

THE BOOK PUBLISHING INDUSTRY IN JAPAN AND THE UK:
CORPORATE PHILOSOPHY/OBJECTIVES, BEHAVIOUR AND
MARKET STRUCTURE

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Abstract

A number of prominent publishers in the UK and US have become parts of globalized media groups. In Japan, by contrast, they have neither been absorbed into media groups nor become globalized businesses. Based on interviews of major players in the Japanese publishing industry as well as annual reports, other written materials, and in comparison with the UK, this paper examines co-relationships among corporate philosophy, behaviour, and market structure with a view to explaining comparative divergence between Japan and the UK. The Japanese publishing market exhibits a number of distinctive structural, systemic and business practice characteristics, and these have not changed markedly in recent years. One historical influence on strategies shaping corporate behaviour in Japan has been competencies, or limited management capabilities and reach. Corporate behaviour at a collective level, in turn, has created a distinctive industry structure. The paper suggests the importance not just of strategies (choices made in the pursuit of profit) shaped by competences, but of corporate philosophies which emphasize public interest and not just profit. These norms, while nuanced, overlap to help shape a distinctive and enduring structure in Japan.

Keywords: Publishing industry, corporate philosophy/objectives, corporate behaviour, market structure/characteristics, ownership, Japan, UK, comparison

JEL Classification: L13, L21, L22, L82, M14

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I. Introduction

Global mobility of products, services, capitals and labor has increased, and is intensified by global competition which imparts a huge influence on growth and decline of industries and firms in individual countries. In general, Japanese industries are no exception, and many Japanese firms are locked in severe competition with rival firms in the global market.

There is an exception, however, which still now appears to be little influenced by globalization. It is the publishing industry. The industrial characteristics and corporate behaviour of the Japanese publishing industry are very different from the UK (and the US), even allowing for barriers of the Japanese language. Major UK publishers have been absorbed to huge media conglomerates, for instance, which pursue strategies to maximize profit through leveraging synergy effects of the publishing business and other media businesses on a global scale. Japanese publishers, on the other hand, are largely independent firms with family management. Their businesses are based on corporate philosophies emphasizing public interest since their founding, and they are largely confined to the domestic market.

There are various thoughts about corporate philosophy or objectives. Generally, stockholder or corporate profit maximization is assumed in most streams of economics. Indeed, some publishers in the UK appear to be developing their businesses in this way. Many Japanese publishers, however, have a philosophy or objectives emphasizing public interest.¹ Of course, they also pursue profits, but relatively speaking, they give priority to public interest. These corporate philosophies or objectives are shared by not only publishers, moreover, but by wholesalers and retailers in the industry.

While market structure and business customs in the Japanese publishing industry differ remarkably from the UK, historically both countries had similar market features before WWII. Subsequently there was divergence - towards a free competitive market in the UK and a cooperative market in Japan. Market structures or characteristics in fact synchronized with corporate philosophy or objectives, and were mediated through corporate behaviour. In this evolutionary process, presence (or absence) of nationwide wholesalers played a crucial role.

Based on interviews of major players (publishers, wholesalers, and retailers) in the Japanese book publishing industry as well as annual reports, other written materials, and in comparison with the UK, this paper aims at highlighting the interrelation between corporate philosophy/objectives, corporate behaviour and market structure/characteristics in the publishing industry. To do this, we consider fundamental factors related to the UK competitive market and the Japanese cooperative market, corporate philosophy/objectives in the publishing industry, and the role of nationwide wholesalers in the industry.

Corporate behaviour is described chiefly in terms of positioning in the market in consideration of market structure, rival firm positioning and corporate resources (competencies and capabilities).² But corporate behaviour is influenced by corporate strategies, and in turn corporate philosophy/objectives. These may emphasize the pursuit of profit to varying degrees, and public interest to varying degrees. In brief, there is a possibility that difference of philosophy/objectives influence corporate behaviour, and in turn the market structure/ characteristics because of the interrelation between the three. The three are inter-linked in a dynamic way, moreover, so that causation can work in multiple dimensions dynamically.

Figure 1. Interrelationships in the Publishing Industry.

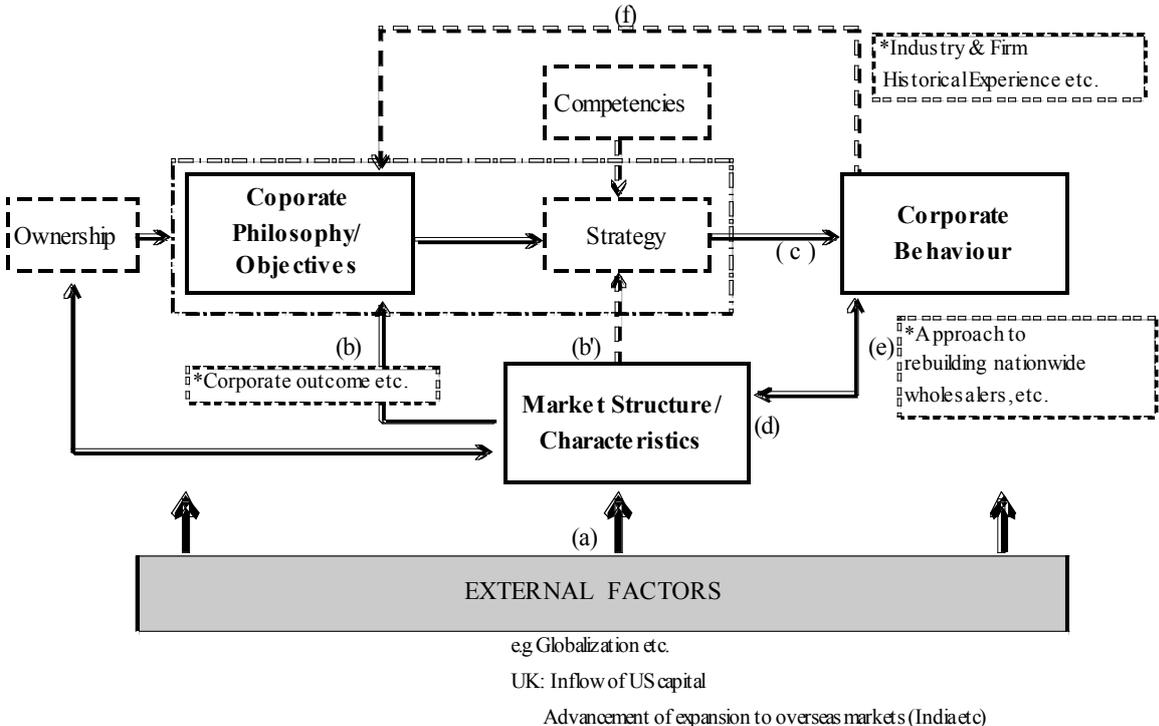
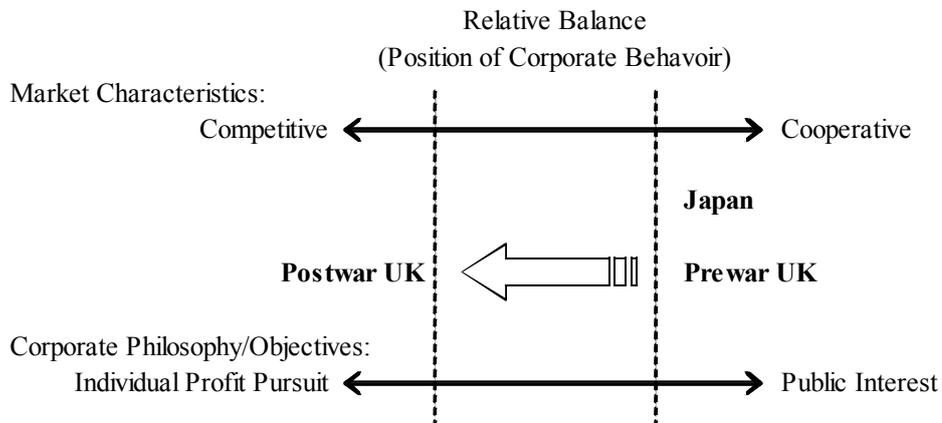


