

Bridging the Communication Gap: How IBM Succeeded in Japan

By Takeo Shiina

A bridge that can be built

On one of my trips to the United States last summer, I was glancing through an in-flight magazine. A feature article titled "The Gaijin Complex" drew my attention right away. Robert Christopher, the author, is in my opinion one of the foreign journalists who knows Japan well and I read through the entire article with a great deal of interest.



IBM President Takeo Shiina

Christopher wrote, "The psychic divide between Japanese and non-Japanese can be akin to a minefield—and is never easily bridged." To Japanese intellectuals, "Building a bridge over the Pacific" has been a favorite subject since the Meiji era when Okakura Tenshin, Uchimura Kanzo and other leaders devoted themselves to just that end. The subject stimulated many Japanese and American students to participate in U.S.-Japan Students' Conference, annual exchange programs begun in the 1930s, and was among the major factors that led students to apply for Fulbright scholarships in the postwar period. At the same time, bridge-building is an important element in international business. Christopher wrote, "Japanese and non-Japanese so often approach each other with radically different assumptions and some serious misperceptions." Negotiation, bargaining, cooperation, contracting and other acts of business are heavily influenced by the perceptions, as-

sumptions and expectations of the parties involved. And many with experience in U.S.-Japan relationships would agree that Christopher's statement was no exaggeration. (See Tables 1 and 2)

However, while Christopher wrote convincingly of how difficult it was to build such a bridge, I think we have seen impressive evidence over the last thirty years or so that it can be done—and with great success, especially in business.

In addition to these communication problems, companies entering Japan will find it one of the most demanding competitive marketplaces in the world. It is also true that there are some unusual business complexities awaiting foreign companies that invest in Japan. The Japan External Trade Organization, or JETRO, published an interesting booklet last summer, "How Can Foreign Affiliates Succeed

in Japan?," a report by the Study Group for Direct Foreign Investment in Japan, which was organized by Ministry of International Trade and Industry (MITI). The Study Group had conducted a questionnaire survey of foreign affiliates in Japan on problems they had encountered in doing business in Japan. They had also interviewed American executives at corporate headquarters in the United States. The survey result was interesting to me as it represented many of the problems we ourselves have faced. (See Fig. 1)

It is also interesting to note that for companies taken as a whole, no single problem area appears to be significantly more serious than any other. That is, no "special" Japanese problem seems to appear in this analysis—just the kind of business problems to be expected in any foreign culture. I suspect this chart should

Table 1 Legal Culture (U.S.A. vs. Japan)

	U.S.A.	Japan
1. Consciousness	Assertion of individual rights	Harmony inside group
2. Conflict of interest	Resolution in court	Negotiation, private/public
3. Competition	Individual vs individual	Group vs group
4. Adherence to	Letter of laws	Mores behind letter
5. Sanction to rule violator	Recovery of material loss	Recovery of emotional loss
6. Base for conscience	Universal justice	Harmony inside group
7. Primary bill initiator	Congress/assembly	Bureaucracy
8. Law is regarded as	Instrument to assert rights	Last resort
9. Diversity	Diverse laws (Federal & State)	Single national law system
10. Administrative authority	Public servant	Respectable/dependable/ paternal/administrator

Note: Composed from a report on a symposium on Japan-U.S. legal culture. Legal culture—national perception of system of laws, rules and ethics. Source: *Jurist*, March 1/March 15, 1982

Table 2 Concepts of Contracts, France vs. Japan

Elements	France	Japan
Contract relation	Right & obligation	Mutual trust & cooperation
Contractual process	Negotiate clause by clause	Build communal person-to-person relation
Contract clauses	No room for interpretation	Allow flexible interpretation
Provision for conflicts	Necessity to avoid future troubles	Expression of distrust & to be avoided
Form of contract	Specific & comprehensive	Simple with preamble of fidelity & sincerity
Way of carrying out contract	Carry out written rights & obligations	Flexibly meet the real needs
Conflict settlement	At court	Friendly compromise

