

Japanese and American Business Practices: A Study of Cultural Differences

By Masumi Nishikata

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A California executive once remarked to a visiting Japanese electronics company vice president, "Japanese businesses have an unfair advantage. You don't have to hire people you don't want." In order to comply with the equal employment opportunity requirements, American businesses must take affirmative actions to meet employment quotas established for minority groups, and many American executives feel their companies are handicapped by the inability to hire solely on the basis of skill.

The current economic friction between Japan and the United States has aggravated American complaints of unfairness. The list of grievances is long: the Japanese government helped fund the ultra-LSI, the Japanese automobile industry's competitive edge was built behind a wall of import regulations, and Japanese agriculture protected. American businessmen also point out that Japanese employees are homogeneous in their skill level, that labor unions are cooperative with management, and that Japanese industrial organizations are likely to perform many more functions than simply fostering inter-corporate friendship. The fact that Japanese corporations have harmonious, non-confrontative relationships with various government authorities is also seen as an unfair advantage. On the other hand, the American corporation attempting to penetrate the Japanese market faces all manner of problems, ranging

from left-hand steering to different electrical current cycles. To American businessmen, difficulties at home are compounded by what are seen as unfair foreign market conditions.

"Fair competition" is a traditional American concept, institutionalized and maintained by a whole series of anti-trust laws. Fairness means that everyone stands on an equal footing. Even when a certain degree of inequality is admitted to exist, any feelings of unfairness are mitigated by the shared cultural and ideological concept of individualism, another American tradition. The concept of individualism implies that fairness is equality of opportunity, not necessarily equality of result. It is based on the law of survival of the fittest, with the understanding that it is up to each individual how he will further his own development.

To the American businessman, fair competition means that all parties involved start out on an equal footing, but a fundamental misunderstanding often arises because "equal" is interpreted as meaning "the same". While some factors such as customs duties and regulations can be modified to achieve greater equality, culturally and ideologically rooted institutions cannot be made uniform throughout the world. The only remaining solution is to work toward mutual understanding of different institutional systems and for each country to improve its competitive position through understanding of and adaptation to foreign practices.

The comparative merits and demerits of Japanese and American management systems are often debated, but a system should ultimately be evaluated on how effective it is within the given environment. The fact that one particular system is more effective than another can hardly be termed unfair.

At present, the Japanese management system seems to have the edge over the American system, but this advantage may not necessarily hold in the long run. It is important to consider what kind of management system will be the most effective internationally in light of future operating environments.

According to Sun-tzu, "He who knows his enemy and himself shall be ever victorious. He who knows himself but not his enemy shall win sometimes and lose sometimes. He who does not know him-

self or his enemy will always lose."

This ancient proverb still offers many lessons to modern management. Some of the obvious differences between Japanese and American management systems are as follows.

The Relative Importance of Stockholders and Employees — Long-Term vs. Short-Term

In an interview published in *The Washington Post* (March 29, 1981), R.H. Jones, General Electric's retiring Board Chairman, reviewed his past work and commented in general on the American corporate systems. "The biggest problem in American business today is the sharp decline in the quality of U.S. produced goods. This is attributed largely to a 'management malaise' that has permeated corporate suites in recent years and inhibited executives from taking steps to stay ahead.The only hope for correcting it is to revamp the thinking in corporate board rooms so directors and stockholders recognize that they sometimes must forgo short-term profits to make the kinds of needed investments that will enhance the long-range opportunities of the corporation.What we have today is a bunch of money managers who are under tremendous pressure from Wall Street to have every quarter a little bit better than the last, and I'm not sure it's realistic.American industry can learn a lot from the Japanese about improving quality and productivity, particularly in doing more to involve employees more directly."

Jones has hit upon the fundamental problem facing the managers of major American corporations, where stockholders control a much larger share of the corporate capital than their counterparts in Japan. In the American corporate system, the outside director, representing the stockholders, has a powerful voice in management matters. Stockholders are concerned with dividends, and changes in short-term profit levels are quickly reflected in stock prices. The outside directors develop a management compensation system under which management is expected

to strive for a maximum profit per share, a system which is further fostered by the practice of providing stock options for managers.