Figure 1. (continued)



The paper has following structure. Section II describes the historical development of the publishing industry in Japan and the UK, centering on wholesalers, which have a key role in the formation of market structure/characteristics, and hence how differences in markets occur. Section III outlines the present publishing industry, emphasizing differences between the Japan and UK markets. Section IV considers features and changes in corporate philosophy/objectives in both countries. We shall see that these changes synchronize with market structure/ characteristics, strongly influenced by the role of wholesalers. Section V clarifies the interrelation between corporate philosophy/objectives, behaviour and the market, and suggests a model of the interrelation mechanism in the publishing industry. The concluding comments consider the problems and future direction of the publishing industry in Japan.

II. Historical Development of the Publishing Industry in the UK and Japan, Centering on Wholesalers³

II.1 Expansion of the Distribution Network and Changes in the Value Chain⁴

Publishing guilds were formed in London by the 14th century, and developed with the progress of the printing techniques in the middle of the 15th century. Publishing and selling of books in Japan began in Kyoto in the 17th century. In the initial stages of the publishing business in both countries publishers

basically managed all activities including publishing, wholesale, and retail.

In the UK, most functions of the publishing industry were concentrated in London, where supply and demand were high. In Japan, there were three centres of the industry, Tokyo, Kyoto, and Osaka. Books were published and distributed in each city. The industry became concentrated in Tokyo soon after the political and economic centre moved there in the latter half of the 19th century. Publication demand was still limited, and no nationwide distribution network had developed.

In both countries, newspapers began to develop nationwide distribution channels, and formed an independent industrial infrastructure earlier than book publishing. Publication demand increased with modernization, and agents distributed books and magazines by leveraging their own newspaper distribution channels. Gradually, some agents became specialized in the publication wholesale business.

This required an economic expansion that increased demand for publications, hence production, and distribution. Market formation of the publication distribution business in this period was also supported by several factors; first, mass production and cost efficiency through mechanization, second, low-cost and speedy distribution of publications by the nationwide expansion of the mail and the railroad system, third, increased local demand by urbanization and establishing bookstores in cities. In addition to economic, technical and social factors, transaction factors were also important; the establishment of publication wholesalers that also had a finance function was beneficial to the publishing industry.

While publishers had hitherto covered all of the value chain, as wholesale firms became established, publishing and retail businesses were divided. As the result, the division of firms in the value chain of the publishing industry was formed in the UK by the middle of the 19th century and in Japan by the early 20th century.

Industrialization brought competition based on the market mechanism. Wholesalers were exposed to a severe all-out competition, and unified and reorganized gradually through restructuring and M&A. A high degree of oligopoly was established in the wholesale market before WWII, and

wholesalers came to have a strong influence over the publishing industry in both countries.⁵ Thus there are strong parallels in the historical development of the industry in the two countries prior to WWII.

II.2 Competition and Cooperation

While the historical development of the industry was similar prior to WWII, the approach to the resale price maintenance system and restructuring of the distribution system, diverged greatly between the two countries in the postwar period, generating contrasting market features.

1) Response to the resale price maintenance system⁶

In both countries, all-out competition intensified under unregulated markets. One result was that many bookstores saw their profits decrease, and fell into a slump. The stagnation of payment from bookstores negatively affected the management of publishers and wholesalers. A wave of bankruptcies of publishers, wholesalers, and bookstores ensued. In response, publishers, wholesalers, and bookstores shifted towards co-operative behaviour through adoption of the resale price maintenance system (RPMS). This helped to stabilize the industry.

In Japan, the RPMS was adopted legally in 1920, but disappeared after WW II, before being revived in 1953, after which it has been maintained under the strong presence of wholesalers. In the UK, the Net Book Agreement (NBA) was adopted as a gentlemen's agreement in 1900. The mainstay bookstores began a campaign to abolish it in the 1980s, the movement grew, and the NBA was formally annulled in 1997.

2) Collapse of Nationwide Distribution System in WW II and Rebuilding the System

In Japan, all wholesalers were amalgamated as a public firm during WWII, and publications were distributed under this monopolistic system. In the later stages of the war, the distribution function was severely undermined. After the war ended, the GHQ ordered the dismantlement of the monopoly distribution system.⁷ Nine wholesalers were subsequently established through the cooperation of publishers and bookstores. Some wholesalers in turn were

dissolved or absorbed into others. As a result, a high degree of oligopoly market was re-established in the postwar period.

In the UK, on the other hand, the nationwide distribution network of Simpkin Marshall, the biggest wholesaler, collapsed during WW II. After the war, publishers cooperated as in Japan, and tried to revive Simpkin Marshall. Not all publishers were convinced of the necessity of a major nationwide wholesaler, however. As support from publishers was lost, Simpkin Marshall disappeared in 1955, as a result, causing distribution problems in the industry for some time.⁸

In both countries, then, the publishing industry developed under free competition, but when competition overheated, publishers, wholesalers, and bookstores opted for cooperation, and adoption of the RPMS. The balance of competition and cooperation, however, diverged between the two countries after WWII.

