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QUESTION, Professor King: In the Japanese context, from the growth standpoint, there is one important factor present there that cannot be forgotten: Japan was basically a closed market. At the same time, the Japanese moved into other open markets, such as that of the United States. They targeted industries and cleaned them out. It was done on a collective basis with a lot of government support. In terms of a governmental or private posture towards Japan's aggression and its effect on the future, do you want to comment on how you see the situation from the standpoint of our role in Japan; our ability to compete in Japan; our view of that market; and, what they have done in the past?

ANSWER, Mr. Roth: There is no doubt that the Japanese success has been carefully engineered with a lot of government control. They are very methodical and premeditated and certainly have used non-tariff barriers and closed markets to full advantage. I guess you have to look at all of the things they have done. I am certainly not aware of them all, just the ones I can list.

If you look at the school systems in Japan, they have been methodically built up and put in place to the point where they now are turning out more engineers than all of North America—and that's coming from way behind. They kept their market closed thus retaining the domestic market for themselves, and allowing their own companies to build up a critical mass.

It is interesting that they came overseas only after their growth in the domestic market—the typical scenario being that a company will build up in Japan; capture as much of the domestic market as possible; and then, only after that growth rate begins to stall, move internationally. The Japanese government gives considerable support, but is ruthless by depriving failing or declining industries any support.

This is something that, of course, our own government systems find very difficult to do. We find it very difficult to turn our backs on an industry which is in trouble, and try to prolong it. I guess the example that comes to mind is the steel industry. We have put up tariff barriers in steel and kept the prices nice and high, and as a result are not importing steel anymore. We are importing cars instead because the auto manufacturers have a tremendous handicap given the high price of domestic steel—something that the Koreans and Japanese don't have.

I think despite the things the Japanese government has done, which by and large were some very good moves, the Japanese businesses themselves look at the market very differently than we do. We manage by

ROI—and do this very carefully. There are many things that we look at and say, "Well, we cannot afford to do that."

Comparatively, if this were a Japanese company, they would probably say, "We cannot afford not to do that." We typically hand out business planning guidelines and say, "Well, we are expecting a 15% annual growth from you folks." The Japanese wouldn't hand out guidelines anticipating a 15% annual growth. For them, a 15% annual growth, indicates you are a declining business. You must be dying. They reason that this market is growing at 100% therefore, you should be growing at 150%—anything less is failure. Those attitudes do not generally exist in North America, except in very small companies. Yet, they exist in Japan in very large companies. This is something completely different and very hard for those of us in North American business to adjust to. It is not our mind set.

Some examples I have found in reading about Japanese business are very interesting. Being an auto buff, I found one on Honda very intriguing. When Honda decided to move into motorcycles and compete with Harley Davidson, BFA and Triumph, Honda was not the leading motorcycle company in Japan. A motorcycle manufacturer, Tohatshu, was the leading company. Tohatshu had a very good balance sheet which would have looked good in North America. The debt-equity ratio was below one. Honda, on the other hand, had six times more debt to equity and had a good product. It was much smaller than Tohatshu, but growing like a bugger. They just kept borrowing, borrowing and borrowing to increase their capital, advertise, and bring out new products.

Six years later Tohatshu was bankrupt, and Honda was Number One. Honda then decided to go into automobiles. They took one of their best designers and put him into making cars. After going down that route for a few years, Yamaha started to spring up. Yamaha decided that they were going to catch Honda and, indeed, they were catching up. At one annual board meeting, the chairman of Yamaha declared that next year Yamaha was going to be Number One in Japan and the following year, Number One internationally. Well, the chairman of Honda got very incensed and told the people to go out there and crush Yamaha—and they did just that. They brought back some of their designers and brought out sixty-three new models of motorcycles; next, they cut their prices in dealer discounts and rebates to distributors and, as a result, cut Yamaha's sales by 30% in one year. They then cut them by another 30% in the following year. They were not going to relinquish their Number One position worldwide. It was just not going to be done and they didn't care what it cost.

There are very few companies this side of the water who would ever make a move that aggressive. It was just too expensive. Why would you have to do it? ROI would suffer. A recent survey of CEO's attitudes asked CEO's to rank on a scale of one to ten a number of different business parameters. In North America, ROI was ranked the highest with a score of 8.3. In Japan, ROI just made the list. Number Two in North America, I think, was earnings per share, but that didn't even make the list in Japan. In Japan, Number One was growth. Number Two was new products, and Number Three was quality and service. The top three were all very closely ranked.