In response to industry demands, American business schools, such as the Harvard School of Business, have trained a whole generation of "money managers" skilled in generating and maximizing short-term profit. It is not easy to introduce changes into such an extensive and well-entrenched system.

The obligations felt by management are first to the stockholder, second to the customer, and last to the employee. This explains why corporate contingency plans to maintain profits invariably include employee layoffs, and why such action is accepted as a matter of course by American society.

In Japan this order of priorities is completely reversed. In a special article on Japanese corporations, in the March 30, 1981 issue of *Time*, Nippon Steel President E. Saito is quoted as saying, "Japanese executives strive hard to ensure financial stability and expectation of a better future for the employee and his family." The article goes on to point out that, in Japan, corporate capital is provided mainly by banks and other financial institutions rather than general stockholders, thus eliminating the pressure for short-term profits. As the principal company stockholders, financial institutions prefer reinvestment of profits for long-term growth and stability to a short-term increase in dividends.

The Japanese individual believes that he will benefit from the growth of the group. Thus employees are not simply considered a management resource to be used or discarded for the sake of short-term profits. Instead, the employee's identity is one and the same with the corporation, and even newly-hired employees speak of "my company." The American employee, on the other hand, says "the company where I work," never "my company."

The employee-company relationship in the United States is defined by a contract in which each party is free to exercise certain rights. This contract relationship is a clear reflection of the deeply rooted concept of individualism. The mass dismissal of striking air traffic controllers and a long-term strike of labor unions are both based on what each party considers are



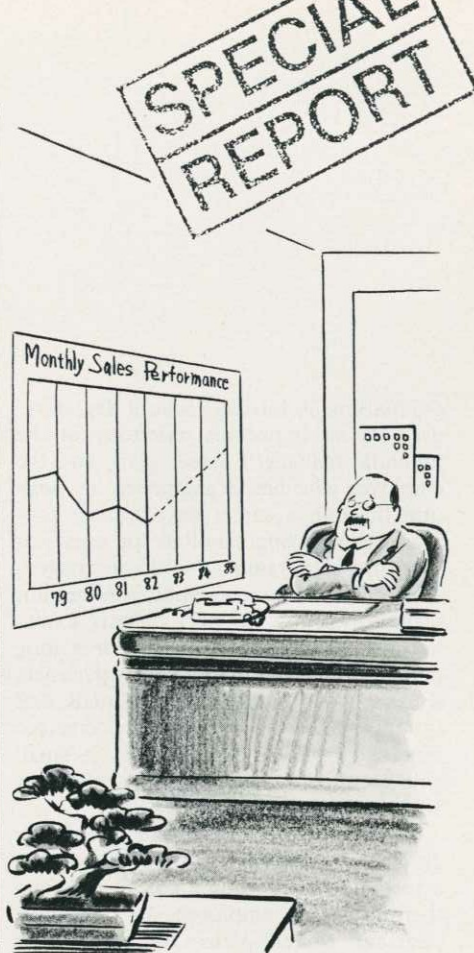
legitimized contractual rights of the parties.

The strong tradition of private property in America also upholds the principle of stockholder ownership of corporations. While legally the situation is exactly the same in Japan, in actuality, both management and labor tend to regard the corporation as a community for harmonious co-existence, and they expect the corporate structure to safeguard their respective membership rights.

Cultivating Human Resources

In an American corporation, there is a clear distinction made between exempt and non-exempt employees. As a non-exempt employee, the blue collar worker is rarely promoted to middle management, much less top management. Managers tend to emerge from the class of salaried, white-collar workers who are, in principle, exempt from membership in trade unions.

Employees, particularly blue-collar workers, are regarded as hired labor. Thus the decision to install labor-saving equipment is made on the basis of how many workers it can replace. Employees thus viewed simply as a means of production, especially union members, feel very little loyalty to the company. Except for people who have attained a certain level of seniority within the company, employee turn-over rate is relatively high. While the



American corporation puts a great deal of effort and money into educating and training its managers and managerial candidates, it does very little for its blue-collar workers.

In Japan, factory employees prepare the schedules and charts used in product quality control, and processing systems may be changed in line with suggestions made by assembly line workers. This kind of employee participation is rare in the United States.

Statistical quality control procedures were developed originally in the United States but came to fruition in Japan where the combination of corporate training and factory worker's own efforts to upgrade their capabilities led directly to improved product quality.