In Japan, major players in the industry agreed that nationwide wholesalers were absolutely necessary to accomplish their philosophy/objectives, which were a variation on the theme of supplying good books at affordable prices for everyone. Publishers and bookstores thus positively supported wholesalers through capital and talent until the wholesalers could stand on their own feet. Wholesalers rebuilt a nationwide distribution system to respond to and to support the accomplishment of philosophy of the firms in the industry. They established a huge presence by a high degree of oligopoly, but instead of pursuing their own profits on this basis, they became the linchpin for cooperation of the industry. They cooperated in computerization with publishers since the 1960s, for instance, and advanced credit to small and medium-sized bookstores. More recently, publishers, wholesalers, and bookstores have been connected by IT networks, strengthening rather than weakening cooperation. Thus, the balance between competition and cooperation shifted towards cooperation in the postwar period.⁹

In the UK, such networks have not appeared; some publishers have cooperated in distribution alliances. Market characteristics shifted towards competition, however, after the demise of nationwide wholesalers. Media conglomerates began to appear in the domestic publishing market in the 1960s, and the pressure to pursue higher profits intensified. By the 1980s, competition had

intensified and expanded globally, and the NBA, the last bastion of cooperation, was abolished in 1997. Thus, the framework for cooperation collapsed in the UK publishing industry, and the standard of corporate behaviour became the pursuit of profit through competition based on the market mechanism.

III. Features of the Present Publishing Market

III.1 Recent Market Trends in Japan

The Japanese book publishing industry had sales of 966 billion yen in 2003, about one tenth of the market size of automobiles and electronics.¹⁰ The number of new book titles exceeds 70,000 annually, and the number of books shipped is almost 1,200 million. Many books, however, are produced and sold in small volumes, and the book publishing industry is a typical diverse-type-and-small-quantity commodity industry.¹¹

The Japanese market kept growing up until the mid 1990s, after which it began to shrink (table 1).¹² Hitherto the Japanese publishing market was said to be impervious to economic fluctuations, such as the post Plaza Accord recession in the 1980s, and the bubble in the late 1980s and the early 1990s. Even in the post-bubble recession, it kept rising. Market growth, however, stopped in the latter half of the 1990s, and began to contract for the first time after WWII.

Behind this contraction is said to be a decrease in consumer demand because of declining income and job insecurity. In addition, there are changes of information gathering by the spread of the internet and mobile phones, and a switch from buying books at bookstores to borrowing from libraries or using second hand book shops. Such factors are intertwined.¹³

Table 1. Market Trends in the Japanese Publishing Industry.

Year	Total 1)		Books		Year	Total 1)		Books	
	Sales		BR 2)	GR 3)		Sales		BR 2)	GR 3)
	JYm	JYm	%	%		JYm	JYm	%	%
1982	1,544,470	703,100	45.5	1.8	1993	2,492,290	991,680	39.8	3.5
1983	1,596,520	707,970	44.3	0.7	1994	2,549,770	1,033,960	40.6	4.3
1984	1,638,610	697,870	42.6	-1.4	1995	2,605,010	1,049,800	40.3	1.5
1985	1,741,790	712,280	40.9	2.1	1996	2,698,000	1,099,600	40.8	4.7
1986	1,798,660	715,710	39.8	0.5	1997	2,678,790	1,106,240	41.3	0.6
1987	1,880,620	763,630	40.6	6.7	1998	2,617,220	1,061,020	40.5	-4.1
1988	1,950,340	784,250	40.2	2.7	1999	2,554,810	1,042,070	40.8	-1.8
1989	2,014,520	796,910	39.6	1.6	2000	2,512,440	1,015,210	40.4	-2.6
1990	2,149,610	847,440	39.4	6.3	2001	2,444,430	1,003,170	41.0	-1.2
1991	2,275,220	926,360	40.7	9.3	2002	2,436,910	1,012,300	41.5	0.9
1992	2,384,660	958,070	40.2	3.4	2003	2,317,990	966,480	41.7	-4.5

Note:

1) Total = books + magazines, 2) Book ratio, 3) yearly growth ratio

Source:

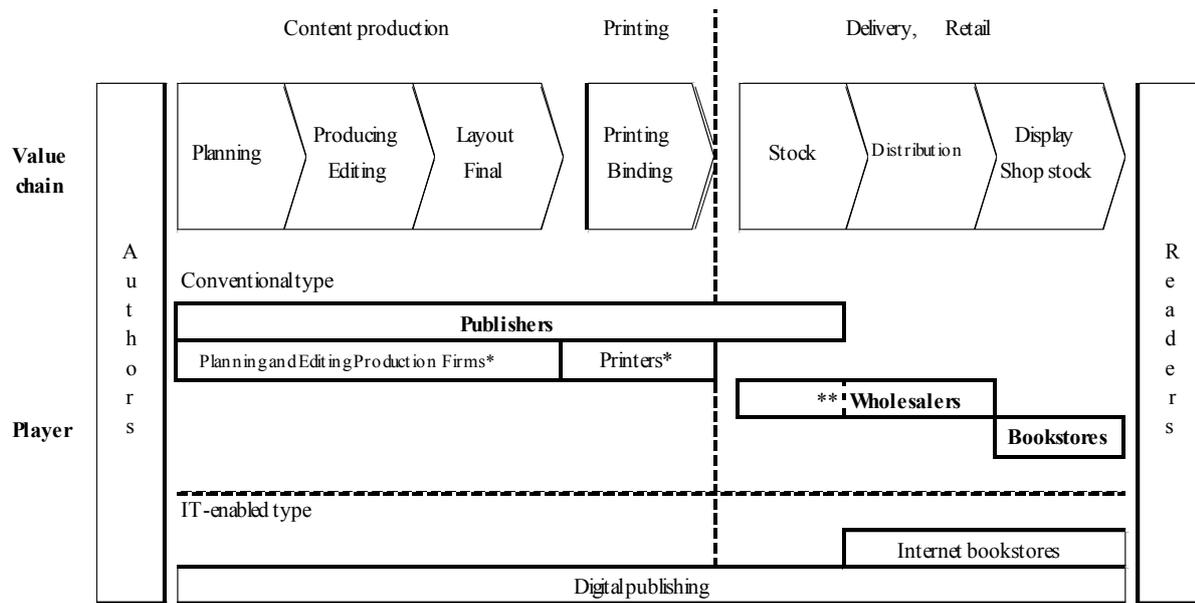
Shuppan News Co., Ltd.,(2004) *Shuppan nenkan 2004* (Publications Yearbook 2004), Tokyo.

