

This case was prepared by Assistant Professor Suresh Kotha and Professor Roger Dunbar, both from the Stern School of Business, New York University, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © 1995 Kotha & Dunbar.

SANYO MANUFACTURING CORPORATION – 1977-1990

Tanemichi Sohma was the Vice President for Administration and Personnel at Sanyo Manufacturing Company's (SMC) facility in Forrest City, Arkansas. In 1988, after a decade in this position, he could look back on many press reports that documented how he had done everything in his power to make the work environment at SMC an attractive and supportive one for its American workers. In addition, he had attempted to build good relations with the broader community. As a result, he had expected that the American work force would show loyalty to their employer at its time of need.

Instead, when SMC needed support, the employees had gone on strike. They had gone even further and carried placards with racist, anti-Japanese slogans. Instead of helping SMC as it faced brutal competition from Korean and Taiwanese firms, the American employees demanded more financial incentives and were unwilling to consider proposals for wage concessions from management. In fact, from SMC's standpoint, the employees had always seemed to demand more and, in return, gave little back to benefit.

COMPANY BACKGROUND

Sanyo Electric is a large Japanese consumer electronics firm headquartered in Osaka, Japan. In the late-1960s and early-1970s, the firm had no manufacturing facilities in the US but was exporting increasingly large numbers of TVs to Sears, Roebuck & Co (Sears). At the time, however, Sears had a joint venture with Warwick Electronics, a subsidiary of the Whirlpool Corporation, to produce TVs. This venture's main production facility, 25% owned

by Sears, was located in Forrest City, Arkansas, where it had served as a captive Sears supplier of color TVs.¹ During the 1960s, output at the Forrest City plant had grown, and at one point over 2500 employees were employed by Warwick.

However, the Warwick plant was unable to meet the new quality and technology standards and the much more competitive prices that heralded the arrival of Japanese competition in the mid-1960s. Because of customer returns and complaints about quality, Sears soon became dissatisfied with the TVs produced by Warwick. It preferred to buy its TVs from Japan rather than from its US joint venture partner. As a result, output at the Warwick plant started to decline and over time, four of the five assembly lines were closed, equipment was allowed to run down, and employment was cut to less than 400. Losses mounted (over \$9 million in 1975 on a sales of \$71 million) as demand for TVs ebbed. Morale fell to an all time low. An employee described the situation at Warwick as follows:

This was really a desolate place then. . . . People were continually being laid off, and the handwriting was on the wall for every one to see. There was no money, so we were letting equipment run down. We were having terrible quality problems and spending nights and weekends reworking sets so that we could keep up with our delivery schedules. The management group was working as hard as it could, and yet things kept getting worse. It was really demoralizing.²

Many of Sears' imported TVs were manufactured by Sanyo Electric. Sears approached Sanyo with a request that it give Warwick some technical help. Sanyo countered, instead, with an offer to buy out

Whirlpool's share of the joint venture for \$10.3 million. With Sears' agreement and support, therefore, the Forrest City plant was taken over by Sanyo on January 1, 1977. Sears agreed to loan Sanyo \$9 million at 6%. The loan was due in four annual installments of half-a-million dollar each beginning December 31, 1978, with the balance due at the end of 1982.³ The new subsidiary and the Warwick facility were renamed the Sanyo Manufacturing Company (SMC).

According to a senior executive, Sanyo Electric's move to the US was spurred on by the restrictions on color television imports that were about to be imposed and which were, at the time, in the process of being worked out by US and Japanese negotiators.⁴ To better appreciate the conditions that faced Sanyo Electric when it entered the US, it is important to describe how the US-TV industry had evolved from the 1960s through the 1970s into the early-1980s.

THE US TV INDUSTRY

In the 1950s, US television technology was state-of-the-art and US manufacturers dominated world TV output. This US leadership was the result of a sequence of technological developments that dated back to 1879 and Edison's invention of the phonograph. In addition to their dominance in the US market, many US manufacturers invested heavily in European production facilities in order to supply the growing European demand for TVs. But they were unable to build facilities in Japan, however, because of prohibitions imposed by the Japanese government. These were put in place by the government to protect the fledgling domestic TV industry as the country attempted to rebuild its industrial base after the second world war.

¹ Hayes, R. and Clark, K. Sanyo Manufacturing Corporation -- Forrest City, Arkansas. *Harvard Business School Case #9-682-045*, 1981.

² *Ibid*, p. 2.

³ *Ibid*, p. 3.

⁴ Krisher, B. *Fortune*, 15 June 1981, p. 97-99.

In response to this situation, many US firms decided to license their technology to the Japanese and, in this way, generate additional revenues. In the 1950s, firms such as RCA, GE and Westinghouse transferred their monochrome technology to Japan. RCA licensed its color technology to Japanese firms in 1962. This technology transfer steadily accelerated as the American firms, in an attempt to reduce their costs even further, encouraged the Japanese and other manufacturers to develop their capacity to manufacture TV parts and components.⁵

In 1956, the fledgling Japanese television manufacturers came together to form the Home Electronic Appliance Market Stabilization Council. This Council was an effort to coordinate Japanese sales of televisions, radios and other electronic products in the Japanese domestic market and, also, to exclude foreign imports from Japan.⁶ To promote the growth of Japanese TV producers, the council set minimum price levels for products designated for domestic sale, and in the process established industry levels for profit-margins. They also acted to boycott non-members who tried to venture in by working with the government to raise tariff and non-tariff barriers designed to deny foreign firms (mostly American) access to Japanese distribution channels. Recently some authors have noted that:

In the late 1960s Japanese television sets cost about twice as much in Japan as they did in the United States. Higher prices at home helped the Japanese manufacturers generate the capital they needed to maintain a healthy growth rate in spite of the low prices they were charging to gain market share in the United States. At that time, American television makers were

prevented from selling their products in the protected Japanese market.⁷

Although, the Council was theoretically subject to legal challenge by the Japanese Fair Trade Commission established during the US occupation, the Japanese government agreed with the Council's approach and disagreed with the mandate established for the Trade Commission. As a result, the Japanese government instituted a policy of benign neglect in so far as the antitrust statutes were concerned. Instead, they encouraged the colluding behavior of the domestic producers. According to published reports:

In Japan's home market the Japanese Federal Trade Commission conducted a number of investigations. One of these looked into the activities of three secret consumer-electronics groups that met monthly for many years. The groups included representatives from Matsushita (Panasonic), Hitachi, Mitsubishi, Sanyo, Sharp, and Toshiba -- most of the major television manufacturers. . . . This major Japanese price-fixing investigation ended in the 1970s, owing in part to 'the passage of time,' according to the Trade Commission. American firms alleged that the collusion had produced enormous profits that were used to subsidize dumping in the United States.⁸

Then in the early 1960s, MITI went further and targeted the consumer electronics industry for government support and development to help its efforts to sell overseas. To coordinate these export efforts, the Japanese TV manufacturers organized the Television Export Council in 1963.

