Credit Information

By Robert J. Ballon

The worldwide explosion of information is provoking much talk about information technology (where Japan is a major player) and software (where Japan is supposedly lagging). Less concern appears to be expressed for the contents of information (where Japan is internationally handicapped by its language), and even less about the people generating and the people affected by information (an aspect where Japan suffers from deep-rooted insularity). A Japanese business economist, Shimada Kazuo, proposed that, in addition to hardware and software, we should also consider "humanware" that indeed plays a capital role in Japanese business.

Credit information in a *professional* sense came late to Japan and is not yet up to Western standards. One reason is that the Japanese perceive information as being *social*, about people rather than about figures. As one example, the Japanese syndrome of industrial grouping is well known. But there are many more channels that provide the Japanese businessman with the information he needs. Below, we briefly review business transactions, financial credit, trade credit, and associations, the sources of that necessary information.

Business transactions

The Western legal tradition of contracts only came to Japan during the 19th century. However, business transactions among Japanese had been and remain ruled not by *legal* contracts but by what today is called "relational contracting."

A standard written contract between two Japanese companies is two or three pages long and contains a dozen articles. The wording is customary, rather than legal; only exceptionally is legal counsel involved. (It is only at the international level that full legal wording is used.) Purposely, detailed terms are avoided so that flexibility in performance is maintained. The final clause is key: *Concerning matters not stipulated herein or any doubt about the stipulations, both parties shall settle them upon deliberation.* Actual performance is contingent on as yet unknown circumstances to be handled "upon deliberation." To the objective performance of the transaction a new dimension has been added, the subjective dimension manifested in the relationship between both parties.

It is usually because of supervening events that the "legal" contract becomes a straitjacket from which one party wishes to escape. Opportunistic behavior must be checked. To that effect, the relational context is mobilized. It implies dealing with a limited number of firms in an ongoing, long-term fashion whereby information exchange is facilitated and intensified, and mutual indebtedness is nurtured.

At the root is a definite preference for trust. It is probably easier for the Japanese to prefer trust because it emerges more readily among the relatively homogeneous population of Japan and its strong propensity for mutual dependence. Trust is not only a social norm; it is also an asset in which people invest for self-interest. In Japanese business, trust is the glue of the division of labor; it is made obvious and readily sanctioned by society; it means accepting indebtedness to someone and recognizing mutual dependence in action—that is the social norm—and ultimately self-interest is that of the collective self. Trust inspires a strong team spirit that supports and intensifies rivalry. The prevailing buyer-supplier relationship is typical. Self-interest, the capital asset of trust, is to be safeguarded by risk sharing and mutual development. Intensive personal networks, flexibility in execution and constant technological upgrading are required.

Financial credit

Information "humanware" is also essential in the credit extended by financial institutions. The real turf of the banks is the local level reached through their branch offices where competition is fierce, especially in the collection of deposits. Clerks, young men in their 20's, start their banking career by ringing doorbells, roaming the streets of the locality and competing with their counterparts at other banks, savings institutions, farm cooperatives, etc. They solicit housewives who, in Japan, hold the household's purse strings. They visit daily the small neighborhood establishments (shops, factories, schools, whatever), building up personal relations through small favors.

Major clients are, of course, the local plant or sales branch of large companies, with whom a reciprocity of various services is nurtured: rolling over short term loans, handling payables/receivables, administering housing loans provided by the company, etc. Employees are routinely required to open personal deposit/saving accounts with the company's bank, to which salaries are transferred automatically. The bank is then requested by the payees to make the many needed automatic deductions (charges for electricity, gas, telephone, school tuitions, memberships, etc.). To consolidate it all, the head of the branch pays regular visits, attends funerals and weddings, sends a gift when one of the children starts school, etc. Of course, it must be expected that "privacy" in financial matters, even at the private level, is elusive.

Personal contacts and mutual obligations are constant at all levels of the bank-client relations, involving comparable managerial positions on both sides, local branch and local plant as well as at the head office level. The lending function is, no doubt, central to bank operations, but it cannot be separated from the very pedestrian operations just described.

