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Responding to Global Capitalism: Today's Priority on Japan's Business Agenda

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(summary)

After being devastated by World War II, Japan experienced a spectacular economic upturn. The rebuilding of the country and its growth rate were quite outstanding. Then, this phoenix-like recovery was deeply affected by deflation, during the Asian crisis which set off in 1997. This tough patch even reminded the Wall Street Crash of 1929 to some extent. It noticeably caused harm to the Japanese thriving economy.

Today, Japan has to face globalization, wondering if its businesses can actually deal with such a complex economic environment. This essay is meant to suggest initiatives Japanese firms might consider, in order to be fit for the present capitalism system. Of course, it puts forward various measures to implement at a corporate level.

However, national economic orientations are still decided by each country's political forces, even though globalization makes them less influential than they used to. Consequently, I also chose to mention a bit the strategic part the government and its regulation process could play. In fact, History proves that the Japanese State has substantial power over economic actors. This country is anxious to keep a close eye on foreign competition and tends to overprotect its market.

First of all, I opted for an analysis of the Japanese culture, as it will undoubtedly be relevant to understand Japan's management style, and its consistency with the principles of global capitalism.

Then, I explained how crucial it is for Japan to develop quality relationships and partnerships with its neighbors—and even countries from other continents—in the current economic context. The stake of inspiring confidence and displaying a favorable image abroad is obviously huge for business reasons.

In conclusion, I thought Japan should reconsider its own definition of capitalism, and wonder if adopting the American model really is the only option left to capture the global market.

(full text)

Responding to Global Capitalism: Today's Priority on Japan's Business Agenda

Introduction

Japan did achieve an economic miracle in the mid 40s. It performed an amazing recovery from ashes to become the second wealthiest nation in the world. Unfortunately, this incredible post-war growth gave way to a serious crisis. Indeed, the country was dragged down by unprecedented deflation. According to the MIT economist Rudi Dornbusch, this situation was actually similar to that of the United States in the 1920s. "*There must be no doubt that Japan is teetering on the verge of a 1930s-style collapse of financial institutions, confidence and economic activity*." Indeed, credits developed at dramatic pace. The Nikkei stock market index—which tends to fluctuate between 16,000 and 17,000 today—nearly reached 39,000 by the late 1980s. The financial overheating eventually led to a gloomy period of stagnation[1].
Now, Japan is definitely making its way back among the world's leading economies. Private consumption has been soaring and many political reforms are on progress. However, upcoming changes will have to occur in a more challenging context due to globalization. This growing phenomenon which seems to wipe out all borders surely isn't brand new. Its magnitude is just getting increasingly tangible on different levels: economic, financial, cultural and even political. Free trade and currency flows make countries more dependent on each other: nation-states have less power than they used to.
In such environment, Japanese companies need to adapt to cope with the global scope of present-day capitalism. How could they open up to more foreign investors, gain efficiency and profitability?
In order to do so, specific cultural features, such as group-oriented values, and lifetime employment, must be taken into account. Furthermore, Japan has to optimize its commercial and diplomatic relationships with other countries. Finally, Japanese entrepreneurs might want to rethink their own conception of capitalism, and decide whether they should align with the prevailing American model or not.

1) How to deal with globalization in such a culturally dependent system?

Culture has an unconscious and yet substantial impact on human behavior. This is why understanding all its unspoken codes is essential to handle business situations on

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[1] http://www.wsws.org/news/1998/apr1998/meltdown.pdf

an international scale. It enables to work out the differences between management styles, and to avoid unfortunate confusions.

Business historian Alfred Chandler actually studied the key part of culture to differentiate three types of capitalism.[2] First of all, tradition-bound European firms seem to prize “family capitalism”. People who access the highest hierarchical positions are all relatives, and pass on their industrial empire to the following generations. For instance, the Phillips family was closely involved in the company’s top management for years. It also supervised any operation abroad.

As for the “managerial capitalism”, it is greatly inspired by the American relentless pioneering spirit. It refers to those business owners who decided to delegate the running of their firm to professional managers. The implementation of strategic planning systems in General Electric perfectly illustrates this trend.