III. 2 Features of the Publishing Industry in Japan

1) Structure of Supply and the Value Chain

The Japanese publishing industry has a supply chain in which publishers plan and edit books and magazines, wholesalers distribute them, and bookstores sell them to readers, with subdivisions for each link (figure 2). Most publishers outsource printing and binding. They select domestic outsourcing because of the small disadvantage in total costs, considering transportation expenses and immediate response to sudden changes.¹⁴ In addition, some relatively large publishers outsource parts of core business activities such as planning and editing; such outsourcing is mainly undertaken by planning and editing production firms.¹⁵

Figure 2. Value Chain of the Japanese Publishing Industry.



Note:

*Outsourcing of publishers

**Nationwide wholesalers stock many publications in their own huge distribution centres.

* and ** are added to the original figure of METI.

Source:

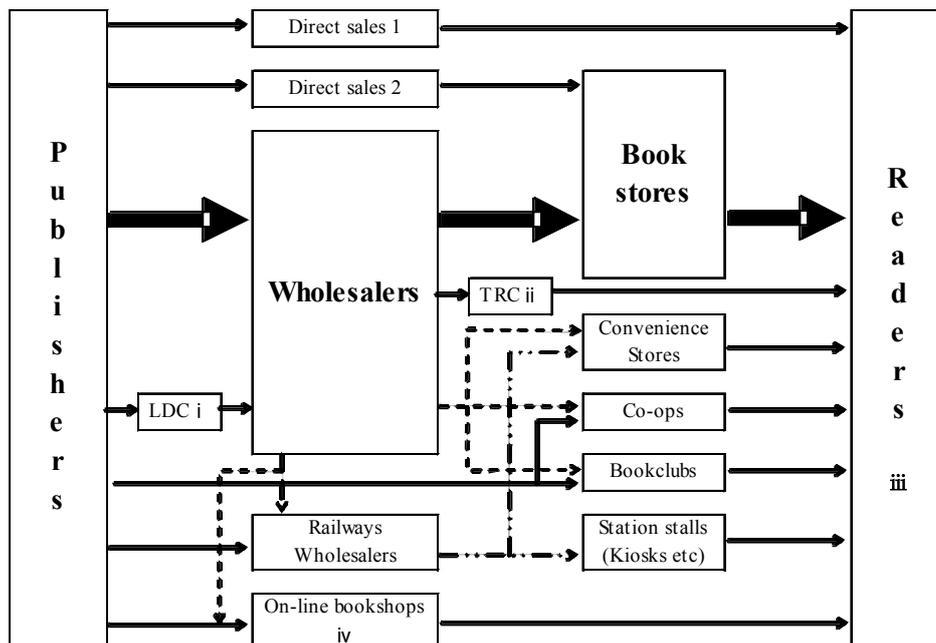
Adapted from METI (2002) *Shuppan sangyo no genjo to kadai* (Current Situation in the Publishing Industry), Tokyo.

The outsourcing of planning and editing began in the 1980s. One reason was to reduce labor costs that had increased rapidly in this period, and another was to utilize planners and editors with versatile skills because publishers published diverse books and magazines, more than could be handled by their own planners and editors.

Additionally, new business models with information technology – print on demand, internet bookstores, etc., emerged, but sales in 2003 were small, and the impact on the overall book publishing market is still limited.¹⁶

There are various distribution channels, but the route through wholesalers (the so called ‘wholesaler route’) is by far the highest, accounting for 70% of books and 90% of magazines (figure 3).

Figure 3. Main Distribution Channels of Publications in Japan.



Note:

→ shows the flow of publications (books and magazines, etc.).

i LDC means small local distribution centers, where publications of local publishers are handled.

ii TRC means library distribution centers, where publications sent to municipality libraries are handled.

iii Readers include schools, universities, libraries, firms, and other organizations.

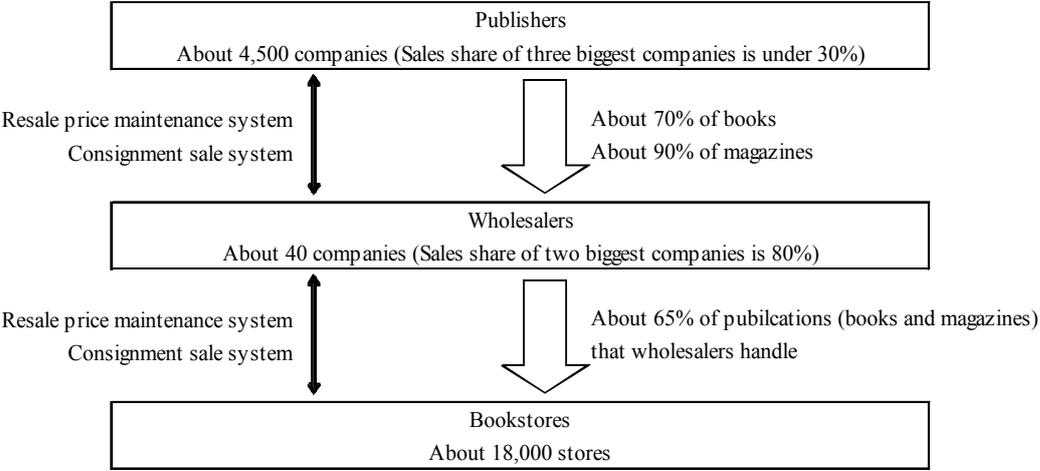
iv There are other routes by way of bookstores and convenience stores.

Source:

Japan Society of Publishing Studies (2004), *Hakusho shuppan sangyo- data to chart de yomu nihon no shuppan* (White Paper of Publishing Industry- Data and Charts), Tokyo.

Bookstores handle 65% of publications in the wholesaler route (figure 4).¹⁷ The majority of small and medium-sized bookstores, moreover, are affiliated to one of the top two wholesalers, Nippan and Tohan. About 80% of publishers are located in Tokyo, as are the main distribution functions of wholesalers, with bookstores located throughout the whole country. The supply chain network, therefore, is a radial structure that centers on Tokyo.

Figure 4. Distribution Shares in the Publishing Industry of Japan.



Note:
 The numbers of firms are corrected to values in 2003.
 Source:
 METI (2002) *Shuppan sangyo no genjo to kadai* (Current Situation in the Publishing Industry), Tokyo.

