

# Corporate Thinking in Japan And the U.S.

By Katsusada Hirose

In September 1988 the Ministry of International Trade and Industry (MITI) announced the results of a comparative study of corporate behavior in Japan and the United States. The survey, conducted early that year, was designed to shed light on the behavior of Japanese companies at a time when the growing role of the Japanese economy in world affairs has led many Japanese enterprises to go "international." MITI felt that if the Japanese economy was to develop in harmony with the world economy, Japan must not only restructure its industry, expand domestic demand and make other efforts on the macro level, but must also promote international harmony in the private sector.

The results of the survey indicate that time has diminished many of the differences in corporate behavior once so evident between Japanese and U.S. com-

panies. There is now considerable convergence in their management objectives. For example, while Japanese corporations said "higher turnover" was their most important management objective 10 years ago, they are now in accord with U.S. corporations that "higher profit" is the most important goal. This accord is also expected to exist 10 years from now (Fig. 1).

At the same time, Japanese companies now place less emphasis on the pursuit of economies of scale as a means of maximizing profits than they did 10 years ago, coming very much to resemble their American counterparts, and the list of similarities has been expanded to include new product pricing policies and strategies for coping with competitors' efforts to enlarge market share (Fig. 2).

On closer examination, however, the survey revealed many ways in which the

behavioral specifics of Japanese and American corporations still differ, including the different time frames the two use when considering profit maximization. Even given the generally higher return on sales prevailing at American corporations, the American side cited the Japanese long-term investment strategy as an advantage for profit maximization, while the Japanese side cited the American emphasis on short-term profit maximization as an advantage.

Although both Japanese and American corporations cite higher profits as the most important management goal, American corporations tend to be preoccupied with the immediate bottom line while Japanese corporations tend to put more emphasis on the diversification of business operations, although this diversification may hurt short-term profits (Fig. 2).

Fig. 1. State your company's priorities regarding management goals.

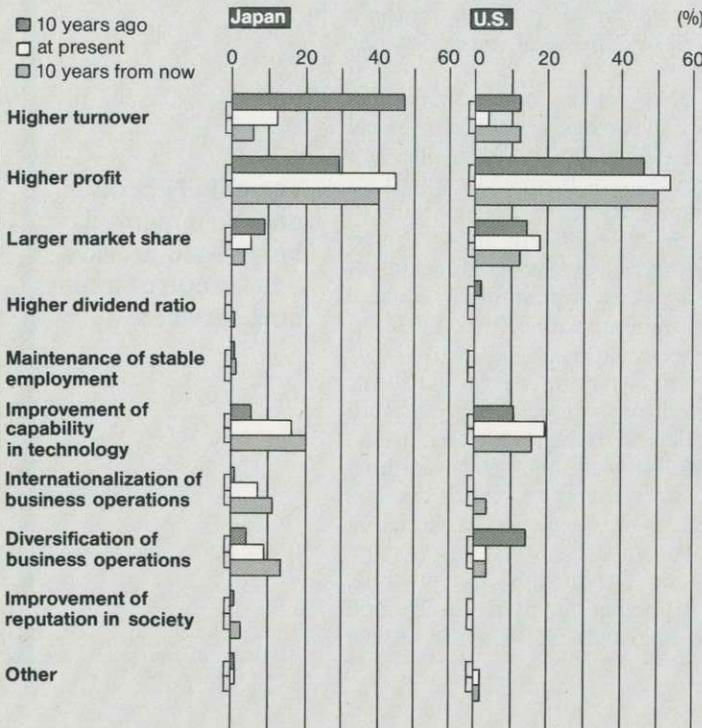
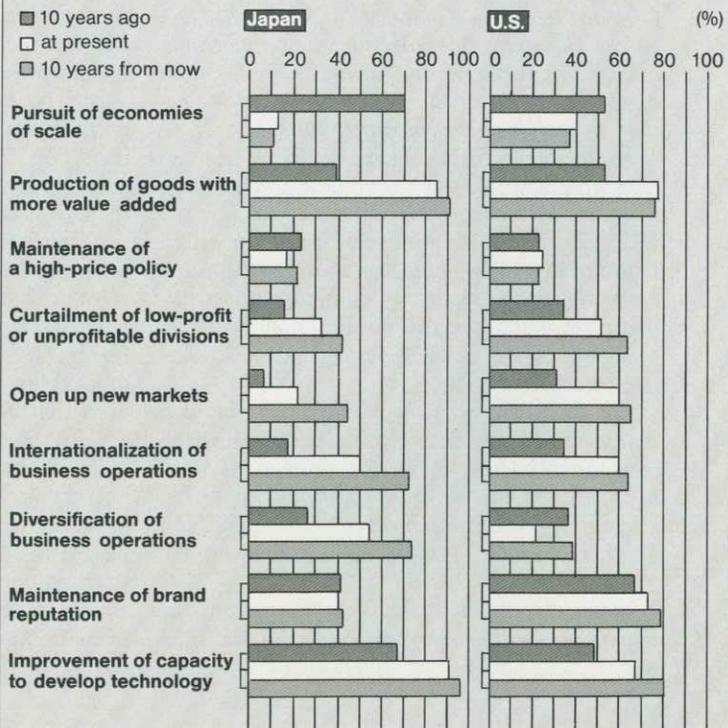


