

Japan's once-mighty tech industry has flagged

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In the 1980s, Sony co-founder Akio Morita fired a verbal missile across the Pacific at Silicon Valley: Japan's supremacy in business and technology would overwhelm U.S. competitors and lead to America's decline.

"They were about to conquer the world," recalled Ta-lin Hsu, founder of Palo Alto, Calif.-based [private equity firm](#) H&Q Asia Pacific.

Decades later, though, there is very little swagger in the Land of the Rising Sun, which once dominated the global tech industry, from memory chips to TVs. Many of Japan's consumer electronics giants are now has-beens. Its chips industry is struggling. And China, which surpassed Japan as the world's second-largest economy, now is the chief rival to the United States.

For a nation long proud of its engineering prowess - humanoid robots, high-tech toilets, superfast Internet, high-speed railways - the decline has "been shocking," said Martin Herlihy, a longtime Tokyo consultant and entrepreneur.

Industry experts on both sides of the Pacific, though, caution not to bet against Japan's ability to rebound - something that in the long run, they say, would be good for Silicon Valley and the United States.

"It's significantly in the United States' interest to have an economically strong Japan," U.S. Ambassador to Japan John Roos, former CEO of the

powerhouse Palo Alto law firm Wilson Sonsini, told the San Jose Mercury News. "They are our most important ally in the Asia Pacific, and this is the Asia Pacific century."

But Japan's slide from tech titan to a virtual bystander in the new global market has revealed deep weaknesses in its technology culture.

Signs of the decline in the once-dominant Japanese companies that dazzled the world with everything from the Walkman music player to DVD players are everywhere in this fast-paced and sophisticated city. Subways and cafes are packed with young people clutching iPhones and iPads - not Japanese gadgets. And Japanese companies are no longer leaders in the global TV industry.

"You can sell Japanese TVs, but only in Japan," quipped Tokyo University student Masaaki Sugimoto, a 27-year-old in Gucci glasses, a black T-shirt and black pants who is dismayed with his country's corporate tech icons.

Japan's top consumer brands are battling red ink: [Sony](#), Panasonic and Sharp posted billions of dollars in losses last year. Meanwhile, the nation's semiconductor industry, which once instilled fear in Silicon Valley, is in a downward spiral. In 1990, six of the world's top 10 semiconductor companies were Japanese; Intel ranked fourth behind Japanese giants NEC, Toshiba and Hitachi, according to IC Insights. But by 2011, five U.S. chip companies dominated the top 10 and only two Japanese companies, Toshiba and Renesas, were on it. And their combined revenue last calendar year was less than half that of world leader Intel's \$49.7 billion.

The pending sale of Elpida, Japan's last maker of DRAM memory chips, for the fire sale price of \$2.5 billion to U.S.-based Micron Technology further underscores the demise of the nation's semiconductor industry.

In previous decades, Japan's conglomerates aggressively supported research in next-generation chips. But as some of their other business units struggled with slowing sales, funding for research also slowed, said IC Insights President Bill McClean.

Japan's previous strengths, including a strong local market, a disciplined focus on precision technology and expertise in hardware, have played a role in its undoing, observers say. With the rise of stronger foreign competitors and the shrinking of the Japanese market, Japanese companies need to compete more in the global market, where software expertise, not hardware, is increasingly vital. Furthermore, its traditional corporate culture, which relies on group consensus, once served the country well but now makes it difficult for companies to respond quickly to the fast-changing global economy.

"The Taiwanese make 14 decisions in one phone call: 'Yes, we will deliver.' The Japanese just can't do that," said Hsu, who has deep ties to Japan's technology sector.

Japan's lack of cultural diversity and the high value it places on social conformity prevent the kind of independent thinking that has led to world-changing companies common in [Silicon Valley](#), said Sung Won Sohn, a professor of economics at California State University-Channel Islands. "In Japan, you get rewarded for being an organization man, not an independent like Steve Jobs," he said.

That helps explain why Japan, a pioneer in mobile technology, missed out on the hottest global gadget sector - smartphones. Apple and Korea-based Samsung controlled 55 percent of the market in the first quarter of 2012 and more than 90 percent of the smartphone segment's profits, according to ABI Research.

"They completely missed the smartphone phenomenon that started with

the iPhone," said Chetan Sharma, an independent wireless industry analyst. "Then they ignored it."

It is part of a larger problem plaguing companies here: converting its smart technology, from digital music players to e-book readers, into products consumers want. "Sony had MP3 players on the market long before Apple had them," said Gartner Director of Research Michael Gartenberg. "But they were really hard to use."

[Japan](#)'s technology industry has also been hurt by forces outside its control, such as a strong Japanese currency that makes its products pricey in overseas markets and last year's devastating earthquake and tsunami.

There are signs of change.

Panasonic's new president, Kazuhiro Tsuga, has vowed to overhaul his company's business and is instilling a new, faster corporate decision-making process. Sharp is setting up operations around the world to create a more global corporate culture, vowing to create "new essential products," including electronic textbooks. Gaming companies Gree and DeNA and e-commerce giant Rakuten, an investor in the San Francisco-based online bulletin board Pinterest, are examples of a new generation of Japanese enterprises that have the potential to be major global players.

"I am confident the Japanese companies can respond," said startup consultant Herlihy. "If you look at their history, they have dealt with a lot of upheaval - natural disasters, the Warring States period, complete destruction (during World War II). They've gone through a lot. They are a very resilient culture."

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