In opposition to these two models, the “group capitalism” totally fits Japan’s values and habits. It presents consensus-based decision making as the best way to ensure social cohesion. In fact, the search for interpersonal harmony—combined with some inclination to isolationism—and the influence of Eastern philosophies, all belong to Japan’s cultural background. So, they subtly shape its way of doing business. Are these characteristic all congruent with globalization-related challenges though?

The *zaibatsus* reveal quite well the Japanese style at a corporate level. These enterprise groups, which paternalistically control their affiliated companies, exist in almost any activity sector. The *nemawashi* (information sharing aimed at laying the ground for a new project) and *ringi* (joint decisions) are commonplace in such organizations. The same goes for lifetime employment, which strongly binds Japanese firms and their workforce together.

However, in the opinion of foreign managers, these long-standing practices can produce serious productivity concerns. Indeed, it sets great store by commitment and lasting relationships, but it cannot always go hand in hand with profit-oriented objectives. Non-Japanese employees may have trouble dealing with this way of thinking; communication-intensive structures are particularly tough to handle.

Besides, the language barrier makes it even more complex for foreigners to be truly part of a Japanese team. Globalization is supposed to foster cross-cultural interactions. Yet, in Japan’s case, companies tend to develop in their home country, and just reach external markets through offshore sales affiliates. They are thoroughly supervised from the centre of the organization, and power is rarely delegated.

Matsushita is a relevant example. It actually made its headquarters in charge of any product innovation, in spite of its seemingly decentralized management. More than 90 percent of its output was only manufactured in Japan even into the 1980s. Authority was the exclusive privilege of the parent company, unless it was possible to extent the

[2] Christopher A. BARTLETT , Sumantra GHOSHAL, *Managing Across Borders: The Transnational Solution;* Harvard Business School Press, November 1999.

Japanese culturally dependent system abroad.
For this kind of reasons, Japan has been blamed for being too closed to foreign ideas. It has also been criticized for its stringent immigration laws. Basically, it should accept to get more in touch with other countries.
In March 1999, Prime Minister Keizo Obuchi (1937-2000) decided to gather the nation's top intellectuals and leaders, except for the bureaucrats who usually rule the government. He expected them to highlight Japan's new goals for the 21rst century. The outcome of this initiative was extremely clear. The traditions which defined the very core of Japan's civilization so far needed to evolve. English was suggested as a second language for every student. Such measure makes perfect sense, to enable the future generations to work in a global business environment. It should be mentioned that Japan's substandard grasp of English ranked next to North Korea's back then. Other recommendations were made regarding the need to increase the foreign workforce. Doing so wouldn't only boost the "*Japanese opening process*". It was introduced as a wise alternative to cope with the country's aging population.
All in all, Keizo Obuchi's commission questioned an "*ossified society*", which should promote "*the empowerment of the individual*" and provide risk takers with more support. Consequently, Japanese companies must be more flexible and willing to hire a diversified workforce.

2) How to make the most of Japan's relationships with other countries?

Japan's growth relies a lot on exports and investments. It is currently fuelled by China's booming economy and a falling yen. However, Japan suffered from a fierce low-cost competition in the mid 1980s. Indeed, after the G7 signed the Plaza agreement in 1985, the American dollar fell relative to the yen, which put Japanese firms under great pressure. This Plaza deal occurred following the substantial deficit the US recorded to Japan. As a matter of fact, many Japanese exporting firms had successfully integrated Western technology into their products. They did so through the "*kaizen*" method, that is to say the quality improvement process which is notably used by Toyota. As a result, some monetary measures were promptly taken to curb the Japanese expansion.
Now, Japan's exports are back on track, but its relationships with its trading partners still need to be reinforced.
First, China shouldn't be considered as a threat or an enemy. Despite the Sino Japanese war and past discrepancies, this economic giant offers outstanding business opportunities. Its growing needs and the promising level of private consumption should definitely stir up Japan's interest. Nevertheless, the struggle against intellectual property violations remains the key issue to tackle. Japan, which is famous for its high tech electronic devices, must ensure its Chinese partners won't thieve all