Exports to the US Markets

Through improved transistor technology, the Japanese manufacturers

⁵ Dertouzos et al. (1989) *Made in America: Regaining the Productive Edge*, Cambridge, MA: MIT Press, p. 223.

⁶ Choate, P. *The Washington Post*, 30 September 1991.

⁷ Dertouzos et al. (1989), p. 224.

⁸ *Ibid*, p. 224.

had been able to simplify the manufacturing of TVs and improve their performance (see **Table 1**). In fact, their technological success and progress in production techniques far exceeded what had been achieved by their former teachers, their US manufacturing competitors.⁹ Supported by MITI, therefore, the Japanese were keen to enter and establish a strong presence in the large US TV market. Their competitive advantages included superior technology, better manufacturing process, lower price, and a generally higher-quality product. They offered these superior TVs to importers like Sears and other large retailers at prices that were well below those of US producers. In fact, they not only offered TVs to importers at prices which US manufacturers believed were below cost but, in addition and as a further enticement, they offered rebates of up to \$40 per set and additional payments for "market research." Though the US manufacturers were appalled at Japanese tactics, many US importers liked the arrangements. They willingly agreed to import Japanese TVs and, by the late 1960s, Japanese TVs were flooding into the US in large volumes (see **Table 2**).

Some US manufacturers protested the Japanese tactics to the US federal government, but the US government was slow to respond. As a result, US employment in television production fell quickly dropping 50% between 1966 and 1970, another 30% between 1971 and 1975, and a further 25% between 1977 and 1981.¹⁰ The US manufacturers realized the

Japanese television sets were not just technically better, but the additional financial incentives that the Japanese manufacturers were offering importers were considered illegal in the US. In the process, however, and with the collusion of US importers such as Sears, the Japanese firms were effectively gaining a dominant market share of the US market (see **Table 3**).

US manufacturers requested protection from the government. In 1968, for example, the Import Committee of the US Electronics Industries Association filed a petition with the US Treasury Department alleging Japanese TV sets were being dumped on the US market. The US Treasury Department launched an investigation of Japanese manufacturers such as Sony, Sharp, Matsushita, Toshiba and Hitachi. These firms responded by stonewalling requests for information. In 1970, the National Union Electric Corporation (with brand names such as Emerson, and Dumont) filed another antitrust suit charging the Japanese companies with conspiracy to restrain competition and to drive firms like NUE out of business. Finally, in 1971, the Treasury Department responded to the complaints and officially charged the Japanese firms with dumping TVs. This finding meant that anti-dumping levies could be collected from the firms to offset the advantage they have gained. But, again, the calculation of such levies required accurate information from the Japanese firms and this was something they were not prepared to provide. Although, it was possible to theoretically calculate such figures, doing so created a dilemma for US trade officials. Specifically, such levies invited retaliation and a trade war. Therefore the US Treasury

⁹ Porter, M. *The US Television Market in Cases in Competitive Strategy*, Free Press: New York, 1983.

¹⁰ This decline in US manufacturing employment is sometimes attributed primarily to higher wage rates in the US. However, "... in the late 1960s, when domestic television manufacturers were being under priced in the market place by the Japanese, assembly labor was less than 15 percent of the direct costs in the United States. During this period U.S. imports duties were 8 percent, and the costs of transportation and insurance added about 10 percent more to

imported goods, for a total cost differential of 18 percent. Thus, the lower prices could not be attributed solely to lower labor costs" (Dertouzos et al., 1989, p. 223):

did nothing. It was speculated therefore that "both the Democratic and Republican administrations concluded that it was better to settle trade disputes between governments rather than through litigation."¹¹

By 1975-76, there was a veritable minefield of proceedings and investigations facing the Japanese firms (e.g., Hitachi, Mitsubishi, Sanyo, Sharp and Toshiba). To resolve these legal challenges, the Japanese hired Mr. Malmgren who had been the deputy special-trade representative for the Nixon and Ford administrations. Within three months, he worked out a compromise known as the Orderly Marketing Agreement (OMA). In the agreement, the Japanese agreed to limit their exports from Japan to the US to 1.5 million units a year for three years. It also permitted the Japanese firms to use manufacturing facilities they owned in the US to fill any demand they had that exceeded this quota. Many Japanese manufacturers also hired additional consultants and advisors from among ex-US government officials who had worked on television issues. Their objective was to have immediate access to experts who could protect them from such legal concerns in the future.¹²

The Japanese response to the OMA was to quickly establish manufacturing facilities in the US. Sanyo's acquisition of Warwick in 1977 with Sears' support was an example. Earlier in 1974, Matsushita had bought out Motorola's production facility and renamed its brand Quasar. In addition, Mitsubishi opened a plant in California, Toshiba built a \$6 million color TV plant in Lebanon, Tennessee, and Hitachi and GE announced a TV production joint venture. In fact, all of the major Japanese TV manufacturers began producing color TVs in the US around this time (see **Table 4**). With the exception of

Sony, which owned its own proprietary tube, these firms also decided to use US firms as the source of their color tubes. According to published reports:

The Japanese had not restricted themselves to producing color TVs, and many had begun or were about to begin making a number of products in the United States, including microwave ovens, stereos, and some appliances, such as vacuum cleaners and small refrigerators.¹³

In 1951, at the start of the television era, there were over 90 US-owned firms who manufactured TVs. By 1968, this number had been reduced to 28 firms and, by 1976, there were only six US-owned firms left. Faced with severe Japanese competition in the early 1970s, some US firms like Admiral and Westinghouse were sold or simply closed, while others, like Magnavox, were sold to Phillips NV of the Netherlands. Other US-owned TV manufacturing businesses that had been household names such as Philco, Sylvania, RCA, and GE were either sold or closed down during the 1980s (see **Figure 1**). By the late 1980s, Zenith remained as the lone US-owned TV manufacturer. In July 1995, a majority stake in Zenith was sold to Korean interests (LG Electronics) so that now there is no US manufacturer of TVs.¹⁴

SANYO AT FORREST CITY

Forrest City, the location of Sanyo's first experience with manufacturing and labor issues in the US, is located in northeast Arkansas, just west of Memphis in the Mississippi cotton delta. It was founded in 1866 by the flamboyant hero of the Confederate cavalry, General Nathan Bedford Forrest. General Forrest is remembered for several reasons. During the Civil War, he is reputed to have had about 20 horses shot out from under him.