Fig. 2. What kind of corporate strategies do you consider were, are and will be effective in increasing the company's overall profit?



In considering whether or not to enter new lines of business, American corporations will generally decide against the move unless they foresee profits within the first three years. Japanese corporations, however, will make the move if they expect profits over the medium to long term (Table 1).

Although both Japanese and American corporations said "future market potential" is the key factor in product development decisions, many American companies also considered "size of profit margin" to be important, whereas Japanese companies ranked "immediate expected turnover" as slightly more important than "size of profit margin" (Table 2).

On the procurement of raw materials and parts, American corporations have clear-cut guidelines on cost and quality, while Japanese corporations have better-defined guidelines on the suppliers' ability to meet the company's quality requirements and delivery schedules, deal with damaged products, and handle product liability claims. This suggests that American corporations are short-term cost-oriented while Japanese corporations are long-term cost-oriented.

Underlying these differences are some basic differences in corporate relations with stockholders and employees.

Corporations in both countries agree that reducing non-labor costs is the most likely move to be taken in a slump. Yet American companies eliminate unprofitable business and reduce labor costs more often than do the Japanese. Japanese companies are more likely to curtail executives' remuneration, reduce investment in plant and equipment, and promote in-house production (Table 3).

Moreover, while both Japanese and American corporations say that natural wastage achieved by reducing or suspending recruitment is the ideal way to reduce labor costs, American companies may also discharge surplus workers and reduce the number of managerial positions. Japanese companies prefer to second employees to their subsidiaries and to restrict overtime work (Table 4).

Asked to list the problems involved in establishing overseas manufacturing

**Table 1 How does expected profitability figure in your company's decisions on whether to move into a new field of business?** (%)

	Japan	U.S.
The company moves into a new field of business when the business is estimated to make no profit for the first 3 to 4 years, but to pay off over the mid term to long term.	34.5	29.4
The company moves into a new field of business when the business is estimated to make no profit for the first 3 to 4 years, but to make a profit of which the ratio to sales will be more than the company's average profit ratio over the mid term or long term.	55.5	23.5
In principle, the company moves into a new field of business only when the business is estimated to start to turn a certain profit within the first 3 years.	10.0	47.1

**Table 2 Which are the factors your company considers most important in deciding on new product development?** (%)

	Japan	U.S.
Turnover immediately expected to gain	9.3	-
Future market potential	45.1	43.9
Size of profit margin	7.1	21.1
Competitors' activities	5.8	2.2
Obsolescence of existing products	4.1	12.2
Nonexistence of competing products	4.2	1.1
Continuity with existing business or products	20.1	18.9
Risk spreading	1.7	-
Potential to penetrate overseas markets	2.3	-
Other	0.2	-

**Table 3 Which measures is your company most likely to take when business performance deteriorates?** (%)

	Japan	U.S.
Decrease dividends	2.6	0.9
Use internal reserves (assets)	7.4	5.5
Cut directors' remuneration	6.3	1.5
Reduce labor costs	12.6	19.4
Reduce costs (other than labor costs)	43.2	39.4
Curtail employee benefits	1.5	-
Reduce investment in plant and equipment	12.5	7.3
Curtail investment in R&D	0.7	1.5
Eliminate unprofitable business	7.1	22.1
Promotion of in-house production	4.4	0.6
Promotion of outside ordering	0.7	0.3
Other	1.0	1.5

**Table 4 What measures does your company take to cut down on labor costs?** (%)

	Japan	U.S.
Reduce manpower by discharging surplus workers or employing part-time workers	2.6	23.2
Reduce manpower by suspending or curtailing recruitment	32.3	25.9
Transfer personnel to other firms	14.1	0.6
Restrict overtime work	34.0	17.4
Suspend basic pay raises	6.3	7.0
Reassign employees to different jobs within the company	10.0	9.1
Reduce number of managerial positions	0.6	16.8

bases, American companies said the main one was a possible decrease in profit rates resulting from overseas production, whereas Japanese respondents considered maintaining domestic employment the critical issue (Fig. 3).

