

“NO BABIES + QUIET QUITTING = BUSINESS FAILURE”

*Japan's private equity gold rush will disappoint most participants,
but investors can demand better.*

Mark Lee Ford

The latest gold rush is afoot. This time—of all the unlikely places and sectors—it is in Japanese private equity.

With it comes a phenomenon that continues to vex private equity general partners (GP). Why do companies with great balance sheets and presumably solid products enter a death spiral, post-acquisition?

During my 32 years in Japan, most of which have been spent leading turnarounds and transformations, and as an investor in and owner of Japanese businesses, I have seen—and experienced—what succeeds and what fails here. More cases of the latter happen than the former; I contributed my fair share to both. As it goes with gold rushes, the bottom probably fell out of this one long before the throngs of prospectors arrived with their picks, shovels, and pans.

Whether or not your GP numbers among the many who think that “there’s gold in them thar hills” near Mount Fuji, my insights might help you to succeed with your investments in Japan, that is to say for you and, on behalf of, the Japanese people inside the companies that your money is buying.

As an UHNW investor, institutional investor, or family office—presumably as a limited partner (LP) of a private equity fund—you might find the measure of sensible iconoclasm in my commentary useful for having candid, practical conversations with your GPs about their ambitions in Japan. If anything, you will hear a voice from the field speaking about the problems that misuse of your investment money cause long after the curtains close on the enticing capital-raising roadshows.

A “Golden Age” of private equity in Japan?

Since Prime Minister Abe’s Japan Stewardship Code (2014) and Corporate Governance Code (2015), Japanese regulators, investors, and corporate leaders have been slowly warming to top tier foreign private equity firms. Prior to that, dating to the aftermath of Japan’s asset price bubble, the mainstream had regarded them for decades as ruthless *hagetaka*—vultures—so much so that Japan’s national broadcaster NHK ran a popular TV drama series of the same name and theme. Despite the vintage of Mr. Abe’s aforesaid legislation, sentiments of acceptance in the business sphere have come just recently, well after the Tokyo Stock Exchange’s 2023 mandate for public companies to improve capital efficiency or face delisting.

But in Japan, such positive sentiments are fragile and uneven; memories, long.

Even when they fail, GPs and their entourage of highly paid turnaround leaders and consultants, interim management, board directors, and advisors always seem to come out on top. Not so for the investors and many Japanese employees of portfolio companies, which is why the image of private equity, foreign or domestic, as carpetbagger is harder to shake among the public. Combined with nationalism sweeping Japan, the acceptance of foreign private equity, especially so, is hardly on a sure footing. And I have not even yet begun to discuss the difficulties of turnaround strategy and execution.

Today’s private equity boom in Japan has not arisen solely because of low interest rates and a weak yen. More than cheap debt, the boom is being fueled by the erroneous belief spreading among GPs that easier access to corporate carve-outs, the lack of succession options for small and medium-sized enterprise (SME) owners, corporate governance reforms, and a wave of public-to-private deals driven by activist shareholders make this a seemingly ideal time to enter the Japanese market.

This mindset speaks to the top reasons why GPs consistently fail in Japan—not just in this so-called Golden Age, but at any point over the past 30 years: irrational escalation to commitment (read: euphoria) and hubris. The relative ease of raising capital and entering deals today cloud good judgment as to what is actually required to fix a Japanese business. And I have seen a good many cases in which one’s pedigree of education and career, and the heft of a prestigious fund’s name, gives the GP the delusional sense of invincibility, no less for the Japanese ones than for the foreign; after the initial hoopla and big talk in the press fades, both flavors eventually end up fired and with their tails between their legs.

While the current tailwinds in Japan can buoy up one to secure a deal somewhat easier than in years past, they are neither necessary nor sufficient for a successful turnaround and subsequent exit. Unless one can strategize and execute operational turnarounds in ways specific to Japan, the current, oft cited “advantages” are actually flypaper.

So, is there really a “Golden Age” of private equity underway in Japan, as some high profile GPs are calling it? I respond with “For whom is it golden?” Certainly, capital is flooding into Japan and deals are proliferating. Aside from some portfolio companies of several prodigious funds, I see nothing that rises to the level of a Golden Age (if I understand the term correctly) when it comes to the practical realities of turnaround or transformation strategies and execution here. Could the enthusiasm be flowing from oversubscription and the mad rush of foreign funds to Japan? When one further considers the risks to the Japanese employees of portfolio companies, the Golden Age moniker comes off as merely the promotional hype of a gold rush.

At any rate, whatever term one prefers, there has never been an antithetical Dark Age to compare to a Golden Age as far as true success is concerned, even during the decades of the negative hagetaka sentiment. True success—not just for the GPs, but success for other shareholders and the rank-and-file employees—if it comes at all, arises from the strategic and operational capabilities of the GPs, not just their talent for raising money or making deals. That, and a good measure of humility, give one the best shot at winning the day, even when stuck with a company that one did not understand in the first place. This quality of success is agnostic to factors such as today’s lauded tailwinds.

Unless GPs get the strategic and execution pieces right for the Japanese context, two or three years hence many of them who are flocking to Japan’s shores now will be desperately trying to jettison their Japanese portfolio companies before the music stops. Most will be left without a chair. And when that time comes, beware also to the GP who thinks he can snap up a bargain from lesser mortals as they flee for the emergency exits, leaving investors and employees to pay the tab for a gutted company

The reality inside Japanese companies

A totally new and unique phenomenon in business

Japan is slowly asphyxiating under the weight of inter-generational stagnation in a depopulating economy. No company can survive a shrinking market combined with a workforce that has already checked out. Conventional turnaround and transformation strategies do not work here.