The American corporation offers career development opportunities to employees with the aim of preparing candidates for management positions. Career paths are clearly outlined and attractive personal development methods are offered. In general, outside educational facilities are used, and many middle management employees acquire MBAs by attending business school part-time.

In the U.S., career development is accompanied by the risk of a brain drain to other companies offering higher pay and better opportunities. Those people who quit work to go to business school full-time seldom return to the same company where they were originally employed after

graduation. A business school degree represents an important milestone in the potential manager's career plan, and the employee who has strengthened his position through a career development program requires opportunities for rapid advancement to remain highly motivated. The capable American employee does not seem to acquire his personalized know-how by staying in one place for a long period of time and building up experience. Know-how is compiled in manuals and systems, and the systems are created, modified, and administered by a small elite group who have accomplished a fast advancement in the corporation.

In Japan, career paths are not clearly defined. Japanese do not talk of "getting a job" but of "joining a company." Furthermore, new employees do not have clear-cut career plans regarding their future with "their" company. They leave their career development planning up to the corporation. An employee may be effectively incorporated within a company's overall plans for personnel development, but it is extremely difficult for him to change those plans.

Japanese who return with MBAs from major American business schools seldom receive special treatment. Except for the few who succeed to small private businesses, most Japanese who have studied abroad are assigned positions with harmonious relations with other employees foremost in mind. The promotion of such a person to a managerial position is more likely to be related to his good work record as assessed by co-workers and superiors. It takes time to achieve this kind of recognition.

In the Japanese corporation, know-how is transmitted from individual to individual, not through manuals. Therefore, one of the key factors for successful corporate management consists of well-conceived position assignments and rotation within the corporate structure. As Chairman T. Fujiyoshi of Toray Industries has said, "The business of the corporate president is personnel management."

A form of social Darwinism functions within American corporate society, where only the fittest survive to be promoted. Potential management candidates are separated from the others at an early stage in their careers. The struggle to survive and succeed is fierce and it is important to

have one's efforts and skills acknowledged at an early point. In many cases the unsuccessful move on to other corporations where success is more likely. If an employee feels his worth is not being recognized in one company, he will go somewhere else where he hopes he will be appreciated.

In Japan, it takes much longer for the strong to be separated from the weak. By the time the distinction finally becomes clear, it is generally too late to change employers. The corporation compensates the employee for his years of service by guaranteeing a steady income until retirement. The employee is also given a position

marketing methods, another corporation may be purchased to obtain a complementary product line to make fuller use of one's own distribution system or marketing network. In the American health industry, for example, American Hospital Supply and Johnson and Johnson have typically utilized this strategy. Says one corporate president in the health industry, "Unless a corporation carries out a policy of acquisition, it becomes the target of acquisition by other companies."

Corporate acquisition is a common practice in the American business world as seen in Du Pont's purchase of Conoco, Dow Chemical's partial acquisition of



"Mr. Sato, let me introduce Mr. Smith. John started with an Oklahoma oil company, then joined a bank, became distribution manager for a toy maker and later sold farm implements in South America. Mr. Sato here has stuck with Takahashi Optical for over 20 years..."

which is suitable for the level of know-how he has attained over the years and which will satisfy both him and the people around him. Even older employees who have reached the limits of their capabilities are seldom dismissed.

Corporate Strategy

In the United States, corporate acquisition (the purchase of other enterprises) is used as a method of acquiring resources needed for achieving corporate objectives in a cost effective manner. Acquisition is considered just as important a corporate strategic alternative as an improvement of in-house technology and marketing capabilities and collaboration with other corporations, e.g., joint ventures. If the driving force behind the corporate strategy is the market served, logistic capability, or

Richardson Merrill, and Amstar's purchase of an unrelated electric tool company for the purpose of improving corporate operational and financial efficiencies. A wide variety of skills and techniques have been developed for the acquisition of other corporations. Of the new investment expenditures made by American corporations in 1978, 16% was used for corporate acquisitions.

The other side of a shrewd acquisition policy is the quick divestment of unsuccessful product lines. GE's abandonment of semi-conductor and computer manufacture, GM's withdrawal from the refrigerator business, and AMF's decision to divest itself of the manufacture of the Harley Davidson product line all represent constructive policy moves made to shift capital and other corporate resources to more appropriate and successful product lines.

