

The Human Face of Japanese Business

By Robert J. Ballon

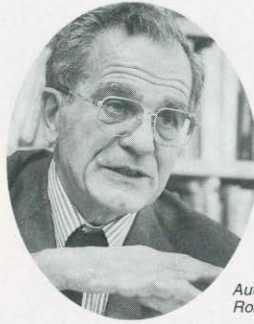
There is much concern about the role to be played by Japan on the world scene. But whatever the role, it matters more to know the actor. For the Japanese, Japan has been alive (and that counts many centuries, many more than most actors on the world scene) and stays alive because it changes; not that it decides to change, but that change spells survival dictating incessant adjustment to internal and external circumstances. Looking at the role the actor has to play, many observers ponder how continuity will survive change; looking at the actor, however, continuity is at the cost of change.

It may be helpful to remember Schumpeter's dictum about creative destruction: "Capitalism is by nature a form or method of economic change ... a process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating the new one." In this way, the role of the entrepreneur is to constantly create a new context combining past and present relationships and experiences in changing sets of interaction.

The entrepreneur

Japan's catastrophic military defeat in 1945 left it with precious little, besides human resources, to pursue its ambition of wealth creation. First, compulsory education was extended from six to nine years (up to junior high school, age 15); attendance here is close to 100%. Today, well over 90% of junior high graduates continue for an additional three years of upper secondary education, out of whom one-third will then proceed to higher education (two-year college or four-year university). The result is an uniformly and highly educated labor force.

Out of this fertile soil, entrepreneurship is growing as manifested by the current 6.5 million business establishments providing livelihood to over 60 million persons (including 5 million in



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the public sector). The latest Establishment Census (1991) reveals that less than 10,000 establishments are "large" (employing 300 or more persons) with a total workforce of about 7 million. Of the private establishments, 3.7 million are individual proprietorships, engaging 11 million persons; of the 2.7 million incorporated enterprises, 99% are small, engaging 43 million persons. Thus the small business sector, with active government support, is indeed the mainstay of the Japanese economic system.

How the Japanese entrepreneur runs his business was inspired, but not determined, by Western imitation; local circumstances were different. As we know, an enterprise consists essentially of two factors, capital and people; the problem is how to combine them in practice. An imported legal pattern was that, given capital (and other resources), people are brought in to manage and develop it, namely, capital plus people equals enterprise.

Soon the Japanese changed this precept by centering the enterprise around the entrepreneur, individual or collective, and multiplying his managerial, technical, and social capacities as well, by capital. The precept became people multiplied by capital equals enterprise. Somehow, this came closer to local conditions and provided Japanese entrepreneurs, small or corporate, with unbridled dynamism.

Though pecuniary benefits are part of the motivation, the primary purpose is

value-added, the *raison d'être* of entrepreneurship. Entrepreneurs pursue a strategy of scale and scope by focusing on what they do best, and by finding ways to use firm-specific resources more flexibly. They strive to reduce the risks of uncertainty, internally by establishing defined sets of competence, and externally by forging inter-firm networks of complementary specialization. With regard to the added value expected from entrepreneurial operations, the entrepreneur is *de facto* answerable to all who have a stake in these operations. They are many in Japan.

When entrepreneurship is a collective endeavor as in incorporated large firms, the structure of senior management highlights in its board of directors and executive committee what is expected from entrepreneurship.

Board of directors

The board is coterminous with senior management, but its sessions are generally described as ceremonial (the locus of managerial responsibilities is with the executive committee). Promotion to director, like any promotion in the company, proceeds up the ranks. Qualification to directorship is rarely parentage or superior knowledge, but experience. Hence, most junior directors, for several years, continue the operative responsibility of division head or the like.

For all directors, a major responsibility is *shogai katsudo* (external relations), whereby information is exchanged and interaction nurtured with counterparts in industry, officials and the business world at large. The intensity of interaction with the business environment circumscribes narrowly a context of fierce rivalry among competitors where timing is of crucial importance. Though many firms are known for their aggressive approach to the use of technology as a strategic asset, they prefer a conservative and patient approach to the management of technical risk.

A business opportunity is not perceived as a contract to negotiate, but as a long term contest with rivals, losing one day, winning some other day. (Hence the constant temptation along the way of seeding contracts with bribes.) For senior management, risk has a time dimension that better be managed with patience.

