

Book Review- “Trust” by Francis Fukuyama

Introspection on the Experience Inheritance in Taiwanese Fastener Industry

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Note: The quotes in this article are re-translated from the Chinese version of the book and thus may partially differ from the original English text.

After our last book review of “The Never-loosening Screw” was published, we received lots of positive feedbacks from readers. In this issue, we would like to review another classic book and think about the future of the industry with our readers again. The book we are reviewing this time is recommended by Miss Wen-Ling Ko, general manager of Winlink Fasteners, during our feature interview with her. She told us, “Trust between the owner and clients or between the owner and employees can be evaluated. If a client is willing to choose you out of the two options available, that is the evident value of trust. If Asian companies recognize the importance of trust, then it will be easier for them to understand why there are so many century-old European/U.S. companies in the market.”

This book strongly recommended by Ms. Ko may make you wonder what trust has to do with the fastener industry. In fact, the core concept of the book can be related to the challenge faced by Taiwanese fastener industry. The author, Francis Fukuyama, is an American-borne Japanese scholar, the most renowned contemporary social scientist, a former social science researcher for U.S. RAND Corporation, as well as Deputy Director for Policy Planning of U.S. Department of State. His experiences show the significance of this book. Below, I will review the book and share my thoughts with you from the aspect of the fastener industry.

Trust---The Combination of Value, Ideology, and Culture

Where is “Trust” Positioned in Taiwanese Fastener Industry?

The Globally Trusted “Taiwanese Fastener Value”

The author pointed out the most important concept in the book—the liberal democracy and assets of the modern society must rely on “trust” to work effectively. In other words, the inexistence of social trust and the rupture of social value will destroy the social structure (including the industry). What is the meaning of “trust” in the author’s term? He explains that “trust” is the anticipation among group members for mutual social norm, honesty, and collaboration, based on the regulations (or “values”) shared among the members as well as the role of the group that each individual belongs to. The extent of trust among members is called “social asset”.

Dear readers, do the words above remind you of the recent Volkswagen emission scandal that made the headline of the global media? Let’s put it this way. We have the impression that the value of German automotive industry is to pursue stringent perfection. When the scandal came out on the media, the first reaction people had was “Volkswagen!?! No way! Can I trust German cars again?” The scandal vandalized the public’s value system for German cars, diminishing the trust for the automotive industry within German domestic market. Moreover, the social asset disruption of German cars extended to overseas countries, affecting the global car component supply chain and end users.

As everyone knows, the leading automotive fastener manufacturer Boltun Corporation has been a primary supplier for Volkswagen. When the scandal hit the headline, Boltun announced it would gradually shift supply to Benz and BMW (both are German car giants) in order to decrease the impact from Volkswagen.

However, I'm not saying that Taiwan is free from the problem of "social asset". The waste water scandal of Taiwanese ASE Group (the world's largest provider of independent semiconductor manufacturing services in assembly and test) is a typical case that affected the world. Let's turn our focus to Taiwanese fastener industry. The waste water scandal of Taiwanese electroplating plants almost crushed the global supply chain of Taiwanese electroplating/fastener industry. Fortunately, Taiwanese government immediately established new systems to regulate electroplating plants, and therefore, has sustained the credibility and "social asset" of this industry. Another task for Taiwanese fastener industry is to prevent Chinese fasteners from being transhipped via Taiwan to the EU. Recently Taiwanese fastener companies have reached a consensus with related associations and the authorities, saying they will follow the new regulations: Certificates of origins for all fasteners exported via Taiwan Free Trade Zone must be submitted before fasteners are allowed to be exported.

Have you ever thought of what the "value" of Taiwanese fastener industry is? The reason that I brought up the two examples mentioned above, is because the very notion of MIT (Made-in-Taiwan) fasteners is the symbol for Taiwanese fastener industry that pursues high quality, price balance, premium sale/after-sale service, and punctual delivery. This pursuit makes foreigners' impression on Taiwanese fasteners, and represents the value conveyed by Taiwanese fasteners, which becomes a precious value of Taiwanese fastener industry that achieved the total export value of USD 4 billion (up 10 %) in 2014 (ranked 2nd or 3rd in the world). This strong "social asset" in Taiwanese fastener industry originated from such a value pursued and followed by the fastener companies.



