Euro-Japan Business Services

Understanding the roots of Japanese Business Culture
EXECUTIVE SUMMARY

Japan is the world’s 4th largest economy as of 2011. The Gross National Income per capita is USD 45,180. With its technological advances, high income population and a very high need for imports, Japan on paper is one of the most lucrative markets in the world. Yet, most companies have failed to utilize this productive market on account of lack of understanding of the business norms. These business norms are a product of their culture, and to be able to successfully utilize business opportunities in Japan, one needs to understand that it is not the Japanese culture which stands in their way, but rather their own lack of understanding of the Japanese culture.

All the Japanese systems are a product of their utmost efforts of maintaining harmony. Harmony is the centerpiece around which their life revolves, as does their business practices. The hierarchical structure, the group behavior, their polite ways and the individual vs. social welfare (Honne vs. Tatemae) phenomenon, is all present in order to sustain harmony. A better understanding of this can reveal the mystery of Japanese business culture and help businesses develop a better understanding of Japan and its ways, thereby allowing successful business ventures to arise in Japan.

Many companies such as BMW, Chanel, Tiffany & Co. and similar other MNCs have been able to make it big in Japan, primarily because of their understanding of the Japanese Business Culture, which comes from a good understanding of Japanese Culture.
Various Japanese business practices and methods have been continuously questioned by Westerners as being non-business friendly, such as

- They take too long to take a business decision which is not feasible in the business environment which needs quick decision making
- They do not give direct answers, which leads to confusions and causes loss of time
- They pay undue importance to trivial things such as a business card, rather than focusing on real issues.

While Japanese do take long to make decisions, and use indirect methods of communication, they still have been very successful in many business areas. “Made in Japan” is a mark of reliability recognized worldwide. The question now arises, if Japanese way of doing business was really that bad, how did they succeed all these years??

The answer lies in perception. It is because western businessmen have been looking at the Japanese culture with western glasses that they are unable to notice that it is not the Japanese practices which are hostile, but rather their perception towards it.

Japan has long been a technological leader and its economic strength is an indicator of its success in business.

Further we will see in this paper, why exactly Japan is a better market today than ever before, and how a simple look into their culture will explain you their behavior, allowing businessmen to adopt to better deal with Japanese businessmen.
INTRODUCTION

Everyone knows today that when apple falls from the tree, it’s because of gravity, Newton told us that. But everyone knew it before Newton did; what made Newton special is he tried to answer the question “WHY”. Once a better understanding of gravity was developed, it helped us launch satellites, send man to the moon, define the clearance level of a race car vs. a rally car. It gave us the concept of weight, weight of gold, weight of lead, weight you need to lose to stay fit.

Similarly most businessmen today know the etiquettes one needs to follow when dealing with Japanese businessmen. Be careful with the business cards, be extra polite, be patient, but the question is do we understand the “WHY”?

A simple look at the questions clearly displays the lack of understanding of the business culture in Japan. Let me emphasize once again, yes we know the Japanese business culture, but do we understand it? While businesses have complained, they have failed to understand the processes involved behind these actions, and a clear understanding of such will help them adapt to the situation and work their way around. As far as the myth of difficulty in doing business in Japan is concerned the following figure provided by the World Bank should give an insight, as to why it is a myth.

Source Doing Business database
Another figure also provided by World Bank, shows us how “not” difficult doing business in Japan.

![Diagram showing business challenges in Japan](http://www.euro-japan.de)

Source: Doing Business database

Japan has always been a market where many companies want to expand their business. Unfortunately many have failed earlier and their failure has put a lot more plans on hold. People complain that the Japanese business practices are not well suited to the general business practices that prevail in the west. There decision making is sketchy and the time taken by them to reach a decision is far too long for any business to wait for. Also, one of the most common complaints about Japanese business practice is the vagueness of their responses.

But then the question arises, if such is the scenario of business in Japan, how did companies like BMW, Chanel, Tiffany & Co. and similar other MNCs have gained success in Japan? They understand the Japanese business culture right to its roots. They don’t just know the Japanese culture; they know specific cultural aspects which affect corresponding business behavior.

Never before has the need for global economy been stronger. With so many countries in debt, fighting the economic crisis, it is paramount that countries come together, irrespective of the distance between them. North America, South America, Europe, Australia, Asia, and Africa, everyone needs everyone.