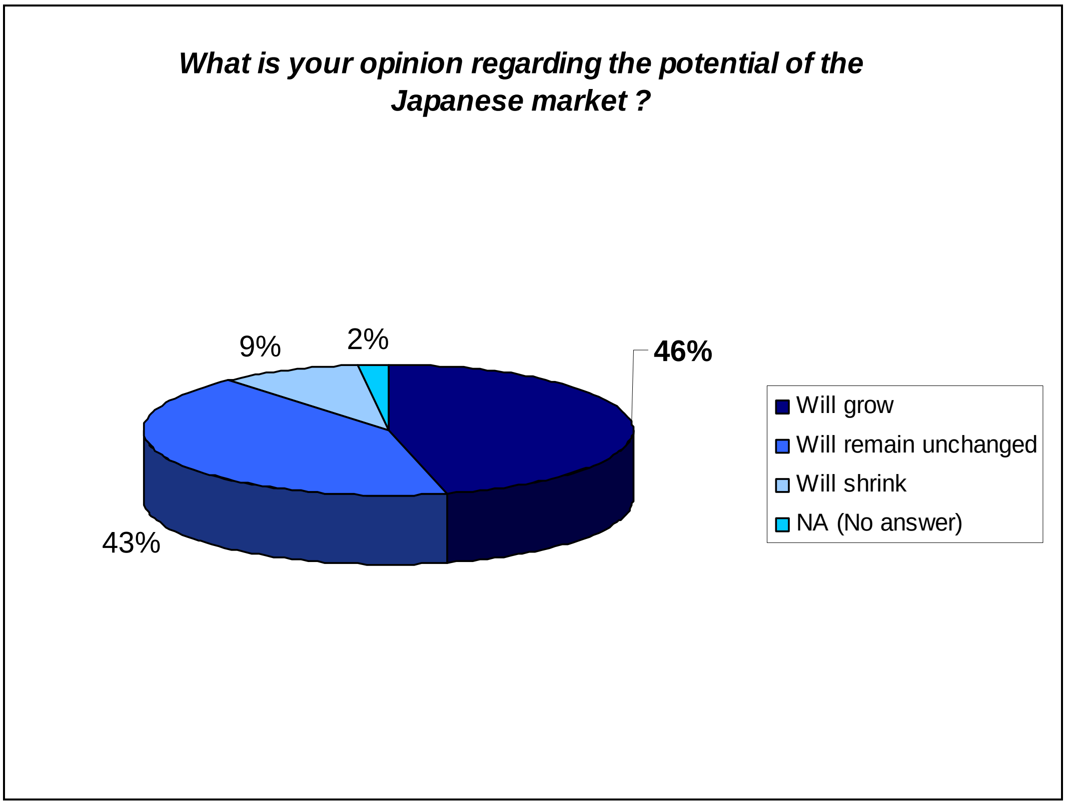
its know-how.

Moreover, Japan has to strengthen its commercial ties with foreign economies, owing to its dependency on imported oil and its urging need to find alternative energy sources. In fact, this quest for raw materials could be achieved jointly with China, whose skyrocketing growth does require a huge amount of resources. This could be a very relevant “win-win” strategy.

Besides, Japan’s economic climate seems to be filled with bright prospects. At least, it is considered as such. The 9th Survey on Attitudes of FAC (Foreign-Affiliated Companies) toward Direct Investment in Japan was carried out in 2004. It revealed that nearly half of respondent companies (46.2%) believe in the growth potential of the Japanese niche market they invest in.[3] The term FAC refers to a firm in which more than a third of the shares belong to one or several foreign firm(s): 60.3% of theses companies chose Tokyo to establish their Japanese base.

The survey clearly shows that managers are confident about this country’s future, which is essential to the entrepreneurial spirit. So, Japanese firms are very likely to receive foreign investments.

