

# The Environment for Foreign Business in Japan

## Japan Myth and a New "Domino Theory"

Until about five years ago most foreign businessmen visiting Japan arrived with a certain set of ideas about this country. The more negative catchwords they had in mind were: cheap labor and a supposedly low standard of living, a carefully protected domestic market, unfairly manipulated exchange rates, dumping and pollution, the famous "Japan Incorporated" myth and the lack of any consumerism or labor movements, the tendency to copy and the so-called lack of creativity. In brief Japan's real economic power was grossly underestimated. This has most certainly changed. Now the usual set of ideas can almost be called a new-economic-"Domino Theory". First the cameras, then audio-visual equipment and ball bearings, followed by ships and steel and now the automobile industry... and then... and then... and then... There is fear and anger.

The feeling is that Japan is too strong to compete with it in its domestic market. Also to the "Japan Incorporated" myth another one is added: the "Japan Management" myth. The basic attitude towards Japan is one of defense and there is more reaction than action.

Most probably now Japan's real power is as overestimated as it was underestimated until some years ago. This may perhaps not be surprising in view of the recent spectacular success of the Japanese economy. But what is surprising is the fact that Japan is so one-sidedly seen only as a formidable competitor but hardly also as a huge potential market. Not only the power of Japan's economy but also the difficulties to enter the Japanese market tend to be overestimated. Thus opportunities may be missed.



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Some basic facts deserve to be more clearly seen:

- a) Most of the stories (or "horror-stories") describing non-tariff barriers, government intervention to block foreigners or successful joint action by Japanese competitors to prevent a new-comer from entering the distribution channels are true—but out of date. They normally describe the situation as it was five or more years ago.

- b) There are quite a number of "success stories" of foreign enterprises in Japan. And this not only in the field of high prestige and high price fashion goods or cosmetics but covering very different types of industries.

- c) Finally, the Japanese market is so big that even for rather low market-share targets a substantial effort is worth while. (For most items about 3% market share in Japan would for example equal over 40% of the Swiss market if expressed in absolute figures.)

The difficulties of the Japanese market—even though they tend to be overestimated do of course exist. In the following an effort is made to describe the most important aspects.

## The "How to Start" Problem

It can be said that the situation regarding tariff barriers and non-tariff barriers has much improved and I would guess that in this regard Japanese industry faces much more problems abroad than foreign industry faces in Japan.

With only very few exceptions neither tariff barriers nor non-tariff barriers should be a serious obstacle to enter the Japanese market. (Unless, of course, one goes so far as to call the Japanese language or the competitiveness of the Japanese industry a non-tariff barrier.)

There is a different reason why starting in Japan is so particularly difficult: on one side it is very hard to build up one's own organization with experienced Japanese personnel—simply because of lack of mobility of the Japanese labor market.

Some of the foreign-born products succeeded in Japan's market





On the other hand it is *practically impossible to take over* an existing organization by buying into a Japanese company of the same type of industry or in the field of related distribution.

With the tendency to consider employment to be meant for life, with pay and other employment benefits increasing with time, with long-term security being the main concern, with changing being viewed as indicating not flexibility but rather lack of stability and character, with employment with old established major companies being considered particularly prestigious it is no wonder that the Japanese labor market is not offering much for unknown, foreign newcomers looking for experienced and well-trained staff, even though the foreign company may be prepared to offer substantially higher pay.

Though the situation may be gradually improving with part of the younger generation developing slightly more "westernized" career ideas and particularly Japanese women being less lifetime employment orientated the difficulty to hire good Japanese personnel is still the main problem for any foreign company intending to operate in Japan.

One possible solution is to enter into a joint venture with a Japanese partner who will supply the personnel. This, however, is dangerous if that is the only or main reason why the business is started with a Japanese partner. Dangerous because the personnel will keep their loyalty to the Japanese joint venture partner instead of developing loyalty towards the joint venture company itself and because Japanese companies sometimes tend to use joint ventures with foreign partners—at least partially—as a welcome "dumping ground" for senior personnel which is redundant in their own organization.

The help of head hunters or Japanese banks might be sought. Employees of other *foreign* companies in Japan might be approached, Japanese advertising agencies might be a possible "hiring ground" or in some cases it might even make sense to look for an experienced Japanese in New York, Duesseldorf or London rather than in Tokyo. In any case it is likely to be much more difficult than in any other country of the Western world. A lot of personal involvement of the foreign manager and a serious long-term commitment to doing business in Japan will have to be shown.

Also after the foreign company is established the situation improves only very slowly. And as for quite some time the main source of new employment candidates will be personal connections of the *existent* staff it will—naturally—be very difficult to improve the average level of those joining in.