◀ MIT Quality

Industry Economy and Culture are Equivalently Important

“Any person who once did cross-cultural business knows the importance of cultural factors. Any business person who dares to neglect cultural factors is destined to fail”

The author mentioned another critical notion— the economy cannot be separated from cultural background, and the economic role of each country differs substantially according to its unique culture. The same notion applies to the fastener industry. In this aspect, Japan is the best player in combining the fastener industry and its culture together. Japan has two unique cultures: one is the traditional “Yamato (Japanese)” culture and the other is the modern “Kawaii (cute) culture”. What is interesting in the Japanese fastener industry is that it cleverly combines both cultures and promote them in a new way. Nitto Seiko, an OTC fastener giant in Japan, is very good at “Kawaii” Culture marketing. It created a virtual company icon “Baby Screw”, later named “Neji Tokkun” by its customers. Furthermore, “LINE”, a smartphone communication app company, even created the “Screw Boy” emoticon stamp (made by a female Japanese illustrator) for fastener industry players and female users. (Since Prime Minister Shinzo Abe called for the return of female workforce for the purpose of stimulating economic recovery, Japanese fastener industry have begun to care more about female welfare in the workplace.) Designing cute logos is also commonly seen in Japanese fastener companies. The most typical example is Maemaru Works Co. with its cute bull dog logo as well as Sunco Industries Co. with its penguin logo. Sunco Industries even redesigned its official website interface for a cartoon style, and created a “Mr. Penguin’s Screw House” smartphone app in anticipation of arousing children’s interest in the industry. Some Japanese fastener companies (such as Naniwa Iron Works) added a traditional “ukiyo-e [a Japanese painting style]” to their catalogues. Accordingly, sometimes the values that Japanese fasteners sell are not just the quality, but also a complete cultural idea introduced by the companies. This is almost the one and unique characteristic of Japanese fastener industry as compared to others around the world.

Looking back at Taiwan, I’ve come to realize that for the past decade the “Parody Culture” has been prevalent in the social media generation. If you are a Youtube user,



◀ Nitto Siko's Baby Screw (Image from Nitto's website)



◀ Change of Maruemu Works' logo (Image from Maruemu's website)

▶ Screw Boy on "LINE" app (Image from LINE's stamp store)



◀ Sunco Industries' penguin logo and its smartphone app (Image from Sunco's website)

you may be aware of this culture when you see parody music videos mocking some of the top singers just for fun. However, in Taiwan "Parody Culture" is mostly political and the young generation expresses political discontent by parodying the government, and thus industries (e.g., action figures or clothing) cash in on this fad and make a fortune. That might be an extreme example, but it tells the fact that the sustainability of an industry is closely backed by

the generation culture. Based on this fact, will Taiwanese fastener industry develop its own "unique culture" (or selling point)? In a previous paragraph I mentioned the value of Taiwanese fastener industry, and it certainly is part of the culture of Taiwanese fasteners. However, is there another possible route of culture marketing that represents Taiwan besides quality and price marketing? This is a complicated question and may involve cross-industry cooperation, but it does not hurt anything at all to just be aware of daily life inspiration. For example, when the most viewed Japanese TV drama "The Revenge of the Great Banker Hanzawa Naoki" topped the TV rating chart, a Japanese company named "Hanzawa Steel Corp." grasped the chance and rolled out "Hanzawa Screw" inspired by the same TV drama. The selling point of "Hanzawa Screw" is the main character's indomitable spirit— as in his slogan "100 times payback and revenge to those who crushed me down!" — which finally makes his enemy kneel down in front of him as a total surrender. This spirit also reflects the Japanese national characteristic and culture.



▲ Naniwa Iron Works' catalogue. The image illustrates a customer of the ancient time is choosing Naniwa Iron Works' eyebolts. The scenario depicts an ancient man in an ancient market, but interestingly, the eyebolts that the man is looking at are actually a modern-time product. The blend of ancient and modern times in this image implicitly sends a message: Naniwa Iron Works is both traditional and modern in that it not only adopts modern manufacturing technology, but also passes on the traditional value of "Yamato" Culture (the so-called Japanese "beauty" of artifact). Simply put, the company integrates the Japanese aesthetics into its bolts". (Image from Naniwa's website)



▲ Hanzawa Screw (Image or ETV News and Amazon Japan)

When I was writing this article, I was glad to hear that Taiwanese fastener industry in Gangshan Kaohsiung, (globally-known as the manufacturing heartland of Taiwanese fastener industry) was cooperating with a

religious local temple to create the first and only “Matzu” goddess statue made of screws that weighs 500 kg with embedded right-glowing LED to symbolize the godly power of the statue. With the screw statue, domestic and foreign visitors can witness the strength of Gangshan fastener makers. Additionally, with the help of unique “Matzu” religion, the statue offers the general public a chance to appreciate sophisticated fastener engineering and recognize its “soft power” that can be passed down generation by generation. Some of you may have heard of “Electric-Techno Neon Gods (cute little Taiwanese gods dancing with disco songs)” that have been well-known in overseas countries. Perhaps, someday in the future Taiwanese fastener industry will have a chance to promote its soft power through the cute little gods. There is certainly more in terms of Taiwanese unique cultures. The most important thing is to locate that unique culture and focus of development, making them a value recognized throughout the world. Currently, Taiwanese fastener industry has located its focus on the development of fasteners with high added value. For Taiwanese fastener industry, it is about time to find more opportunities from its existing cultural characteristics.