¹¹ Dertouzos et al., p. 225.

¹² Choate, P.

¹³ Porter, M., p. 502-3.

¹⁴ Fedder, B. J. *The New York Times*, 18 July 1995.

After settling down in Forrest City after the War, he became the first grand wizard of the Ku Klux Klan (KKK). He resigned this position after about a decade, however, when he became concerned that the intent and the direction of the KKK was becoming too violent for him.

With cotton prices high, and unskilled labor always needed, the region was relatively wealthy until the 1950s. With the advent of cotton-picking machines, however, the need for unskilled labor was eliminated, leaving many people unemployed. The city had a stable population of just under 15,000 residents with the population equally divided between white and black communities. About a third of the city population are illiterate and about 30 percent are on welfare. Generally, residents' incomes are low with unemployment consistently hovering around 20 percent.¹⁵ Due to such conditions, the city welcomed the establishment of the Warwick facility in the early 1960s.

Similarly, SMC was welcomed to Forrest City in the 1970s. People realized that the town desperately needed jobs and they were afraid that the main employer,

¹⁵ The news and television media have often highlighted the racial tensions that have pervaded Forrest City and the surrounding county. Court-ordered integration, that occurred in Arkansas schools in 1965, had a direct impact on the area. In 1969, students at the local black high school rioted when a favorite teacher was fired for "insubordination." A curfew was imposed. Blacks began picketing white businesses; four black men were charged with raping a teenager. Another infamous story tells of how another alleged rapist was castrated by vigilantes and his testicles then turned up in a jar which was kept on the local sheriff's desk. A private school was founded in the 1970s for whites only and called Forrest City Academy but proved to be a temporary phenomenon and soon closed its doors in the 1980s. In 1988, the Forrest City high school held its first integrated prom. There were no incidents and the news media, who were watching the event closely, pronounced it an outstanding success.

Warwick, would disappear, as had been gradually occurring. To run its Forrest City facility, SMC sent over 26 managers and technicians from Japan. They were given instructions to live throughout the city and to do, eat, play, and go to school just as they found the Americans did.

During SMC's entry, Mr. Tanemichi Sohma, a Japanese national, was appointed as the Vice President for Administration and Personnel. Mr. Sohma's command of the English language was better than that of his Japanese colleagues. As he had also gone to university in the US, he was much more familiar with how things generally worked in the US. He warned the Japanese technicians who worked with the plant employees, for example, that they must be patient with the workers and not be too bossy.

Although Mr. Satoshi Iue was SMC's president, it was Mr. Sohma who was in charge of day-to-day operations and, in particular, managed the relations between the Japanese managers and local employees, and between the plant and the local community. Mr. Sohma had come to the US in 1951 to study at the University of Southern California. His official title at SMC was Vice President for Administration and Personnel, but observers of SMC concluded that his power and influence locally within the plant belied his title. At least as far as day-to-day operations were concerned, he was the person-in-charge. Five of the new top echelon of executives at SMC including Mr. Sohma were from Japan. The other four executives were American and had been inherited from Warwick's previous management group. Most of the Japanese managers and technicians worked at a variety of different levels supervising operations in the plant.

The Warwick Turnaround

From the beginning, the new Japanese management of SMC sought to

win the trust and confidence of both its workers and the citizens of Forrest City. When they took over the plant, SMC retained all the existing employees and managers. Additionally, they invited the town to a big party to announce their arrival and welcome themselves to Forrest City. They quickly cleaned, painted and renovated the very run-down plant they had taken over. When they needed new hires, they sought out workers that had been laid off by Warwick and rehired them.

Quality Emphasis

SMC imported many of its TV transistor components from Japan to Forrest City where the workers in Forrest City then assembled the TV sets. SMC's new management consistently emphasized that its prime concern was to improve quality. According to one person at the factory:

The first thing Sanyo did when they took over [was that] they retained essentially all employees and managers who were there. . . They did move some people around, though. For example, they took the former manager of Quality Control -- who really had been taking a lot of heat from everybody during the previous two years, because of the quality problems they were having -- and made him the plant manager. That, by the way, was just one of the signals they gave that the number-one priority for the plant was improving quality. All they talked about was quality.¹⁶

In pursuing its approach to quality, many of the Japanese managers and technicians spent a lot of their time simply standing very close to the employees, watching what they did, and correcting and training them as they thought necessary. The employees reported that they found this behavior somewhat amusing at times, but that the Japanese were very fussy and

always wanted everything to be done exactly their way. They noted that they had installed quality checks everywhere. In addition to the regular checks on the assembly line, they installed "tumblers" (devices that threw the sets into the air) to see if any screws came loose. If a screw would come loose, the failure was traced back to the particular worker who assembled the set. The error was then pointed out and the way to avoid such errors in the future was patiently re-explained.

Sanyo not only guided the workers inside the plant in order to improve quality but also the vendors outside to ensure that the quality of their supplies also improved. Again, a meticulous, time-consuming and detailed approach was consistently in evidence. Like the plant employees, some of the suppliers found this approach annoying and several questioned why it was necessary. But in time all had to acknowledge that uniformly, the quality of the plant's production had significantly improved. Pride in the quality of work they were doing began to characterize workers' attitudes.

Building a Happy Family

More than 60 percent of the workers at the plant were black. Those among them who were hourly workers were organized by the International Union of Electrical Workers (IUE). Mr. Sohma met with the union and explained that the company sought a partnership with them. He requested that the union talk with management about its production policies, methods and goals, and to join with management in implementing a start-to-finish quality program that guaranteed that no defective TV ever left the plant. Every time Mr. Sohma talked, he mentioned that it was his and his firm's intent to promote quality. Initially, the union was pleasantly shocked but a little at a loss as to how to respond. The Warwick management had

¹⁶ Quoted in Hayes & Clark, p. 3.

always said production policies were management's prerogative, and they had always closed their eyes to the many defective TV's that everyone could see were leaving the plant.