By comparison, Japan's corporate strategies are extremely slow to materialize. A line of business is abandoned only after long and tedious lack of success without any signs of improvement. Furthermore, because the Japanese corporation is viewed as a community of people sharing a common destiny, corporate acquisition itself tends to be considered anti-social behavior. Since the corporation is its people, it does not seem right that they should be bought or sold. This attitude is too deeply entrenched in the Japanese mind for corporate acquisition to be accepted as a common business strategy.

It is true that a few Japanese corporations have made some acquisitions, particularly in the United States, but they still remain a small minority. Only a handful of Japanese corporations have the know-how required for making an effective acquisition and managing it afterwards.

Like the concept of short-term profit, the concept of buying and selling whole corporations has been developed by American business schools and major consulting firms. (The Boston Consulting Company's *Product Portfolio Management* outlines these concepts very clearly.)

However, a theoretically defensible decision on acquisition or divestment of a certain product line does not always prove to be the wisest decision. In the United States it is not hard for a corporation to quickly dispose of a "problem child," and such corporate acquisitions and abandonment of unrewarding enterprises tend to create dynamic and positive tension within the American corporation. Acquisition and divestment are not simple matters for the Japanese corporation. Healthy tension within the corporation is generated through the revitalization of deficit-ridden divisions or the creation and cultivation of new future-oriented divisions.

Decision-Making vs. Decision Emergence

The corporate decision-making process in the United States has a distinctly masculine, heroic flair. The decision-maker is expected to come up with the best possible decision based on his understanding of unshakable facts, evaluation of various alternatives based upon sound economic criteria and anticipation of adverse effects



"Excellent report, Johnson. Now you call it, heads or tails?"

of the decision. There is no room for ambiguity in this process, the goal being a theoretical coherence of all factors. The American decision-maker must fully comprehend the issues at hand and work to control the situation. This "John Wayne" syndrome in decision-making goes back to the frontier days when everyone was forced to look out for himself.

Such decision-making is reflected in the way America's plethora of plans is formulated and implemented. For example, a typical procedure for deciding how to market a new product is to establish a product concept, conduct market research to determine demand, and develop sales and production plans on the basis of test marketing results. The decision whether or not to go ahead with a new product is based on facts gathered at each stage of the process. Thorough research is required to predict such uncontrollable variables as demand and competition. Once devised, the plan of action is expected to be followed to the letter, for it is considered the result of responsible decision-making. Any deviations from the original plan are subject to careful and frequent checks and maximum efforts to bring the results back to the original plan are demanded.

The same kind of unequivocal decision-making is conducted in research and development, as well as production management. According to a recent study made by the Japan Economic Research Center, Texas Instruments has a so-called OST

system in which the company's strategy budget is distributed according to research project assessments. This budget is kept separate from the operational budget used for daily company routine, and cross-allocation of funds is strictly forbidden. In the area of production management, GM continued to use the model production planning system devised by its management genius A. Sloan. The decisiveness implicit in these examples is characteristic of the American decision-making process and its performance retrieval.

Toyota's model production system is currently attracting great interest in Japanese industry. Several car models are assembled on the same assembly line, and the number of models produced is constantly adjusted to meet current market demand. This kind of system requires versatile production workers and good factory teamwork. As a system, it represents the exact opposite of the planned production system in pursuit of optimum economy of scale.

Similar conceptual differences can be found in the development and commercialization of new products. In Japan, newly developed products are commercialized as soon as possible, and production is adjusted according to market response. It is not uncommon to change the product concept or marketing system in response to the market situation. Information about the market and competitors is not used for the correction of actual performance to meet a prototype plan. In-

stead, such information is used to decide how actions should be modified to suit the situation. The Japanese approach is, in other words, inductive.

An important element of decision-making for the Japanese manager is how to adjust to changes occurring in the environment and market which affect management policy. When a major change occurs, the manager explains the significance of the change to the employees and what the corporation must do to respond, thus building support for the changes.

In this process, the manager is not required to make a major policy decision. The corporate organization will naturally respond and adapt to the change. Even when a major decision must be made, there is little resistance from the employees. The steel industry's adoption of energy-saving measures and Toyota's production system are good examples of how this process works.