Consequently, I learned from this comparison that we have managed by using some of the concepts that we were all taught in our MBA courses; and, to the exclusion of all else, we have become very narrowly focused. The Japanese place emphasis on growth and things that give rise to growth. Looking at distribution, they are much more balanced managers than we are which ought to give us cause for concern.

I do not think that we understand our business very well. By design, we reduce material costs in our product lines. We use custom Large Scale Integrated Circuits (LSI). The material costs of silicone are trivial. Labor costs in our business are 4%; that is what it costs to assemble our products. The larger cost is material control. Field service now has become much larger than factory costs, yet our management systems do not focus on how to make material control systems measurable and more efficient.

QUESTION, Professor King: I have one amplifying question. At one time I worked for a foreign firm and also served as a director for a number of Japanese companies. One of the things that impresses me about the U.S. is the short-term market estimate of the value of a company. For instance, first quarter earnings at IBM may not be up enough and the stock goes down. We think so short term. It's almost a psyche that is very difficult to change. I have noticed the difference between the U.S. and other countries since I have worked in these other contexts.

The question is what about the investment analyst who sees that first quarter earnings at IBM are not up enough and then it hits not only IBM, but the whole market.

ANSWER, MR. Roth: That is deep rooted in North America and I do not know how we can overcome that problem. You are absolutely right—we all worry about what the financial analyst is going to say. He is a speculator with no loyalty, really. He does not have the best interests of our company at heart. He wants to make a fast buck on our fluctuation, yet we work very hard to appease his desire for fluctuation.

COMMENT, Professor King: The answer is that if you have a losing operation in a quarter and it is still losing in one or two quarters, get rid of it. However, the Japanese approach would be, in some cases, to take the long view and stay with it for awhile. We lack that long view.

COMMENT, Mr. Fried: Going back to Professor King's first question, Mr. Roth, you seem to suggest that if business would only come to understand more effective management of information technology and of business by borrowing the best from the Japanese, effective international competition could occur. Good examples of this ability to compete internationally are Northern Telecom and Bell Northern.

On the other hand, I think Professor King's first question suggests that as long as countries such as the Japanese maintain a closed market and artificially low currency, use strategies of industrial targeting, subsidization and so on, no matter how improved North American business may be, it will be impossible for them to compete effectively in Japan. Morever, effective competition cannot be attained in the third world markets, the Brazils of the world, and so on.

I would have thought you would be speaking more strongly in favor of American government action and more forceful Canadian government action to get at some of these unfair governmental practices; and yet, you seem to suggest this is not terribly relevant. Instead, you suggest that it is business, itself, that carries the burden to compete effectively regardless of the governmental regime.

ANSWER, Mr. Roth: Well, I think that we have to recognize that if we had the Japanese market open to us today, we would lose. Since we cannot compete before we open the doors and really have free trade with the Japanese, we had better make sure that we can go in there and win. We would have to do a lot better in order to win.

Certainly I think that the pressure is on the Japanese to restore the balance of the market. This pressure has been effective and must be kept up. The fellow running our office in Japan is impressed because he says there are magazines and billboards in Japan that say "Buy Foreign Goods." You would never see that happening in North America, but the Japanese are really feeling the pressure. They are now going out and telling people: "You are doing something different, Japan. If you are going to restore the balance of trade, you must buy some foreign-made goods. Moreover, there honestly is pressure to do so. In some cases we are getting preference in selling our equipment because we are a North American manufacturer. They are very sensitive to the fact that they have a bad balance of trade and had better fix it; otherwise, they are going to be completely shut out. They must be seen as being responsive; therefore, they are buying more equipment.

On the other hand, they want changes from us. Procedures are slow with a lot of red tape; but I guess in comparison, it is taking us less time to establish in Japan than it took us to get established with AT&T. So I guess all things considered, they are not all that closed, but the pressure definitely must be kept on. The Japanese must open their market; however, you must not believe that is the solution. That will just unleash everything. We will find out how badly off we really are.