2) Main Players in the Industry

There are three main players; publishers, wholesalers, and bookstores. About 4,500 publishers exist in Japan. Over 50% have less than ten employees, and the ratio of firms with over 1,000 employees is almost 1%. The concentration ratio of publishers, therefore, is not high – under 25% for the top five firms.¹⁸

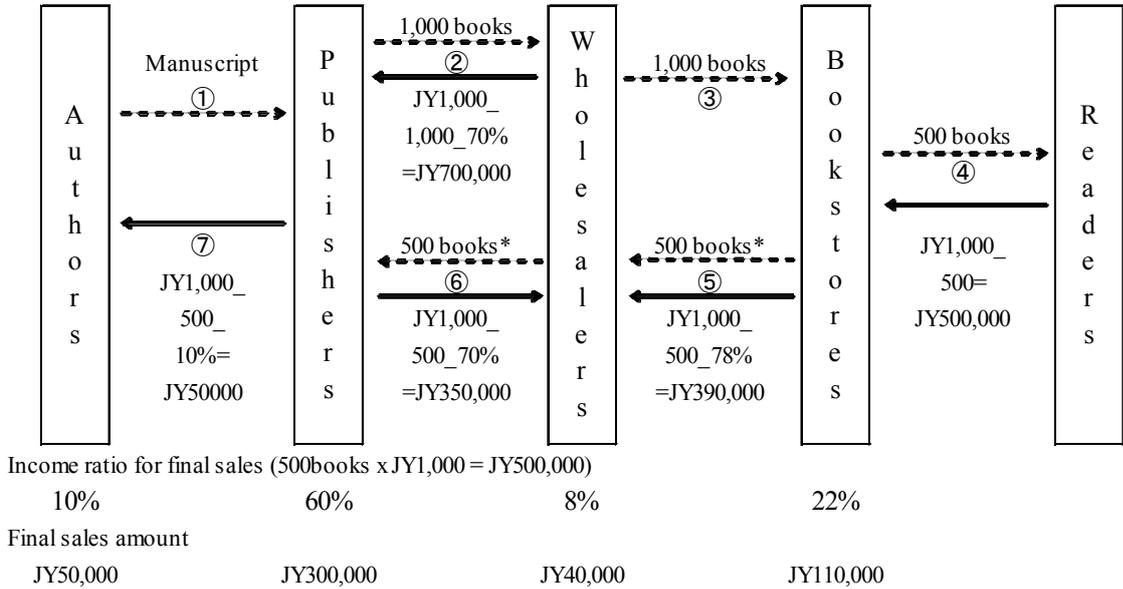
There are about 40 wholesalers. Nippan and Tohan stand apart, accounting for around 80% of volume, thus figure has risen since the late 1990s because of the closure or bankruptcy of small and medium-sized wholesalers. As a result, the wholesale market is highly oligopolistic and the top two nationwide wholesalers have a strong influence on the Japanese publishing industry.

The number of bookstores is about 18,000 (this compares with around 3,000 in the UK and Ireland combined, and 6,000 in the US).¹⁹ The concentration ratio of the top three is under ten percent. Recent trends are towards an expansion of large-sized chain bookstores and a decrease in independent small-sized bookstores.

3) Business Transaction Practices in the Wholesale Route

There are broadly two types of transaction in the Japanese publishing industry – ‘buying up’ and consignment sales. The latter is by far the most widely adopted in Japan. This means that bookstores can return most publications that remain unsold. Consignment sales developed historically for magazine sales, and came to be applied to book sales gradually.

Figure 5. Flow Chart of Business through the Wholesale Route/ Where the sales price of a book is 1,000yen, 1,000 books are published, and 500 are sold



Note: Figures are as of 2000.
 Arrows of solid and broken lines mean the flows of money and real books respectively.
 * - return of unsold books.

Source:
 METI (2002) *Shuppan sangyo no genjo to kadai* (Current Situation in the Publishing Industry), Tokyo.

The RPMS is applied to the price of every publication legally. Publishers decide the retail price of a book, and the net income ratio of publishers and bookstores is decided in contract with the wholesaler. Contract conditions depend on vested rights and bargaining power between firms concerned, however wholesalers, in particular the top two, have the initiative in each contract. If they do not utilize the contract initiated by the wholesaler, publishers and bookstores cannot leverage the wholesale route.

Wholesalers have not only a distribution function, but also a finance function (figure 5). There are three types of finance function; a) to collect sales cash from bookstores and pay net income to publishers; b) to advance payment to publishers, eliminating the lag between publication and payment, which is especially important for small and medium-sized publishers; and c) to supply credit for small-sized retailers.

Systematic restrictions exist, and transaction forms are almost fixed, in the Japanese publishing industry. Nationwide wholesalers have played a big role in the maintenance of the system and transaction forms by initiative with contracts. It is not easy for publishers and bookstores, especially small and medium sized firms, to become independent from this market framework.

4) Ownership

Only ten Japanese publishers are listed on the stock market, less than 1% of all publishers. The majority of Japanese publishers have been managed by families since their establishment. And only two large bookstores, Maruzen and Bunkyo-do, are similarly listed. Most of Maruzen's top 10 shareholders are financial institutions of banks and life insurers but Bunkyo-do's shareholders are dominated by family ownership. Most bookstores, too, have been developed as family business since their establishment.

The major wholesalers are neither family businesses, nor publicly listed. Significantly, most of their top 10 shareholders are publishers, and this structure influences their management.²⁰ This influence is subtle if pervasive, however, as no individual shareholder owns more than 5% of shares.

III. 3 Features of the UK Publishing Market

It is estimated that the number of UK publishers is over 2,000, and over 3,000 bookstores have joined the Booksellers Association of the United Kingdom and Ireland. UK wholesalers' data is not available.²¹

Book distribution in the UK is independent from magazines and its distribution and transactions have been optimized for book sales. The share of a direct route from publishers to bookstores is 70-80% (about 20% in Japan). Wholesalers support such a direct route, and have the role of distributing

books of small and medium-sized publishers. Bookstores account for over 50% of retail sales, and the share of large chain bookstores has increased, while independent small and medium bookstores have decreased rapidly. The UK publishing industry relies greatly on exports, which account for one third of total sales.

Book transactions are basically buying up systems based on orders from retailers. Various marketing strategies are developed as a result. The marketing period for new books is usually longer than that of Japan, and new book information reaches retailers and wholesalers 2-3 months before publication. Sales representatives from publishers frequently visit bookstores, and take orders for new books.

The UK publishing industry does not have systematic restriction, for instance RPMS, and there is limited cooperative behaviour between firms in the industry. The transactions of wholesalers are very limited, and market structure is simple, with publishers as producers and bookstores as retailers. Publishers had the initiative in the industry soon after WWII, but the rapid appearance of large chain bookstore groups has shifted influence in the industry from publishers to bookstore groups.

IV. Corporate Philosophy/Objectives and Behaviour

Few Japanese publishers are developing new business or belong to media groups such as the UK (and US) publishers. Most Japanese publishers are managed by families based on traditional corporate philosophies which they have espoused since their establishment. Features and changes to philosophy/objectives in both countries are considered in this section, showing that changes to these synchronized with market structure features, in which wholesalers played a critical role.

