

As Others See Us

Overseas Executives Look at Japan

The following papers were contributed by some of the 49 businesspersons from the United States, Canada and member countries of the European Community who participated in a study tour of Japan March 18-April 16.

The tour, the first of its kind, was sponsored by the Institute for International Studies and Training with the coopera-

tion of the Ministry of International Trade and Industry (MITI), the Japan External Trade Organization (JETRO), local governments and business circles. It was aimed at getting American, Canadian and European executives acquainted with the economy and other basic features of Japan.

The study was suggested by the Japa-

nese side and endorsed at a meeting of trade ministers of Japan, the U.S., Canada and the EC earlier this year.

The sponsor plans to arrange similar tours twice a year, in which a total of 100 American, Canadian and European businesspersons will participate. —Ed.

The Canadian View

(A group report)

Each of the seven Canadian members of the program felt privileged to have this opportunity to study Japan first-hand, and we were most impressed by the friendliness and hospitality of the Japanese people in Tokyo, Kansai, and Kyushu. As one person said, "It was an invaluable learning experience for us. Canada should make a greater effort to learn more about Japan and to catch up to the level of Japan's knowledge of our country."

Hopefully, this is only the beginning of a long series of such programs to foster friendly relations and increase the level of understanding among people of different cultural backgrounds. We feel Canadians are different from other North Americans, and this visit provided us an opportunity to demonstrate this to many Japanese people.

The Canadian group included representatives from a houseware manufacturer, a specialty electronics company, two companies in the chemicals and plastics industries, and three natural resource based companies.

Japan's rapid and efficient response to the two "oil shocks" involving re-structuring energy-intensive industries such as aluminum, oil and gas, and petrochemicals, plus an emphasis on long-term thinking, demonstrates the pragmatic attitude of the Japanese as well as their ability to coordinate the interests of government, business and labor for the good of the nation. This whole process is a model that many other industrialized countries could learn from to the long-term benefit of their people. It also provides an automatic mutuality of interest between Canada and Japan, for, just as Japan needs assurances of long-term supply of essential raw materials, Canada requires the assurance of long-term markets to justify the capital investment in resource projects to meet these needs.

Another major benefit of participating in this program was the opportunity to see in action many things we'd read about, such as cooperation between government and business, consensus decision making, the industriousness and quality-consciousness of Japanese workers, the concept of lifetime employment, the interaction among major manufacturers and their small company suppliers, and more.



Visiting the campus of the International Institute for Studies and Training (IIST) provided a classroom atmosphere for study and dialogue with the specialists brought in to conduct lectures, and enabled us to deepen our understanding of the people and of Japanese management and business practices. In addition, we were able to have face-to-face discussions with many of the young Japanese executives studying at IIST in preparation for overseas assignments and thus help them gain some insights and understanding of Canada and its people and business climate. In this way, we feel we made a small contribution to the two-way understanding that is so essential for the development and continuation of good rela-



tions between our countries, not only for economic but also for social harmony. This contribution was also made during our many discussions with leaders of local governments, members of various Chambers of Commerce, people from MITI and the many other groups we met during receptions, company visits, and visits to

various cities.

Overall, the program was a resounding success. Considering it was the first of its kind and involved 49 foreigners from nine different countries and a very wide diversity of interests and backgrounds, the organization and execution of the whole agenda were handled very well. To be

sure, there are areas for change and improvement for future programs, and these were as obvious to the administrators as to the participants. The result will be even stronger programs in the future. Japan can well be proud of this contribution to improving mutual understanding with her major trading partners. ●

Group members: Stanley Einarson, Ken Johnson, Geoffrey Jones, Martin Kaplan, Oonagh McNerney, David Mortimer and Robert Stone.

A European Perspective

By Walter Engelmann

"Craftsmanship still lives in the ultra-modern Yamazaki plant. The relentless pursuit of accuracy to the last micron. This is the soul and spirit of Yamazaki engineering." Seeing this inscription at the Yamazaki machine tools factory was one of the most impressive practical experiences which I had during the 1984 Japanese Business Study Program. Due to the intensive use of robots in flexible manufacturing systems at this factory a staff of 250 was doing the work of 1,200 people. This example shows how Japanese industry is preparing itself for factory automation in the 21st century.

