

reengineer the corporation, companies may have to experiment with entirely different ways to structure all forms of corporate activity.

The successful entry of some Japanese automakers in the luxury segment of the market attests to the power of business process reengineering. To produce Lexus, Toyota started a brand new company, Honda started Acura and likewise Nissan started Infinity. Entrenched interests among managers and employees of the old company were avoided. This example indicates that firms who excel in flexible manufacturing are more likely to protect and preserve their ability to meet the requirements of their customers in new ways and to sustain competitive advantage. Moreover, the high value added lines of business that generate rents are often found in the specialty niches of the upscale market, which are best supplied by flexible manufacturing technology.

The spread of flexible manufacturing is already taking place through Japanese foreign direct investment in Canada, Southeast Asia, Europe and the U.S.. Germany and Italy have already introduced these more fluid structures of business organizations. The boundaries of the company are hazier, often encompassing close and continuing relationships with suppliers and the community. The most vital sectors of the Italian economy are not large corporations, locked in mutual dependence with state-funded industrial policy, but local networks of small, semi-autonomous firms.<sup>90</sup>

The discussion here brings out the importance of finding out why Japanese companies and their products have been successful in one market or the other. An economic nationalist could make the casual observation that the Japanese have yet again driven the U.S. and European producers out of the high profit segment of the automobile market and that the government must defend the long term national interest. Japanese firms have been successful, however, not because of their government's guidelines. Rather, they quickly adapted to changed realities in a fiercely competitive marketplace and pressed ahead in implementing flexible manufacturing by applying new technology to "knowledge" workers. The point to note is that it is the adoption and application of new knowledge in Japan, rather than the production—most likely in the U.S.— of new knowledge, that has led to a new mode of production and generated comparative advantages for Japan. Quick access to new technology is of utmost importance for an advanced country to sustain competitiveness. IBM and Sears have not faltered because they were in wrong lines of business. Nor can the national bureaucracy lead them to nirvana by picking new sectors for them. Competitive global markets, companies everywhere know, are not for laggards. The best way for the U.S. and European corporations to counter the Japanese challenge is to compete with production and commercial innovations.

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<sup>90</sup> John Kay, *The Foundations of Corporate Success*, London: April, 1993.