. There are many channels that we use to get out messages and to keep morale high.

S&B: How do you know if the right message is getting out?

Minoru Makihara: Well, that is my job! But it is also a very difficult thing to do with precision. But when I make a significant announcement, my staff scatters around the company. Each of them comes from one of the seven groups and goes back to those groups and asks if the message was really understood. Sometimes they find that it was received and that it went straight through and everyone has gotten it. But sometimes they find that the message was stopped somewhere. So we repeat the message or try to find out why it stopped. It is very painstaking, but very important.

S&B: How do you lead a broadly diversified, far-flung company like the Mitsubishi Corporation? Is it similar to the way single-line companies are led?

Minoru Makihara: Leadership in a company like this--a general trading company--is probably different in at least one way from, let's say, a retail company or a manufacturing company. Our operations are really so wide-ranging and so complex. I think we have to lead people by being good listeners. That is to say, we lead in a company such as ours by drawing out ideas from people. That is something that leaders of trading companies have to do and it may be different from the way single-line companies are led. We can't simply issue commands. But apart from that, I think the qualifications are probably the same for a trading company or manufacturing company: You must be able to convey messages when required, you must keep morale high and you must see where and when change is necessary. You must make certain that the best people are promoted and that they are in the right jobs.

S&B: You mentioned the importance of listening. Is it difficult to get the kind of information that you need in order to set the proper direction and keep morale high?

Minoru Makihara: This is really the strength of Japanese organizations. It is where having lifetime employment makes a lot of sense. For instance, in the chemical group, I have a few people that I have known for many years and that I can count on for correct information. Some of them may have ideas that overlap almost completely with my own; others might not overlap entirely with my own views, but would probably come very close. The point is that there are people to talk to who have an in-depth, long-term understanding of the company and who know what is really going on.
S&B: Can you keep such close communication open as you move into the future?

Minoru Makihara: It is very important to do so. You know, although one of our main tasks is to transform ourselves from a Japanese trading company into a global trading company, I feel that we won't be a 50 percent Japanese company and a 50 percent non-Japanese company. Probably we will become a 90 percent Japanese company and a 10 percent non-Japanese company in terms of our top executives. Overall, 30 percent of our staff worldwide were hired overseas, but many of these are auxiliary and clerical staff, so this 90-to-10 ratio is a realizable proportion with respect to the nationality of personnel at senior management levels. I am sure that close communication can be maintained at all management levels between various nationalities. If this proportion is attained at the top, the cohesiveness required of a global general trading company will be maintained.

S&B: You mentioned that the Mitsubishi Corporation is changing and becoming more global. How else will it evolve in the future?

Minoru Makihara: General trading companies are a Japanese phenomena and are not well understood outside of Japan. They have been tried in the United States, in Korea and in China, without very much success. In Japan, these companies have been built up over long periods of time. They have established reputations. As a result, they attract very good people. They also have information and access to information—let's call these their trust networks. These are things that can't be built up right away and that we are not intending to change.

But we are not standing still and we have things to do. Up until now, we were Japan-centered. We imported raw materials and exported products. That was half of our business. The other half was our purely domestic business.

Now, we are becoming much more globally oriented. As we do this, we will also be moving more vigorously into making investments. Taking an equity stake in what we do will be much more common. In fact, it is already under way. About half of our income is related to our investment projects.

S&B: What would be an example of that?

Minoru Makihara: In the United States, we own Aristech Inc., a chemical company. We do a lot of business with Aristech, which we take in as dividends or show on our consolidated balance sheet. That is the kind of investment I mean.

S&B: How do you decide on the company's direction?

Minoru Makihara: It is becoming more of a top-down decision-making effort because the changes in the environment are really very unpredictable. I have an excellent core staff of people who help. This group is composed of middle-rank and upper-rank managers from our various business groups and staff. They all happen to be very highly capable and knowledgeable people with multiple perspectives. I depend upon them. So when we get together, we talk about information technology and its direction and what could happen there that would affect our businesses and so forth. That is how we think about our future direction.

