

Stake-holders and Japanese Enterprise

By Robert J. Ballon

The operator of a family store knows too well that he would own an empty shell if it wasn't for customers, wholesalers, and manufacturers. Apparently, his counterparts in large Japanese firms, the Matsushitas, Hondas, Moritas, share the feeling. The fate of any enterprise is not so much in the hands of its owner(s) than in the hands of others.

The firm as legal entity (*hojin*) is of recent vintage. In the early 19th century, it had blossomed in Europe on a legal tradition going back to Roman Law; in the latter half of the century, when it was imported by Japan, it had to be grafted on an even older tradition, Chinese Law, introduced to Japan in the seventh century. What then grew as "modern" law was a hybrid of French, German, British and (later) U.S. models. The legal form of *hojin* was new for Japan, but it did not change the age-old necessity of safeguarding livelihood by establishing a community of fate (*kyodo-tai*) among people. What had long prevailed in the agricultural economy and had been expanded by commerce, had now to be incorporated in an industrial economy. Japanese enterprise—the entrepreneurial spirit of the Japanese—in its new form, draws vitality from deep roots.

The contrast of legal traditions was, in a nutshell, one of individual rights versus reciprocal duties. It occurred in the specific context of Japan, i.e. with the Japanese turning to industrial enterprise for national survival. Currently, besides 4 million sole proprietorships, there are 2.50 million companies of which 2.25 million are family corporations (*dozoku kaisha*), a special status for tax purposes if at least 50% of total outstanding shares are owned by no more than three independent shareholders; furthermore, only about 2,000 companies are listed on the exchanges. Importantly, it may then be inappropriate, notwithstanding the prevailing legal precepts, to look at "ownership" (shares and shareholders) as the paradigm of

corporate governance.

The task of the entrepreneur is to combine people and resources. One method starts with physical assets and adds human resources as operating expenses (hence, the legal rationale of corporate stocks determining ownership of the corporation). The Japanese entrepreneur, given the long-standing scarcity of domestic physical resources, starts from the result of a general education system which results in abundant and well-qualified human resources, which he multiplies by physical resources. In other words, as regards human resources, the enterprise is an institution where the concern is not with the management of specific skills for the benefit of its owners, but with the development of the human potential it embodies for the benefit of the collectivity, including relatives and acquaintances in the locality.

To *stay* in business, i.e. to survive competition, depends on the "contribution/benefit" of many people and on how each manages this stake in terms of reciprocity. Though each party has its own purpose, the reciprocity adds value on both sides, and all together contribute to wealth creation. These relationships remain highly personal and require constant nurturing by face-to-face contacts; their subjectivity is indeed difficult to manage. Trust is preferred not only as a social norm but also as an asset in which to invest for self-interest. It is the shared performance of stake-holders that determines the viability of business.

This article limits considerations to the domestic economy and describes stake-holders in Japanese enterprises as being driven by the twin forces of competition (based on competence) and cooperation (based on reputation). The impact of stake-holders spreads in successive waves (with much overlapping) over the entire Japanese collectivity. Their influence requires the firm to be an active learning organization.

Managers and employees

The Japanese firm benefits from a homogeneous work force responding flexibly to ever-changing circumstances. There is little, except status, to distinguish managers from other full-time employees; thus the exercise of authority is more in the nature of coordination than supervision of activities. Generally, the capabilities that permit superior performance are not individual but organizational, restricted to the managerial group but found throughout the structure including the shop floor (and related firms). In large companies, this function is learned by job rotation with employees spiraling upward through the ranks in rivalry with peers, and it involves growing interaction with other stake-holders. Human resources are made firm-specific by intensive training and development. Such an internal labor market weathers business fluctuations through reliance on small companies and family businesses as well as temporary workers.

Small firms, for their part, besides reflecting the idiosyncrasies of owner-operators, are embedded in a locally focused society, subcontractors clustering around local plants of large manufacturers, or in large cities where they are found in industrial districts where fellow-owners are within walking distance, and family stores cater to the immediate neighborhood. Here, labor relations are of a highly personal nature and, similarly to business relations, are hardly distinguishable from social relations prevailing in the community.