In a book called *Kaisha*, I read something terribly scary. It pointed out the typical scenario and named a number of companies which are finding that they are being beaten out in Japan by a stronger and more aggressive competitor. That aggressor is still content just to consolidate his position domestically and, as a result, force these companies to move out of Japan and come to North America for market growth. They are beating the stuffing out of us here. The thing to keep in mind is they are the Number Two company. The Number One company is still working away at consolidating its position domestically and will be over here next. If company Number Two can take us out of business, then company Number One certainly will do a good job on us. I think this is what we have to keep in mind. However, we are talking about the most successful companies. There are many failures in Japan — many companies that cannot compete are not doing very well. Unfortunately, the ones that do well are very powerful and in businesses that we would like to be in.

COMMENT, Mr. Tingley: It certainly is good to hear us talking about technology here. We have talked about a lot of legal things, but those of us who are engineers are getting down to the nuts and bolts of this thing. Basically, I think you have outlined the situation in Japan very well.

There are a couple of issues I would like to address. You mentioned the number of robots that the Japanese have. I think we should define what Japan calls a robot versus what we, in North America, call a robot. They are not the same. If we count our automated machines as robots, as the Japanese do, we might be closer.

I think the Japanese have taken what we have taught them and done a terrific job; however, there are a lot of things going on here. So many North American plants are coming on strong now that I don't think that we can count North American industry out. Furthermore, I think that we just have to get the message across to forget some of these ROIs and get going with it. We still have the technology, the know-how, and the capability to beat the Japanese at their own game. I think that we still have it and we are going to win.

COMMENT, Mr. Roth: I agree with that. I think what we need is the determination. We probably just have to get mad enough and decide that we are not going to look at the ROI this month and put the investment in a place to win. It is not enough to catch up to the Japanese in terms of quality and just-in-time inventory management. We have to figure out where we are going to go next. What the Japanese have been doing is going methodically through how a business really runs, what the dynamics are, and what things make it run well. They understand these things extremely well.

We need to put in place the things they have showed us and focus on the areas where they have surpassed us. We need to make up that difference, as General Motors is doing. There are many other areas, however, where we probably have similar advantages, but these advantages have yet to surface.

QUESTION, Mr. Wolfe: We have been talking a lot about Canada-

U.S. free trade and technology transfers. You or your corporate affiliates already operate on both sides of the border with production and R & D. What is your view of the current legal regime? Can it be better? Are there things that the government should be doing? Do you have problems moving technology across the border?

ANSWER, Mr. Roth: I think the legal regime could be simpler. What we would be looking for is simplifying and speeding up technology transfers. I know that we have had a number of technology interchange agreements with various companies. We currently are establishing one with IBM where first the business leaders decide what we want. Then we turn it over to the lawyers to get the legal formalities in place which sets us back a year. I do not know if it has to be that complicated. It is inconceivable, to me, why it takes that long to document what two businessmen have already agreed to do so that it can be made to work. It must be terribly complicated because we have some very bright people working on it, judging by their payroll, and it takes an extremely long length of time. Anything we can do to simplify the legal process of these transfers so that we can reach an agreement in several months would be nice and quite helpful.

QUESTION, Mr. Hayhurst: There is no lawyer in this crowd who does not want to ask a question. If I may be permitted, as a lawyer, to cross-examine you just for a moment. It is rather interesting to me that Canada Wire lost a patent case a little while ago. I have not heard of many Japanese companies losing patent cases in Japan. There is a different environment there. Just to illustrate the fallacy of cross-examining when you don't know the answer, have you ever negotiated an agreement with a Japanese company?

ANSWER, Mr. Roth: Not personally, but we have, yes.

QUESTION, Mr. Hayhurst: Have you ever been to Japan to negotiate an agreement with a Japanese company? Have you ever noted for every two white collar people we send over there, they have twenty at the negotiating table?

ANSWER, Mr. Roth: We have gone through it. We are going through the terms and conditions right now of one of our digital contracts and it is slow. There is no doubt about it. It was impressive that we reached an agreement to do it as businessmen in less time than it took us, as I previously said, in the North American examples. The terms and conditions are certainly taking just as long as in North America.

QUESTION, Mr. Hayhurst: Might you not conclude from the ratio of lawyers to engineers, that simply they have smarter lawyers?

