Japanese Industry Structure

Class 4
Quote of the Day

“Bureaucracy is the death of all fine work”
Albert Einstein

“Bureaucracy is the art of making the possible impossible”
Javier Pascual Salcedo
This Lecture

• Japanese industry structure
  – Relationships between government and business
  – Zaibatsu, Keiretsu
  – Interlocking Shareholdings

• The Japanese market
  – The Japanese consumer
  – Japanese consumer groups
  – Consumer attitudes and interests
Japanese Industry Structure – The Big Players

- Bureaucracy
- Business
- LDP
Bureaucracy

• MITI (Ministry of International Trade and Industry)
• Founded 1949
• Responsible for
  – Deciding on the structure of industries and their distribution activities
  – Guiding the development of industries and their distribution activities
  – Co-ordination of Japan`s foreign trade and commercial ties
  – Managing specific areas such as raw materials and energy to supply industries, small business etc.
The LDP

• The LDP has a central position between the bureaucracy and business
• Its uninterrupted tenure of office for the past decades was a necessary guarantee of the government-industry relationship in Japan (Reading 1992)
• It assumes a central position between the bureaucracy and business, co-ordinating their interests and playing their referee
Business (zaikai)

- The business world is represented by a number of organizations.
- The most important ones are the keidanren (Federation of Economic Organization), nikkeiren (Federation of Employers` Association), keizai-doyukai (Committee for Economic Development) and the Japan Chamber of Commerce and Industry.
The Dynamics of the Triangular Relationships

- Formal and informal consultation among the three players
- The bureaucracy maintains good access to the communication networks by practising amakudari (descending from heaven), which removes retired bureaucrats from MITI etc into the LPD or into corporations to benefit from their bonds
- Strong interdependence with a clear mission
- However, the cooperation is not always harmonious and the centre of many scandals
Figure 11.1

Triangular relationships among the leading players in government-industry relations

Recruitment from Tokyo University

Liberal Democratic Party

Interdependence of the LDP and the Bureaucracy

CONSTITUTIONAL DEPENDENCY OF BUREAUCRACY ON THE DIET
- Amakudari
- Prospect of retirement into political office
- Political representation in inter-ministerial conflicts over jurisdiction etc.

TRUST
- Many ministers are retired civil servants
- Confidence
- Dependence on micro-budgetary favours, technical advice, given the weight and complexity of legislation, assistance at Question Time, Ministers' short tenure of office

BUREAUCRACY
- Advisory councils
- Amakudari
- Personal associations
- Temporary exchange of officials (e.g. MITI to keidanren)
- Recruitment from Tokyo University

Interdependence of Bureaucracy and Zaikai

ZAIKAI
- (The peak associations of big business: keidanren, nikkiren, keizai-doyukai, Japan Chambers of Commerce and Industry)
- Recruitment from Tokyo University

Source: Boyd 1987: 69
Zaibatsu

Owner family

Holding company

Subsidiaries and affiliated companies

Source: Hattori 1989: 85
Keiretsu

- The biggest keiretsus were Mitsubishi, Mitsui, Sumitomo, Fuji, Dai-Ichi Kangyo and Sanwa (the Big Six)
The Modern Business Context - \textit{keiretsu}

<table>
<thead>
<tr>
<th>Horizontal \textit{keiretsu} (\textit{kinyû keiretsu})</th>
<th>Vertical \textit{keiretsu}</th>
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</thead>
<tbody>
<tr>
<td>Affiliated <code>brother and sister</code> companies spanning different industries</td>
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<tr>
<td><strong>Manufacuring \textit{keiretsu} (\textit{sangyô})</strong></td>
<td>Distribution \textit{keiretsu} (\textit{ryûtsû})</td>
</tr>
<tr>
<td>Assembled parts move up to the parent through a pyramid of supply companies</td>
<td>The parent sends finished goods down through a pyramid of distributors to retailers</td>
</tr>
</tbody>
</table>
Keiretsu Structure

Source: Hattori 1989: 85
Interlocking Shareholdings

• Only about 25% of stocks in Japan (US about 50%) are held by individual shareholders, most of them are owned by banks and companies.