Solving how this crisis manifests inside a business is the single absolute requirement for success. Put even a small dent in the problem, and you will create more value than all the financial engineering, artificial intelligence initiatives, call-center consolidations, factory closures, outsourcing projects, and SKU rationalizations of which you could ever dream, combined. No efficiency project is tenable unless you first solve the human problem fundamental to all of them.

While traditional cost-cutting might temporarily relieve the drag from an aging population, in a low-birthrate market cost-cutting becomes an accelerant—like fire-starter gel—to business collapse; you cannot cost-cut your way out of an demographic void. Similarly, jumping on the artificial intelligence bandwagon and beating the innovation drum are as unintelligent as they are non-innovative. The premise of such initiatives misses how capital, labor, and technology interact in Japan today.

The fusion of inter-generational deadlock, low birthrate, and an aging population represents a totally new and unique phenomenon in business, one that demands a precise definition, and for which conventional solutions are not just ineffective, but are also likely to worsen matters.

Whereas a GP or equity analyst might view inter-generational deadlock as an issue to be solved through the political process (e.g., a silver electorate opts to divert public funds to shore-up healthcare and pensions at the expense of innovation), a turnaround leader must view it in practical operational terms. Inter-generational deadlock creates what amounts to a invisible “execution tax” or “execution premium” inside the business. This premium explains why conventional turnaround strategies fail in Japan despite the favorable tailwinds mentioned earlier.

Management’s blindspots

The topic of Japan’s aging population has been flogged to death. Yet, corporate leaders routinely conflate *aging population* with *low birthrate*. Because they misdefine the problem from the outset, they cannot see how the two forces interact to kill their businesses. Barring sheer luck, any strategic response will fall short.

Raising the corporate retirement age to offset labor shortages or targeting wealthy seniors are instances of common, misplaced strategic responses. Demographic shifts are being treated as issues for human resources or marketing alone.

While chasing these wild geese, corporate leaders miss the approaching spikes in corporate SG&A and welfare taxes—a permanent impediment that withers margins, and the seeds of which were planted decades ago.

The low birthrate, likewise, is commonly ignored or relegated to being a far away public policy issue for government bureaucrats. On the odd chance when corporate leaders do look at it, they see it only as something having to do with a tight labor market. Their misguided fixes include bumping up starting salaries, beefing up recruitment efforts, and slapping digital automation patches onto sagging legacy systems and processes. Throw in an artificial intelligence initiative or two willy-nilly, and leaders feel satisfied that they are doing something transformative, or at least enough for a press release to show that they are keeping up with the Joneses. After all, nobody likes to look like the odd man out in the Japanese market.

The inimical blindspot in a low birthrate situation is management not seeing the loss of demographic momentum and the delay of a generation or two that it takes to appear. To wit, the total pool of future consumers is permanently shrinking, not just the pool of taxpayers and workers.

By doubling down on conventional strategies of scale—namely, burning capital to acquire customers—management is throwing investors' money into a black hole. The whole affair is abortive because the customers literally do not exist anymore.

Typical in Japan, however, once a course of action is set, it is *damn the torpedoes*. Management will stubbornly, and in utter futility, stick to their dud strategies to make them work to the bitter end—the ruination of their businesses.

Management has this blindspot, in part, because the prevailing explanations of aging population and a low birthrate are by economists and from an economics' perspective. Such academic explanations do not consider the practical operational nuances inside real businesses, and so they fall flat in turnaround settings.

Problem Definition

When the subtle distinctions are considered, however, a clear picture emerges, one having great practicality for the investor, GP, and turnaround leader:

Low birthrate + Aging population → Spikes employee anxiety → Creates inter-generational deadlock

The pernicious blindspot leading to a business' *coup de grâce* is not understanding how the aging population and low birthrate combine with a third force hiding in plain sight: inter-generational deadlock. These three forces do not just shift numbers around on a spreadsheet; their interplay constitutes a toxic cultural pathogen.

“No Babies”: depopulation and the strategic half of the problem

An aging population and a low birthrate are distinct phenomena with different consequences, even if they are intertwined. An aging population is a distributional shift; the proportion of elderly people to working-age people grows. A low birthrate is an existential crisis in the literal sense. Not enough babies are born to supply a given system. The combined outcome: lots of seniors, no babies. The system—the entire population—loses its “momentum,” so to speak.

When corporate leaders focus only on the inverted population pyramid of an aging workforce, they miss the momentum crisis arising from low birthrate. Fewer babies today mean fewer workers, taxpayers, and consumers tomorrow. An economic void, a kind of demographic quicksand, opens and begins to widen. Once a generation shrinks, the absolute number of births remains low even if fertility rates tick up later because the number of potential parents has decreased. The population loses momentum and sinks into the void.

Even if birthrates could somehow miraculously stabilize, it would make no difference. The population would continue to age due to medical advancements, better nutrition, and other aspects of modern life that increase longevity—precisely Japan's reality.