The work style that developed at SMC was noisy, busy, and casual. Believing little things counted, Mr. Sohma and his managers noticed anything that caused employees discomfort. Whenever they could, they remedied the matter immediately. In turn, the workers were likewise expected to immediately correct any thing they noticed wrong on the assembly line. Similarly, managers tried to be consistently sensitive to workers' feelings and needs as well as to manufacturing requirements. As equipment was found to be lacking, it was purchased. As workers made mistakes, they were counseled rather than discharged. According to reports published at that time, "Sanyo set out to create a 'big happy family' atmosphere to enhance morale at the plant."¹⁷

Mr. Sohma recognized, too, that the Warwick custom of firing people after the Christmas season had been very disturbing to workers, destroying whatever loyalty they might have developed towards the firm. He pledged to the labor union that Sanyo would seek to smooth out production so that over time it would eventually be possible to phase out the need for the repeated layoffs and recalls that had plagued plant relations in the past. Several people were impressed by this commitment and the combination of cooperation on the one hand, and authority on the other, that seemed to be demonstrated. They observed that although Mr. Sohma always sought mutuality, he did not eliminate hierarchy.

Additionally, Mr. Sohma also sought out the labor union's help to solve certain issues. As an example, Mr. Sohma

explained to the union that Japanese managers were repelled by workers who were smoking while working on the line. He then worked out a plan with the union to successfully phase out smoking among those working on the line.¹⁸

Operating Management

In keeping with Sanyo's desire to share the management process, a management committee was chosen to supervise operations. This committee consisted of three US and three Japanese managers. Decision making in this committee turned out to be very slow and difficult, however. The Japanese would allude to or imply things rather than specifically say what they wanted. The Americans would not recognize the cues. They would continue to wait for instructions, not knowing that they had already been given to them. Unable to solve these communication difficulties, the committee eventually had to be abandoned.

THE 1979 STRIKE AND AFTERMATH

Though to local people Mr. Sohma seemed to be the person in charge in Forrest City, in fact, many decisions at SMC had to be referred back to headquarters in Japan for confirmation and approval. This sometimes created problems because of unanticipated delays. Another problem was the lack of familiarity on the part of top executives at Sanyo Electric headquarters concerning some of the assumptions that were taken for granted about business life and how things are done that are typical done in the US. This became an issue in 1979 when there was a union strike lasting 8 weeks about cost-of-

¹⁷ Reid, T. R. *The Washington Post*, 2 September 1977.

¹⁸ While he gained an agreement whereby workers were not allowed to smoke in the plant, some Japanese executives still did so. The executives also had exclusive and personal reserved parking spots for themselves. Workers were also forbidden to play radios and tape decks in the plant.

living increases, an unresolved problem which Sanyo management had inherited from the Warwick administration.

Mr. Sohma explained what the strike was about to his bosses back in Japan. This was difficult to do as, first, his superiors in Japan could not understand what the issues were and, second, Japanese firms have very few strikes and they last but a day or two.¹⁹ When the strike in Forrest City entered its third week, management in Osaka felt something was terribly wrong. Reasoning that Mr. Sohma must surely have gravely offended the workers, they advised him to call his work force together immediately, to humble himself before them, and to apologize for whatever terrible things he had done. Mr. Sohma refused. He was rebuked by his Japanese bosses, who informed him he had become too Americanized.

The 1979 strike was soon resolved. But cultural differences between the Americans and the Japanese were starting to emerge as SMC management found it could not completely keep commitments it had made. According to Mr. Nakai, SMC's managing director in 1981:

Given different American conditions, we haven't been totally able to transplant the Japanese way to America. There are good periods and also slow periods, with heavy sales focused on November and December for the Christmas season. We've naturally had to adjust our production schedule and lay off some workers, as do other American manufacturers.²⁰

¹⁹ Strikes in Japan are usually symbolic expressions of a breakdown in relations between management and workers. Having effectively signaled such a concern by wearing armbands on the job and working even harder than usual, for example, workers then call off their strike.

²⁰ Krisher, B.

In discussing the 1979 strike and emerging cultural differences between the Japanese managers and US workers, Mr. Nakai said:

American workers maintain a much looser relationship toward their company compared with the Japanese. . . . However, we learned some lessons from that [1979 strike] and are now trying to improve the situation. In Japan, the union lives with the company and never pulls the trigger unless it finds itself in an extremely serious situation. It tries as much as possible to work with us on the same ground, because its members' future and prosperity are directly linked to ours. The important question for us right now is how to instill this concept in our American workers.²¹

The Japanese managers were also aware that despite their successful efforts to improve quality at the Forrest City plant and the local admiration these efforts had earned, Sanyo's plants back in Osaka achieved similar quality, but were also 25% more efficient than the Forrest City plant. Hence, they demanded that workers do better at Forrest City. However, the US employees had seen the vast improvements in quality, efficiency and volume that the Japanese had brought about relative to the Warwick period, and they wondered why the Japanese managers were still concerned. Reflecting on the situation Mr. Nakai noted:

On the subject of productivity, the key element is teamwork, with the responsibility resting squarely on management to motivate its workers. The reason there are workmanship problems in the US, I believe, is the different concept of teamwork. In a Japanese plant there is much more dialogue between blue-collar and white-collar workers; in fact the rapport is so natural, we take it for granted. Such however, is not the case in the US.

Soon, along with the production of TVs, microwave ovens were added to the product line. Production levels actually

²¹ Ibid.

increased ten-fold while the numbers of workers increased only three-fold. By 1981, the plant employed 1750 workers making televisions, 350 in the plant furniture shop, and 250 making microwave ovens. Defects caught at during final inspection had dropped by 75%. Highly satisfied, Sears provided Sanyo with a new 5-year contract and agreed to purchase at least 70% of its annual requirements of color TVs for sale in the US.²²

In 1982, Forrest City was declared a foreign trade subzone to facilitate further expansion of the plant. The designation meant that Sanyo did not have to pay duty on imported parts, but just on the foreign content of the sets later shipped. In total, Sanyo seems to have invested around \$60 million in the Forrest City plant. In 1982, the union contract was re-negotiated without further incident.

As well as working with US suppliers, Sanyo allied itself with political leaders of the surrounding community to attract more Japanese investment to the area. In 1981, for example, Sanyo helped orchestrate a tour by Arkansas Governor White intended to attract firms from the Far East to establish plants in Arkansas. In response to Sanyo's recommendation, a number of additional Japanese and Far East firms decided to locate their manufacturing and servicing facilities around Memphis and in the surrounding area of northeast Arkansas.