Note: Composed from a report on a Japan-France joint symposium on comparative studies of law. Source: *Jurist*, April 1, 1980

Fig. 1 Top Five Problems Faced by Foreign Affiliates

	All Companies	Manufacturing Sectors	Non-Manufacturing Sectors
1st	Personnel and labor problems (43)	Adaptation to business practices (17)	Personnel and labor problems (30)
2nd	Securing of sales routes (38)	Communication with foreign parents (15)	Securing of sales routes (25)
3rd	Adaptation to business practices (35)	Personnel and labor problems (13)	Government approval and administrative guidance (25)
4th	Government approval and administrative guidance (34)	Securing of sales routes (13)	Providing products that meet market needs (19)
5th	Communication with foreign parents (33)	Providing products that meet market needs (11)	Adaptation to business practice (18)
	All companies 285	Manufacturing sectors 147	Non-manufacturing sectors 138
	() No. of companies Source: The Study Group		

be equally true for, say, foreign investors in France or Germany.

In this short essay, I will present our experience in managing these difficulties in a way that may give a foreign investor hints to solving his own.

Opportunities for entrepreneur

The Japanese market provides significant, if not unparalleled, opportunities for entrepreneurial capital—foreign as well as Japanese, even considering some of its operating differences. For example, in IBM's industry, information processing, the total market size is second only to that of the United States. And it is a market which has been hospitable to all manufacturers—even with the impressive development of the Japanese local information industry. Sanae Inagaki, IBM Japan's president from 1962 to 1975, used to say, "Achieve business growth by making the total pie larger." In this way all suppliers in our industry have prospered in Japan. The same can be said for many other industries as well.

The American Chamber of Commerce in Japan (ACCJ) recently reported that in the years 1966 to 1977 average return on direct investment abroad by American industries was highest in Japan among the major host countries (Table 3).

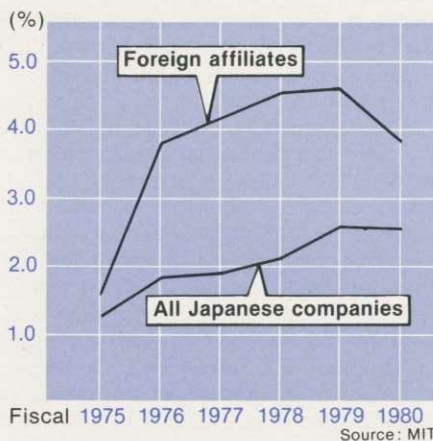
Foreign affiliates in Japan have a higher rate of profits to sales than Japanese companies, according to a MITI annual survey (Fig. 2). The advantage of foreign affiliates in Japan is particularly outstanding in manufacturing sectors (except in petroleum products), with a profit ratio of 6.5%. That is 2.5 percentage points higher than that for their Japanese counterparts, even in the slow year of 1980. In commerce and trade, a profit ratio of 2.7% for foreign affiliates may not look impressive to some readers, but it is more than

Table 3 Average Returns on Direct Investment Abroad by American Manufacturing Industries in Years 1966-1977 (%)

	(%)
Japan	19.0
West Germany	18.0
Netherlands	12.9
Italy	12.4
Belgium/Luxemburg	12.2
Brazil	12.0
Australia	10.8
Canada	10.0
France	9.9
Mexico	9.9
Britain	9.3
Average of All Countries	12.4

Note: Return on Investment (ROI) = $\frac{\text{Profit from Investment A}}{\text{Balance of Investment B}}$
Source: American Chamber of Commerce in Japan

Fig. 2 Change in the Ratio of Profits to Sales



two times that for Japanese companies.

Another proof of the success of foreign affiliates in Japan is their record of faster growth in sales than Japanese companies. In the five years from 1975 through 1980,

Fig. 3 Growth in Sales



Source: MITI

foreign affiliates increased their total sales more than twofold while Japanese companies' sales rose 1.8 times (Fig. 3).