As the proportion of seniors climbs, public systems cannot keep pace. Older populations are forced to draw down their savings to bridge the gap from insufficient pensions rather than invest, redirecting capital that could otherwise have gone into new ventures and riskier investments, thereby hobbling innovation. Similarly for their children and grandchildren, subsequent generations must redirect a portion of their money from investments to help their parents and grandparents to pay the bills. Meanwhile, the government increases taxes and diverts public funds into pension, healthcare, and social “safety nets” rather than R&D and strategic industries. Innovation takes another hit. Government also continues to subsidize the inefficiency of, and inculcate cronyism with, the dominant incumbents—

lumbering giants—by way of ongoing overregulation, barring innovation in those giants. A third hit. New entrants with innovations cannot afford a seat at the table because of the regulatory expenses. They are locked out by the cost and cronyism, and innovation takes a fourth hit.

Innovation nosedives and inefficiencies and cronyism soar, ossifying society throughout and at great costs. The factual reality is that, for years, public policy has directly contributed to the current situation where young couples pay the biggest human price of all; they simply cannot afford to have children.

So while an aging population creates an immediate and visible burden on the balance sheet, a low birthrate causes a slow evaporation of customers, labor, and innovation. It is not that they go elsewhere such as to a competitor. They simply cease to exist, gradually so. This is why traditional cost-cutting can temporarily relieve the business stressors from an aging population, but accelerates business collapse in a low birthrate market.

Low birthrate is insidious. Its effects operate on a lagging, generational delay. And the effects are pervasive as they are latent. Boards cannot see the effects because governance operates on five-year management plans. Whereas an aging population hits the balance sheet today with soaring welfare taxes and a shortage of mid-level applicants, a low birthrate takes 18 to 22 years to manifest as a shortfall in entry-level labor. Because the collapse of consumer volume progresses on geological time-scales in management's view, if they see it at all, they kick the can down the road, leaving the matter for the next CEO or board.

For the last two centuries, the standard corporate playbook has been built on variations on the theme of scale up. Businesses that hustle only to capture a share of an expanding pie, rather than finding ways to expand the pie itself, end up selling low-margin commodities.

When the pie shrinks, these volume-addicted businesses suffer. Applying a growth strategy to a depopulating market leads to capital dissipation—consuming resources to acquire non-existent customers while starving innovation. From this comes two profound strategic realizations: (i) stable birthrates cannot immunize a business from an aging workforce; and, (ii) strategies that only address an aging workforce cannot save a business from a collapsing consumer base brought on by low birthrate. The only way out: one must judiciously de-scale parts of the business while scaling up other parts. And this leads to the other half of the problem definition—who is going to be able to do it?

“Quiet Quitting”: inter-generational deadlock and the execution half of the problem

Decades of a low birthrate have not only depopulated the market, they have given rise to a cancer that is now ubiquitous inside Japanese companies: inter-generational deadlock. The *dramatis personae* in this play:

The Senior Personnel (“The Squeezers”). Managers in their 40s and 50s are focused on maximizing their compensation while minimizing effort. Squeeze as much juice as they can from the orange on the way out the door. Promoted for compliance rather than creativity, they were never hired to undertake transformations or innovate.

Faced with mortgages, children in college, and family demands, their mantra is simple: “Change anything you like... after I retire.” Salary stability is jealously guarded at the expense of all else; intellectual laziness flourishes.

Above all, The Squeezers are tired—exhausted by decades of corporate politics, bureaucracy, bullying, packed commuter trains, purposeless meetings, and late nights. Forcing complex transformations onto their daily routines without direct financial upside immediately creates unyielding resistance.

The Junior Workforce (“The Quiet Quitters”). Gen Z and Millennials carefully watch their bosses and quickly realize that innovation offers no personal upside. Because Japanese companies punish failure, while the success of juniors is co-opted by seniors, young staff naturally do the bare minimum. They engage in *shizuka na taishoku*—“quiet quitting.” Approximately 47% of young Japanese full-time workers unabashedly state they give minimum effort, just enough to keep their jobs.

The Technical Trap. The endemic stagnation of inter-generational deadlock rests on the teetering foundation of obsolete, legacy IT and manual processes built during the 1970s and 1980s. Trying to pivot to the “Silver Economy” and/or automate operations using this injurious mix of generations and technology founders in totality.

Private equity deal partners must be on high alert. Your financial models are broken if they do not account for the interplay between The Squeezers, The Quiet Quitters, and the Technical Trap (Table 1), which has the alacrity of molasses.

The Cure

In a depopulating market, volume-based scaling consumes capital without benefit. Only the companies that can judiciously de-scale parts of the business while scaling up others, that is, stabilize or even deliberately shrink top-line

revenue while dramatically boosting their profit-per-employee, can survive. That is the strategic half of the problem that involves depopulation. But before one can take a shot at executing any strategy, one must first crack the execution half of the problem: inter-generational deadlock.

Solution for the execution part

To do so, partners must insert field-tested veteran leaders who can step into interim C-level roles to absorb execution risk and build execution environments. Otherwise, the incumbent management will continue to check-the-boxes, for instance, by attempting to up-skill an exhausted, resistant workforce with irrelevant training and seminars.

By virtue of the number of variables involved, the undertaking in Japan may eventually rank among the most difficult in the history of modern private equity. External consultants cannot work any better than expecting defensive management teams to correct themselves. Turnaround efforts must be directed exclusively by corporate transformation veterans from the outside who take control as interim directors or C-Suite leaders to absorb execution risk and shield those among the staff who actually want change from those who do not.