Even though not many Japanese companies cited maintenance of stable employment as an important management objective, American companies considered this to be one of the virtues of Japanese companies operating in the United States. This is indicative of the importance that Japanese companies attach to the employment problem.

One of the more prominent characteristics of Japanese corporations is the priority their shareholders put on "company growth" and "company stability." Virtually all the Japanese companies surveyed said their priority was on main-

taining long-term dividend stability. By contrast, the priority for American shareholders is "increase in stock value," and this results in American corporations finding it very difficult to sacrifice short-term profits for long-term profits (Fig. 4).

Behind these differences lie key differences in the nature of shareholders in the two countries. In Japan, the largest shareholders in a corporation are usually the financial organizations from which it gets financing. In a third of Japanese corporations, financial organizations were the top shareholders, followed by the parent company and companies which form a family group. In the U.S., institutional investors were the biggest shareholders, followed by individual investors and the company family (Fig. 5).

American companies emphasize stock prices out of consideration for these in-

stitutional investors, seeking increases in short-term profits and assets rather than business expansion and stability. In Japan, where the biggest shareholders—the financial organizations and family group—have no intention of selling the stock they hold, management is free to focus on business expansion and stability.

The survey found Japanese and American corporations in agreement on their interests in world markets in one respect, but quite different in another. Both regarded the developing countries to be a fast-growing market, but still less interesting than their own domestic markets, even though they did not anticipate as rapid growth at home. But when it came to Europe, there was a striking divergence. Although neither side expected fast growth in European markets, American companies remained far more inter-

Fig. 3 What problems do you think your company might encounter in your home country if you should consider establishing overseas manufacturing bases?

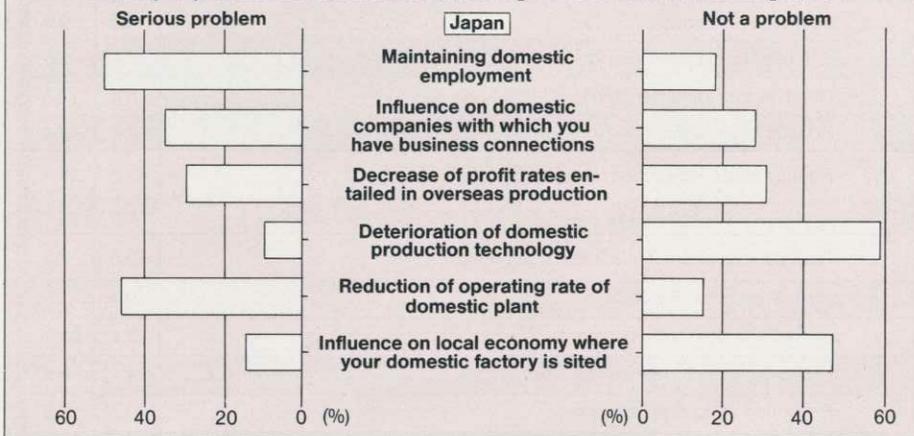


Fig. 4 What do shareholders want most from your company?

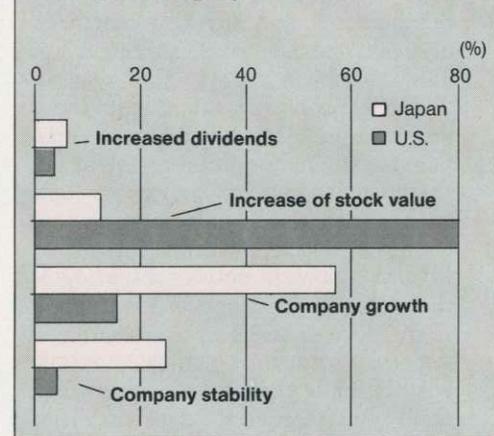


Fig. 5 To which of the following categories do your current top shareholders belong?