With Japan’s technological advancement, and futuristic approach, they can play a key role in the future of many western companies looking to expand. Flexibility and adoption to the host country’s work culture is a key to successful business ventures. In order to do that, one need to understand the very roots of these cultures, where the values incorporated within each individual of a particular society does come from.
With group being larger than the individual approach, Japan has managed a great deal. There is a very high level of co-operation between manufacturers, suppliers and distributors, which ensures the smooth functioning of business overall. Even though Japan is highly dependent on raw material and fuel imports it has still managed to become one of the global economic giants. With a highly subsidized agricultural sector and a highly successful fishing sector (15% of the global catch), Japan has managed to best utilize its limited resources, to become the fourth largest economy in terms of purchasing power parity in 2011.

Japan as a Market
The biggest problems that were faced by companies earlier when setting up in Japan was the lack of local labor and the particularly strict regulations. However the situation has changed drastically as can be seen by the change in different factors involved in setting up a business in Japan.

JAPAN AS EXPORT HUB
Japan imports 60% of its caloric needs. It is also highly dependent on imports for fuel and raw materials. An economy as large as Japan and with the need of raw materials, provides an opportunity for businesses outside to become their trusted partners for raw material supplies. Their technological advances would mean that a lot of processed final goods made in countries outside can work as raw material for Japan in their high tech. Industries.

JAPAN WILL LOOK FOR DISTRIBUTORS
With the recent crisis created by nuclear power plant, Japan would need to look at markets outside their geographical boundaries even more, for supplies, as well as for distributors to push their products into more countries than ever before. With the disposable income rising in India, China and similar other countries, new markets are opening every day and like every other business in any country, Japan would look to bank on their technological expertise and brand value to push products in these countries, thereby enhancing the need for distributors.

JAPANESE YOUNG CONSUMERS
Japanese group culture dictates that people stick together in groups as per their age, and social status. Japanese youth is the biggest spender in the whole demographics, and the group factor means that if one spends, so will the other. This creates an attractive market section for any business. Anyone setting up their operations in Japan and selling to the youth will know that specific needs of an individual need not be addressed as long as the group need is attended to, thanks to the culture which promotes group behavior and discourages individualism.
**JAPANESE CONSUMER EXPENDITURE**

While the spending is constrained by western consumers, visible by a rise of only 0.8% in February in 2012, at the same time Japanese spending increased by 2.3%, almost 3 times as compared to the west. This also suggests that exploring the Japanese market can be a fruitful endeavor. While deflation still remains a major concern in Europe, Japan moved out of deflation in February 2012 with core consumer price index rising by 0.1% in February over last year.

**Setting up business in Japan**

The biggest problems that were faced by companies earlier when setting up in Japan was the lack of local labor and the particularly strict regulations. However the situation has changed drastically as can be seen by the change in different factors involved in setting up a business in Japan.

Japan is ranked no. 1 by world bank in resolving insolvency issues. It ranks 19th in terms of “Trading across Borders” and “Protecting Investors”, 23rd in “Getting Credit”, and 27th in “Getting Electricity” among 185 nations where the study was conducted by the World Bank. Clearly starting business in Japan is not as difficult as it looks.
Importance of a company name in a Japanese Life

In Japan, what company one works for would define a lot of things in an individual’s life. It defines how much loan he can get from a bank, where he can purchase his house, if renting, it defines what kind of society he would get an apartment into. They all do a background check of the company that he is working in terms of their annual turnover, how long they have been in business. The company can even define where one gets married.

Second problem that people come across are acquiring local workforce. Why has that been difficult is given in the box below.

So now when an outside company sets up in Japan, general public would be skeptical about it, since they know very little as compared to the home grown companies. This would discourage a local to work in such companies, and companies in turn would need to attract the individual with high pay and benefits. This was a real hurdle. If people like Hashimoto, Ishihara and Watanabe

The New Labor Scenario: Part time Workers

With roughly 35% of the population working part time, there’s a pool of talented individuals available for new companies. The lifetime employment system of Japanese companies has created a pool of individuals who do not have a place in the existing companies. This young working population is also more open to western work culture.

The New Labor Scenario: Working Women

Another section of talented individuals are the women in Japan. Although highly qualified, their work life ends with marriage in traditional Japan. But with the new change in culture, this pool of talented women is now ready to work.

succeed in implementing the new generation ideas, we may very well see a lot of changes such as new localized policies, transformation in centralized spending and reduced control of government and US dictated foreign policies.

While the labor problem has already taken care of now in new Japan, the new policies are expected to make it more business friendly, especially for foreign companies looking to mark their presence in Japan.