The finest turnaround leaders in Japan have at least the following credentials:

- *Veteran C-Suite Turnaround Pedigree in Multiple Industries and in All Business Functions.* Decades of experience leading multi-year operational turnarounds for public and private companies, including PE portfolio companies.
- *Rigorous Technical Foundations.* Turnaround leaders should hold advanced credentials in business, engineering, science, and/or even law to handle problems that can only be cracked by multidisciplinary approaches with leaders drawing on experience gained from numerous industries.
- *Cross-Border Execution.* Full authorization to seamlessly execute international carve-outs, joint ventures, and offshore operations.
- *Legacy Renewal.* Expert capability in revamping legacy mainframes, processes, factories, and the like, and knowing what to do with the associated people.

What about cultural adroitness?

Being Japanese or having spent a long time in Japan do not qualify when it comes to the cultural understanding required for success in Japanese turnaround settings. The turnaround leader, for example, must have mastery of the cultural impediments and myths that people believe about themselves and use on each other daily in the office. Japanese companies still operate in large measure on the basis of honor and shame, and along feudal-like lines. The finest turnaround leaders in Japan know how to use this to advantage, and are neither hoodwinked nor stymied by it. They know the fallacious arguments from authority used by The Squeezers and The Quiet Quitters on each other and their peers. Some are true believers; most just use it as a way to maintain the status quo of inter-generational deadlock and not do any progressive work. “(Such and such) cannot be done because it is not the Japanese Way” or “There is a rule or regulation against (whatever it is what you want to do)” are cudgels that people swing at the drop of a hat to clobber even a trace of fledgeling innovation instantly, yet ironically are the easiest to neutralize.

A word about language fluency is in order here. It is far better to hire a turnaround leader with broken English or broken Japanese—but who can think straight—rather than someone fluently bilingual who cannot. The latter is in abundance in the market, both foreign and Japanese. An interpreter can always overcome language differences, but nothing can compensate for a lack of logical reasoning ability or leadership expertise.

Moreover, do not fall into the trap of hiring someone who looks like you, someone who went to a top Japanese or American university for undergraduate studies followed by a Top Ten MBA, then worked in an executive job at an “elite” company. Go for the hidden champions without brand who are right under your nose. For the partner that knows for whom to look, there is a sufficient supply of suitable leaders.

To change the behavior of incumbent management and employees, one must change the underlying economics. This is why the prognosis for large, listed companies is especially dismal: it is impossible to overcome vested internal interests to overhaul incentives. And because those internal interests and incentives are also chained to the agendas of external regulators and policy makers, the problem is intractable.

For companies sincerely ready to take the medicine, the strategy must bypass the legacy workforce for transformation tasks while retaining them strictly for running steady-state operations. A resilient turnaround organization for strategy and execution must be built “from the outside, in”:

- *Install Interim C-Suite and Directors.* Seasoned senior turnaround leaders from the outside must assume critical roles (such as Interim CEO, COO, and CIO) throughout the business to absorb execution risks, make objective decisions without fear or favor, and protect the rank-and-file staff from the inevitable fallout of transformative change;
- *Match Compensation to Performance.* Replace traditional seniority-based tracking with clear incentive frameworks. Though expensive up front, it is far cheaper in the long-term to pay The Squeezers and blockers (of any generation) to leave the company rather than keep them on the payroll. This also protects younger employees from punishment and gives The Quiet Quitters a credible economic reason to contribute to the cause;
- *Decouple Innovation from Business as Usual.* Shift transformation projects entirely out of the regular business units. By setting up projects managed by external specialists that have the final word, daily operations remain stable while internal political friction is eliminated; and,
- *Decommission Legacy Environments.* Bypass outdated 1970s–1980s IT and processes by migrating them directly into automated cloud setups, radically reducing reliance on The Squeezers and showing The Quiet Quitters that meaningful change is possible...and quick.

Strategy consulting firms sell abstract slide decks and fanciful academic theories that unmotivated workforces ignore or despise (Table 2). One should not be drawn into the usual pastiche of strategically unsound analyses, metrics, cross-cultural sensitivity training, coaching, trying to get buy-in, cultural change, and the other schtick of wrongheaded transformation initiatives and “best practices” from consulting firms, training companies, HR departments, and their fellows. What might sound good (or what everyone else does) is not the same as what actually works. More matter, less art. Get the basics right.

Take, for example, “Match Compensation to Performance Metrics.” One does not need a consulting firm and the HR department to chew up eight months of schedule and budget in analysis and design followed by forcing employees into the endless grind of evaluations and tracking, activities that breed cynicism in an already moribund organization. Instead, I have found that initiatives that have been stalled for years and targets said to be impossible suddenly jumpstart within days after having implemented something as simple as the Say-Do Ratio. Authority with accountability. Rewards and consequences. The concept is clear, simple, and logical, and begs neither translation nor cultural packaging, nor really much of an explanation. Japanese kindergarten is not much different from any other kindergarten, in this regard. From childhood, everyone knows what it means to make a promise, to keep it...and the consequences of breaking it.

Returning to the need for external C-Suite intervention, a practical illustration can be observed from the consistent over-extension and misapplication of rules and regulations by The Squeezers, not in the interest of protecting the customer or company, but in extending and preserving one’s authority and minimizing workload, even if there is no financial upside for The Squeezer. When one has never been rewarded for value, bad actors sometimes resort to exerting power over others, just as petty as in academia. Such people cook up rules and authoritative prohibitions as they go along, having no legal legitimacy. Capable turnaround leaders understand the weaknesses, the soft underbelly, of the endemic dysfunction, and use it against itself deftly to overcome its grip on the business.