While following a rather Japanese-style personnel-policy (like remuneration system, seniority principle, on the job training, etc.) substantial efforts by the foreign



manager will always be necessary to establish enough good personal relations in the business community in order to be able to occasionally approach potential top candidates himself.

As already mentioned the alternative of buying an existing organization instead of building up a new one does—for all practical purposes—not exist in Japan.

This is not because of government regulations, necessary approvals and the like but simply because takeover bids are almost unknown and selling one's company "is just not done." Even among Japanese cases are very rare and in case of foreigners almost inexistent. (Not the last reason being probably the reluctance of Japanese banks to assist foreign enterprise in any such attempt.)

Of course instead of establishing one's own organization it is possible (and often the first step anyway) to start by appointing an exclusive importer and distributor. Here most foreign businessmen seem to believe that the best potential partner should be one of the big trading houses (*sogo shosha*). This is much more often wrong than true. The big trading houses

lack the proper domestic distribution power in most markets and are certainly not known for being particularly dynamic in building up markets for new import items which have to start with low quantities.

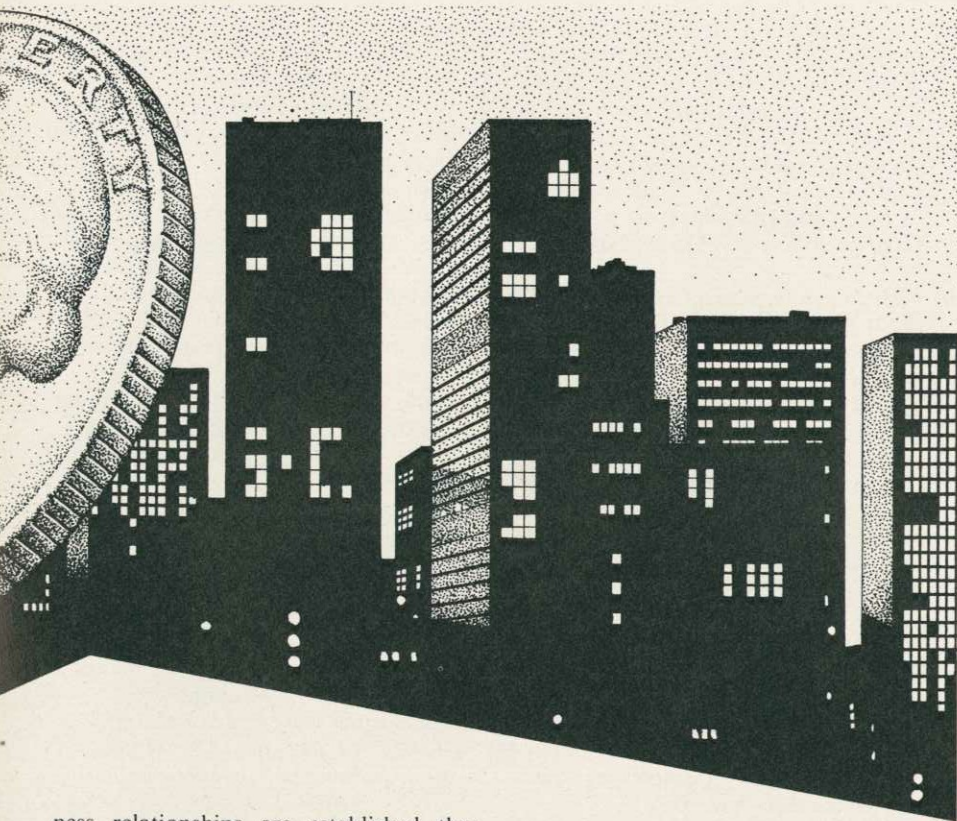
Second (at least unless the exporter invests directly in the Japanese market himself), the Japanese importer tends to use the foreign image of the products to fix very high prices. The result being perhaps a rather prestigious image for the product but also a low import volume, very limited distribution, high margin and a retail price high enough to "invite" any number of "copyists" to follow in the market.

To summarize the "start up difficulties" again (and with the necessary simplification):

- to buy into an industry
  - almost impossible
- to enter a joint venture
  - potentially dangerous because very difficult to control
- to build up one's own organization
  - difficult and time consuming to find the necessary personnel
- appointing an exclusive distributor
  - tending to result in high price but low volume

On the other hand, once proper busi-





ness relationships are established they tend to be very stable, personnel fluctuation tends to be low, also the Japanese consumer still has a preference for foreign rather than Japanese goods and the market itself is likely to be growing faster than any market in Western Europe or North America. All factors from which a newcomer will benefit.