THE 1985 STRIKE AND AFTERMATH

In 1984 US production capacity was 13.1 million TV sets while actual production had been 11.5 million sets, around 89% of capacity. By 1987, however, production capacity had grown by almost 50% to more than 17 million TV sets. This resulted from large capacity

expansion efforts undertaken by most of the Japanese firms as well as some new entrants from Korea and Taiwan (see **Figure 2** for dropping TV prices in the US and **Figure 3** for increasing penetration of Korean and Taiwanese firms in the US). In contrast, actual production actually dropped in 1987 to 11.2 million sets, or only 66% of the expanded capacity.

It was clear that a shake out in the industry was about to occur. At the time, there were around 20 firms producing televisions in the US. Most were foreign-owned, many were Japanese subsidiaries, but several were recently established subsidiaries of Korean and Taiwanese multinationals who were prepared to compete fiercely on quality and price criteria, just as the Japanese had done 15-20 years before.²³ As a result, this rapidly established over-capacity ensured higher costs and lower prices as fierce competition came to dominate the attention of industry managers. Over the period from 1985 to 1987, firms moved from making good profits to having to sustain some substantial losses.

It was under these approaching competitive conditions that SMC negotiated with their labor union in 1985. SMC, still feeling the need to increase efficiency to match performance of their Japanese plants, sought changes that would allow them to organize their plant more like a Japanese facility. They pressed for a relaxing of the union rules relating to seniority rights and for greater worker flexibility as well as reduced medical benefits and insurance costs. But they were unable to convince the union leaders, however, that such concessions were necessary. Increasingly, the union was

²² Hayes & Clark, p.3.

²³In Japan, the necessary industry retrenchment would have been managed through discussions with MITI. But in the US, there is no equivalent organization and, anyway, not all the producers were Japanese.

convinced that the company just wanted to squeeze more production out of its workers. The atmosphere became bitter and poisoned. According to published reports:

The demands [of the Japanese management] sparked a 21-day strike. Pickets carried signs that read: "Japs go home" and "Remember Pearl Harbor." Windows were broken, guns were fired, a car was overturned, and at one point the plant was nearly overrun by strikers.²⁴

Wilford W. Banks, Jr., was president of local 1106 of the IUE. He had watched employment increase at the Arkansas plant from 300 to 1500 but he was not happy. He felt the company had made the workers work too hard. He felt the "happy family" theme was just a way to extract more work and more employee ideas out of his members without giving them additional compensation. The union, while pleased to cooperate on the operating side with Sanyo, felt it still had to be militant and launch a strike in order to protect its members' contract rights.

Further, the racism implicit in Forrest City's history also came to the fore. Police arrested the people picketing and also the truckers delivering supplies who hit the strikers with their trucks as they entered the plant. Eventually, a new 42-month contract ending the strike was signed. But the union president of Local 1106, Lindell Houston, and many others acknowledge that there is a legacy of bitterness from this strike.

A year after the strike, SMC had grown to be the largest Japanese TV producer in the US. It employed 1700 people and was producing 1.2 million TV sets and 500,000 microwave ovens. Its annual sales amounted to \$40 million. However due to the increased competition

resulting for industry over capacity and the fierce price competition, the firm had no profits, but instead posted a loss of \$14 million.

These losses prompted SMC to ask its employees to accept a 20-percent wage cut as a sign of solidarity and loyalty to the firm. The union responded by asking its auditor to examine the firm's books and to assess SMC's justification and need for the wage cut. He reported that the company's problems had, in fact, little to do with its labor costs. As a result, the union rejected the firm's request for a wage cut although it did agree to forego a 3-percent wage increase along with cost of living increases. It also agreed to allow SMC some freedom to assign employees to tasks that were not included in their job descriptions.

There was growing frustration among Sanyo management with the "way of thinking" of their American workers. Faced with fierce competition, externally, and after years of attempting to work with the union to improve quality and build loyalty and commitment in its work force, the managers were highly frustrated by the fact that in this time of obvious firm need there was no corresponding readiness to sacrifice on the part of the workers. As Mr. Sohma said, summarizing management's sentiments:

They come here for eight hours' work and to get eight hours' pay. . . . As long as they get that, they don't care what happens to our production. Here, there's no sacrifice. . . . Union leaders are destructive. I want the union to be strong, but I want it to be intelligently strong to help instead of stirring up things.

Moving Production Abroad

In 1988, with high labor costs, continuing industry over-capacity, intense competition, and rapidly sinking prices for TV products, questions arose at Sanyo

²⁴ Byrne, J. A. *Business Week*, 14 July 1988.

headquarters in Osaka as to whether it was desirable to maintain the Forrest City facility. Given the pressures, it seemed imperative to relocate the production facilities to a place where it would be possible to reduce costs so Sanyo could compete successfully in the US market. Sanyo decided to drastically scale back the size of its operations in Forrest City to the point of closing it down.

Employment dropped from 1200 in 1986 to 650 in 1988 including just 190 hourly workers. Sanyo decided to shift some labor-intensive production to Maquiladora in Tijuana, Mexico, where labor costs were about an eighth of those in Arkansas (see Table 5 for list of other Japanese firms operating out of Mexico and Table 6 for top-TV and Microwave makers in 1993).

According to Annette Bradley, a worker at SMC during the time:

I don't know if it was bad management, or bad parts, but I know one thing was they could get cheaper labor in Mexico. . . I feel bad. They're taking jobs from the U.S. to Mexico because of cheaper labor, and it hurts the States and it hurts the people. I know they're human, they're out to make a dollar just like the rest of us are, but it's just that it would have been better if they would have just tried to work a little bit more with us, instead of just ship everything out.²⁵

Responding to this move by SMC, Bill Clinton, governor of Arkansas at the time, made a personal appeal to Sanyo Electric's chairman in Osaka to keep the Forrest City facility open for the benefit of the local community. According to the *Economist Magazine*:

Indeed, some say that Sanyo did not pull out altogether only because Mr. Clinton, on a trip to Japan, appealed to

Sanyo's chairman in person to save the plant. He intervened again when Sears cut back on its Sanyo orders, arranging a new retailing deal with the Wal-Mart Chain (which is based in Arkansas).²⁶

The Situation in 1988

The decision of headquarters back in Japan was to pack up and leave the US. Reports of the ungrateful and disloyal US workforce had not helped. As the Arkansas Governor could be a very persuasive man, his appeal to SMC's president would be given appropriate consideration. But an appeal to save jobs was unlikely to bring about much change in the ongoing thrust to move SMC's manufacturing outside the US.