Let’s not forget that culture does not change overnight, so even this young working population will still show some of the signs of their traditional values. Some of the qualities generally exhibited by Japanese workers are listed below.
Loyalty: They are loyal to the core, never criticizing the company, coworkers, or managers. If required, they would go beyond their job descriptions to help the company, since their group culture orientation compels them to look for group welfare over and above individual welfare.

Dedication: An average Japanese when faced with a conflict between family and company duty, will more often than not, give the company priority.

Consistent and Thorough: Japanese would always consider all options, never leave out any details, and are low risk takers, which especially in today’s environment is a must have quality.

UNDERSTANDING THE JAPANESE CULTURE

We need to understand the Japanese culture, and from there we will be able to derive why Japanese businessman conduct themselves the way they do.

Japan is a homogenous country with almost 99% of the people being Japanese. The society is based on the teachings of Confucius, where the importance of self is undermined by the importance of the group.

“Their persons being cultivated, their families were regulated. Their families being regulated, their states were rightly governed. Their states being rightly governed, the whole kingdom was made tranquil and happy.”
While the western societies encourage individualism the Japanese society cultivates collectivism in individuals. This can be better explained in the terms of **Honne and Tatemae**.

**Honne** refers to the true feeling of a person. What he desires, how he feels about others and is often kept by the individual to himself especially if it’s against the society norms. This is shared only with very close friends and can be said to the real self of the Japanese individual. It is also described through the values of **Ninjo** which is a reference to the person’s real desires, his opinion, feelings, his individuality.

**Tatemae** refers to the expectations of the society from an individual. This may very well be in contrary to the Honne, but defines how one carries himself. Tateme is defined by one’s position and circumstances. **Giri** refers to the social obligations, code of conduct one must stick to when in society.

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**Japanese Harmony**

Japanese culture is a group culture, where the welfare of the society is the prime goal. Individual sacrifices are not just necessary, but are commonplace and considered an everyday part of life. As per Confucius, harmony is required at all times, and should be given prime importance. All the Japanese action seems to stem from the necessity to maintain harmony. In order to that, certain values should be upheld at all times

**Loyalty Obedience:**
Another way to observe loyalty will be by looking at the tenure of an employee in the company. Almost 90% of the employees when join a company, they stick with it for rest of their lives. They are almost guaranteed employment, and the only progress they make is within the company. Switching companies is almost a taboo, especially when you consider the degree of loyalty they stick to.

One must follow the elders at all times, despite one’s own resistance to follow some orders/instructions. The resistance is greatly suppressed by conditioning at a very young age to do just that.

Silent Communication

In Japan, silence is greatly valued in communication. For most westerners this will be a bizarre idea, of communicating without words, since they need everything settled in concrete terms. This silent communication has been possible in Japan, primarily due to its homogeneity where communication was possible through shared understanding of things.

One of the examples is the famous theatre story of Mitsuhide, where after having dealt enough with the master’s cruelty, Mitsuhide kills him as revenge. While in western cultures that would be the happy ending, in Japan the story goes on to display the hatred of the mother towards the son for rebelling against his master to an extent that Mitsuhide ultimately considers suicide.

A Swan which looks calm on the surface, but is paddling vigorously underneath the surface, that is the Japanese belief of communication
In Japan speaking too much is a sign of immaturity and/or an absence of ideas. Words are a way of filling spaces only for the sake of filling them, without adding much to the meaning of it. Silence on the other hand displays understanding, since it means you can understand more than by just words, though body language and other similar signs, which will transcend above words and provide a clearer picture.

This type of indirect communication is also a means to preserve harmony, especially when receiving or giving negative feedback. This way an opportunity is given to the other party to accept the results and save face at the same time in the event of a failure. For Japanese, the supreme source of guilt is the sense that they have hurt someone else by failing to behave as that person expected.” (Christopher, The Japanese Mind, p. 71).

Traditions
The importance that Japanese place on traditions is possibly far greater than any other place in the world. This stems from their family systems where even ancestors are considered part of family, which translates into taking decisions by acting upon the values provided by the ancestors, sometimes even replicating the same decision if possible. This traditional system ensures that the social events always conform to the way they have always bee, thereby eliminating any chance of chaos that a change will bring in and disrupt the harmony.

The conformation to the traditions is displayed through a simple system of drinking tea, which is described below.

1. Bow when receiving the tea
2. Receive it on your right hand and then place it on the palm of your left.
3. Clockwise turn repeated 3 times is necessary before taking the first sip.
4. When finishing the tea, a loud slurp is made to display the enjoyment of tea.
5. At the end, the tea is turned counterclockwise and returned to the host.