▼ Electric-Techno Neon Gods



Selecting Business Successors Only from Within the Family- An Asian Way of Succession Which the West does not Really Understand

The young generation in Taiwan often hear the elder say, “Wealth never survives three generations”. This Chinese saying is a reflection of the Asian society. Fukuyama explained this phenomenon with his interesting perspectives. He said the succession of Asian enterprises demonstrates a unique 3-stage development, resulting from Asians’

strong distrust against non-family members and from their preference to hire family members to manage companies. The 1st stage- the founder establishes the enterprise and becomes a leader in settling family disputes; The 2nd stage- business is handed over to sons and the father’s assets are equally shared by them, and if anything goes wrong, the enterprise will eventually collapse; The 3rd stage- business is again handed over to the next generation, and in many of the cases the enterprise will finally get out of business.

According to Fukuyama, people of Chinese origins such as the Taiwanese have a very strong sense of family, so they tend to trust the family more than any other outsiders. This results in a business only handed over to those in their family who may not be the most capable ones to lead the company. In contrast, American and European companies tend to hire professional managers (usually the outsiders) to run the business, and that is why there are so many asset management companies in the West. Both methods have their own advantages and drawbacks. Fukuyama pointed out a few problems regarding Asian enterprises. He explained that Asians’ distrust against outsiders often hinders the systematization of enterprises. Accordingly, they “are continuously in the cycle of establishment, growth, and then collapse”. Asian enterprises are mostly family-owned and their small scale leads to fewer of competitive brands. Regarding this issue, Fukuyama gave 3 suggestions. The first is to ally with other enterprises to form an economically sizable conglomerate (for instance, automotive fastener giant Boltun acquired a German specialized metal fabrication and forming tools company Frank Sieber GmbH Tools and Design, and Ta Chen International, Inc. acquired Brighton-Best International, the largest alloy steel fastener distributor in the U.S.). The second is to solicit foreign direct investment, which may need the help of the government. The last one is to directly own a large-scale enterprise via national support.



▲ The “Matzu” Statue made of screws (Image from UDN News)

If the Chinese have a Strong Sense of Family, What About the Characteristics of Other Countries?

Asian industries are mostly composed of small-scale family-owned enterprises. In contrast, Fukuyama thinks that “the U.S. and Japan share a similar business management structure where large-scale companies take the lead and where there are fewer state-run or state-subsidized enterprises. Meanwhile, both countries’ family-owned enterprises have evolved into those with professional management and well-organized systems.” Certainly, family-owned enterprises do not exclusively exist in the Asian society. Fukuyama adds, “Almost all western companies started as family businesses. They just evolved into corporate structure afterwards.”

The origin of Japanese industrial structure may have much to do with the indigenous “Iemoto (family unit)” system where members do not share the same bloodline but follow their own ranks and obligations. It looks like a big family, but such membership cannot be passed down to the next generation, and therefore, the Japanese do not consider handing over business to outsiders a shame to the family. Besides, a very interesting thing can be found in all Japanese companies, colleges, associations (including Japanese fastener associations) and other social organizations. There is even a term for it, called “Gasshuku” (or Training Camp), in which members from different families with mutual goals live and sleep together in the same suburb house for a few days or a week to have important meetings and entertaining activities, just like a big family. If we regard The Fasteners Institute of Japan as the “big family unit”, its affiliated Eastern Fastener Association, Kanto Fastener Association, Kansai Fastener Association, Hyogo Prefecture Fastener Association operate like “small family units” which connect vertically and horizontally and which are led by The Fasteners Institute of Japan to promote domestic fasteners to overseas countries. You will find that the Japanese industry structure has a very specific vertical structure, as in a complete tree structure with each branch contacting specific targets and performing specific tasks. The mutual goal for these branches is to support the “big family unit”. Fukuyama described the Japanese industry as a rigid granite (in contrast, the Asian industry was described by him as scattered sand grains and each grain represents a family enterprise). Certainly, apart from the domestic market, Japan must expand to overseas markets due to global competition. To Japan, the Nissan-Renault Alliance is perhaps an overseas extension of the “Iemoto” notion.