What are the roots of this ambitious development? Apart from economic reasons, the long cultural background is an important factor. The concept of *Ikki-Rengo* dates back centuries to the Samurai Law of 1232 A.D. This suggested that the individual should subordinate his personal interests to his leaders and reach a consensus before acting. If the consensus did not coincide exactly with a particular leader's directives, his men would use a "go-between" to negotiate and arrive at a new instruction that they could act upon while saving face for the leader. Thus everyone would be committed to the task. During the Tokugawa period in the early 1600s, religion began to shape the rules of behavior. Zen Buddhism was introduced and the idea took hold that one might approach Buddhahood by working, and by saving part of one's earnings and allowing these savings to be used by the leader for the benefit of all. The best thoughts from Shintoism and Confucianism were also woven into the fabric of society to evolve a code of traditional behavior for people to follow.

These ideas form the basis of a set of values held by the people of Japan today. According to information forthcoming during the study program, the Japanese people place country before company, company before family, and family before

self. These values are evident in the cooperation among companies and government in dealings with the outside world. They also appear in the competition among companies carrying on business inside Japan. In addition, they are seen in the self-sacrifice of the husband in pursuing a career and enduring separation from his family in the best interests of his children's education and family security, and in the turning over of his income to his wife who manages the family accounts.

Moreover these traditional ways of thinking have also had great influence on the behavior of business and government today. For example, senior members of a large company may be either "loaned" to a small company, or retired and hired by a small company in time of need. Large companies will be loyal to their small company suppliers, based on long-standing personal relationships and services provided. Former classmates working in government ministries and large businesses will have a lifelong alliance and help each other whenever possible—especially in dealing with the outside world. Senior government officials, upon retirement, frequently become senior managers or special advisers in large companies, thus retaining close cooperation among government and business based on personal relationships.

As a result of these insights afforded by the program, I feel I have achieved a broader and deeper understanding of the Japanese people and their value system. But the key commercial objective for my participation was to gain knowledge of the Japanese marketing system. The program included:

- formal lectures by MITI, JETRO, and MIPRO (Manufactured Imports Promotion Organization) representatives on Japan's various recent liberalization measures and on the services provided by these organizations to encourage an increase in imported goods and services;

- formal lectures by marketing consultants at the Fujinomiya IIST campus on recent and projected trends in consumer buying and industrial marketing requirements, with reference to a number of case studies;
- studying many statistics and reading material;
- visits to department stores supplemented by a general view of business activities and retail trading during individual free time in both the Tokyo and Kansai areas;
- meetings with businessmen from chambers of commerce, receptions, and seminars;
- visits to industrial and consumer manufacturing enterprises in the Tokyo and Kansai areas, often with brief discussions with staff members;
- an overview of the role of Japan's *sogo shosha*.

As a result of my experience in the program, I have learned about a number of features of the Japanese market and market systems:

1. Price, quality, punctual delivery, service, and overall presentation are key factors.
2. Long-term commitment and mutual trust are absolutely necessary for market penetration.
3. The distribution system is complex and difficult to understand with its various levels of wholesalers and retailers. The emphasis is on service, but this appears to cause higher than necessary retail prices.
4. In total there are 2.5 million retailers and 400,000 wholesalers throughout the country. Wholesale and retail distribution is affected by population density. However, even in the densely populated Tokyo and Kansai areas, the average walk to the nearest shop is only between 5 and 7 minutes.

The program also provided knowledge about the mistakes of foreign companies

starting to operate in Japan. On the other hand we learned from some managing directors how they penetrated the sophisticated and demanding Japanese market.

The postwar generation is now moving into higher disposable income brackets and is eager to look beyond the more traditional ways of life to a more 'Westernized' lifestyle in respect of housing, diet, clothing and leisure. Women have begun to take a greater role in society and in the economy as a whole. Japanese industry requires skills in the areas of high technol-

ogy and financial services. At the same time there is a requirement for improving the emphasis on medical care. All these points present opportunities for foreign companies in the Japanese market.