The value of tradition is therefore never to be underestimated, when dealing with Japanese.
In Japan, group culture is the prime source of maintaining harmony. The welfare of group supersedes the welfare of an individual and therefore before any decision is taken, everyone’s opinion is taken into consideration. While this may seem a near impossible tasks at most places, in Japan the homogeneity factor in the population makes this possible.
Difference in Communication Methods

Japanese are almost incapable of saying no. When in a situation where they need to say no, they would use phrases such as “it will be difficult” or “maybe”. While in western cultures when saying no, they would simply use the word.

We offer our product at $5 a piece

It’s a very good product

That was an easy deal

But I don’t want it
Family System

Family members provide love, support and assistance to each member, and the family itself is supported by the efforts of its members.

The family system can be categorized as individual, collateral and linear, with individual and linear being the two ends of the pole. An individual family system can be described as a nuclear family system with mother, father and children, where the immediate family members are the ones concerned. This is an individualistic orientation and most often this family system is found in west.

In Japan, a linear system of family is adopted. Here the family would include not just the parents and children, but also cousins, uncles, aunts, grandparents and even ancestors. These relationships and obligations are lifelong; Japanese regard their ancestors highly, and therefore they are as much part of the family as any living member.

Perception towards People

Whether humans are inherently evil or good, is completely perception based ideology which is influenced by the heritage, religious or philosophical beliefs.

In the west, general belief is that man is neutral and can be made evil and good depending upon the action it takes. Therefore, a continuous struggle to reach perfection is the ultimate goal of life. The same vision is not shared by Japanese.
On the contrary in Japan, humans are considered born perfect, since they are nature’s creation and therefore have to be in the ideal state. They believe in harmony with nature, and since nature was created by God, therefore it is also perfect and so would be its creations.

Perception towards human achievement
This ideology is in lines with the thought of human being born perfect. This way he does not do anything but realize his own potential, which comes through learning, experience and age, as per Japanese Culture. In western culture, human is born neutral and his actions define what he becomes, good or evil, and therefore what he builds for himself in his/her life is a reflection of him/her.

Western Perception of Human: A Man is defined by what he does
Some of the major areas people notice in Japanese business culture and which they can’t make sense of are as follows:

**Importance of Business Cards**

Anyone who has done business with Japanese or even has done a casual reading of Japanese Business Culture knows the importance that business cards hold in Japan. There are various things that need to be taken care of with the cards such as

- The way you handle your own cards. They should be carefully kept in the jacket pocket, not in the hip pocket, not in your pants, only the jacket pocket.
- You should use both hand to present your business cards. Don’t slide it, don’t grab it by your fingers in one hand, and don’t flick it. Give it, respectfully.
Accept everyone’s card and again, use both hands.

Once you have the card from the Japanese, do not put it in the hip pocket, nor between books, nowhere except a card holder carefully placed in your jacket pocket. Especially don’t forget the card or leave it behind, because that is a big insult.

Card holder carefully placed in your jacket pocket. Especially don’t forget the card or leave it behind, because that is a big insult.

This fuss about the business cards is beyond most businessmen when dealing with Japanese.
Resistance to deadlines

The Japanese like to be flexible in time. No deadlines are accepted unless they are absolutely sure that it can be met under most circumstances. However an agreement on deadlines will also take time as we will further see.

Meetings do not have deadlines, and can go on until the business is completed; however this will not be applicable in all cases.

Long planning time

They look at the meetings as an information gathering activity rather than a decision making activity. This is why the decision will never be supplied promptly.
Japanese take a lot of time to plan and decide. It is not to be expected of them to make decisions right in the meeting or even the same day when the proposal has been presented. They would always without fail take a long time to decide before entering any deal, whatever be the time constraint.

**Resistance to paperwork**

Japanese will always be suspicious of contracts. It is always advised to send the paperwork at least two weeks beforehand, so that they can look at it thoroughly. The Japanese believe more in trust and oral agreements, and like to be flexible.

The biggest reason however would be that they are avoiding litigation primarily because it disrupts their prime objective of harmony.
Awkwardness in Negotiations

Negotiation with Japanese can seem like talking to a face palm. It is very difficult to get an expression, there are long pauses of silence and the inability to say ‘no’ is a well known Japanese trait. The Japanese aim of negotiation is to evaluate if a long term relation is possible, rather than simply closing a deal on certain terms and conditions.