Misuse of Japan’s Privacy Law is a good illustration of this behavior. If there was a prize for “The most misinterpreted, misapplied, and overextended use of a law in Japan,” the Privacy Law would get a gold medal. You will be hard-pressed to find anyone who has even read the statute let alone sought legal advice about how it applies to aspects of the business in question. Yet, even mere consideration of the most trivial actions and changes is hammered down by simply saying, “Privacy Law. Very difficult.” Perhaps the easiest chestnut of all to debunk, it ironically has surprising resilience because of the cult-like acceptance of following the rules and timidity in the face of arguments from authority, bereft of logic.

But in Japan, The Land of Rules, there really are no rules, at least for certain people and under certain circumstances. The Squeezer’s certitude in the correctness of his manufactured version of legal pronouncements

crumbles when he is asked to explain the specifics of his stance with a copy of the statute and a lawyer in the room. Subordinates—The Quiet Quitters—who blindly follow such a Squeezer see that the emperor has no clothes; The Squeezer loses face. But his tenacity is boundless. Even after (or especially after) he has been exposed, he will then incessantly try to breed dissent and discord against the turnaround, the management, the private equity partner—basically, anyone who carries with them a even so much as whiff of change or threat to the status quo. This is a case in which one should pay the miscreant to leave the company, to get out of the way of the turnaround effort, and as early as possible.

Corporate inertia cannot be negotiated away; it must be bypassed and outmaneuvered with sensible iconoclasm. Partners might be pleasantly surprised to see that many among the employees and management alike are hungry for it. There are associated costs, but they pay manifold dividends in short order.

Solution for the strategic part

Once one has begun to break through the inter-generational deadlock, one is in a stronger position to execute the turnaround strategy and tackle the strategic half of the problem: depopulation. To ease the depopulation stressors on the business, partners must aggressively transition portfolio companies away from volume-based growth. There are numerous ways to do this (Table 3):

1. *Shift from CAC/LTV to Margin-per-Capita.* In a growing market, businesses optimize for Customer Acquisition Cost (CAC) relative to Lifetime Value (LTV), betting that there will be a never-ending stream of new sales prospects. In a depopulating market, one must shift to maximizing Margin-per-Capita. Since one cannot acquire more customers (i.e., because they literally do not exist anymore), one must increase the utility of services to the existing population pool.

Example. Transition businesses into multifunctional hubs. A regional logistics company should not just deliver packages. Drivers can check on elderly citizens, collect regional data, and deliver groceries while taking on more of a familiar face and informal role in the community (recall, the old days when everyone knew the postman and milkman by name). In this way, fixed operational costs are spread across new multiple service lines that serve the same pool customers.

2. *Judiciously de-scale infrastructure while scaling up other parts of the business.* Most corporate assets (e.g., factories, retail stores, server networks) become massive financial liabilities if they operate below a specific capacity threshold. If an asset cannot be efficiently operated at a threshold level of its original design capacity, it should be phased out or converted.

That said, de-scaling is a high risk, multivariable undertaking. Finesse and a light touch work best. Think of how a traditional Chinese acrobat reduces the number of his spinning plates here and adds more plates there without dropping any of them. Each plate represents one of the many parts of the business. The plates are coupled to one another. And so it is with all the parts of the business. While certain parts of the business should be de-scaled, other parts must be scaled up as you shift emphasis among extant products and services and to newer ones such as those associated with longer-lived products.

Example. Deploy micro-factories. Replace centralized manufacturing plants with highly automated, small-footprint facilities that can be spun down or re-purposed with lesser effort. Retail stores can pivot to mobile or episodic footprints that use rotating physical pop-ups or automated mobile units that service contracting regions on specific days of the week, compressing local demand into brief, highly profitable windows. This can also lower the cost barriers to innovate.

3. *Upgrade workforce productivity.* When the labor pool shrinks, wages increase. Companies should scale up the capabilities of a fixed or shrinking workforce using technology, not by adding headcount:

shift from
Traditional strategy → *more workers* → *more output* → *more revenue*
 to
Depopulation strategy → *fixed workers* → *automation* → *multi-sector value*

Example. Implement automation. Artificial intelligence and robotics are deployed to cut costs and to prevent catastrophic operational failure from lack of personnel. This requires multidisciplinary training. If a company can only employ ten people instead of 50, those ten individuals must be cross-trained to ensure the autonomous systems can function properly.

4. *Design products for longevity.* Volume-driven business models rely on planned obsolescence and frequent replacement cycles to drive quarterly earnings. In a depopulating market, this premise is invalid because aggregate consumption is plummeting in proportion to the decreasing pool of customers.

Example. If one can only sell fewer units, one must capture revenue during the entire lifecycle of those units (e.g., maintenance, remanufacturing, and subscription-based upgrades). Industrial and consumer products must be designed for indefinite repairability and/or component-wise upgrades and replacements. The initial sale then contributes a minority proportion of revenue; the majority, derived from asset optimization over the long-term.

5. *Manage deflation.* Public markets penalize companies with declining top-line revenue, even if those companies remain highly profitable on a per-share basis. Managing capital in a depopulating economy requires divorcing oneself from the “growth at all costs” mindset.

Example. Instead of reinvesting capital into geographic expansion or capacity increases for which there are fewer (or no) customers anymore, return the excess capital to stockholders or divert it into efficiency development. A company that reduces its total revenue in a controlled way, at least as best as possible, but increases its profit-per-employee and dividend yield becomes the new definition of success.

Trade-offs and common pitfalls

Always be on the lookout for the subtle and hidden tradeoffs that will result from your decisions. A factory, for example, carrying an excess inventory of components and raw materials might be misconstrued as being grossly inefficient in the cosmetics industry, which can lead one to one-dimensional strategies of cost reduction.