Executive committee

Intense external activities of board members are possible, because actual management responsibilities at the top level of the corporation are concentrated in an executive committee (*jomukai*) composed of the president and some senior directors, in most cases acting collegially. With the likely exception of the founder-president, not many Japanese company presidents consider their function of chief executive officer (CEO) as overriding; these responsibilities are shared with the executive committee.

"Outside" directors, in the sense of a part-time job representing non-managerial interests, are unusual. "Dispatched" directors (*haken yakuin*), however, are more common; typically, their position is full time. It is standard operating policy to post executives in other companies and thus strengthen the relation either for control purposes or simply to promote synergy.

Related firms

But a major plank of Japanese entrepreneurship is dense inter-firm relations, the syndrome of "related firms" (*kankei-gaisha*). It carries the innocuous label of *oya-ko kaisha* (*oya* meaning parent; *ko* meaning child), with the reciprocal implication of de facto influence, often to an unspecified degree, on each other, and with both firms concerned about development and continuity.

The Japan Fair Trade Commission (FTC) provides some detailed figures about related companies in the six major groups centered on a city bank (Mitsubishi, Mitsui, Sumitomo, Fuyo, Sanwa, Dai-ichi Kangyo). In 1987, the number of member-companies stood at 163; their 50% plus owned subsidiaries

counted 4,960, and affiliates 6,975.

Inter-firm relationships are complex, many bypassing the market. For example, equity relationships are compounded by cross-shareholding. They may help in smoothing parent's profits by adjusted inter-company dealings, even unrealized sales. For the related firm, they open access to capital markets and are often the crucial way to obtain bank loans. Instead of internal expansion or external acquisitions, most large firms pursue diversification through the establishment of subsidiaries or affiliates in related industries.

To get around the custom of stable employment and seniority promotion, parent companies transfer redundant personnel, especially managers. Given the prevalence of enterprise unionism (one union for the entire company) in large firms, it is practical to enforce less favorable employment conditions by establishing a different smaller corporate entity. Thus, indirect work (security, catering, maintenance, programming, etc.) is subcontracted by establishing former indirect work divisions as separate entities initially staffed with the same people.

As management techniques are to be adjusted to the type of business, it may be beneficial to have a separate entity and separate management, rather than a different type of business within the same company. A wholly owned subsidiary, for example, may handle all the sales of the manufacturer. Parts and components are preferably obtained from subcontractors. Research and development may involve smaller related firms, as is conspicuous since the 1980s.

Corporate governance

Corporate survival means corporate governance, not that governance is the cause, but that it is the very process of survival. For the Japanese entrepreneur, small or large, corporate governance is not a science but an art. To wit, if he wants to learn the "science" of management (what is taught in business schools), he will have to cross the Pacific to Harvard, or Russia to INSEAD, since the MBA is not stan-

dard in Japanese universities. Corporate governance is learning to survive (the alternative of non-survival takes care of itself). In the words of a foremost expert, Aoki Masahiko, it is systemic innovation: learning by doing + learning by using + learning by interacting.

Governance is then less an exercise in control over given assets and liabilities through internal integration, and more a constantly evolving effort to coordinate stakes that are different and become divergent unless brought back to convergence by coordination.

Japanese corporate governance is alliance governance. Concretely, it addresses stakeholders who know each other through repetitive and flexible transactions whereby multiple goods/services are transacted simultaneously. The time dimension is crucial. It permits control of opportunistic behavior by the reputation effect. Short-term gains on one transaction destroy the chance for steady benefits of all other transactions with the business partner; they destroy as well, and more significantly, one's reputation in the industry, in the market, in society. Japan's business world is a very small world indeed, inhabited by people relatively homogeneous, intensely interacting in a congested space, incessantly meeting on occasions of all sorts, and depending on each other for collective survival.

For the Japanese entrepreneur, the measure of corporate performance is not results; they presuppose a mechanistic organization based on rules and procedures. The measure is found in the very process of coordinating activities and resolving innumerable conflicts of interest; it presupposes an organic style of organization, a learning process thriving on context-dependent knowledge and experience. The survival of Japan does not depend on "doing business" but on "staying in business." ■

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