We also talk about our assets, by which I mean, principally, our people, not just our Japanese staff, but also our internal and external network—our established customer base, our accumulated know-how from our staff who are hired from all over the world and so forth.
An Interview with Minoru Makihara

S&B: One of the directions that is associated with Mitsubishi is multimedia. Is that something you are discussing?

Minoru Makihara: No one can deny that multimedia will be very important in the future and I think there will be a lot of business opportunities there. But it is a very vague term that is used to describe anything to do with communicating back and forth through computerization. But certainly, looking at multimedia development in the United States, it is obvious that there are going to be changes in the worldwide business communication environment. Where there are changes, there are always business opportunities. My personal feeling is that the first markets for multimedia applications will be in the fields of education and business. Entertainment probably will take place but it will be a little difficult for us to get into it. But that is my personal point of view.

S&B: So far, not very many people have figured out how to make money from multimedia. Do you have a sense of where it will come from?

Minoru Makihara: I'm trying to do just that. For example, I think there is a lot of promise in home shopping. I think the concept is already there. But while it will provide some consumer opportunities, it won't be suitable for everything. Home shopping where we can probably intervene would typically be, I believe, for certain items that cannot be assembled easily in one physical place, but that people want to look at. It can also be instrumental when the items are of substantial value.

S&B: You mentioned the way Japanese companies are organized. Outside of Japan, there is a great deal of misunderstanding about...

Minoru Makihara: The keiretsu system?

S&B: Yes. Many people outside of Japan think of it as a closed and even insular system where member companies do business with one another almost exclusively and others are frozen out. Are they right?

Minoru Makihara: Not at all. You know there is the trading company—which is our company, the Mitsubishi Corporation—and it is one of about 30 companies that make up the group. There is Mitsubishi Bank, Mitsubishi Heavy Industry, Mitsubishi Mining and Cement, and so on. In the past we did a great deal of business with each other. But that's all changed now. In our case, we really only do around 12 percent of our business within the group.

S&B: Would you say there is still a sense of being part of a bigger family of businesses? A community?

Minoru Makihara: Well, the presidents of each of the companies in the group meet monthly for lunch at what we call the Friday Club. And there is a person—one of the presidents—who is nominated as a kind of caretaker and who convenes the lunches. It used to be the head of our corporation but now it is Mitsubishi Bank. But when we meet, it is almost exclusively to talk about things like who uses the trademark, to discuss issues like philanthropy or to talk about business trends. It is, in a way, like a seminar.

S&B: How close is this group?

Minoru Makihara: It is actually very loose. As I say, most of our business is outside of this group. We--Mitsubishi Corporation—would of course like to monopolize business within the group, with regard to exports and imports, for example, but realistically it is not feasible.
An Interview with Minoru Makihara

S&B: Is there a sense of common purpose?

Minoru Makihara: I believe there is—particularly when there is a crisis. Then the group is a very useful vehicle and that is when we come together. For example, when Mitsubishi Petroleum was about to be taken over a few years back, it would have meant that someone else would have owned the Mitsubishi name. That was a crisis because it meant we would have lost something of our identity. So very quickly, we responded to the situation. The bank and ourselves and some others bought out the outside interests to prevent the takeover. It was all done in the interest of preserving the name, which is to say, it was in all of our interests. So we acted together to manage a crisis, as it were.

You see, the keiretsu is really only a type of strategic alliance, and a rather weak one at that. It is not in any way exclusive or exclusionary. Even the cross-ownership of shares is declining.

S&B: Does that mean non-Japanese companies could become members?

Minoru Makihara: No. Because, again, most of our discussion is about the use of the name, which is our trademark.

S&B: Due to the recession and the high yen, lots of Japanese companies are under very intense pressure. Is this the type of crisis that would bring the Mitsubishi group of companies closer together?

Minoru Makihara: No. I don't think those are issues where coming together would solve the situation.

S&B: So recession and economic pressure are not enough.

Minoru Makihara: That's right. What keeps us together is the idea of preserving the Mitsubishi name.

S&B: And what about the merger of Mitsubishi Bank and the Bank of Tokyo? It will form a new entity with a changed culture. Will it still be a Mitsubishi company and a member of the group?

Minoru Makihara: I am confident that they will be part of our group and play a very important role. The name of course will change. I don't know what logo will be used.