## The "Japanese Mentality" Problem

That the Japanese way of thinking and value judgment are somewhat different from the "Western way" is a well-known fact (even though the difference is much smaller than the Japanese tend to think themselves). But which are those aspects which have a real impact on the *business* environment for foreign enterprises operating in Japan?

Some of these aspects have been described often enough making it unnecessary to repeat and discuss them here. (They are the Japanese instance on "seniority" against "performance," group motivation as compared to individual motivation, or the consensus principle as compared to decision from the top.) But there are further differences which are perhaps even more difficult to understand or to handle for a foreign businessman.

One of the major ones is the very different meaning of "time". Whereas in the West in business and work the attitude is "the less time you *have to* spend the *better*".

The Japanese way of looking at it seems to be:

"the *more* time you *do* spend on something the *better*"

In both cases time spent is a basic unit for measurement. In the Western way measurement for efficiency. Thus if the same result can be achieved, the less time spent the better. Well expressed in the saying "Time is money."

In Japan however time spent seems to be rather a measurement for something totally different, that is for the loyalty, spirit, endeavour and position of the person concerned—thus the *more* time spent the *better*.

What makes mutual understandings so difficult is that "time spent" measures in Japan elements which are somehow moral or emotional categories, "virtues" like loyalty, spirit, endeavour, while in the Western view "efficiency" is a rather simple calculation—rather unrelated to any moral or emotional values.

The practical consequences of those two different views of time are tremendous.

Let's give some examples: first of the Western view. A simple one is meetings within the company. Somehow a Western manager would—in his head—occasionally multiply the hourly income of the participants with the number of persons and hours spent. Thus he would be horrified by the time-consuming Japanese style of constant meetings. The Japanese view would be different: communication and human relations *do* require time, the more the better!

For the Westerner it is normal to do a job as fast as possible and to go home after the job is done. Hanging on would

be less efficient—and thus neither "good" nor "bad" but simply stupid. In the West there is a relatively clear distinction between work and private life. Work is to be done efficient—that means fast. Working time is to be spent as carefully as money. On the other hand free time is sort of real life.

What a difference in Japan! The first surprise for a Westerner is to realize that the word "*hima*" (leisure) is used with a rather negative meaning whereas on the other hand "*isogashii desu ka*" (are you busy) is used almost like a greeting, being "busy" equalling being "all right." One hardly meets a Japanese daring to admit that he is not busy. And the image of being busy seems often to be artificially created,—for example by (from a Western viewpoint unnecessary and unjustified) meetings and overtime work.

Length of time seems to be a measurement for the quality of human or business relations.

Payment and evaluation of employees are not so much based upon results but upon loyalty towards the company. But how to measure loyalty? How to express it in figures: the method seems to be to measure time. The more years in the company, the less vacation taken, the more willingness to take overtime or to appear over weekends—that is how loyalty is shown. These elements are directly related to moral values, to spirit and the evaluation of a personality.

Also the Japanese lifelong employment seems related to the same basic concept. The *time* accumulated is a capital which bears interest. A capital in good will, face, loyalty and position.

Even the spending of after-office time again with colleagues and the fact that this is not usually done in the West, shows the same difference in conception of "time".

It is difficult for a Westerner to understand that in Japan "time spent" is a necessary investment not only within the company but also in relation to customers and even suppliers. The Japanese catchword being "*nagai tsukiai*" (long relationship).

Again the measurement for the quality of the relationship is time. The number of years as well as the time personally spent together during these years. Either during office hours or—even better—after-office hours.

Thus generally speaking in business relations "time" seems to be a measurement for the quality of the relationship at least equal to the simple comparison of conditions like price or terms of payment.

The consequences for any foreign business are obvious: *the beginning* is particularly difficult as the newcomer will try to replace old business relationships by new ones, *long-term* commitments and targets must be stressed, and the foreign manager must be prepared to use (the foreigner would probably say "sacrifice") most of



his private time for business and must—at least to some extent—be prepared to accept value judgments and decisions based upon this rather peculiar Japanese thinking as to what time “really” means.

Another fact is also often overlooked: though the Japanese *consumer* obviously does have a *preference* for foreign goods the Japanese *corporation* buying goods or services certainly does *not*. Again the “time” aspect may be one of the reasons. Long lasting (and possibly personal) relationships with a supplier are considered important (and tend to exclude “tough” and recurrent price negotiations), it is considered difficult to establish the “proper” relationship with a foreign supplier and imports are avoided if possible. The arguments are of course that a reliable domestic supplier allows to reduce stock and will secure supply also “in difficult time” but there is certainly more than pure economic thinking. There is certainly a preference to “buy Japanese”. This seems to apply also to the supply of services like banking and insurance.