For both large and small firms, as well as their managers and employees, the challenge of business lies in having the capacity and willingness to learn from all other stake-holders about the uncertainties of the market, of technology, of administration, etc., and in learning how to overcome the steady obs-



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lence of skills and physical assets.

Partners and competitors

Kankei-gaisha (related firm) is a value-loaded concept intensely reflecting reciprocal, formal and informal commitments among firms gravitating around a large corporation. The concept encompasses not only capital participation in subsidiaries and affiliates (often several hundreds in the case of large manufacturers and trading houses), but subcontracting and equity boundaries, reaching deeper than any contractual relationship. The problem of power balance is alleviated (but not eliminated) by Total Quality Control (TQC), a sophisticated strategy of diffusing responsibilities throughout the system. What is clear in Japanese partnership is that parties are interdependent and indispensable to each other.

But competitors are decisive as well. Ultimately they determine market share and more immediately set product standards and prices; NEC would not be what it is, if it had not been for Hitachi and Toshiba; ditto for Toyota and Nissan, or Mitsui Bank (now Sakura

Bank) and Mitsubishi Bank (now Bank of Tokyo-Mitsubishi). Hence, the prowess of Japanese manufacturers in process technology based on incrementalism (*kaizen*); it is a most effective learning method while reassuring customers and middlemen about product use and after-sales service. From rivals, large and small, innovation spillovers in know-how and technology are sought. A most active ground for encounters with competitors are the trade associations of which there are hundreds, culminating in the Federation of Economic Associations (*Keidanren*).

For Japanese enterprise, two assets are thus paramount—competence and reputation. Both have a determinant time dimension: a future-oriented dimension allowing the proper competence to grow, and a past-oriented dimension, i.e., the record of past actions on which reputation is built. Both are embedded in dense and complex human contacts.

Investors and creditors

Financing Japanese enterprise is a stake-holding proposition where, most

commonly, investor, creditor and customer are rolled into one, participants alternating their roles as required. The small entrepreneur, having obtained some funding from acquaintances and specialized local institutions, may expect additional funds through bank loans that will have to be backed by using his personal assets as collateral. The main funding source is then trade credit that makes him interdependent with other stakeholders. Such a pattern is the epitome of corporate financing in postwar Japan.

The bulk of listed shares is held by institutional shareholders whose considerations are more in the nature of business relations reinforced by personal relationships, than an exercise of ownership rights; it serves to cement an otherwise beneficial relationship and dampen, if not cancel, the threat of hostile takeover. The major manifestation of this state of affairs is cross share-holding and its stability among large companies where shares are held at book value and new issues are allocated routinely.

During most of the postwar period, bank loans were the financial mainstay of large companies, the banks, often led by a so-called main bank (major shareholder and lender in charge of most routine banking operations), lending to industry the massive savings deposited with them. For small and mid-size enterprises, loans are made available locally by private institutions (credit associations and credit unions) and subsidized by government counterparts.

But overshadowing the entire

Japanese business world is trade credit in the form of promissory notes with deferred payment (*yakusoku tegata*), a commercial practice several centuries old; they are discounted at the banks or by trading partners, or simply endorsed to another party. Practically all business transactions among firms—unless cash is preferred for tax evasion purposes—are spelled out in promissory notes. Ominously, the temptation to use them as accommodation notes is ever present. On their part, since the mid-1960s, the banks have substituted a purely contractual enforcing mechanism for a legal one: their clearinghouse imposes a two-year freeze on current account transactions of any firm (or individual) that issues a dishonored check or bill twice within six months, and to whom no new loan will be made.

Intermediation is thus a fundamental characteristic of Japan's corporate finance. It is a viable proposition only because of constant communications among participants largely of a face-to-face nature, and unavoidably becomes preferential intermediation.