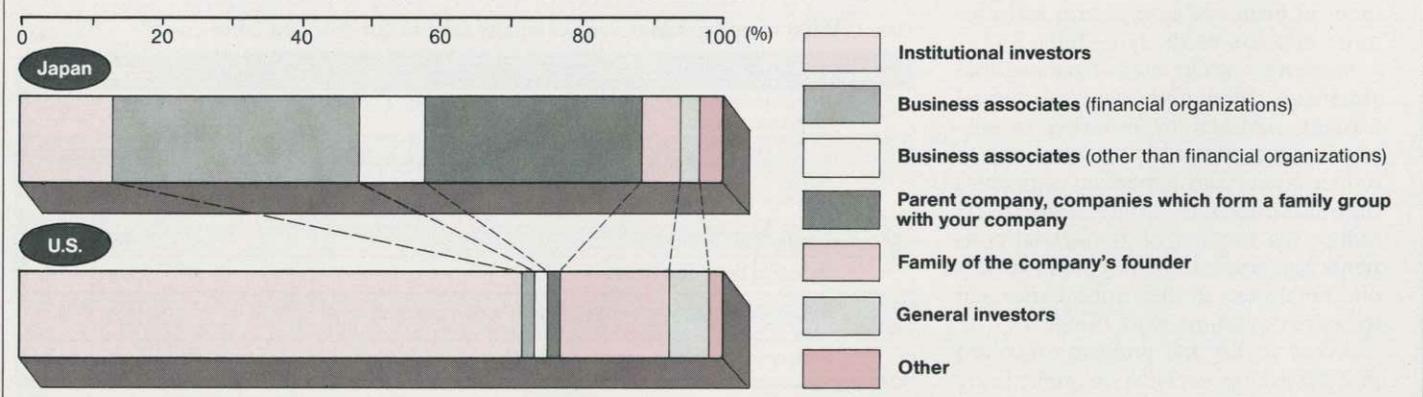
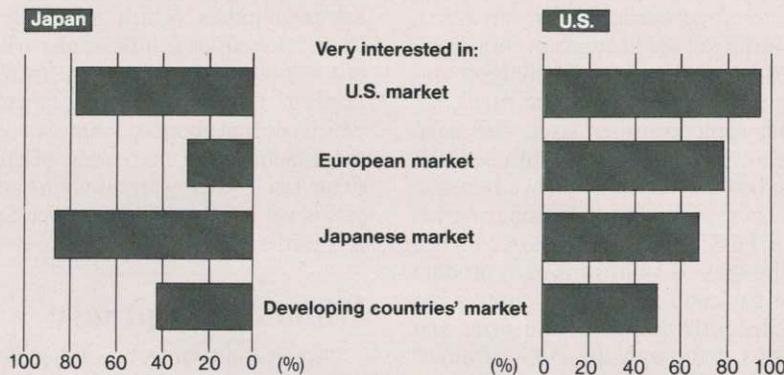


Fig. 6 (1) How does your company foresee the future growth of the U.S. market; European market; Japanese market; and developing countries' market for the products it handles?



(2) How much interest does your company have in each of the markets mentioned?



ested in the region than their Japanese counterparts (Fig. 6).

American companies seem to like the scale of the European market despite its slow growth. Moreover, they are familiar with the region and well equipped to compete with their local counterparts. While more than two-thirds of American companies say they are interested in the Japanese market, they are still more attracted to Europe.

It may be that American companies are put off by a country where business practices are less familiar and they face fierce competition. The same reluctance could feed back to their concern with short-term profits and with their lack of enthusiasm for developing products without prospects for quick profits. Nonetheless, as more foreign companies have succeeded in the Japanese market, increasing numbers of American companies are expected to translate their interest in the Japanese market into real export efforts.

In this connection, Japanese respondents advise their American counterparts to offer goods and services suited to Japan and to work harder to penetrate the Japanese market. American firms seem to feel less incentive to do so than do Japanese companies seeking to set up in America, however.

While both Japanese and American corporations consider improving the effectiveness of sales and production in the market concerned and meeting the requirements of the foreign market more precisely the most important reasons for deciding whether or not to establish an overseas factory, Japanese corporations also tend to place considerable emphasis on avoiding exchange risks, alleviating trade friction, and maintaining good relations with other companies that have invested there.

Although not all Japanese corporations need to go international, given the considerable pressure that exists to cope with such external factors as the yen's appre-

ciation and trade friction, Japanese companies in general are still in the process of becoming global whereas American corporations have been highly international for some time.

While both American and Japanese corporations cited the hiring and promotion of local talent and better communication with local employees as among the most important local harmonization policies—policies that will become increasingly important as Japanese companies pursue expanded overseas investment—there are still major differences in how companies from the two countries approach local harmonization, as illustrated by the fact that American corporations have clearly defined procedures for making charitable contributions. Japanese corporations, while recognizing the importance of civic participation, do not have any specific guidelines for dealing with such situations.

Allowing Japanese companies tax deductions for charitable contributions, as American tax law does for U.S. corporations, would encourage Japanese companies to do more in this area. Systems for collecting, processing and distributing information on local conditions should also be improved.

Although there are a number of similarities between American and Japanese corporate behavior, the MITI survey clearly showed that there are still sharp differences in such areas as profit time frames and concern for maintaining employment. Ironically, each side often views these differences as the other's strengths.

Corporate behavior is determined by and large by management policies. We hope that the results of this survey will encourage active discussion on Japanese corporate behavior at a time when international business is expanding. We shall be happy if the survey helps each side to learn from the other, producing better business behavior in both countries. ■

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