In my opinion, a much larger direct foreign investment here would bring benefits not only to the investors, but to Japan as well. The cumulative amount of direct foreign investment in Japan was \$4.2 billion as of March, 1983, while direct investment by Japanese companies outside Japan totaled more than \$53 billion at that time. The number of people employed by foreign affiliates in Japan was around 220,000 as of March, 1981 while the number of local nationals employed by overseas subsidiaries of Japanese companies was around 710,000 (Source: MITI for both capital and employment). This imbalance in the flow of capital and jobs created by direct foreign investment needs to be rectified, in the direction of accelerated direct foreign investment in Japan, a need very well accepted by Japanese authorities, who have steadily improved access to Japan's markets with a series of liberalizing actions which began in 1967.

The authorities have taken these steps, and will continue to do so because the effect of direct foreign investment in Japan is very real and far greater than just increased employment and demand for facilities. Foreign investors tend to select less-industrialized areas for production sites so that many of them have located outside traditional industrial complexes. This tendency has led a few local governments to devise promotional measures such as long-term land leases and information seminars in the United States, in an attempt to attract such investors. Direct foreign investment also facilitates

good international communication and mutual understanding, both of which Japan needs to promote.

Key success factors

However, taking advantage of the unique opportunities offered by Japan has not been all that easy. Let me outline a few points in which IBM Japan has been fortunate. First, IBM has operated in Japan for nearly 60 years—from 1925 when a Japanese trading company was named agent to import our tabulating equipment. After World War II we reestablished a subsidiary which had been set up in 1937, and formed IBM Japan Ltd. Since then we have grown from 66 to over 14,000 employees—very dedicated employees—and to annual sales of about ¥480 billion. For years, IBM plowed back profits to sustain the company's growth and responsiveness to local customer requirements. While there are opportunities in Japan's marketplace, I am convinced that there are no quick profits to be made here. The serious long-term investor stands the best chance.

Secondly, many elements of IBM's corporate culture and business style closely parallel those of Japanese business. Our full employment practices, our tradition of open employee communications, emphasis on customer service and product quality all matched strong currents within Japan's business community. We were "recognizable" to Japanese business—which made it easier for us to gain acceptance into Japan's corporate community.

Third, we have long been a Japanese company in terms of our people. Nearly all of our 14,000 employees are Japanese citizens. They understand the Japanese culture and marketplace better than any outsider could, and it is their guidance and hard work (another "tradition" shared by IBM and Japanese business) which is the basis of our success. Incidentally, a look at Table 4 reveals that while 82 of 285 companies cited "Management by Japanese staff" as a strong point immediately after starting their businesses, 131 of them call it a strong point later, as their business developed (Table 4).

Fourth, we have always had the good assistance of an understanding American parent. Executives of our parent corporation have always been good listeners, alert to local requirements. At all levels and functions of the subsidiary and parent corporation, two-way communication has been an important element in our way of life. Table 4 also shows the importance placed on foreign corporate assistance by other companies operating in Japan: it is a strong point at business start-up and remains so as the business matures.

Fifth, our products have always represented very competitive technology and a

Table 4 Factors Cited by Foreign Affiliates as Their Strong Points

	Immediately after starting business	At present
All companies	1 Assistance by foreign parents (122)	World-famous brands (137)
	2 World-famous brands (116)	Assistance by foreign parents (134)
	3 Superior technology and productivity (97)	Management by Japanese staff (131)
	4 Management by Japanese staff (82)	Delegation of power by foreign parents (116)
	5 Assistance by Japanese partners (73)	Superior technology and productivity (100)
(285)		
Manu- facturing companies	1 Assistance by foreign parents (67)	World-famous brands (76)
	2 Superior technology productivity (62)	Management by Japanese staff (73)
	3 World-famous brands (59)	Assistance by foreign parents (70)
	4 Assistance by Japanese partners (53)	Superior technology and productivity (67)
	5 Management by Japanese staff (52)	Assistance by Japanese partners (56)
(147)		
Non-manu- facturing companies	1 World-famous brands (57)	Assistance by foreign parents (64)
	2 Assistance by foreign parents (55)	World-famous brands (61)
	3 Superior technology and productivity (35)	Delegation of power by foreign parents (61)
	4 Delegation of power by foreign parents (35)	Management by Japanese staff (58)
	5 Management by Japanese staff (30)	Establishment of sales set up (36)
(148)		

() No. of Companies Source: The Study Group

world-famous brand of quality. For many years our brand was a synonym for computers to many businessmen.