Suppliers and distributors

The survival of hundreds of thousands of small and mid-size suppliers and distributors is also dependent on preferential intermediation. Their economic activities are based on complementarity expressed in personal terms, namely, implicit contracts and information flows which bestow the capacity to respond to changes in the market. It means that for the buyer or seller a product bought or sold is not the result of some contractual transaction, but the result of participating in a relationship to be managed over time. Thus, the relationship upstream between manufacturer and retailers by primary and secondary, if not also tertiary, wholesalers. This hierarchy stands for a division of labor and promotes the contribution of "what each does best", the relationship amounting to an effective pattern of problem-solving and risk-sharing.

The standard mechanism is the local suppliers' association (*kyoryoku-kai*); when organized as a formal cooperative

it qualifies for official help. Participants are trained in technical and administrative practices from plant layout to just-in-time (JIT) delivery and accounting. In frequent meetings, rivals keenly note each other's capabilities. While this stimulates competition among them, it also makes public any untrustworthy behavior on the part of any participant, buyer included.

In the distribution sector, a major competitive weapon in the hands of manufacturers has long been channel equity, a strategy whereby improved market performance is expected from a heavy reliance on wholesalers to reach widely fragmented outlets. Until recently, they dominated distributors, but in return, generous rebates were provided and unsold goods found their way back from retailers to wholesalers to manufacturers.

Corporate retailing, however, is steadily expanding its share, today reaching two-thirds of total retail sales. Its prowess comes from computerization (transportation, inventory, point of sale) and imports. New types of stores (convenience, specialty, discount) are mushrooming, many managed in the form of chains. Imports, propelled by the high yen, also know many forms: parallel imports, "development" imports, personal imports, and reverse imports. Together with the spreading of private brands, these developments have now added a new term to the Japanese lexicon, *kakaku hakai* (price busting).

Nonetheless, small family stores with living quarters in the back of the store remain a stubborn feature of the commercial landscape. Here, the predominant asset is land or vested interest in tenancy, hopefully supported by local patronage. Their decline is slow as they struggle with the growing difficulty of finding a successor in the business; the younger generation, if still interested, turns to franchise. However, a remarkable example of resilience is the thousands of *shotengai* associations (with access to local subsidies) of small independent shopkeepers within a single street or shopping area. Their role is not only economic; most are involved in

political lobbying at the local and national level, and all participate actively in social events in the neighborhood.

Users and consumers

Users and consumers are essential contributors not only to the information that generates new products, but also to their development for mutual benefit. For Japanese enterprise, learning is practical and involves much more than formulating specifications. Users and consumers learn from producers who, in turn, learn from them. Two recent developments provide major incentives: product liability, long looked at as a mere facet of product quality, is now legislated (1995), and production/use of products is reviewed in ways not detrimental to the environment.

From users, the manufacturer expects constant improvement in product performance learned through use, whereby the time lag between production and use is shortened and the product submitted to the test of other disciplines and their possible fusion. Highly instrumental is the sales staff. Selling consumer or capital goods in Japan does not concentrate much on the product for sale, since relentless competition warrants the availability of many similar products at comparable prices. The focus is on the relationship between seller and buyer rather than on the transaction itself. No wonder that in large firms, few core members, even researchers, have not spent time in the field, visiting and revisiting distributors, dealers, and stores, providing service when the customer needs it, not when the seller can afford it.

Justifiably, Japanese producers and consumers share pride in the quality of their products; they profess quality as a corporate duty. It also finds expression in the surprising quality of personal retail services. Given intense competition, customer satisfaction derives not only from the quality of the product and attention to details such as wrapping, but as much, if not more, from the "warmth" of highly personalized customer relations. Functional quality is not fully effective without emotional quality, often to the detriment of mea-

surable productivity.