ANSWER, Mr. Roth: Good idea.

QUESTION, Ms. McCarney: I wanted to follow-up on Professor King's point about quarterly reports, etc. In my work I am constantly seeing North American, and to a lesser extent, European businessmen running around the tougher markets with standard form contracts in their back pockets. They hit four or five cities in a week expecting to land deals.

I watch the Japanese counterparts in those same markets who are told to go in and take a hotel suite or an apartment. They are not expected to make any deals for the first six months to a year. All they are expected to do is to get to know the market, the pressure points, and the decisionmakers. They have very different attitudes in terms of that long-term perspective that Professor King was talking about; but, it seems to me, there has got to be something more complex in the Japanese stock market and in the Japanese stock holdings. Is it that the Japanese stock is concentrated or diverse, or is it the way the Japanese perceive their investment analysis that puts the pressure on the North Americans to meet those quarterly statements and allow the Japanese to take a longer approach? Maybe we should be looking at those kinds of things.

ANSWER, Mr. Roth: The Japanese seem to get most of their financing through banks, through debt rather than through equity. Also, in the Japanese market they tax dividends as ordinary income. Capital gains are not taxed at all, so there is more incentive to invest and the savings rate in Japan is higher. There are a number of factors. I am not too sure what the makeup of the financial analyst in Japan seems to be; but certainly in the minds of the CEOs, the earnings per share do not seem to have the same persuasiveness or effect on the decision making that they do in North America. That is probably a longstanding thing.

QUESTION, Ms. McCarney: Can Japanese banks take an equity position in companies they loan to?

ANSWER, Mr. Roth: Yes.

COMMENT, Mr. Gill: I have one observation about Japan. I have never litigated a patent in Japan, but I have talked to our Japanese counsel and asked about what it costs, how long it takes and that sort of thing. It is much cheaper, but it never gets done. They go to court and file a lawsuit, and it goes on forever and ever. If the lawsuit does not get settled, the problem goes away in eight or nine years. The lawsuit does not mean anything anymore, so everybody just gradually stays away. There is a difference here—you get a result and it means something.

COMMENT, Mr. Roth: Yes. I think some of those fellows certainly got a surprise recently. They opened up a massive fiber optics plant in Raleigh, North Carolina with the expectation, I believe, that they would be able to get the rights on the Corning patent, and the deal would be pushed ahead. This was not the case, and the plant is sitting there now empty.

QUESTION, Professor King: I have another question and this relates to the "water-over-the-dam" problem. With the target for machine tools, the problem that some of our other industries have had, where the Japanese were more competitive early on, is that we have lost some of these basic industries to a considerable extent. Do we just write them off? These are the hard core industries. We have, of course, the automotive industry, but we have lost a lot of the steel industry. We have lost considerably in the machine tool industry. What do you do? What do you propose to do in those cases to keep them going, or do you just say, "Well, we are not going to do this?" This is a tough question, but I would like to hear your view.

ANSWER, Mr. Roth: It is an extremely tough question. My bias inclines me to say that we will make sure we do not lose the ones that are going to be important in the future. The Japanese are losing the steel industries to the Koreans. It looks like the Koreans are certainly coming along very quickly in the auto industry. They probably will give the Japanese a run for the money. The whole world is becoming far more competitive. I am concerned about losing ground in the industries which we must win because our efforts are also directed at saving ones that we are going to lose or could afford to lose.

Right now I find the whole thing in semiconductors scary. The whole basis of my industry is semiconductors. We can look at the Motorolas and Texas Instruments and be satisfied because they are big companies doing very well. On the other hand, when I go through a semiconductor foundry today, I look around and keep asking who supplies the furnaces and who supplies the photoaligners? In semiconductors, the quality and number of chips that you can put down on a given slice is dependent on the quality and precision of the capital equipment, the photoaligners and the furnaces—all of the equipment that you use for the fusing. That equipment sets the capability of the process; and therefore, who makes the capital goods is a crucial question. When I went through the factories six years ago, I felt good because the equipment all had North American labels, with the exception of one or two European ones.

Recently, however, I went through the equipment list of a big facility being set up and said, "Whose equipment are we going to select?" Japanese equipment now is considered the best in 60% of the market—that figure has risen from next to nothing in just six years. This is frightening. If they take over that end of the business, then we have lost control of the fundamental process. The process is now being controlled increasingly by the Japanese.