To sum up, it can be seen that the program has in many ways provided practical insights into existing and potential business opportunities, as well as a basic understanding of Japanese culture and society, of the differences in business practices and of key aspects in marketing. It hardly needs to be said that the organ-

ization of the program, travel arrangements, and accommodation were very good indeed and up to the high standards of Japanese hospitality. The program has given me a much deeper understanding and appreciation of how the Japanese people live and work. I am sure I can make this statement on behalf of all 20 participants from Europe. We all hope that as many European businessmen as possible will have the opportunity to participate in this helpful study program. ●

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An American Analysis

Tom Woofter presents his findings on venture capital and Japan

For many years venture capital financing has played a significant role in the U.S. hi-tech industry. Such financing has provided start-up hi-tech companies the capital necessary to develop new products and bring them to market.

Originally, venture capital financing was the domain of private funds in the U.S. In recent years, however, increasing numbers of major U.S. financial institutions have become interested in high-risk, high-return investing and have entered the venture capital market. The entry of these companies has resulted in a substantial increase in the amount of venture capital available for investing, and this infusion of capital has, in turn, had a substantial effect on the venture capital industry. The industry is currently in a very fluid state as a result of these developments.

To the same degree that large institutions have affected the nature of the venture capital industry in the U.S., major Japanese financial institutions may be responsible for the development of a full-fledged venture capital system in Japan. Those institutions, like those of the U.S., have come to view venture capital as an appropriate form of investing, as is evidenced by two recent venture capital financings.

The first such venture capital financing was in February 1984. With the help of professional advisers in the U.S. and Japan, Sawafuji Dyanameca, K.K. obtained start-up financing for its new U.S. subsidiary, Dynam Enterprises, Inc., which will partially assemble, distribute, and service Sawafuji's new flat-wave,

ultra-thin speakers in the U.S. The money was raised from the U.S. venture capital market, but came almost exclusively from the California portfolios of five venture businesses all closely affiliated with major Japanese financial institutions.

The second such financing was in April 1984, this time in Japan. LSI Logic Corporation, an American company, succeeded in obtaining start-up venture financing for its new subsidiary, Nihon LSI Logic Corporation (NLLC), which will design, manufacture, and sell custom semi-conductor logic products for the Japanese and Asian markets. The NLLC investor group in Japan consisted of three venture capital funds, three insurance companies, one commercial bank, thirteen corporations, and seven individuals.

With aggressive participation by Japanese financial institutions in venture capital financing like that demonstrated above, a full-fledged venture capital system should develop rapidly in Japan, particularly since Japan is already blessed with the other attributes essential to the establishment of a venture capital system. Japan has money to invest, a leading scientific community (particularly noted for its technological development capabilities), a well-trained labor force, substantial industrial resources, and the large domestic market necessary to allow small businesses to grow rapidly and thus offer investors the chance of good returns on their venture capital investment. Moreover, the NLLC transaction demonstrates that there is already a sizeable market for risk capital investments in Japan and that

the infrastructure to support a venture capital industry (including an over-the-counter market) is already developing. In light of these facts, it appears that it will be only a very short time before a full-fledged venture capital system is established in Japan.

Both the Dynam and the NLLC cases are also noteworthy because of the novel approach each parent company took to build new markets in a foreign country. In each case the parent company rejected traditional methods (such as entering into a joint venture, establishing a wholly-owned subsidiary, or engaging exclusive distributors) in favor of seeking local start-up venture capital financing for a new subsidiary.

This method of entry is quite appealing. One advantage is that the risk of investment to build new markets in a foreign country is not borne solely by the parent company, but is shared with the other investors. While sharing ownership can also be a drawback, if the parent company is properly counselled during the financing it need not lose effective control of its product or technology in the new market.

Another advantage to the method, however, is the opportunity to share in the long-term profits of a subsidiary established in a foreign country. U.S. companies, in particular, have often been criticized for too quickly foregoing such profits in favor of licensing. For these reasons, establishment of a venture capital system in Japan may benefit those U.S. and other foreign companies that wish to enter the extremely competitive Japanese market. ●

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