Consider the true case of a Japanese cosmetics company, beloved by its retail customers and sales women alike for fifty years, in which its excess manufacturing inventories were actually mitigating risks in the company's supply chain. Those seemingly undesirable inventories empowered the company to outperform competitors by responding quicker and profitably to the fragmented requirements of their retail customers. The KSF and differentiator for the company's half-century of success arose from the strong Japanese social bonds between the thousands of part-time “sales ladies” in the field and their retail women customers coupled with the company's quick response supply chain for the customers' requirements.

Yet, the company was in sure decline. Inter-generational deadlock was stifling innovation in manufacturing, R&D, and information technology. Depopulation was withering the numbers of candidate sales ladies. The aging population meant that the average age of customers was 62; sales ladies, even older. The company, however, was successfully marketing not to the mindsets of senior citizen women, but to a subset of women who *happened* to be senior but were retaining, in part, the social fabric and outlook of women as they once *were* in their twenties or thirties in the 1970s and 80s when they first became customers and sales ladies. This case was perfect for spot basis, surgical de-scaling, limited efficiency measures and focused upgrades in the factory and IT. In other words, a light touch for a nuanced business situation.

Having the depopulation blindspot, unfortunately, the fund's appointed turnaround leadership team tried to “get with the times” with a new business strategy that emphasized new customers in their teens, twenties, and thirties—segments that were already depleted from depopulation—while eschewing the growing pool of senior customers who were tech-savvy, yet preferred the pre-social media, non-digital social relationships of their youth as the main mechanism for buying and enjoying the company's products. A totally new and incongruent MLM line-of-business having to do with cookware was also thrown in.

Suboptimal selection of the turnaround leaders and interim management, along with local fund personnel, board directors, consultants, and advisors, compounded the flawed strategy with an irrational escalation of commitment to cost cutting, carpet-bombing the company in a span of six months with conventional efficiency projects. They fired all the manufacturing workers, razed the company's factories, closed the R&D labs, rationalized SKUs and suppliers, rushed unprepared into eCommerce renovation and digital technologies, outsourced manufacturing to OEMs that

demanding long lead times and high MOQs, and outsourced the customer contact center. The last initiative in the list eradicated institutional front-line knowledge of customer behaviors and, with it, an essential channel besides the sales ladies for longstanding, trustworthy, and personal relationships between the company and its customers.

The result: a rapid death spiral of the company was triggered, upending the lives of thousands of people—employees, factory workers, sales ladies, their families, and even the customers. The remains of the company was palmed off within 18 months at a painful loss to another fund—a smaller fish—who, in turn, sold the remains of that within a year and at a loss to a foreign electronics conglomerate. Only a few scattered SKU remnants (more like archeological artifacts) of what had been a large, viable business just a few years beforehand exist today.

A final point on easing the depopulation stressors, as you decide your targets and priorities for descaling and scaling up, be cautious of today's popular "strategies" of circular economies. Regenerative economic models that are easily debunked have no place in the objective reality of practical setting of turnarounds, a setting that is serious and severe; more than your investors' money, the livelihoods of people are also in your hands.

What investors should demand of their GPs

Investors in Japan businesses, whether through private equity firms or by other means, must set a higher standard of accountability than is typical in other developed markets. Conventional governance covering financial reporting, board rights, standard carry and so forth, do not force GPs to recognize and deal with the problems I have described, nor qualify them to execute the solution.

Before committing any capital, investors should use the the following litmus test on GPs:

1. *Humility.* Does the GP state fully and without prevarication—and without you needing to prod him—about what he does not know and what he cannot do in Japan. This applies to Japanese GPs no less than non-Japanese ones.
2. *Does the GP understand the central problem of corporate inter-generational deadlock in Japan?* The GP must show thorough understanding of the fusion of forces of low birthrate, aging population aging, and inter-generational deadlock—the central problem that demands the correct strategy and execution solutions. The GP must explain how this force operates differently across public companies, carve-outs, and private businesses, and how the fund's investment and operating approach accounts for each.
3. *Company-level diagnosis.* For every portfolio company investment, the GP should provide you with an assessment of where authority is stuck, where engagement has collapsed, and what specific mechanisms will be used to break the deadlock. Vague references to "succession plans" or "culture transformation" do not cut it in the field.
4. *Explicit underwriting of the execution cost.* The additional time, resources, and risk required to produce results inside companies paralyzed by the "execution tax" or "execution premium" must be quantified in advance and reported thereafter. Persistent overruns should trigger your contractual rights to demanding an independent operational review or changes in leadership.
5. *Japan-specific operating measures.* Progress on transferring real decision rights, restoring discretionary effort among critical personnel, improving the speed and efficacy of decisions, and protecting the business from further erosion of inter-generational deadlock must be reported with the same rigor as financial metrics. Annual, thorough reviews with the Japan-based teams, not only the GPs, are essential.
6. *Governance rights that function in Japan.* Observation or appointment rights, escalation protocols, and the ability to commission independent reviews matter here because of the residual, lingering suspicion of private equity firms. Co-investment rights on larger transactions can further improve visibility.
7. *Incentive alignment with the longer cycle.* Carry structures optimized for faster exits in the US or Europe only serve to encourage GPs to under-invest in the long-haul, exhaustive, and expensive turnaround work that is necessary for success in Japan. Flexibility on hold periods for Japanese assets and linkage of economics to operational milestones reduce the GPs' temptation to cut corners that damage both value and reputation.