IV.1 Japanese Firms

Kodansha is commonly seen as a publisher of quantity and Iwanami Shoten as a publisher of a quality within Japan. These two firms have led the industry. Kodansha has espoused the corporate philosophy since its establishment in 1909 *to contribute to the public and society through the publishing business*, and has declared ‘interesting and useful publications’ as its business

standard.²² In fact, Kodansha developed its publishing business around magazines, according to this philosophy and standard. Recently, the company established a joint venture with Random House of Bertelsmann to introduce its books, comics, and animation contents overseas through the Random House network, and Random House's contents to the Japanese market. These businesses may also be seen as extension of the corporate behaviour based on the Kodansha's philosophy.

The corporate philosophy of Iwanami Shoten is expressed as '*Good books for everyone*,' the founder's statement at establishment in 1913.²³ Iwanami Shoten has maintained and developed this philosophy, currently expressed as *to supply good books at a low price to readers, to contribute to society*. This philosophy has influenced other publishers as well.

The Japan Book Publishers Association has played a role in diffusing public interest such philosophies. It was established soon after WWII, with the aim of developing the publishing industry, in cooperation with the Japan Magazine Publishers Association, it declared that *the contribution to the development of culture and society is the most important philosophy for publishers and people who work there*.²⁴ This became a kind of constitution in the industry, as is influential still today.

A contrast is provided by Kadokawa Shoten, one of the few listed publishers, which has used its own book contents in movies and TV and is developing its Asian business.²⁵ Kadokawa was established *to rebuild the Japanese culture by preserving the traditional and beautiful Japan* soon after WWII, but did not maintain this stance. In addition to co-ordinating content among movies, TV and books, the company has become a media software publisher. The motivation appears *to shift to the software contents business for entertainment and the pursuit of profit* rather than the cultural contribution of traditional Japan.²⁶ The company remains an exception, but in future, others may follow suit.

Next, let us look at wholesalers and bookstores. Nippon Shuppan Hanbai (Nippan), one of the top two wholesalers, was established to achieve a nationwide supply system network managed by the trinity of publishers, wholesalers, and bookstores.²⁷ Nippan's corporate philosophy is *to contribute the public and society through publication distribution*. '*People's harmony*' is

an often-cited expression.

Tohan's corporate philosophy is similar to that of Nippan. Key words include accuracy, promptness, kindness, saving, and peoples' harmony' – Tohan's so called '5 principles,' created soon after its establishment.²⁸

The corporate philosophy/objectives of both wholesalers is deemed to find expression through improvement of the distribution function. This requires foregoing opportunistic behaviour, and working for the publishing industry in general.

Maruzen, one of the largest bookstores, was established *to contribute to the promotion of the civilization and the culture of Japan by importing and distributing products including the publications of advanced countries.*²⁹ As the domestic publication market grew, the sales share of domestic books grew gradually. However, this was carried out with a view to contribution to Japanese culture rather than the pursuit of profit. Another large bookstore, Kinokuniya, claims, 'Bookstore management is not based on commerce but agriculture.'³⁰

On the other hand, firms in the publishing industry are expected to behave with a long-term view of cultivating the industry. *Contribution to improving society through books* includes book fairs for children, and support of a nationwide reading encouragement movement, and arguably takes precedent over the pursuit of profit for the individual firm. These philosophies have helped to maintain relations between publishers, wholesalers, and bookstores. As a result, although firms in the Japanese publishing industry exist as independent enterprises, the entire publishing industry seems to form the corporate group to promote co-existence with wholesalers that playing a crucial role in strengthening inter-linkages between firms (wholesalers, in turn, are owned by publishers, as we saw earlier). As we shall see, however, this structure also arguably suppresses competition or at least leads to over-distribution in the industry as well.

IV.2 The UK firms

According to Lane and Booth (1980), the UK publishing industry underwent significant change after WWII. In the prewar period, it was said that jobs in

the publishing industry were for gentlemen. Most publishers were managed chiefly by families, and contributed the public and society by developing culture even if profits were meagre. Traditional publishers, in particular, were interested in cultural contents of publications, and considered the pursuit of profit and efficiency as lower-order goals.

In the postwar period, however, the pursuit of profit emerged as a primary concern. As mentioned in section II, the beginning was the formation of publishing groups from the 1960s, spurred by increasing financial pressure on publishers. Small and medium-sized publishers were under pressure to choose whether to become a part of a group, or to continue to manage under severe pressure. As a result, there was a rapid process of amalgamation and the formation of publishing conglomerates in the domestic market. The managerial revolution in this period saw the introduction of modern management methods and indices, marketing, economic efficiency, profit and so on, to manage these conglomerates.

In the 1980s, moreover, the UK publishing industry was involved in the wave of global media integration. Major UK publishers became a part of the 'media conglomerates,' and are now core firms of the publishing business in groups (Suzuki, 2000). Middle-sized publishers were affiliated under the core publisher, and huge publishing business groups were formed in those global media conglomerates. The conglomerates aim at the expansion of business scale and improvement of earning power by uniting new media businesses (Internet, cable TV, and TV/radio) with old ones (publishing and newspapers).

Core firms include Random House (US, UK) in Bertelsmann (GER), the Penguin Group (UK) in Pearson (UK), Simon & Schuster (US) in Viacom (US), Harper Collins (US) in News Corporation (AUS, US), and so on. The publishing businesses are developed globally. The Bertelsmann group centering on Random House has a 1/3 share of the US book market, and its publishing business has extended all over the world, not only in English markets but also German, Spanish, and Japanese. Other media conglomerates are developing the publishing business centering on English book markets, spurred by pressures of the pursuit of profit.

This UK comparison is informative. Not only were market structure features similar to Japan in the prewar period, but the philosophy/objectives of

individual companies were similar as well. And both changed in the postwar period; the former towards a highly competitive market structure, and the latter to emphasis of profit.

It is likely that the dissolution of nationwide wholesalers contributed to increasing pressure on publishers. After the dissolution, publishers had to create a distribution function inside their own firm which they had previously outsourced. As a result, distribution costs would have risen for small and medium-sized publishers that did not easily gain scale advantages, intensifying financial pressures on them. Thus, it is possible to argue that the disappearance of nationwide wholesalers became a trigger for publishers' integration, and competitive market characteristics were accelerated. If the balance of cooperative and competitive market characteristic depends on the presence of nationwide wholesalers, they may be considered the 'visible hand' of the publishing industry.

V. Interrelations between Corporate Philosophy/Objectives, Behaviour and Market Structure

Based on the above discussion, let us consider the interrelations between corporate philosophy/objectives, behaviour and market structure/features, looking first at the relation between corporate philosophy/objectives and corporate strategy. Strictly speaking, philosophy/objectives differ from the strategy, but it is sometimes difficult to separate them. It is often said that Japanese firms do not have a corporate strategy, and most publishers in our interviews echoed this view.³¹ All, however, had philosophy/objectives that are fundamental to strategy. With this caveat, a model of the three elements is shown in the figure 1.

