

# *Business System of Asia*

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## ■ Learning Objectives

After completing this lecture, you should be able to:

- Understand the **basic components** of the region's variety of business systems;
- Understand **how a business system evolves & works**;
- Grasp the **main features** of the business systems of the major economies; &
- Discuss why foreign investors need to pay attention to the **business systems** embedded in **social complexity**.



## **1. Introduction**

2. Variety in the Region & General Features

3. What is a Business System?

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# Introduction



## ■ Asia is a Region of Immense Varieties !

- ❖ The first thing to understand about **business systems in Asia** is their **variety**.
- ❖ The level of variety in Asia is **greater** than that across Europe.
  - China is the largest country in the world while there are many small countries like **Singapore**; &
  - Some countries (e.g., Japan) are very rich, while others are very poor (e.g., Cambodia).
- ❖ Asia variety is characterized by a wide range of:
  - Political systems;
  - Ethnic types;
  - Religions; &
  - Historical experiences.





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# Variety in the Region & General Features



## ■ Dynamics of Asia

❖ **Geography:** The region extends from the equator to the cold regions of northern China.

❖ **Resources:** Asia encompasses **all types** of natural environment.

❖ **Religious tradition:**

- Confucianism, Shintoism, Buddhism, Islam, & Catholicism.

❖ **Western influences:**

- **British:** Singapore & Hong Kong.
- **Spanish & American:** the Philippines.

❖ **Strong effect of MNCs:**

- Management practices;
- Government policies;
- The importing technology; &
- The creation of alliances with the markets of the rest of the world.



# Variety in the Region & General Features



## ■ '3' Major Phases of Evolution after World War II

- 1**  
**The cold war divide period**
  - > Asia was in tension between the **communist ideal** *versus* the **liberal market democratic ideal** (e.g., the Korean War, the Vietnam War, etc.).
  - > The **Maoist experiments** in China: the **Great Leap Forward** & the **Cultural Revolution**.
- 2**  
**Relative calm period (1975-1997)**
  - > More peaceful pursuits of doing business & exploring to developed markets.
  - > **Shifting many factories out of Japan** into markets with low labor costs
  - > This period also represents the seeds of its own destruction (e.g., **crony capitalism**).
    - **Inefficient use of capital.**
    - The availability of **easy money** either from the governments, or from **over-optimistic foreigners**.
  - > As a result, the **Asian monetary crisis** occurred (**BUT China was largely insulated from this effect**).
    - Heavy losses, currency devaluation, & the closure of many firms.



## ■ '3' Major Phases of Evolution after World War II

3

### A period of reform & recovery

- > **Reform & recovery** have moved at a different pace in different countries (e.g., Recovery was very slow in Japan & Indonesia).
- > This period is characterized by:
  - **Improvements of accountability & disclosure** in the banking industry;
  - **The reduction of favourism & corruption** caused when officials control access to licenses & capital;
  - The opening of markets to **foreign competition**;
  - The adoption of **international standards in accounting, trading, & intellectual property rights**, often via bodies such as **WTO**;
  - A rise in **professionalism**, in both management & administration; &
  - The adoption of **democratic processes** in politics.
- > Part of this reform & recovery: Firms take the notion of **CSR** serious & try to be **more accountable publicly** for the **ethics** of their behavior.
- > Asian countries are **converging** on a Western formula for organizing their societies & economies.



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# What is a Business System?



## ■ Definition of a Business System

- ❖ **A complex adaptive system** in which the business component of a society is analyzed against the context of that society.
- ❖ **Uniqueness:** The ‘Chinese’ business system, the ‘Japanese’ business system, & the ‘American’ business system etc.
- ❖ The core idea of the complex adaptive system is *a process affected by the logics of economic behavior, but also by culture, history, & specific societal events & experiences.*
- ❖ It is also affected by **external influences** (e.g., world markets, technology, & changes of values).
- ❖ **Varying Speed:** The system evolves to take on a distinct flavor, society by society.