Preference towards knowing the background rather than the achievements

While most businessmen are more interested in gaining knowledge of the company’s past achievements and also of the individuals they are dealing with. The achievements in the workplace will hold much more ones during education significance than the For Japanese, it is just the opposite; they are more interested in knowing your family background, where did you receive your education and your family background. Telling them about your past achievements or boasting of company’s services and products is not received well. Most businessmen are left dumbfounded because of this approach.
The stress on designations and hierarchal structure

Japanese are always interested in knowing the designation of the person they dealing with. It's an important section of the card; it determines where you will be seated during a meeting, and in the car. This seems highly bureaucratic behavior to most people.

CONNECTING THE DOTS OF BUSINESS AND CULTURE

Having looked through the three sections, Things that people don’t understand about Japan, Differences in Western and Japanese Cultures, and Understanding the Japanese Culture, it is time we connect the dots to finally understand the roots of the Japanese Business Culture.

The Business Card Phenomenon: (Connected to Hierarchy)
The business card is your introduction. It tells the other party, your designation (hierarchy system), which decides which people are you going to be speaking with (which are your equals in terms of hierarchy) from the Japanese Company.

The use of both hands and the placement of card represent the importance you give to it (and thereby the respect you have for the other party).

Overall, the business card is a representation of you, it represents your accomplishments in the form of your hierarchy, and same applies to the other party. How you handle is a representation of how you are going to handle them (in terms of respect).
Resistance to Paperwork: (Connected to Harmony)

By now we understand the importance of maintaining harmony among Japanese. Harmony requires trust and mutual understanding. Paperwork represents lack of trust displayed by the other party, and is an instrument for litigation. Litigation creates conflict, which disrupts harmony and thereby their social structure.

Therefore in order to avoid the disruption of harmony, Japanese take time to know you personally, develop trust factors and once they are convinced that a long term relation can be established only then they move towards paperwork, and only because they now have to.

Awkwardness in Negotiation and Ambiguous Communication: (Connected to Harmony and belief in silent communication)

A lot of belief systems combine here. The silent pauses are a reflection of Japanese perception of communication reflected by a famous Japanese saying, "He who speaks has no knowledge and he who has knowledge does not speak". During a meeting Japanese reflect on what you are saying, and a nod of head represents that they understand what you are saying and not that they agree with you. In order to maintain harmony, they tend to avoid negotiations, as it has a lot of disagreements until finally coming to a mutual solution. By not saying know directly, they are trying to preserve the harmony, by not putting you in a bad position. No is too direct and directedness can lead to conflict which leads to disruption of harmony. Harmony will always be preserved no matter what the cost of it may be.

Long Planning Time and Resistance to Deadlines: (Connected to Harmony and following Tradition)

In Japan, everyone in a company who will be affected by a decision will be a part of the discussion before making a decision. Here the leader takes full responsibility for the action of all the employees and therefore takes into consideration everyone’s opinion before making a decision. Obviously this is a necessary evil in Japan, since conflicts cannot be allowed to disrupt harmony. It is as the Japanese say "More haste, less speed."

This group behavior results in the long planning time required, as well as their resistance to deadlines, as they know that similar discussions will need to take place in the future as well. Also meeting deadlines at crunch times would require improvisation, something Japanese are not very good at. This stems from their habit of sticking to the traditional, even though ways may have improved, a change takes time which is not available when meeting pre-set deadlines.
CONCLUSION

Understanding the other side is paramount when doing business. A lot of times though, when we think we understand, we only know about the other side. For a successful business relation understanding the other side is very important in order to better put your side of reasoning.

A country’s culture is what defines their personal, social and official life. A couple of hundred years back, this problem would have been tried to be overcome by invasion, thankfully that’s not an option anymore. The need of the hour is to work together for mutual benefit, which would only come once you understand what the definition of benefit for the other party is.

As we can clearly see that the goal of life is very different for Japanese as compared to most westerners, and which is why the difference in perception seeps into every aspect creating a sea of confusion. Through better understanding of each other’s culture both sides can get what they want by bridging the gap through better communication.

With the world coming closer and closer every day, its paramount that we get to understand our future partners in business. A better understanding can only be developed by taking into account the perception of the other side. If US has been very successful with their work culture, so has been Japan with their own unique work culture. This clearly demonstrates that there is no absolute method of conducting business, and one should accept the other business culture as they are.

Many MNC’s have proven by example that adapting to the region of business will only yield benefits. If there is one proverb with a common theme between East and West, Japanese say “Entering the village, Obey the Village”, and Westerners say “When in Rome, do as the Romans do”.
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