To consider this model, let us consider an exogenous shock to market structure/ characteristics (arrow **a**), for instance recent structural changes of the Japanese market, or changes in the UK market in the postwar period. Some contend that Japanese publishers have begun to lose their traditional public interest philosophy/objectives because of prolonged recession.³² Thus they might begin to shift their philosophy/objectives towards the pursuit of profit because they cannot achieve sustainable corporate development under the current philosophy/objectives. In the UK, this happened in the postwar period. Thus, these are the effects from market structure/ characteristics to

corporate philosophy/objectives including strategy (**b, b'**).

However, corporate philosophy/objectives along with competencies and market structure shape corporate strategy, and the firm undertakes behaviour based on the strategy. These effects are basically same as the general assumptions in management strategy theory (**c**).³³ Even if there is no change to philosophy/objectives, changes in the market can influence corporate behaviour through strategy correction.

And corporate behaviour in turn influences the market (**d**). Most firms in the Japanese industry, for instance, cooperated to rebuild nationwide wholesalers in Japan, forming the Japanese cooperative market, while on the other hand, the UK competitive market was formed by the publishers' behaviour based on individual interest. The opposite direction, moreover, can exist in the relationship between these two elements (**e**); a change in the market can influence corporate behaviour directly. Publishers shifted from cooperative behaviour to competitive behaviour because market structure/characteristics changed in the postwar UK.

Another effect is from behaviour to philosophy/objectives (**f**), a result of the historical experiences of the industry and the firm. This is shown in the rebuilding of the wholesale function in Japan and its subsequent influence, versus the fact that this did not happen in the UK, with divergent results. In the former case, cooperation between publishers, wholesalers, and bookstores brought tangible benefits, though this effect is not shown explicitly.

Finally, there are two effects related to ownership in our model. The first is a relationship between ownership and market structure. The second is the effect from ownership to corporate philosophy/objectives. This suggests that a change in ownership from family business to a media conglomerate might shift objectives to the pursuit of profit.

VI. The Future Direction of the Japanese Publishing Industry

In this paper, we considered the interrelationships between corporate philosophy/objectives, corporate behaviour and market structure feature in Japanese and the UK publishing industry. The main findings are as follows:

Many Japanese publishers espouse a philosophy emphasizing contribution to society through enlightenment and development of culture. This objective is stressed more than the pursuit of short-term profit, and influences corporate management today. It is shared by not only publishers, but also other firms in the industry. After WWII, optimization of the nationwide distribution function was advanced for the achievement of objectives broadly shared in the industry, which consequently appears to constitute a single corporate group working towards the same goal.

On the other hand, after the loss of the presence of its key nationwide wholesaler, the pressure for profit rose rapidly in the UK market. A comparatively free competitive market was formed along with the pursuit of profit of individual firms in the industry. This suggests that the presence of nationwide wholesalers might be a comparative index of the market characteristics between countries.

When considering the future direction of the Japanese publishing industry, we should note first that the price of a book is said to be *lower* in Japan than in the US, Germany and the UK. There are bookstores everywhere, and readers can always see contents of a book and buy it. Thus the Japanese market structure and corporate management cannot simply be dismissed as anachronistic. These features depend on the Japanese cooperative market centered on the nationwide wholesalers.³⁴ Many publishers actually calculate that if they did not leverage the distribution network of nationwide wholesalers, the total costs would rise because of inefficiencies in distribution and finance. This would be passed on to the price of books.³⁵ Some chain bookstores have misgivings that many small and medium-sized publishers and bookstores would fall into the management difficulty if there was no leveraging of the wholesale network, and a further contraction of the publishing industry might result. Publishers and bookstores thus recognize advantages of the present publishing industry structure.³⁶

Problems, however, are also caused by the Japanese cooperative publishing industry. In contrast to the 'golden' bubble years, when major publishers' average profit margins were around 10%, their margins are now almost 2%, and zero or minus levels for quite a few publishers, compared with 5-10% for major UK and the US publishers.³⁷ Profits of wholesalers and retailers have fallen similarly, and are at about the same level. There are stresses in the

industry due to long-term recession. Some argue that traditional Japanese corporate philosophy has begun to change through rising pressure to secure profits.³⁸ As a result, price undercutting can be seen, as for instance in new books that mimic the top-selling books. This makes the core businesses of publishers - planning and editing - more difficult than before. Such problems exist on the supply side. Additionally, while RPMS and the consignment sales system show no sign of crumbling, there is scope to increase competition and efficiency through flexible operation of RPMS and use of the buying up sales system.

It is instructive to consider responses to market contraction, to see whether this could prove a trigger to shift the industry in the UK direction. First, there are some indications of companies trying to leverage publishing content through other media to create bestsellers, and the use of strategic management and marketing tools. Second, however, a more marked response has been collective efforts to streamline costs and improve efficiency, often led by the large wholesalers, which have made major investments in new warehousing facilities and IT infrastructure, which aids the survival of small retailers in their struggle for survival against internet retailers and large chain stores. Publishers, wholesalers and bookstores have joined the national campaign for 'morning reading' in elementary and middle schools nationwide. Maruzen, a major retailer, is attempting to provide value added IT-based services to universities and libraries. These responses conform to the existing market structure, rather than challenging it. And while there are attempts to improve profitability, the public-serving philosophy of many of the players has not been abandoned.

But there are also challenges from outside the existing framework. These include IT-derived challenges, such as electronic publishing and internet retailing, as well as distribution channels which bypass wholesalers, such as used book sellers like Book Off. While small as yet, these businesses have been making inroads into the market, growing rapidly while the rest of the industry is contracting.³⁹ The challenge from without, then, may prove significant in the long term. It is possible, too, that the Livedoor attempt in 2005 to build a media conglomerate through its hostile takeover bid for Nippon Broadcasting System, the largest radio broadcast company in Japan, and ultimately its attempt to tie up with the Fuji-Sankei media group, might spread to the publishing industry, altering corporate philosophy/objectives and

behaviour.⁴⁰ This is not a foregone conclusion, however. Currently the situation is one of incremental change rather than radical upheaval.