Graph from the 9th Survey on Attitudes of FAC toward Direct Investment in Japan



[3] http://www.jetro.go.jp/en/stats/survey/pdf/2004_08_fdi.pdf

The recent alliance between Seiyu Ltd. and Wal-Mart Stores, Inc proves that Japan is a sought-after market, which appeals to gigantic organizations[4]. Seiyu became a subsidiary of the world's largest retailer, and opened its capital to outside stockholders. Its board agreed with the issuing of new shares to Wal-Mart in 2002: it was in dire need of financial support.

This operation confirms how collaborating with foreigners may help Japanese companies to survive in a global capitalist context. Japan unquestionably needs allies to prop up its economy and reap benefits from it.

It already witnessed huge politico-economic gatherings in North America (NAFTA) and Europe (EU), but may not be ready to join an East Asia Community (EAC).[5] One can think regional integration will prevent a new financial crisis, but Asian countries are way too diversified to adopt such initiative (as shown below through this chart). Developing free trade agreements and partnerships might be enough for the time being, to enable Japan's firms to co-prosper with the rest of Asia, and to expand gradually on a global scale.

Diversity of East Asian Economies

	Land Size (1000 Km^2)	**Population (Million)**	**GDP (US $Billion)**	**Per capita GDP (US $)**	**Main religion**	**% of ethnic Chinese**
Indonesia	1,919	235	162.0	774	Islam	3
Thailand	514	64	114.8	221	Buddhism	10
Malaysia	330	23	95.2	3,884	Islam	24
Philippines	300	85	77.1	942	Catholic	2
Singapore	0.7	5	85.6	25,804	-	77
China	9,597	1,287	1,158.6	908	-	-

3) How should Japanese companies reconsider their conception of capitalism?

According to Donald P. Gregg, President and Chairman of the Board of The Korea Society (New York City), "*Japan is handcuffed by its perpetual search for consensus.*"[6] This obviously means that some typical Japanese practices stand in the way of a more

[4] http://www.jetro.go.jp/en/stats/survey/pdf/2004_03_fdi.pdf
[5] http://www.uk.emb-japan.go.jp/en/news/archive/kinoshita_lecture.doc
[6] http://www.theglobalist.com/StoryId.aspx?StoryId=4559

assertive capitalism.
The traditional seniority system (i.e. life-long employment) worked properly until the late 1990s. *Keiretsus* such as Mitsubishi cross-shared equities with each other; these huge companies were all linked to a "main bank". This *keiretsu* model enabled Japanese companies to pay minor dividends. Its other major effect was to block off international investors.
Today, Japan is strongly encouraged to open up its firms' capital to foreign participation. On the one hand, a freer capital market means: more technology, workforce and investment from abroad. On the other hand, the impulse of American financial services companies in this process didn't only eased capital flows. It also spread the American business style. For instance, the accounting, auditing, etc…softwares which are commonly used in financial infrastructures are all based on an American framework.
This naturally raises the issue of an "Americanization" of capitalist firms through globalization. Makoto Iokibe, Professor of History in the Department of Law at Kobe University, has quite a drastic opinion on the subject.[7] "*If we want to keep our identity, want to 'be Japanese' and refuse American or global impact, we will be miserable Japanese isolated from the world. People will be complaining about how Japan is being bypassed again*." He definitely recommends that Japan should give in to the American dominating influence. He also states: "*Japanese kids from the very starting point are told about the consensus style and how you should not be different. That kind of education must be changed*".
So, it seems it is time for the Japanese to believe more in individualism and freedom to undertake projects of their own. These are key capitalist values that still contravene some codes of Japan's culture. Indeed, this country is keen on its group-oriented principles; Entrepreneurship is not extremely developed yet.[8] After World War II, Japan relied on the government for every decision and let it conduct its whole economic activity: its market was overregulated. Debts, high corporate tax rates and budget deficit remain the major difficulties to overcome.
This is precisely why Japanese companies should all value innovation to move on and succeed in a globalized environment. Breakthroughs in the IT sector and creativity must be developed.
Japan's firms could also increase the participation of women in business. Besides, the rate of managers with an international profile is not enough, for a country which created so many brands consumers know worldwide (e.g: Sony, Nintendo, Panasonic, Honda). At any rate, bureaucracy should give way to a more flexible economic context.
SMEs (Small and Medium-sized Enterprises) which usually tend to be more responsive than large organizations, might contribute to the upsurge of Japan's dynamism too.