At best a symbolic presence would be maintained in Arkansas. Most of SMC's operations in Forrest City were sure to be shut down.²⁷ Facing current competition, SMC needed a workforce it could rely on. And despite Sohma's Herculean efforts, such loyalty had not been forthcoming at Forrest City.

It is not clear that this had to be the outcome. Demonstrated loyalty had been a critical requirement from the SMC standpoint. Had such a demonstration been forthcoming, workers at Forrest City might have had both their jobs and money. Because of the impression they made of being disloyal to SMC and calculative about their own immediate rewards, workers lost both.

²⁶ The *Economist*, 6 March 1993.

²⁷ Although much of SMC's production was moved to Mexico, the Forrest City plant continued to make large TVs. For the first time since it was established, it began shipping these sets to Japan.

²⁵ Risen, J. *The Los Angeles Times*, 16 August 1988.

Table 1
TV Production Cost Structure and Reliability Estimates

	Japan	US	South Korea	West Germany	UK
Average man-hours	1.9	3.6	5	3.9	6.1
Employment costs (£/hour)	<u>3.0</u>	<u>2.45</u>	<u>0.3</u>	<u>3.85</u>	<u>1.74</u>
Direct labor costs (£)	5.7	8.8	1.5	15.1	10.6
Material costs (£)	100.0	NA	113	119	126
Plant overheads (£)	<u>11.0</u>	NA	<u>2.0</u>	<u>17.0</u>	<u>20.0</u>
Total Production Costs (£)	116.7	NA	116.5	151	156.5
Comparative Color TV Reliability Measures					
	Japan	U.S.	U.K.		
Field call rate (calls per set)	.09-.26	1.0 - 2	1.2-3.0		
Production fall-off rate (faults per set on the assembly line)	.01-.03	1.4 - 2	1.8-2.9		

Source: Porter, M. E. 1983. The U.S. Television Set Market, 1970-1979.

Table 2
US TV Production and Imports

	1973	1974	1975	1976
Black and White (Units M)	7.3	6.87	4.42	5.94
Color (Units M)	10.07	8.41	6.22	8.19
Black and White (\$ M)	560	543	371	528
Color (\$ M)	3097	2658	2121	3269
Imports				
Black and White (Units M)	4.99	4.66	2.97	4.33
From Japan	0.877	0.775	0.647	1.385
Color (Units M)	1.4	1.28	1.21	2.83
From Japan	1.06	0.917	1.04	2.53
Saturation (% Households owning)				
Black and White				
Total	99.9	99.9	99.9	99.9
1st Set	38.3	31.4	28.3	NA
2nd Set	52.7	58.3	NA	NA
Color				
Total	67.1	71.5	74.4	77.7
1st Set	57.7	64.7	68.8	NA
2nd Set	5.1	6.8	NA	NA

Source: Porter, 1979.

Table 3
US Market Shares of Major TV Manufacturers

Manufacturer	Back and White TVs		Color TVs	
	1973	1977	1973	1977
Zenith	17.00	17.00	22.50	22.0
RCA	12.00	14.00	20.30	20.0
Matsushita	8.00	15.00	2.10	8.00
Motorola	6.00	10.00	8.00	6.00
GE	11.00	10.00	6.00	7.50
Sears	9.00	9.80	7.80	9.00
GTE	2.50	5.30	5.00	5.50
Philco-Ford	4.80	—	2.90	2.50
Sony	4.00	4.00	4.00	7.50
Admiral	5.60	4.30	3.50	2.50
Sanyo	1.50	1.90	0.50	1.80
Wards	1.70	3.00	1.30	2.50
Sharp	2.20	2.50	0.90	2.00
Hitachi	1.50	2.20	0.80	1.60
Penncrest (JCP)	1.45	1.70	0.90	2.00
Magnavox	4.00	2.00	8.00	7.00
Packard-Bell	0.70	—	0.70	—

Source: Porter, M. E. 1983. The U.S. Television Set Market, 1970-1979.

Table 4
US Color TV Production by Japanese Firms

	1973	1974	1975	1976	1977	1978	1979
Sony	130	250	275	370	400	450	475
Matsushita	-	-	300	400	460	600	700
Sanyo	-	-	-	-	300	600	680
Toshiba	-	-	-	-	-	60	175
Mitsubishi	-	-	-	-	-	60	120
Hitachi	-	-	-	-	-	-	20
Sharp	-	-	-	-	-	-	100
	130	250	575	770	1160	1770	2270

Source: Porter, M. E. 1983. The U.S. Television Set Market, 1970-1979.

Table 5
Plants located in the Mexican Side of the Border Zone in 1990

Company	Location	Employees	Products
Goldstar	Mexicali	1,000	13" & 19" TV
Hitachi	Tijuana	1,000	TV and audio
Matsushita	Tijuana	2,000	TVs, tuners, chassis
Murata Erie.	Juarez	150	yokes, transformers
Philips	Juarez	3,000	9-20" TVs, CD players
Sanyo	Tijuana	530	small-screen TV, chassis
Sony	Tijuana	1,500	13-27" TV, projection TV, chassis
Thomson	Juarez	3,500	chassis and kits
	Torreón	2,000	yokes, transformers
Tocabi	Tijuana	1,000	cabinets
Toshiba	Juarez	800	chassis
Zenith	Juarez	3,200	furniture, wood cabinets*
	Reynosa	6,000	components, 9-20" TV
	Matamoros	3,700	TV components
	Agua Prieta	900	parts and service

Source: Television Digest, July 23, 1990.

* Some TVs are also reportedly made here.

Table 6
Top Television Makers in 1993
 (Shares are shown based on total sales of 21 million units for 1993.)

Company	Share
Thomson (GE/RCA)	22.0%
NAP (Magnavox, Sylvania)	13.0%
Zenith	13.0%
Matsushita (Panasonic, Quasar)	7.0%
Sony	7.0%
Sharp	6.0%
Emerson	5.0%
Sanyo	5.0%
Toshiba	5.0%
Mitsubishi	4.0%
JVC	2.0%
Samsung	2.0%
Curtis Mathes	1.0%
Goldstar	1.0%
Hitachi	1.0%
Others	6.0%

Source: Appliance Manufacturer, February 1994, Page 38,

Microwave Oven Manufacturers
 (Manufacturer shares are shown in percent based on the 7,967,000 unit market in 1992.)