8. *Continuity of local Japan capability.* High turnover among Japan-based private equity personnel and their attendant entourage sharply raises the execution cost and exacerbates the old reputational concerns in the minds of Japanese employees. Depth, retention, and incentives of the local team are a risk factor.

Is the cure working?

Is this medicine actually being applied in the field today? In short, yes—albeit often by happenstance rather than design, suggesting that even some successful GPs might not fully realize why their strategies are working.

One noteworthy domestic private equity firm in Japan claims to generate consistently 3x multiples and higher on invested capital by tying its exit metrics to wage increases, employee growth rates, and the promotion of women to executive jobs. While the casual observer might mistake this for soft corporate social responsibility, it is actually a hard-nosed operational cure. By opening opportunities for capable employees marginalized by The Squeezers and by breaking promotion practices based on seniority, the GPs of this fund have been able to shift partially the economic incentives that fuel inter-generational deadlock and its associated harmful behavior.

This same fund has positioned itself as a leader in business succession investments and regional corporate carve-outs in prefectures outside Tokyo. These are family-owned or mid-market legacy companies where aging owners require an immediate exit. Such legacy environments map well to the internal dangers outlined in this paper. As with tier-1 listed companies, family-owned companies in Japan generally have a poor prognosis, but for a different reason. The intransigence of autocratic owners has created the SME version of The Squeezers and The Quiet Quitters.

More progressive funds are expanding into tech-driven platforms and automated B2B services rather than wallowing in conventional growth strategies. These initiatives are more than operational improvements. Survival of the business depends on protecting it from inter-generational deadlock, labor and customer shortages from depopulation, and the associated paucity of innovation.

What success looks like in Japan

Major Japanese companies routinely request me to develop their rising stars into global leaders, prepare women directors as candidates for board director, align the heads of overseas operations and business units with vision of the holding company's CEO, and teach about innovation and intrapreneurship. Numbering in the thousands over the years, they come from all business functions and the widest spectrum of industries. About 60% are “proper” Japanese employees, meaning that they have worked only for one company, and most of them only in Japan. Of the remainder, half are non-Japanese, hired and working overseas, and half are Japanese having overseas experience. Ages are from late twenties to mid-fifties, tenures between five and 20 years in their respective companies, and men and woman in roughly equal numbers.

The classroom takes on aspects of a living laboratory for me. For the past few years, I have asked participants: “If your CEO gives you an order that will cause certain harm to someone, will you follow or disobey the order?”

Their answers come forth unhesitatingly and almost with unanimity: “I will obey.”

I say “almost” because, at the time of writing this article, only one participant of the 130 that I have taught over the past nine months said that he would unequivocally disobey the order. The reason given by those who would obey: fear of punishment. The Quiet Quitters—even the one who said that he would disobey—say their fear extends to fear of punishment for any failure and the ridicule that always comes with it. These fears, they say, date back to schooldays. And in a culture having a deep social orientation toward conformity, in which the importance of the thoughts and feelings of others is paramount, ridicule is worse than punishment. Whereas the latter is a single event, the former lasts for one's lifetime in the company. Self-confidence is obliterated. That foreign directors of overseas operations would feel likewise about the punishment aspects is intriguing; perhaps it indicates how incredibly compelling and uniform the Japanese corporate culture can be, at least inside the major players.

So when a GP and his team of “experts” parachute into one of these companies out of the blue, especially one with the heavy-handed attitude of a teacher coming to teach the Japanese the errors of their ways, purporting to know more about the business than those who have worked in it for years, no wonder employees and management alike revile them. Both are savvy enough to know the reputation of private equity in Japan. Given the absolutest regime for punishment, what employee would be crazy enough to stick his head out for any partner or his assigns?

If one does manage to change the incentives by the ways I described, or by better methods of your own design, however, a renaissance blooms. At first tiny, it unfolds in fits and starts, as years of pent up resentment are replaced

with agency of self. For some, the shock of freedom is too much to bear. But most adapt and embrace their newfound authority with accountability, to be able to do something—*anything*—no matter how small, that is truly of one's own creation and savor the satisfaction that goes with it.

And that is when will you see something that goes beyond a turnaround; it is nothing less than revelatory, inspiring and invigorating to the bone. The people are not re-inventing themselves. They are rediscovering themselves. The spirit of Shibusawa, Odaira, Iwadore, Gotoh, Morita, Matsushita, Honda, and tens of millions of Japanese like them is still alive; people for which gustiness was the norm, whether they were leading a company or working for one. The guts to innovate, to make business and, above all, to create genuine value for themselves, their families, and their communities during Japan's eras of greatest despair and greatest recovery. When their re-awakened confidence is combined with their unparalleled self-discipline and tenacity, the Japanese workforce is unstoppable. Anything and everything becomes possible—fast! One can never model the enormity of such value in a spreadsheet or measure it with a KPI.

And you as an investor can be the catalyst for this to happen, and benefit from the attendant prosperity, but only when you develop a sincere, abiding affection for and camaraderie with the people. Indeed, when one can love the people more than one's EBITDA, that is when true success begins to come, and what it looks like in Japan.

Conclusion

Over decades, low birthrate, an aging population, and inter-generational deadlock have slowly fused into a single interlocking mechanism that causes attractive-looking companies to enter a death spiral when conventional turnaround strategies are applied to them. The convergence of a low birthrate and an aging population creates an economic void, resulting in a shrinking market and an unmotivated workforce that engages in “quiet quitting” as a defense mechanism against limited upward mobility. Western private equity often misses the mark in Japan by imposing on these demoralized workers certain KPIs and cost-cutting measures that would otherwise be perfectly viable, thereby creating bad outcomes despite the optimistic financial predictions.