[7] http://www.globalpolicy.org/globaliz/cultural/japan.htm
[8] http://www.imd.ch/research/challenges/TC022-06.cfm?bhcp=1

They had better get more involved in their country's activity, try to join forces to win over their share of the global market.

When Japanese companies achieve these changes, they will be all set to reach wide-ranging goals. They could even do so without copying every detail of the American model. In fact, global capitalism is not the United States' privilege: it is the present economic reality.

So, Japanese businesses should evolve at their own pace, in a way they won't find too brutal or disruptive. Japan's approach to deregulation is already different from the American one: the government still has a part to play to stabilize the market.[9] Hostile takeovers don't really fit the Japanese style, but some corporate raiders began to appear in the late 1990s. For example, Yoshiaki Murakami, the founder of M&A Consulting Inc., bought many stocks in cash-rich but underperforming companies.

Furthermore, Junichiro Koizumi (Prime minister from 2001 to 2006) and its government reformed Japan's commercial law, to facilitate, not recommend, American-like corporate governance. Now, shareholders are more considered as significant actors within theirs firms. The issuing of stock options is now allowed. Japanese companies started aiming at higher ROI, ROA or EVA.[10]

At first, these measures were not very popular among Japanese large organizations. Scandals like Enron even aroused fear regarding the "American speculative bubble". Businessmen such as Fujio Mitarai (Canon's CEO), and Hiroshi Okuda (Toyota's chairman) refused to embrace a US-style system, as if it truly were the one best way. They kept on appointing insiders as board members, providing executives with modest wages, and avoiding redundancies. Fujio Mitarai firmly believes: "*The advantage of lifetime employment is that employees absorb the company's culture throughout their careers. As a result, team spirit grows among them, a willingness to protect the corporate brand and stick together to pull through crises. I believe that such an employment practice conforms to Japanese culture and is our core competency to help survive global competition*".

Indeed, Japanese firms are viewed as microcosms, actual communities. They are so much more than the property of shareholders: they also involve employees, customers, suppliers and creditors. In such context, the Japanese manager's goal consists in ensuring a balance between all these actors' needs in the long run. The focus is not on maximizing profits. Sony unsuccessfully tried to switch to the US "shareholder-value" model. Of course, this made Japan all the more convinced of its inconsistency with the American rugged kind of global capitalism.

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[9] Sanford M. JACOBY: « Japan's alternative economics ». *Le Monde Diplomatique* (French newspaper), June 2006

[10] Return On Investment, Return On Assets and Economic Value Added.

Conclusion

For all these reasons, Japanese companies still have efforts to make, before adapting their conception of capitalism to a globalized environment. First, they will be confronted with cultural issues. In fact, it is no easy task for foreigners to have a good grasp of Japan's values, habits and language. Moreover, Japanese corporations need reliable allies abroad to expand. China may be their most precious business partner, at least in the Asian continent. It should be borne in mind that exports are Japan's major economic asset, and that the country already experienced a serious currency crisis.

Finally, Japan shouldn't indefinitely rely on past success: it might want to question its typical capitalist model which always performed so well until recently. The rethinking of its system should be done jointly with government officials, as political power still is highly involved in the national economy. Structural reforms, such as increasing competition, stamping out "hidden protectionism", addressing the sensitive issue of immigration, are obviously required. Most of all, these significant changes don ' t have to be dealt with using American-like methods. The US was just considered as a role model, because it had the fastest-growing economy in the 1990s. This is why their vision of capitalism was (or is?) believed to be the only one, the very best option for industrialized countries.

Now, it is up to Japan's businesses to prove they can find a new pattern of their own to respond to globalization. In order to do so, they need open-minded managers, who won't hesitate to innovate and bring their entrepreneurial spirit into play. As for shareholders, they deserve a more important part in Japanese firms: they do achieve an essential contribution in every capitalist system. Let's just hope that Japanese companies will work out a solution to handle the challenges of global capitalism, without forsaking their cultural identity.