• Even if institutional investors like pension funds and investment trusts are included, the number is only 30% (In the US 90%).
Interlocking Shareholdings

• After the war this was not the case, but individual investors lost interest in stocks, because dividend yield has been below 1% in the last years

• People preferred savings to stock investment. Companies hold their stock for a long time and make a profit because the price rises over the years

• If 30 companies hold between 2 and 3% of each others` stock, this adds up to 60% or 70% issued
Interlocking Shareholdings

1. A typical Japanese firm has about 70 per cent of its shares held by other companies
2. The shares are held by a large number of firms in relatively small fractional parcels
3. The firm has some kind of transactional relationship with these corporate shareholders (banking, insurance, lending, supply of inputs, purchase of outputs)
4. The firm holds shares in many of the these firms: the shareholdings are reciprocal
5. Firms hold each other`s shares as “stable shareholders“ (antei kabunushi) (Sheard 1994)
Interlocking Shareholdings

• Advantages
  – Takeover is impossible
  – Companies also have other strong relationships with each other, they are trading with each other

• Disadvantages
  – Inflexibility
  – Criticism among companies is not possible either
  – Also prevents access to the market for many foreign companies in Japan
• More than 120 million highly educated and wealthy consumers
• Most of which belong to middle class
• 1 in 13 is a professional consumer (prosumer), well informed, strong influence on others, savvy shopper
Consumption

• Living expenditure of a household with more than two people = 306 000 Yen (30800 Yen spent on recreation), single household = 174 700 Yen (22900 spent on recreation)

• Until 2003 the household savings rate have been in a yearly downward trend, and ist conjectured that spending habits have intensified, especially among younger groups (Nippon 2004)
# Leisure Activities (2003)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Activity</th>
<th>10,000 Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dining out (excluding daily meals)</td>
<td>7,750</td>
</tr>
<tr>
<td>2</td>
<td>Tourist travel within Japan</td>
<td>6,310</td>
</tr>
<tr>
<td>3</td>
<td>Driving</td>
<td>5,940</td>
</tr>
<tr>
<td>4</td>
<td>Karaoke</td>
<td>4,950</td>
</tr>
<tr>
<td>5</td>
<td>Video watching</td>
<td>4,790</td>
</tr>
<tr>
<td>6</td>
<td>Lottery tickets</td>
<td>4,500</td>
</tr>
<tr>
<td>7</td>
<td>Music listening (CDs, records, tapes, FM radio, etc.)</td>
<td>4,440</td>
</tr>
<tr>
<td>8</td>
<td>Zoo, botanical garden, aquariums, museums</td>
<td>4,270</td>
</tr>
<tr>
<td>9</td>
<td>Personal computers (games, hobbies, etc.)</td>
<td>4,230</td>
</tr>
<tr>
<td>10</td>
<td>Movies (excluding televised movies)</td>
<td>4,080</td>
</tr>
</tbody>
</table>

Source: "2003 White Paper on Leisure" Japan Productivity Center for Socio-Economic Development
Consumer Groups in Japan

- **Silver market**
  - Japan`s rapidly aging population
  - Health care issues

- **Baby boomers (Born between 1947 and 1949)**
  - „The typical Japanese“
  - Successful, but not too successful, middle class, white collar workers
  - They are married and have one or two children
  - Their homes are in the suburbs and they commute long distances

- **Younger generation (Shibuya girls as trendsetters)**
  - Newsweek Japan listed „Japanese School Girls“ among the 100 Most Influential Japanese People in History“

- **The New Rich**
Japanese Consumer Behavior

• Particularities
  – Gift giving
  – Shinhatsubai and gentei
  – The world`s best service (The customer is god)
  – Strong quality and safety orientation
  – High affinity for technology
  – Image orientation but low brand loyalty
  – Packaging
  – How about price sensitivity?
Product Life Cycles and Consumers

(a) Product Life Cycle

(b) Adopter Categories

{Evans, 1996 #47, p. 71}
Diffusion in the Asian Context

Diffusion of Innovation in an Asian Context (Schuette and Ciarlante 1998, p. 77)
Reasons for Buying Imported Goods

- Because the product is not available in Japan.
- Because the product is originated in that country or specialty product of that country.
- Because the product is less expensive than domestic products.
- For the ostentation of user's social status.
- To enjoy the life style of the country of origin.