State and public

In Japan, "public" and "private" remain as both concepts and domains that are difficult to disentangle in practice, as economic growth, combining the efforts both of the public and private sectors, is a constant goal of the nation. The fundamental role of the state has been intermediation among competing private interests; this implies proactive participation in whatever occurs. Industrial policy is specific. It consists of a constant adjustment to national economic needs and circumstances through a process whereby government and business cooperate when interests coincide and, not uncommonly, where they are in conflict, e.g., when sectoral interests pursue separate aims. However, this process does not occur without intensive interaction between the personalities involved. At the local level, prefectural and municipal authorities, in cooperation with local chambers of commerce, are enthusiastic promoters of small and mid-size enterprises through the 50,000 local business cooperatives where joint training, joint research and development, joint production, joint processing and joint sales are subsidized. Here, tax treatment is lenient and subsidized debt financing common.

One characteristic, however, must be noted: the state seeks to maintain—by supporting it—the Japanese tradition of self-help and private initiative rather than to establish some sense of public entitlement. For example, technology development is nurtured by building confidence, promoting collective benefits, and providing seed money.

Politicians with few exceptions concern themselves with the desiderata of their constituencies and "influence" public activities at the local level (of which the most notorious are public works). By and large, politicians have relied on the competence of the bureaucrats, to whom they entrust not only the administration, but the formulation as well, of the laws they enact. In general, administrative efficacy tends to prevail over political expediency.

For its part, the public at regular intervals has expressed strong disenchantment with public policies and their authors. In the 1970s it had to do with the environment; in the 1980s with real estate prices; in the 1990s with the economic bubble. All along, financial scandals reflecting growing affluence uncovered considerable greed among public and private agents. Not affected, however, is the national goal of economic development toward which the public contributes education and savings.

Keenly aware that their country is poor in natural resources, the Japanese public realizes that whatever they need to survive results from their own efforts. Hence, education is pursued for its utilitarian and collective benefit, as manifest in the dynamism of the small enterprises and the effectiveness of the economic system. But the public is equally aware that it is, after all, the largest stakeholder in Japanese enterprise and by far its largest "investor" through savings. Not only do savings provide financial institutions with the wherewithal of indirect financing; it also provides the bulk of the government's Fiscal Investment and Loan Program (FILP). The return on such "investment" of personal savings has been the incredible feat of affluence achieved in the short span of one generation, namely, the shift from subsistence income in the early 1950s to a progressively larger discretionary income, soon with the help of the yen's appreciation putting Japan in the top of the world's GDP per capita, meanwhile providing a 50% increase in life expectancy (from 55 to about 80 years).

The combination of an industrious labor force and high saving propensity makes for efficient producers of goods and services of which they expect to be the prime consumers. (One consequence has been that Japan excels in technologies suited to the general needs of its population, but now scrambles to establish itself in "pure" science.) There is little room for a producer/consumer dichotomy. However, the traditional top-down approach to development—a producer-economy promoted by the

state—appears to be the beleaguered position of the male portion of the population; it increasingly confronts bottom-up expectations whose torch-bearers are the female population, and is propelled by large merchandisers importing consumer goods. The evolution is not without trepidation in view of the rapid transfer overseas of production capacity.

Conclusion

At any moment of its existence, Japanese enterprise, be it in the form of a conglomerate or a family shop, is nothing but the confluence of stakeholder activities. They are present in person or vicariously, competing among themselves in ever-changing roles while cooperating with each other to adjust to new circumstances and meet deadlines. The complexity of interaction controls, but does not eliminate, opportunism; the variety of competencies contributes to solving problems and spreading risk and experience; time, measured in months and years, allows relations to build continuity; and the strictures of Japanese space reinforce communality.

What stakeholders have at stake in enterprise, what their self-interest demands, is the wherewithal of viability by flexible forms of participation in a constantly evolving context. Hence, the guiding principle of their behavior is reciprocal duties. Such principle spells demanding practices wrapped over and over again, for better or worse, in the subjectivity of human rapport. In Japanese enterprise, shareholders are neither the decisive nor major actors; stakeholders are. Their participation demonstrates a systemic formula of human development, a much sought-after achievement in the world community. ■

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