To unlock value in these deals, a private equity fund cannot rely on conventional tactics. Veteran turnaround leaders must be used to break the inter-generational deadlock, thereby lowering or eliminating altogether the associated “execution tax” or “execution premium”, then to de-scale parts of the business for a market—a society—that is depopulating. The true first-mover is not the GP who shows up in Japan before others, but the one who masters this approach early. As aging populations and low birthrates spread across the world later this century, along with the attendant stall in demographic momentum, so will inter-generational deadlock; all are manifestations of heavy handed central planners. What country has not pursued this folly? Because this new phenomenon in business is unfolding in Japan first, any Japanese company that adapts today will be well-suited go abroad and even beat laggard incumbents in those markets.

Finally, an investor's biggest advantage in Japan is Japan itself. If there is one word that can be used to describe Japan—all its strengths and weaknesses—it would be “predictable.” By virtue of the number of variables involved, the undertaking in Japan may eventually rank among the most difficult in the history of modern private equity. But those variables are predictable. In the end, you—the investor—are the biggest risk to your own success here. Once one knows the drill, the playbook, you might find Japan the easiest market of your career. The people are ready for change, champing at the bit for it, but have lost their confidence. More than merely doing another deal, the successful investor will actually have contributed to the revitalization of a society, a country.

Will you number among those few?

* * *

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FORCE	IMMEDIATE EFFECT	LONG-TERM EFFECT	CONVENTIONAL FIXES
Aging Population	Increasing costs from SG&A and pension	Rising corporate welfare taxes. Declining innovation.	Relieve costs temporarily, but exacerbate intransigence to innovation
Low Birthrate	Increasing costs from higher starting salaries, benefits, recruitment campaigns, and retention	Permanent loss of customer base. Inter-generational employee deadlock between The Squeezers and The Quiet Quitters.	Disastrous. Traditional cost-cutting accelerates collapse.

Table 1: In a depopulating market, conventional strategic remedies serve only to accelerate business collapse.

	LIMITATIONS OF CONSULTANCIES	ADVANTAGES OF VETERAN LEADERS
Deliverable	A highly polished strategy deck or a multi-year software implementation blueprint	An restructured balance sheet, fully automated business functions, and decommissioned legacy technology and process
Execution risk	Born entirely by The Squeezers and The Quiet Quitters. Projects fall victim to prevailing Japanese business culture and inter-generational deadlock.	Fully absorbed by veteran turnaround leaders stepping into binding, interim C-suite roles with an absolute mandate to lead, decide, and execute. Exploits prevailing Japanese business culture.
Employee usage	Attempt to train employees to design, build, and run the transformation and future state.	Decoupling transformation from the existing employees, using them only to understand the current state.
Personnel	Consulting analysts and managers running theoretical models. Always attempting to cross-sell and expand their gig.	Multi-disciplinary turnaround leaders with experience spanning many industries and cases. Success base compensation means no agenda to prolong or expand engagement.

Table 2: Consultancies suffer from the same malady as their clients. Their definition of the problem is incorrect, and they have neither the skills nor mandate to do what is needed to help the client, even if the client is willing to undertake what is truly required.

BUSINESS FUNCTION	EXAMPLE ISSUES FROM INTER-GENERATIONAL DEADLOCK AND DEPOPULATION	SOME TRANSFORMATION POSSIBILITIES
SCM, Logistics	Collapsing regional freight routes, surging driver shortages, vendor insolvencies	Consolidate supply nodes, liquidate redundant factories, and automate picking/sorting to obviate labor shortage. Implement a good S&OP.
Procurement	Fragmented supplier bases reach capacity limits. Prices spike.	Audit and restructure supplier agreements, rationalize SKUs and OEMs, and retire the Squeezers associated with the legacy agreements, SKUs, and OEMs in departments such as SCM, R&D, Sales, and Marketing.
Information Technology	Inflexible 1970s/80s IT and processes maintained by The Squeezers who are about to retire. The Quiet Quitters have neither the skill nor interest to take up the baton.	Eliminate technical debt, standardize open data models, and deploy code generation by AI to automate software maintenance. Caution: While AI produces copious code, other parts of the SDLC cannot be automated. The bottleneck might only shift, not be eliminated.
Call Centers	High turnover and extreme difficulty hiring customer service agents	Deploy conversational AI agents to handle a large proportion of front-line call volumes, but develop and maintain a small core of high skill, multi-sector value agents to ensure uncompromising quality and understanding of customer needs, issues, and solutions.
FP&A	Static budgeting models do not account for different rates of depopulation between urban and regional areas of Japan	Link to S&OP. Implement financial twins that run automated, real-time demand forecasting. The shift from CAC/LTV to Margin-per-Capita should become an intrinsic component in the FP&A and S&OP models.
R&D	Moribund innovation: research and no development	Move R&D into digital environments with AI support, develop a practical patent- and licensing strategy, remove punishments for failure but draw a straight line from research to development with incentives for real results. Design products for longevity.
Marketing	Shrinking legacy mass markets and permanently small segment of next generation customers.	Use predictive AI to tune campaigns toward the highest-spending, older consumer demographics, maximizing customer lifetime value.

Table 3: Examples of the effects of depopulation and inter-generational deadlock in common business functions, and possible turnaround initiatives.