Company	Share
Sharp	20%
Samsung	18%
Matsushita (Panasonic, Quasar)	17%
Electrolux (Frigidaire)	10%
Goldstar	10%
Sanyo Fisher	7%
Maytag (Magic Chef)	6%
Raytheon (Amana)	4%
Whirlpool	3%
Toshiba	1%
Others	4%

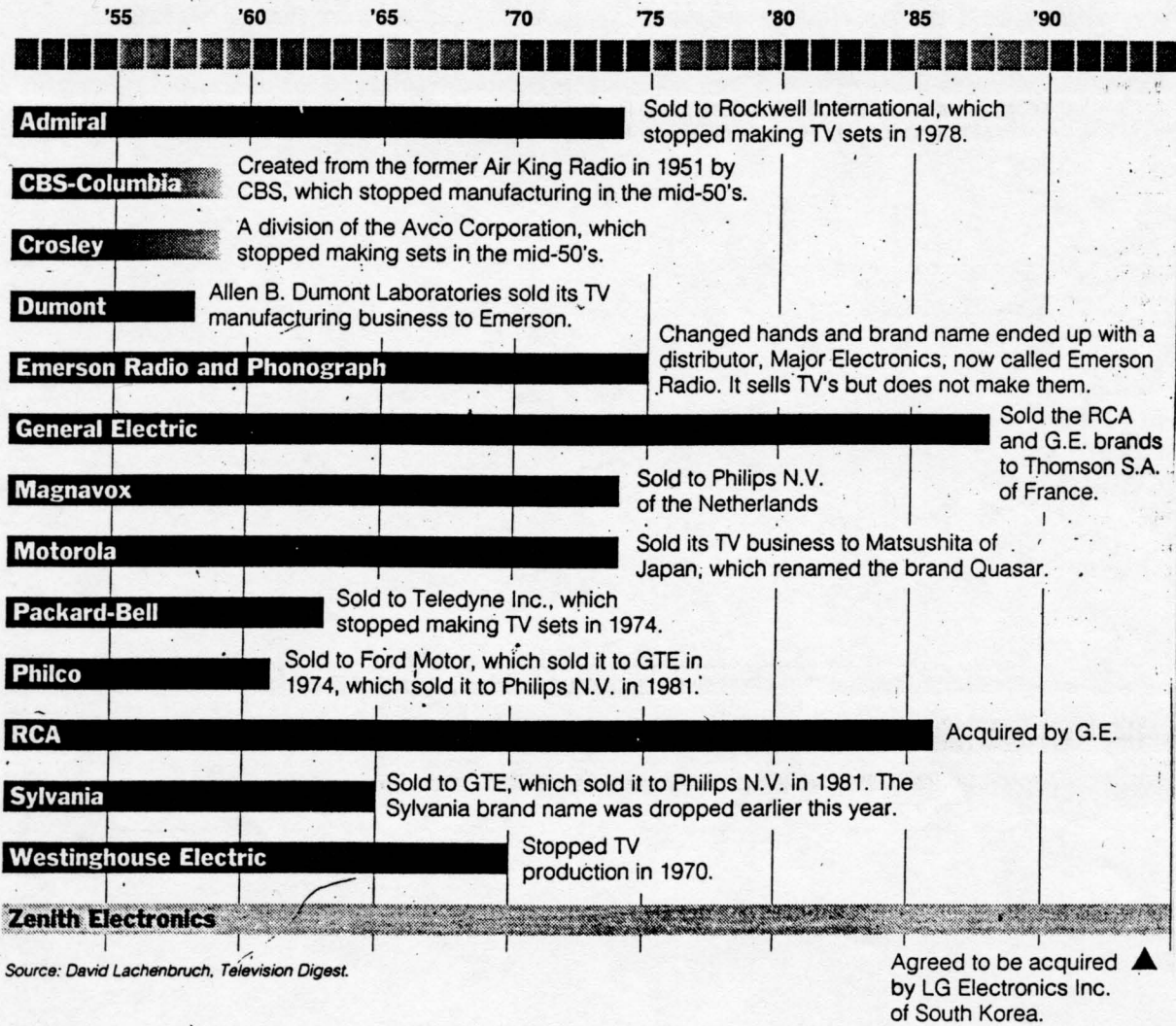
Source: Appliance Manufacturer, February 1993, Page 18.

Figure 1

What Ever Happened to the Brands of TV's Golden Age?

The sale of Zenith to a South Korean company will mark the passing of the last American-owned maker of television sets. How different things were in 1951, the year that black-and-white television took off as a mass

medium in the United States, with seven million sets sold. At the time, there were more than 90 American makers of television sets. Here is what became of some of the market leaders from that era:



Source: David Lachenbruch, *Television Digest*.

Figure 2:
Television Set Prices vs. Total Sales of All Goods & Services 1974-1978
Source: Based on figures provided in The U.S. Consumer Electronics Industry in Review -- 1993 Edition

