Japanese Managers: Making Joint Ventures Work

By Roy Garner

Aritoshi Soejima says his hobby is dreaming and perhaps this is so, but he is also a hardworking, pragmatic businessman who has the know-how and experience to make those dreams a reality.

Interested in joint ventures, Soejima is now working to make Nippon Hilton Co., Ltd. a success.

Of all the difficulties which confront a foreign company wishing to enter the Japanese market, the problem of finding top-class Japanese managers is certainly the most crucial to eventual success. For this reason, Nippon Hilton Co., Ltd. was fortunate indeed that at the time of its planned expansion in 1981 it secured the services of Aritoshi Soejima, now the company president.

Soejima combines the rare qualities of an intimate personal knowledge of Japan's business and financial world gained through a 32-year career in the Ministry of Finance, and a first-hand experience of the concerns and working practices of foreign companies, acquired through 17 years on overseas postings.

In addition, periods spent as an economist for the International Monetary Fund, as the first director of the World Bank's Tokyo office and as Envoy Extraordinary and Minister Plenipotentiary to the United States have led to his present recognition as one of Japan's foremost experts in international finance.

Yet even beyond these exceptional qualifications, it is probably Soejima's adventurous spirit which brings one to single him out as remarkable in Japan's somewhat staid business community. A career in the Finance Ministry is, for most bureaucrats, concluded by a highly paid and not too strenuous advisory job in one of Japan's top financial firms. Soejima, however, was uninterested in any slow wind-down to retirement, and instead saw in the post of president of Nippon Hilton Co., Ltd. a chance to pursue his strong personal interest in the linking of foreign and Japanese firms through joint business ventures: "It would have been more natural for me to take a job in a financial circle, but I wanted some change . . . and I think the service sector is the most promising industry . . . ."

Aritoshi Soejima, president of Nippon Hilton Co., Ltd.

During Soejima's tenure as Hilton president, he has successfully overseen the opening of the company's new 900-room hotel in the Shinjuku area of downtown Tokyo, an enterprise which was effected through a joint venture between Hilton International and 12 Japanese insurance companies and banks. Over this period he has also been ideally positioned to observe first-hand the increasing trade frictions between Japan and its trading partners, notably the U.S., and to examine the nature of the difficulties

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Tokyo Hilton International

which face foreign companies trying to operate in Japan's notoriously difficult market.

Trade tensions are, Soejima believes, "getting worse rather than better" but he suggests that, "If the top 100 companies in the key Western nations were operating successfully in Japan, I think all the big problems between our countries would be gone. The basic problem is they're not as successful as our top companies have been in foreign markets."

The main factors behind this lack of success are the language barrier, differing social customs and work practices, and the difficulty of finding good local business partners—a problem aggravated by Japan's lifetime and seniority systems of employment which discourage movement between jobs. As Soejima observes, "We're underpaid for the first 20 years and then compensated by progressively increasing retirement allowances, so if we leave the firm within the first 20 years we will be sacrificing ourselves. So it is very hard to persuade good people to leave their companies early. Thirty-five years ago when I joined the government I thought this system would change quickly, but it is still little changed!"

Soejima suggests that, "the best way to overcome these problems is through the establishment of joint ventures, and the first priority is to find a good Japanese consultant" to assist in the process. But here a new difficulty emerges: the type of consultancy firms which Western companies are accustomed to still do not exist in Japan. Whereas foreign consultants operate from a strictly neutral standpoint, the nearest equivalent service in Japan is customarily provided by banks, securities firms and trading companies—owing to their wide international business experience—and these firms will clearly sometimes offer advice based on their own business interests. "Foreign companies, compared to ten years ago, have U.S. consultants with close contacts in Japan, but management research businesses are only just beginning."

Joint venture success stories

The evidence for the efficacy of a joint venture approach, business tie-ups or the heavy involvement of a Japanese work force is to be found among foreign companies already established in Japan.

These include such firms as Coca Cola, IBM, 3M and, more recently, Fuji Xerox and Budweiser (which is making use of the Suntory network). Soejima also mentions McDonald's which is "doing very well with its joint venture in Japan. Even in financial services we can see such successes, as in the case of American family insurance firms, selling cancer insurance, one of the miracles in this country. It started only five years ago but has grown very quickly because it found the proper Japanese partners . . . there's not a single American working there."

Looking on the positive side of the Japanese market, Soejima claims that the Japanese are fundamentally receptive to foreign products. "Maybe the younger generations are a bit different, but basically I think the Japanese are fond of foreign products. They are very foreign-brand-conscious, especially in the case of fashion goods . . . the Japanese have no sense of discrimination against foreign goods . . . rather it's the other way around."

So why do we see so few foreign cars on Japan's roads? According to Soejima this is a simple case of the local product being superior, especially with regard to the Japanese climate. But the principal factor here is plainly the absence of an adequate service network. Soejima notes that Japanese carmakers Toyota and Nissan suffered a history of failure in the U.S. market in the sixties and registered huge financial losses. By pursuing the "Volkswagen principle," however, of guaranteeing parts and repairs within a minimum period to all customers, the investment eventually paid off. As to why U.S. companies have not made a similar assault on Japan's market, Soejima feels that "maybe it's because they don't have the conviction they can sell." Domestic competition in Japan is very tough, with "seven companies competing, as compared to only three or four automakers in the U.S." Soejima sees it as a simple "chicken and egg" dilemma. "Unless foreign businesses make enormous efforts the chances are very slim, it's true—but it's a fact at the same time that Coca Cola, or 3M, have almost monopolized the Japanese market, which means that if they do invest it can be done... when I first tasted Coke I thought it was the worst drink... but now I enjoy it...."

