The Problems of the Japanese Decision-making Process
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While Japanese products can be found across the globe, only a small fraction of Japanese companies actually have operations overseas. Although large corporations such as automotive giants Honda and Toyota have made substantial foreign direct investments to set up manufacturing facilities in the markets that they operate in, the majority of Japanese companies have stuck to the relative safety of the domestic market. However, with changing market conditions such as the shrinking of Japan’s population and the risk of destructive natural disasters occurring, Japanese companies are facing a bleak outlook. Japanese companies are now being forced to rethink their strategy, with an expansion overseas being a linchpin to the survival of the business. However, Japanese companies are placed at a disadvantage as the slow and rigid Japanese decision-making process does not allow for competitiveness on a global scale.

Like other advanced economies such as Europe and Korea, Japan has a low birth rate. According to data from the World Bank, the current birth rate in Japan stands at 1.4 per woman, which is significantly lower than the ratio of 2 that is required to sustain the population (“Fertility Rate”). In fact, the Japanese Health and Welfare ministry have estimated that the population will shrink by a third by 2060, with 40% of the population being of retirement age (“Japan Population”). Such a decrease in population has dire implications on economic growth, the labor market, pensions and taxation systems (Wong).

For companies, this drop in population leads to a decreased demand for their product and services, which in turn would adversely affect their financial performance. While Japanese companies have managed to survive solely on the domestic market by mitigating the drop in revenues via reducing costs by “revolutionising” their I.T systems to enhance labor-efficiency (Katsumata 3), the earthquake and subsequent tsunami on 11th March 2011
have added a new element of risk to the already delicate situation. While earthquakes are common in Japan, the scale of the 11th March earthquake was unprecedented, causing massive disruption to logistical and power services in Japan (Inagaki, Fukase). With the odds steadily increasing against them, the fear of losing out on competitiveness to domestic and global rivals have provided Japanese companies with the impetus to start looking across borders in order to hedge against such risks.

While large corporations have a long experience in operating overseas, the majority of Japanese companies do not. According to the Japanese Ministry of Economy, Trade and Industry, the existing 4.69 million small-to-medium enterprises (SMEs) comprise an overwhelming majority of 99.7% of all enterprises in Japan (“Small and Medium”). With SMEs forming the backbone of the Japanese economy, any changes as to how SMEs operate will affect the Japanese economy as a whole.

However, out of these companies, only 0.3% of companies have made any outward foreign direct investment towards establishing operations overseas. In terms of exports, only 2.8% out of all SMEs export overseas. (2012 White Paper 502) Also, while total Japanese outward foreign investments (via asset purchases) totalled USD$73.2 billion in 2012, it is worth noting that majority of investments were made by just a handful of large conglomerates (“Mergermarket Japan” 2). As such, it can be said that most Japanese companies aside from the large corporations have little or no experience when it comes to dealing with foreign markets.

One way of expanding quickly overseas is by mergers and acquisitions (M&A) whereby one company merges or acquires another company in order to penetrate other markets quickly. With the Japanese market shrinking rapidly, M&A seems to be an attractive option for Japanese companies looking to expand abroad. Various economists support this
view, with chief economist of Dai-ichi Life Research Institute stating that “Japanese firms have to go abroad to survive in the global market”, and that “mergers and acquisitions are a good tool to expand businesses quickly in rapidly growing foreign markets”. Another option of Japanese companies would be joint ventures, where two companies share risks and costs to create a new business entity. Whichever option that a Japanese may choose, the company will have to spend a substantial amount of time on research before making any strategic decisions that would affect its operations and dealings with its foreign partners. (“Japan News”). However, it is here where most Japanese companies will face challenges due to the nature of their decision making processes.

The Japanese decision making process has been documented to be a slow and rigorous process. As Mark Zimmerman, a business veteran who once headed the Japanese operation of pharmaceutical company Sterling Drug, stated: The Japanese decision making process is “participative, and involves obtaining a consensus from all those who will be affected by the action” (120). Much preliminary groundwork is done by proponents of any given proposal before any decision, with them identifying and then seeking approval from each of their superiors and colleagues. This tedious process is called “nemawashi” or “preparing the ground” and can take up a substantial amount of time as every stakeholder in the proposal will be sought out and consulted with, with the process starting out from the bottom levels of the corporation until it reaches to the top echelons of the company (Zimmerman 124-125).

Due to the highly bureaucratic nature of this process, it is not uncommon for the proposals to fade away before it even reaches the top levels of management (124). This process of obtaining a consensus before making a decision is highly prevalent in Japanese companies to the extent that it has been given a term “ringi seido” (Zimmerman, 123). Although such a process may satisfy the various stakeholders, the lengthy time taken to arrive
at a decision may not be in the best interests of the company, especially in this fast-paced and rapidly changing business environment.

The global business environment of today is constantly changing, with multi-national companies constantly scanning across the continents for business opportunities. Like Japan, companies from other developed nations face slow-growth at home and as such, are looking for overseas markets to invest in. Emerging markets like China and Latin America have proved to be popular targets due to their relatively untapped markets and huge growth potential. According to the *European Business Review*, these emerging markets will be the key drivers of global economic growth within the next five years. In order to compete, companies must be able to identify the opportunity and act quickly before their competitors do (Egan, Armen). Such views are echoed by analysts at consulting firm PricewaterhouseCoopers, who state that “the winners of tomorrow” will be organizations whose leaders display skills such as agility, authenticity, connectivity and sustainability” who would use their skills to remain ready and anticipate changes in order to stay ahead of the shifting environment (Wilverding 23).

As the majority of companies in Japan are SMEs which have only been competing at a domestic scale till now, it is highly unlikely for these companies to be as agile as their experienced global counterparts. The tedious Japanese decision-making process allows for a very comprehensive analysis of business trends and risk due to the huge amount of vetting that a proposal has to go through before being approved (Zimmerman 120). As each employee’s input is heard, there is a sense of involvement and belonging with the company. While this may have helped improve productivity in the workplace, current business conditions today place a premium on quick decision making skills and the ability to rapidly react to change, something which the Japanese model of decision making does not allow for.
The weak Japanese presence in the Chinese beer market is a recent example of how the slow Japanese decision making process has placed Japanese companies at a disadvantage. In the mid-2000s, while Japanese brewing company, Asahi, was still contemplating on whether to enter Chinese beer market or not, Belgium brewing company Anheuser-Busch InBev (ABI) swooped in, acquiring two Chinese brands, Harbin and Sedrin, both of which had market share of 5.3% and 2.6% respectively in 2006 (Shigeki, Hattori, Michael 3). Due to ABI’s quick action, Asahi was left the only option of acquiring another brand, Yantai, which did not command a market share as much of that of ABI’s purchased brands. Even so, the decision to buy Yantai took Asahi another two years before implementation. The indecisiveness of Asahi came at a huge cost; While ABI now commands 12% market share of the beer market in China, Asahi’s figure is 0.4% (Shigeki, Hattori, Michael 3). Had Asahi made a quicker decision and acquired the two attractive targets earlier, the outcome would have likely been reversed in Asahi’s favor.

Facing a stagnating domestic market and uncertainty, most Japanese companies will have to look abroad in search of new opportunities. Most Japanese companies, except the large corporations, have a lack of experience in having operations overseas. As such, they face a rapidly changing competitive business environment which requires agility and quick decision-making skills to succeed, which the Japanese decision-making process does not cater for. As illustrated by Asahi’s experience in the Chinese market, these companies will face a steep learning curve when foraying overseas and will have to revamp their long enshrined decision making processes in order to successfully compete with their global counterparts.
Works Cited