Japanese industries used to adopt the so-called lifetime employment system in which employees were treated like family members in enterprises. However, global competition, bubbling economy and cost pressure all brought the system to failure, and therefore, the young generations in Japan nowadays are less loyal to their enterprises and are more likely to resign as compared with in the past. This more or less applies to the fastener industry as well. Coupled with the low birth rate and the impression of dirty factories in the minds of young people, the problem of talent shortage in the Japanese fastener industry is emerging. The Japanese fastener industry is already looking into this problem. A hardware company (Nakatsuji Kanagata Kogyo Co., Ltd.), in order to change young generation's stereotype of "factories are dirty", came up with a "My Dreamed Molds Master" program for kids, with the aim of teaching them basic manufacturing processes in factories as well as inviting industrial experts to help kids make their own imaginations into reality. In addition, more and more Japanese fastener factories hold "Open House Events" for kids in anticipation of letting young generations know fastener factories as early as possible. Another Japanese manufacturer even promoted a "Cool-looking Workers" program to change young generation's negative impression on manufacturing as well as re-establish a cool image for workers.



▲ "My Dreamed Molds Master" program for kids (Image from Zenmono)

Next, let's focus on Korea. Fukuyama pointed out that "the most evident feature of Korea is its very concentrated industries, most of which are controlled by plutocrats. Compared to Japanese companies spontaneously built upon family units, Korean companies were mainly established upon the support of their government's policies. Korean plutocrats, unlike Japanese companies, are always tiers organizations." In terms of business succession, Korean companies are similar to Chinese companies, as they all have a strong sense of family. That is why we once heard of the scandal of Korean Lotte, in which many family members in the management were trying to scramble for their own share of assets as many as possible. Korean plutocrats are in a risk of trust collapse.

The most significant example is Korean President Park Geun-hye's amnesty to the president of SK Group, who was found guilty by the court. The amnesty was considered by most Korean people as the growing influence of plutocrats and the compromise of Korean government to plutocrats. Most people in Korea seem to have less trust in plutocrats. Although Korean fastener companies haven't suffered many significant impacts, they still have to pay more attention to the chain effects that large Korean plutocrats may bring.

In Germany, employees show high loyalty to their companies as in Japan. Japanese employees' loyalty to companies are built on family units, but in Germany it is built on "apprenticeship". Fukuyama explained, "The relationship between labors and the management in German companies is mutually equal and close. That is, management is oftentimes undertaken by those with manufacturing techniques." Such high trust between workers and the management creates a sense of content and honor among both sides in their own specialties and pride in their occupations. As a result, they are more willing to pursue perfect techniques, making the apprenticeship a support to the "German-made" quality of "Made-in-Germany".

In the past, there were many vibrant small-size companies in Italy, which helped Italy grow fast. However, Fukuyama noticed that most of these companies failed to survive as they, like other Chinese companies, did not usually have an effective management system. Italian small-size companies have a certain level of cooperation, but the competition among them is also very fierce. They always do business alone and never seem to trust anyone else outside their own group, which others cannot imagine."

Current Issues for Taiwanese Fastener Industry

Having a general picture of industrial features of the previously mentioned countries, let's us now think about what the current issues in Taiwanese fastener industry are. The economic protective measures (incl. regional trade protocols, antidumping rates, etc.) becoming more prevalent in various countries, as well as companies being forced to set up overseas operations or apply for product patents, result in the increasing costs for companies and restrict companies and industries from further expanding. Accordingly, If Taiwanese fastener industry would like to enlarge its economic scale, some large scale fastener companies have to stand out to

take the lead and group all domestic fastener companies into a very big alliance through vertical/horizontal integration, M&A, or shareholding. Every company in the alliance works together to fight for their future.

Fukuyama mentioned a very important idea in the book, “An efficient economic organization is the key to growth. The highly efficient economic organization in West European countries is the reason why the West could emerge.” Taiwanese fastener industry has established its own well-concentrated and efficient industry clusters (especially in Gangshan District of Kaohsiung). With the endless competition from around the world, the integration of Taiwanese fastener companies is a very important issue for the time being.

Conclusion

Can Taiwanese fastener industry do even bigger business? This is really a question worthy of discussion and notice. Taiwan has a very strong ability for fastener production and sales and is also one of the top 3 fastener supply countries. However, it has recently faced the impacts and challenges from China. With the issue of generation succession added into the industry, whether Taiwanese fastener industry can further expand its scale in production and sales has become a topic we can expound upon. Fukuyama added, “Economic activities are not just for living. People sometimes do economic activities for getting others’ recognition rather than just satisfying their natural desires.” In other words, doing business should be not only for realizing economic interests, but also for getting customers’ and everyone’s recognition. First, the values of Taiwanese fastener industry and companies must be recognized by domestic Taiwanese society and overseas customers. They have to do whatever it takes to prevent bad companies from destroying the trust in the industry. With the good environment, Taiwanese fastener industry can continue and expand its “culture”. For example, companies (even the entire fastener industry) must have their own clear strategies and policies (that is, Taiwan should develop its own unique culture). I’m convinced that Taiwanese fastener industry has very good flexibility. Its R&D ability, quality, and responsible attitude are all precious assets of Taiwanese fastener industry. The expansion of industrial scale is never far away and all of us are trying to find our way out in the ever-changing global challenges. ■