Japanese hotels—not just for sleeping

Hesitation by foreign firms is also apparent within the hotel business, where astronomical land costs again bring the problem of huge initial investments. Despite the many attractions of the market, the Hilton is still "the only foreign-operated hotel in Japan." The Hilton succeeded, according to Soejima, because he "negotiated with the landowner, who settled for a long-term capital gain arrangement. This type of agreement is very hard for a foreign company to achieve alone. But once we have started the business, there is no handicap for foreign firms." The hotel business has fewer problems in terms of staffing because workers tend to be mobile, moving freely from one hotel to another, and thus the typical "lifetime employment" issue rarely arises.

The principal reason why foreign hotels are keen to establish themselves in Japan is the exceptionally high potential revenue to be earned from activities other than actual room-letting. In Japan, over 50% of a hotel's revenue is accrued from persons who are not hotel guests. In the U.S., this percentage is around 20%.

Additionally, "in Japan the revenues from food and beverages constitute around 70% of total income, and room charges approximately 30%. This is unique and never the case in other countries, where the percentage is probably the reverse."

Two of the biggest money spinners are wedding functions and the elaborate parties held by top Japanese companies to celebrate changes in their executive structures. On top of this comes the thriving domestic package tour market and also the use of hotels for family gatherings.

Soejima observes: "Unlike in Britain or the U.S., the Japanese don't have room in their houses to accommodate guests for a wedding anniversary or similar event. In Japan the hotel is playing a role similar to that played by a home or community center in a foreign country. The Japanese hotel is multi-purpose."

There is much to attract the foreign firm therefore, but there is one special drawback in the form of the unusually high break-even point of Japanese hotels. In the U.S., a room occupancy rate of 50–60% is required, but in Japan the figure is 10–15% higher, "probably the highest level of any city anywhere."

Nevertheless, Tokyo is still short of hotel capacity in the luxury category, and an oversupply of hotel rooms is still "only found in special cases, such as immediately after the Olympics in Sapporo."

Only 25 years ago, Tokyo had "just one or two international hotels," and these "were seen as special places for foreigners at that time." An increase in the number of hotels, in line with the growing importance of Japan's economy worldwide, was accelerated by a decline in the traditional Japanese inn, which was too labor-intensive to survive in the big cities. Hotels emerged as more functional and easier to use.

A major new trend for the future is the construction of the combined leisure complex/hotels, as found already in Europe and the U.S. Soejima comments: "Now that the Japanese holiday system is changing, and we'll have maybe one or two full weeks of vacation in a few years' time, the question comes of how to spend those two weeks. At this time the Japanese have no choice but to go abroad, but maybe in ten years' time we'll need hotel-based leisure complexes. The basic problem is high land prices within one or two hours of Tokyo. But the success of Tokyo Disneyland is very interesting. There were big doubts, but during the past two years over 10 million people have visited... this is astonishing in my view, and suggests such schemes can work."

A man with a dream

In this time of trade tensions, Soejima is not alone in lamenting the role played in these troubles by the almighty dollar: "I met Paul Volcker recently and we agreed that the too strong dollar is everybody's headache. I could never have expected this kind of a strong dollar... we can never justify a rate of ¥262 to the dollar... but the fact is it is! The basic problem for Japan is that the more money we invest in the U.S., the weaker our yen becomes, and the same is true all over the world."

"In Japan there is a high rate of savings, 25% approximately, but the economic growth is just over 4%. Unlike in the 1950s and 1960s the demand for new money is not increasing, so there is a big gap between saving and spending. Japan has to spend this money outside Japan, and there is no other place but the U.S. now in which we can safely invest our money. Regardless of our criticism of the high U.S. interest rates and the budget deficit, where else should our money go?"

Projected appearance of Osaka Hilton International

Some Americans would, in answer to Soejima's question, surely suggest that Japan's money be spent on bringing more U.S. products into its domestic market, with telecommunications gear perhaps topping the list. Does Soejima believe Japan's market is open? "In non-government regulated concerns, such as the fashion business, the market is basically very open, but in regulated fields, such as telecommunications, we are only just opening our doors... but I feel Japan is trying to do its best. We cannot change systems in one day."

Soejima believes, however, that foreign pressure is "a good excuse to change." "Without foreign pressure the market wouldn't have opened as far as it has... and our economic structure should change in line with changes in Japan's place in the world."

"The real problem comes when we open our market completely and still our surplus is growing... will the EC or the U.S. accept this growing deficit when there's nothing to complain about on the part of Japan? I don't think so... this will be the real time of danger i.e., of countries moving toward protectionism. As long as we have things to break it's easy... we just open up our markets. However, although the tempo has quickened over the last ten years, market opening will still take some time."

"The real issue in the next generation is how to rearrange the world economic and financial systems. The IMF/GATT system is out of date, made in 1944 when the U.S. dollar was the only world currency in existence. Now the world has changed so much... it's time to think of a new system. Free trade is very important but, even if the world is completely free, if one country has a huge surplus vis-à-vis another this system cannot survive."

"In order to avoid a protectionist movement we have to think about new systems. In this new system, Japan and Germany—which didn't participate in the creation of the IMF/GATT system, yet ironically have benefited most from it—have a historically determined responsibility to contribute... and the time is now approaching when we should move to the creation of a new system. What form it will take I cannot tell."

Soejima is not concerned by criticism that his answers to the world's trade problems are too far removed from the simple realities of today's business scene.

"Maybe I'm dreaming... but whenever I'm asked what my hobby is, I always say it is dreaming...." ●