Even with the advantages I have mentioned above, IBM has had to push hard to achieve and maintain its business position. Let me describe the industrial environment we find in Japan, and some of the strategies we pursue in building up our business. I believe that market conditions and business strategies for firms in many, if not most industries in Japan will be very similar.

Formidable competition

In the first place, we find ourselves on a playing field with half a dozen or so of the most formidable competitors to be found anywhere, in any industry. I refer, of course, to the Japanese computer manufacturers. They develop a full range of high quality products, and stay abreast of the market with frequent introduction of new products.

This has meant that in order to compete we have had to be flexible, aggressive, innovative and quickly adaptable. Let me give you three examples. First, we concluded early that we could best meet Japanese customer requirements by manufacturing in Japan. So, we have two plants and a development laboratory here, which develop and manufacture both for local consumption and for export. Second, we realized that equipment such as computers, which are built with tens of thousands of parts and components incorporating leading-edge technology, cannot be built one hundred percent by any one company. IBM is no exception. We have always needed good outside suppliers, and we take full advantage of Japan's high quality

industry base by sourcing much manufacturing content in Japan. Over the years we have developed a wide network of supplier relationships—now numbering more than 1,000 highly capable Japanese firms. Access to such technologically developed sources of supply is a powerful hidden advantage to foreign investors willing to research and identify local suppliers.

Finally, in order to efficiently market low-cost high-volume product lines we have enlisted "outside help." *Dairiten*, as they are called here, are independent companies of different specialties that are acting as distributors for us. These diversified marketing channels have enabled us to expand geographical coverage and increase flexibility in meeting user requirements. Also new to our business in Japan are three joint ventures we formed recently: a marketing joint venture for office products with a general trading company, a leasing organization with a Japanese leasing and an American financing firm, and another three-partner venture for development and marketing of products and services for advanced applications with another general trading firm and software/systems house. In addition, we acquired stock in a small computer company that improves our capability to develop and market smaller systems.

Our experience has clearly shown that so-called "traditional" marketing and business operations practices may not be enough in the rapidly moving Japanese marketplace. However, unique approaches are possible and solutions exist for those who will look.

In the second place, in addition to formidable competition, we have an impressive array of sophisticated customers. Japanese business is among the most ad-

vanced in its use of information processing equipment of any in the world.

Customers demand quality products and service and, further, they have brought forward specific operating requirements—sometimes very different from those of other marketplaces. The exciting thing about many of these special requirements is that the supplier satisfying them usually gains access to huge market opportunities. Therefore, to the question, "Shall we produce products tailored specifically to the Japanese market?" IBM has responded with a resounding "Yes." I believe that every supplier to the Japanese marketplace will eventually face this question—and I believe the ultimately successful one will have answered as we did. A recent example: the IBM 5550 Multistation, which we announced last spring. The IBM 5550 Multistation offers 3 types of functions; Japanese language word processor, personal computer, and intelligent terminal, all with Kanji capability, all well-suited to Japanese unique requirements.

In the third place, the opportunities and realities of the Japanese marketplace have led us to develop an "integrated" company in Japan. This has many aspects, but the main thrust is to bring as many business elements as possible as close as possible to the marketplace. For example, IBM not only markets in Japan, but conducts research, development, and manufacturing here. Products from our two plants in Japan are marketed in Japan and also exported to many other countries. True, not every foreign investor can achieve this integration, but something like it should be part of longer term strategy. Such integration proves invaluable for being responsive to Japanese market needs.