Finally, some comments about the balance of public service/cooperation, and profit seeking/competition: The quality of corporate management may be judged by profitability, but on the other hand the pursuit of short-term profit can result in contraction of long-term profits and a loss of social trust, undermining sustainable corporate management. The balance is not easy to maintain. In some ways it is similar to pressures to attend to shareholder interests in corporate governance on the one hand, and balance stakeholder interests through 'Corporate Social Responsibility (CSR)' mechanisms on the other. One means of seeking this balance is through 'Mission Management.'⁴¹ The lack of corporate ethics generally originates in concentration on the pursuit of a short-term profit of the firm. Ultimate corporate objectives, however, are to be accepted by society and to be supported by customers in the long term. For this, corporate decision making should be based on corporate mission (philosophy/objectives). According to Ono (2000), mission management attempts to harmonize the pursuit of profit and contributions to society. Achievement of corporate management with a clear mission has the possibility of not only improving corporate performance but also contributing to society. Ono points out that corporate mission gives stakeholders - customers, shareholders, employees, and local society - various influences, and considers these from the influence on customers first, and adjusts interests between main stakeholders in a balanced way.

Notes

¹ Interview notes. Interviews were carried out at three publishers, three wholesalers and two major bookstore companies.

² C.f. Porter (1985), Hamel and Prahalad (1994), Asaba (2004).

³ This section draws on Feather (1988) and Shimizu (1991).

⁴ In the UK, before the expansion of the book distribution network, the magazine distribution system was constructed as a direct route from magazine publishers to readers by the postal network. The book and magazine distribution system, therefore, were separated from each other. In this section, UK wholesalers basically mean book wholesalers. On the other hand, Japanese wholesalers handle both books and magazines.

⁵ In Japan, the wholesale market had become highly oligopolistic by the 1920s. In the UK, the nationwide wholesaler Simpkin Marshall had a powerful influence over the publishing market until the 1950s.

⁶ Resale Price Maintenance System is defined here as the producer or the supplier deciding the retail price, and the retailer selling commodities according to that price. In this case, the net income ratio of wholesalers and retailers is decided by the transaction contract.

⁷ GHQ - General Headquarters/Supreme Commander for the Allied Powers. Market confusion after World War II was intense. In 1948, the number of publishers increased rapidly to about 4,500 firms because of the abolition of restrictions such as paper distribution, a market entry requirement, and so on. Many publishers were subsequently driven to bankruptcy or M&A, with their number decreasing to about 1,500 firms in 1953.

⁸ Ultimately, distribution efficiency was improved, and the failure to rebuild a nationwide distribution network was counteracted by the progress in IT and large-scale investment by giant publishing corporate groups.

⁹ Koide (1992).

¹⁰ Major publishers publish both books and magazines, and most wholesalers and bookstores handle both publications. Sales of magazines exceed 50%. This differs from the UK and US, where books and magazines are basically separate markets. In Japan, therefore, magazines strongly influence corporate management.

¹¹ Japan Society of Publishing Studies (2004).

¹² Expansion was underpinned by technical innovation in manufacturing and distribution, improvement of profit profile by advertising media of magazines, efficiency by outsourcing of editing and printing, and rising demand through increasing income levels.

¹³ The Japan Society of Publishing Studies (2004), Institute of Publishing Education (2002), Shuppan News Co., Ltd. (2004).

¹⁴ Interview notes of publishers.

¹⁵ The Japan Society of Publishing Studies (2004) estimates that the number of the planning and editing production firms is over 1,000, and its market size is approximately 200 billion yen.

¹⁶ According to the Japan Society of Publishing Studies (2004), sales of books on-line are almost 30 billion yen, giving a share in total book sales of about 4% in fiscal year 2003. However, the market size has been growing rapidly every year.

¹⁷ This includes not only books but magazines.

¹⁸ Concentration ratio figures include magazines.

¹⁹ Japan Society of Publishing Studies (2004). Japan – the survey of bookstores in 2002, Arumedia, a survey and publishing company, the UK – this figure is the number of companies in 2001 that belong to The Booksellers Association of the United Kingdom and Ireland, and the US – the number of the general bookstores in 2002, the American Book Trade Directly 2002-2003.

²⁰ The structure of shareholding no doubt played a part in this. Tohan's top ten shareholders at the end of FY2003 were Kodansha (5.27%), Shogakukan (4.79), Tohan (4.43), Ohbunsha (2.70), Shufunotomo (2.65), Bungeishunju (2.54), Shinchosha (2.30), Gakken (2.10), UFJ Bank (2.03), and All Japan Magazine and Book publisher's and editor's Association (1.70). Seven were publishers, and one was the main publisher's association.

And Nippan's top ten shareholders were Kodansha (5.80%), Shogakukan (5.70), Kobunsha (2.70), Bungeishunju (2.20), Akita Publishing (2.15), Heibonsha (1.95), Kadokawa Holdings (1.87), Obunsha (1.75), Nippan (1.72), and Sumitomo Mitsui Banking (1.71). Eight were publishers.

²¹ The Japan Society of Publishing Studies (2004).

²² Toda (1977), Suzuki (1985), Kodansha (2001), and interview note of Kodansha (Nov. 2003).

- ²³ Suzuki (1985), Yamamoto (1994), Iwanami Shoten (1996) and interview note of Iwanami Shoten (Jul. 2003).
- ²⁴ Japan Book Publishers Association (1987).
- ²⁵ Suzuki (1985), Yarita (1985), and Kadokawa Shoten (1995).
- ²⁶ Profit pursuit has been accelerated by a change of share-holders following public listing in 1998, and investment from the Bertelsmann Group in 1999.
- ²⁷ Nihon Shuppan Hanbai (Nippan) (2000) and interview note of Nippan (Oct. 2004).
- ²⁸ Tohan (2000) and interview note of Tohan (Nov. 2004).
- ²⁹ Maruzen (1980), and Ozaki and Munetake (1991) and interview note of Maruzen (Oct. 2004).
- ³⁰ Kinokuniya (1977), Ozaki and Munetake (1991), interview note of Kinokuniya (Nov. 2003) and Matsubara (2004).
- ³¹ E.g. Porter (1998).
- ³² Institute of Publishing Education (2002).
- ³³ Asaba (2004). The effects from corporate philosophy/objectives to strategy, however, are not generally considered because philosophy/objectives are assumed to be profit pursuit.
- ³⁴ Japan Society of Publishing Studies (2004).
- ³⁵ Interview notes of publishers.
- ³⁶ Interview notes of bookstores, which recognize not only advantages but also disadvantages in the current market, and think that it is necessary to reform the publishing market.
- ³⁷ Japan Book Publishers Association and Japan Magazine Publishers Association (2001).
- ³⁸ Institute of Publishing Education (2002).
- ³⁹ Sales of the four main used book businesses reached 80 billion yen in 2004, about 8% of the total market. Selling at substantial discounts, these businesses have increased their sales 2.5 times over the past five years.
- ⁴⁰ Livedoor is an IT company centering on a computer network consulting business.
- ⁴¹ Arthur Andersen Business Consulting (1999).

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