It is difficult for American management to accept the ambiguity and vagueness which results from constant fine tuning to changing situations. It seems synonymous with weakness. When forced to make a decision for which it does not have adequate information, Japanese management avoids making a unilateral decision.

In the American system, careers are determined by decision-making capabilities. The American manager is expected to show a good record of performance no matter how briefly he occupies each position.

Japanese management, on the other hand, is comprised of people recognized by their peers for their ability to act as representatives of a uniform group. A decision is not something that is unilaterally made, but something that naturally and effortlessly emerges.

The search for a scapegoat is a common phenomenon when a decision goes wrong in the American system. In Japan, however, when a decision proves wrong, someone generally accepts the nominal blame of his own accord, even though everyone knows that he was not solely responsible.

Negotiation Patterns

The different cultural characteristics of Japanese and American corporations are reflected in their patterns of negotiation. In his essay "How to Negotiate in Japan,"

published in the *Harvard Business Review*, W. Van Zandt, former president of ITT-Japan, raises two interesting points.

First, he says, "The Japanese go to great lengths to create an emotional foundation for all their business dealings. In making decisions, a sympathetic atmosphere is more important than cold, hard facts, and high-pressure sales tactics do not appeal to the Japanese, who prefer a more sincere approach. It is better to explain matters calmly, moving the negotiations forward by degrees."

The Japanese attitude toward the negotiation process stems from a traditional human-centered philosophy in which trust plays a fundamental role. Until fairly recently, traditional Japanese industries such as the *sake* brewing industry did not even use written contracts or orders.

Reliance on unspoken understandings permeates Japanese society. Restaurants will often have menus that do not list any prices. A customer frequently leaves it up to the chef to prepare an "appropriate" meal, and it is understood that the customer will pay the bill without question. The restaurant, on the other hand, does not abuse this trust. In a society where there is little mobility, a person who betrays the trust of another is punished by ostracism. Emotional harmony and a seeming belief in the inherent goodness of human nature appear to be important elements in Japanese society.

The concept of original sin has no place in this kind of society. In the Western approach to negotiation, it is assumed that people are easily tempted and that measures must therefore be taken to prevent trouble from arising. Each side is expected to defend its position by demonstrating power and consistent logic until one proves superior. But when negotiating with the Japanese, such tactics tend to be confusing and sometimes even counterproductive.

Chester Karrass, a negotiation consultant, has said that the negotiator who considers people first is less able to withstand persuasion and therefore at a disadvantage to the negotiator who concentrates on principles and logic. According to this line of reasoning, the Japanese negotiator would appear to be at a disadvantage.

Van Zandt's second point concerns the proper approach during negotiations. He says, "When confronted with an argu-

ment, the Japanese do not argue back, nor do they press their position even when they think they are right. The Japanese negotiator simply lapses into silence....., and the American doesn't know how to respond.In his eagerness to get things settled, the American inadvertently makes concessions he never intended to make."

The Japanese negotiator has not received training, either formal or informal, in the art of debate like his American counterpart. Theoretical coherence on all points is not so important to the participants in a Japanese negotiation session. Rather, the emphasis is placed on understanding the situation at hand and seeking out factors of common concern to both sides which can be worked out with little trouble. Observing two professional Japanese negotiators at work is like watching the interplay between two seasoned actors. The tactics they may use include effective timing, deliberate obfuscation of facts, arbitrary interpretation of the other's position, and even, if the final result is hard to visualize, provisional measures to postpone the decision. The silence Van Zandt refers to is the silence of the negotiator who is biding his time. Misunderstanding of the Japanese style of negotiation has led to attempts to impose the use of American-style negotiation techniques, and in some cases, has resulted in the unnecessary breaking off of talks.

Though a great many differences exist between Japanese and American management concepts and practices, I do not believe these differences to be insurmountable. Granted it is no easy task to adopt each other's system, it is possible to make improvements by studying each other's models. The Japanese and American economies are inextricably linked, and mutual understanding of business practices should be considered a rewarding challenge.

The corporation, particularly the multinational corporation, must consider how business can be carried out most effectively in an ever-changing environment and how to survive in a world of social Darwinism. ●