Hence, the key institution in Japanese business is the "main bank." The main bank regarding its client:

- carries his major payment settlement accounts;
- is a major shareholder in the context of stable shareholding (the Antimonopoly Law prohibits banks from holding more than 5% of shares issued by any corporation);
- underwrites his corporate debentures;
- accounts for the largest loan share (typically 10 to 20%), while acting as an effective coordinator of what de facto amounts to a syndicated loan by other banks;
- in many cases, may have a representative sitting on the board of directors;
- is commonly the source of information about new business opportunities;
- last and not least, is expected by the business community to absorb the largest portion of residual risks in case of insolvency.

When bank credit is extended to a smaller firm it is usually on the guarantee of a larger client and for the explicit purpose of strengthening mutual relations. Such is the case of the age-old and widely spread practice of promissory notes (*yakusoku tegata*) responsible for the surprisingly large amounts of payables and receivables in published accounts. The promissory note is a kind of commercial bill issued by the buyer to the seller, whereby the drawer commits himself to pay the stated amount in cash on a specific maturity date. The note can normally be discounted at the banks. The practice knows many variations whereby different related instances combine their own interests. In the case of a consumer credit company receiving many small notes issued by individuals, the bank prefers a straight loan with nearly 100% of total notes as collateral. Or a large manufacturer combines payments to many parts suppliers in one note issued to his bank; in turn, the bank pays the supplier in cash with discount before due date.

Trade credit

General trading companies (GTC) are major trade intermediaries and highly appreciated for their information capacities. They offer in various combinations vital trade-related functions, from warehousing to shipping; market information is their specialty, be it about prices in different markets, production technologies, potential business partners, marketing know-how, etc. They also facilitate interfirm credit and provide longer credit, often to both sides of the transaction. (Financial deregulation has had little effect because the GTC acts at once as creditor supplying inputs and as debtor handling outputs.)

This credit function is backed by their main bank (that thereby reduces considerably its own clerical workload while relieved of further credit investigation). They have thus an important role in trade credit to SMEs, providing them with an indispensable addition to working capital, allowing them to buy and sell conveniently and obtain the needed goods immediately on credit. (Since the practice of yakusoku tegata can be especially detrimental to small/medium enterprises, many acting as subcontractors, its surveillance is entrusted to the Fair Trade Commission.)

Associations

The dense human relations regulating business transactions and credit are further framed in innumerable associations. At the national level, through a handful of peak federations, top executives are in constant interaction among themselves and with government officials. In addition, there are the countless associations based on specific interests in sectors of trade and industry, all with substantial responsibility across borders, be they corporated borders (intra and extra), industry borders, and/or national borders. They are also privileged channels of government-business interaction. They formulate industrial standards and many are active in feeding foreign technical information to members: abstracts of technical literature, Japanese translations, surveys of foreign patents, invitation of foreign experts to lecture in Japan, etc., and for which they easily obtain official help.

In the small-medium enterprise sector, associations proliferate, especially in the form of business cooperatives that then qualify at the local level for official subsidies and promotional devices such as training and research facilities. Small firm associations in manufacturing, wholesale and retail trade may, with legislative blessing, protect members (their business sector or geographical territory) against large enterprises, as exemplified by the notorious Large Retail Store Law. Another example in the retail trade is typical: under the Environmental Hygiene Law, small firms—mostly individual proprietorships—may form an "environmental sanitation association" which can fix prices and other terms of business for its members. Such businesses are hotels, inns, restaurants, public bathhouses, amusement facilities, fresh food shops, etc. These associations carry meaningful clout with local officials and politicians.

Obviously, "social" credit information suffers from an overwhelming dose of subjectivity. Value judgments, if not plain emotions, rather than facts and reason, have a role as parties join because of shared values and concern for their own welfare; on the other hand, information sharing and mutual trust work best where acquaintance is long-standing and stable. Cooperation is at once one-sided and multilateral; through constant repetition, participants become introvert, a quality they cultivate: exit is condemned and consensus and inducement are emphasized as means to accomplish mutual acts.

In essence, Japanese credit information suffers from a lack of transparency. The newcomer, domestic or foreign, is hampered by such closeness verging on *closed-ness* as he is practically excluded by the subjectivity incorporated in innumerable implicit agreements, or what the Japanese would call *ningen kankei* (human relations). Information is not sought from figures (facts?) but through daily contacts with kindred souls! JJTI

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