Corporations and society

Finally, Japan has proven fertile ground for the IBM tradition of corporate social responsibility. A modern corporation in today's Japan is regarded as an important member of the national community, together with the government, labor unions, press, schools, and consumer groups. This view underlies today's popular demand for corporations to meet more social needs. In Japan, priority subjects on the list of corporate responsibility are conservation of energy and raw materials, maintenance of a high standard of environment preservation, support of universities and other public institutions, as well as employment of the physically disadvantaged.

I am proud of the excellent record of IBM Japan in all of these areas and more. We have earned public citations in all of them.

No less important as an element of corporate responsibility in Japan is care for employees and their families. In other

countries this concern might be seen primarily as a business matter, but the Japanese see it equally, if not more, in terms of social responsibility. Japanese companies provide family allowances, health insurance, healthcare programs, recreational facilities, educational programs, house ownership promotion programs and other types of programs for employees. Perhaps most important of all these is job security. IBM Japan is consistent with Japanese practices in all these key areas.

Further, Japanese corporations are normally members of several trade and business associations for the purpose of advancing common viewpoints and causes. IBM Japan is thus a member of a number of major business and employers associations. These associations play a much more significant social and business role than they do in most other countries, and can provide services and relationships extremely valuable to all investors.

Japan's marketplace: is it really that different?

These are some of the operating conditions which IBM has faced over its history in Japan—along with some of the approaches we have taken to meet them. Lest I have painted too positive a picture, let me assure you that our history in Japan contains instances of miscalculation, poor timing and insensitivity to market opportunities.

But our strategy has always been the same—stay close to our market with people who know it best; identify and satisfy specific customer requirements with high quality products and service; integrate into the business system and contribute to it real value in terms of advanced technology and innovative applications. I may be overly optimistic, but I suspect that any entrepreneur who follows something like this direction stands a very good chance of success.

I have also tried to describe to you opportunities and challenges of the Japanese marketplace. In speaking of the problems for investors in Japan, I hope I am not leaving you with the impression that our marketplace is so different as to require extraordinary efforts to enter. A lot has been said about the so-called unique nature of Japan's marketplace—so much so that some people are concluding that perhaps we have too strange and exotic a business environment here. But I am convinced we are not really so different from other places that are attractive to foreign investment. In fact even the United States presents some baffling problems to investors, when seen from the outside. Tax laws, labor relations, local social and work customs, language variations, and more. Japanese managers in the American marketplace who face diffi-

culties in integrating into American business society are just a mirror image of American managers in Japan. Mr. Akio Morita, chief executive officer of Sony, used to tell me how difficult it was for them to enter the U.S. market as a pioneer of Japanese home electronics.

So we are not that different. A combination of sharp awareness and common sense is needed and will work here as well as anywhere.

And, with such an approach, many other "problems" will be solved at the same time. For example, the "communications" problem. Let me return briefly to Robert Christopher's observation about the difficulty of building cultural and "psychic" bridges between Japanese and non-Japanese. Of course it is sometimes difficult for Japanese and non-Japanese to communicate. But it is also true that Japanese among themselves frequently complain of communication difficulties. In a recent book by Christopher he notes, "An eminent lawyer, Takeyoshi Kawashima, argues, for example, that written law in Japan is too easily manipulated—and even essentially changed—by individual judges simply because Japanese words 'do not in general have meanings that are clear and limited.' Similarly, the late Hideki Yukawa, a Nobel Laureate in physics, admitted that whenever he did scientific work he thought in English because he could think things in English that it was impossible for him to think in Japanese." But, while all that is true, we in IBM have found that when corporate principles and practices are of high quality, and where common operating objectives can be agreed upon, then communication—even communication of disagreement and discontent—can work. Add clear corporate principles to careful cooperative planning, and throw in a healthy mutual respect for western "contractual exactness" and eastern "generalist thinking" and you have a mix which I think has helped IBM build its own, rather special bridge toward corporate success. ●

Takeo Shiina is the chief executive officer and president of IBM Japan Ltd. Shiina, 54, joined IBM Japan in 1953 after graduating from Keio University, and Bucknell University in the United States. He became president in 1975.