The North American companies are struggling with this because they recognize the problem. The people in North America who make the capital equipment are generally small companies or a division of a large company that is not a semiconductor manufacturer. While the Perkin Elmers and others do not have to make photoaligners since they can do other things, the Hewlett Packards, Northern Telecoms, General Electrics, Ratheons, Texas Instruments and Motorolas need this equipment.

When comparing the North American semiconductor industry with the Japanese industry, the reason for Japan's success is evident. In Japan, using the government agency as a type of collaborator, the semiconductor producers and the capital equipment manufacturers for the semiconductor facilities work together far more closely than we find happening in North America. Now, some attempts are being made in North America by organizations trying to find a way to get equipment users and equipment producers closer together, both technically and financially. Unless we can pull things like that off, we are going to find ourselves having to buy the process technology from Japan and then be expected to surpass the Japanese in our ability to run and get output from that equipment. That just will not happen. Those who have the technology first will learn how to run it best first. These are the things that really scare me today.

It is only recently that a facility such as the Michael Electronic Center of North Carolina was opened in North America. There you actually can get a number of competing companies to contribute to a single foundation. This is contrary to everything that we have learned. We must change the guidelines so that we are encouraged to do this kind of thing and not fear being confronted with an antitrust suit. We must work together like the Japanese.

The other thing is that the companies like Hitachi, for one reason or another, make components, communication products, and consumer products; and, as a result, have tremendous depth within their companies. They look like fifteen North American companies all in one. They have tremendous strength in distribution, commercial sales, consumer products and raw component technology. You seldom find all of that in one North American company. We tend to specialize or become a conglomerate with real estate and car rental companies, as opposed to aiming at a technology sector.

The Japanese have picked a "technology stream" and gone into various market outlets working off of that single "technology stream." Thus, they have tremendous power backing their raw technology base. If the market moves in different directions, they have the capability to respond because of their presence in all of the market outlets. If our market tends to change, we are out of the business, because we lack a distribution channel, fundamental technology, or are not in that market place.

QUESTION, Professor King: I have one other question on the role of the defense department since a lot of the U.S. research is sponsored by the U.S. Department of Defense. How do you view this role in terms of Canadian goals? How do you evaluate this role in terms of competition between North America and Japan?

ANSWER, Mr. Roth: Well, certainly that is a tremendous investment and produces a lot of good results. I know that we participate in part of the research as a Canadian company. I think in that area Canadian-U.S. relations have been very useful because, certainly, we have not been excluded from it. It provides a source of money and revenue for investing in certain kinds of research and development. Furthermore, it also introduces us to a lot of companies in related fields and we get technical contacts. It has been very useful to us.

However, it is a little worrisome that the technology which comes out of the military program tends to take a long time to get commercialized. Also, a lot of the companies who participate exclusively in military programs have no interest in using that technology in commercial applications. The money they can make by continuing to go after military contracts year after year far exceeds the returns of taking that technology and moving it into a commercial product, and then marketing it through a commercial avenue. As a result, that technology usually moves into the commercial world via some entity other than the original company which developed it. However, there are some exceptions such as the Rockwell companies which are in a range of fields. But, the technology they have we generally do not see used in commercial or consumer products. In the Japanese non-military approach, you can see investment going directly into commercial products.

QUESTION, Mr. Tingley: We have tried to address the aspect of subsidies, government support, etc. However, some industries such as the fastener industry which is no longer self-sufficient in North America, look weak, even from a defense point of view. It looks as if we could have problems if we had to rely on North American industry to supply that sector. Do you feel that the government should be stepping into those industries that really cannot compete, but are necessary from a defense point of view should we get into a real conflict?

ANSWER, Mr. Roth: I think North America must maintain the capability to supply itself with any strategic materials. Hopefully, the support would be done so that industry can become competitive again in the world market and not have to remain a perpetual welfare candidate. It is important that we give to emerging countries. But, they do not have to get food every year. You give them tools and the grain so they do not have to receive aid in the future. I would want to give similar aid to industries we need to have in North America. I think this kind of assistance is needed. It cannot be a perpetual welfare system, otherwise it becomes too large.