This mistrust against what is “foreign”



A representative discusses issues with Japanese staff members

in the corporate field (as compared to the consumer) applies also to the labor market. The word for “foreign owned” (*gaishi-kei*) has a clearly negative meaning, employment with such companies tend to be less prestigious and they are suspected to follow a “hire and fire” policy (and sometimes such suspicion has proved to be not unjustified!).

## The “Foreigner’s Mentality” Problem

The fact that the normal foreign businessman in Japan has difficulties to fully understand most points mentioned above makes it, of course, difficult to do business in Japan. I want, however, to add some more “foreigner’s mentality” points:

a) The thinking in *short term* goals

Just because the start is so particularly difficult in Japan (but also because the Japanese competitors tend to be more long-term oriented than short term) the thinking mainly in two to three years period is certainly not the right approach for Japan. Still it is prevailing among most foreign business. I suppose not only because the

foreign head office approaches new investments normally with the view that it has to produce substantial black figures within these years but also because the average foreign businessman is transferred to Japan for three to four years and, naturally, wants to show (profit) results before the end of his term.

b) I have mentioned a certain “mistrust” in Japan *against* foreign owned corporations,—but there is also a certain mistrust *by* foreign corporations against Japanese managers. Perhaps the history of foreign operations in Japan is too short to expect anything else and perhaps the myth of “Japan Incorporated” is still too strongly believed to expect the situation to improve in the near future. The fact is: most foreign owned companies in Japan are much more hesitant to appoint local staff to top positions than they would be in other industrialized countries. This despite the fact that Japanese staff is—as a general rule—more likely to be loyal and looking for a lifelong position than any foreign manager himself.

c) Last but not least the *language problem*.

Almost all business operating abroad face a language problem (and so do the Japanese abroad!) and the particular problem with operating in Japan is not so much the fact that the average knowledge of foreign languages in Japan is low and the average knowledge of Japanese of foreigners close to zero but it lies again in the field of personnel management.

Just because of the particularly difficult language situation in Japan foreign operations tend to be influenced in hiring and promoting (?) more by language capabilities than by other—often much more important—criteria. Speaking English is—for example—totally irrelevant to organizing and controlling a sales force in Japan. Still most foreign operations tend to offer generally better chances to those who do speak English—thus discouraging potentially valuable candidates who don’t.

## Some Suggestions for Improvements

a) *Japanese authorities* are often confronted with the reproach of alleged non-tariff barriers against imports or foreign corporations operating in Japan. Most of these reproaches seem to me to be either unjustified or at least not justified any more. Still much could be done.

Some areas to be looked at:

— it seems to be at least unclear whether the government policy to *substitute imports, if possible, by encouraging*

*local production* has really been given up or not. In particular the long-term projections published by the different authorities could and should be much more specific as regards the projected role of imports of goods and capital.

— Japan strongly advocates the free international movement of goods and (more recently) of capital but the *free movement of people* (even though for a limited period of time) seems to be one of the main remaining taboos in Japan. For example and particularly as far as very small foreign operations are concerned the handling of visa applications certainly leaves a lot to be desired.

— as regards *takeovers* of Japanese corporations *by foreign interest* an effort should be made to a least extent bring this subject out of the taboo-zone into discussion and to convince the banking system that this is an area where some improvement would be in the best interest of everybody concerned.

— last but not least some of the international “friction” might be avoided by showing more initiative (or publicizing it better!) in fields of common concern with other Western countries (like: aid to developing countries, help with major refugee problems or joining *international* research programs in fields like cancer, use of marine resources etc.).

b) increased efforts *by foreign business* however seem to be much more important. They should be generally promising not only because of the already mentioned sheer size of the Japanese market but also because most of the problems described are more of a short term nature and tend to lose importance with time passing. The Japanese distribution system for example is difficult for *any* newcomer (foreign or Japanese) but is, in the long run, not more difficult for the foreign operation than it is for its Japanese competitor. Furthermore the recently increased competition within the various distribution channels might well be a good chance for a foreign newcomer who offers an attractive product. Also there are numerous areas where the Japanese market can reasonably be expected to offer an enormous (far over average) growth potential or at least relatively low competitiveness of the local industry. To name a few and to show the variety: franchising and insurance, international tourism, housing and related equipment (like central heating, furniture or system kitchens), diet foods, products for the elderly or business consulting.

It probably can be said that in almost *any* case the business environment in Japan makes it worthwhile to explore the market and in *most cases* to make a serious try to penetrate it. ●