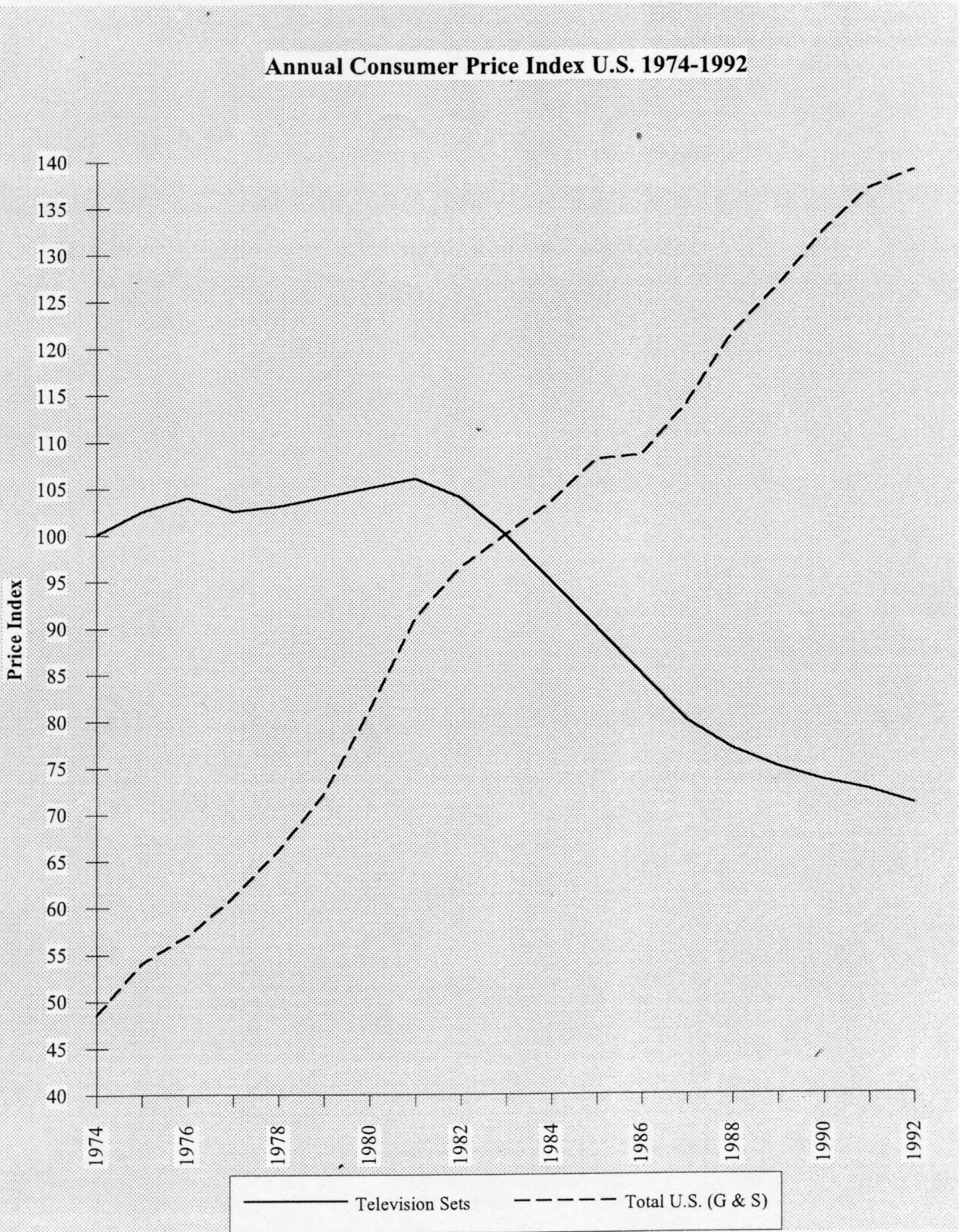


Figure 3:
Imported Television sets: Japan vs Korea and Taiwan 1980-1987
Source: Based on figures provided in Collis (1988).

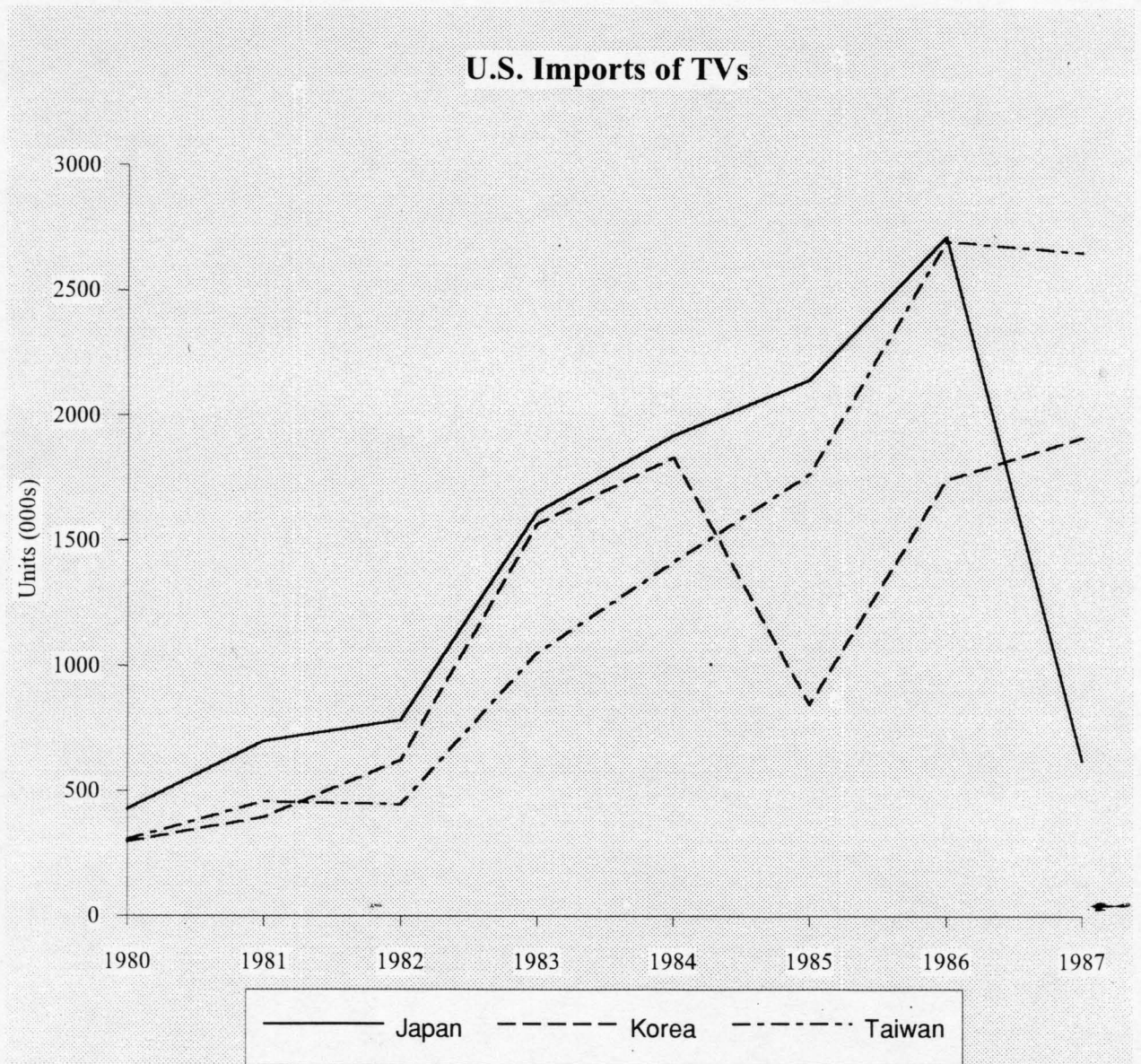


Figure 3:
Imported Television sets: Japan vs Korea and Taiwan 1980-1987
Source: Based on figures provided in Collis (1988).