# What is a Business System?

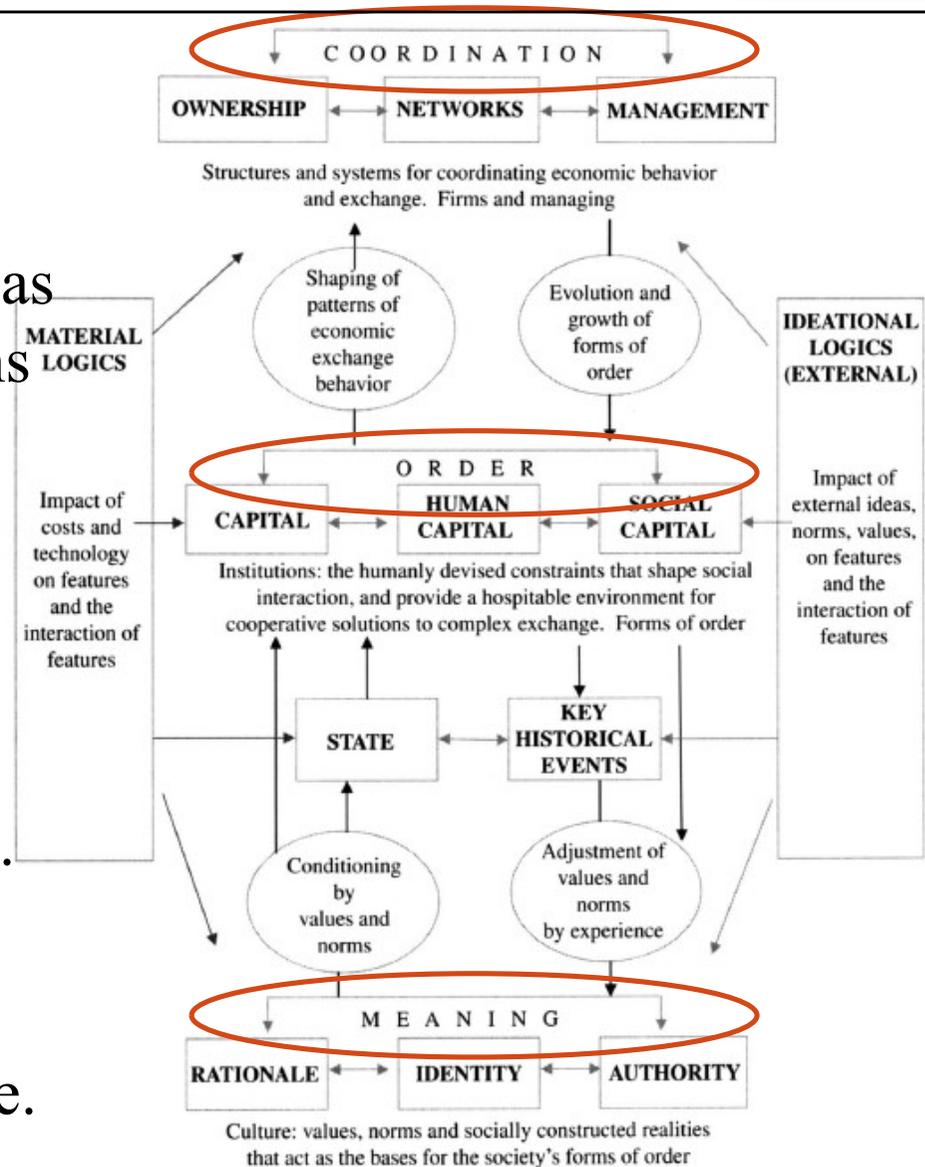


## ■ '3' Elements

❖ **Meaning:** Norms & socially constructed realities which act as the bases for the society's forms of order.

❖ **Order:** The humanly devised constraints that shape social interaction & provide an environment for cooperative solutions to complex exchange.

❖ **Coordination:** Structures & systems for coordinating economic behavior & exchange.





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## ■ The Nature of the Japanese Business System

- ❖ The Japanese business system developed as one of the world's most powerful, & especially in **industries** requiring:
  - > High levels of **technical skill in manufacturing**;
  - > The building of globally significant **brands**;
  - > Complex **organizational coordination** at high levels of efficiency; &
  - > An ability to engage in **product improvement & quality assurance**.
- ❖ Typical fields of **dominance** in global competition are (1) automobiles, (2) machine tools, ~~(3) consumer electronics~~, & (4) communication equipment.
- ❖ **Questions:**
  - > **Why** is performance in certain other fields such as the service sector **less** dramatically **competitive** globally?
  - > **What** is it about the **Japanese business system** that allows it to deliver wealth per capita at one of the highest levels in the world?

# The Business System in Japan



## ■ History & Politics

❖ The subsequent industrialization of Japan happened **twice**.

### Between the 1880s & the 1930s

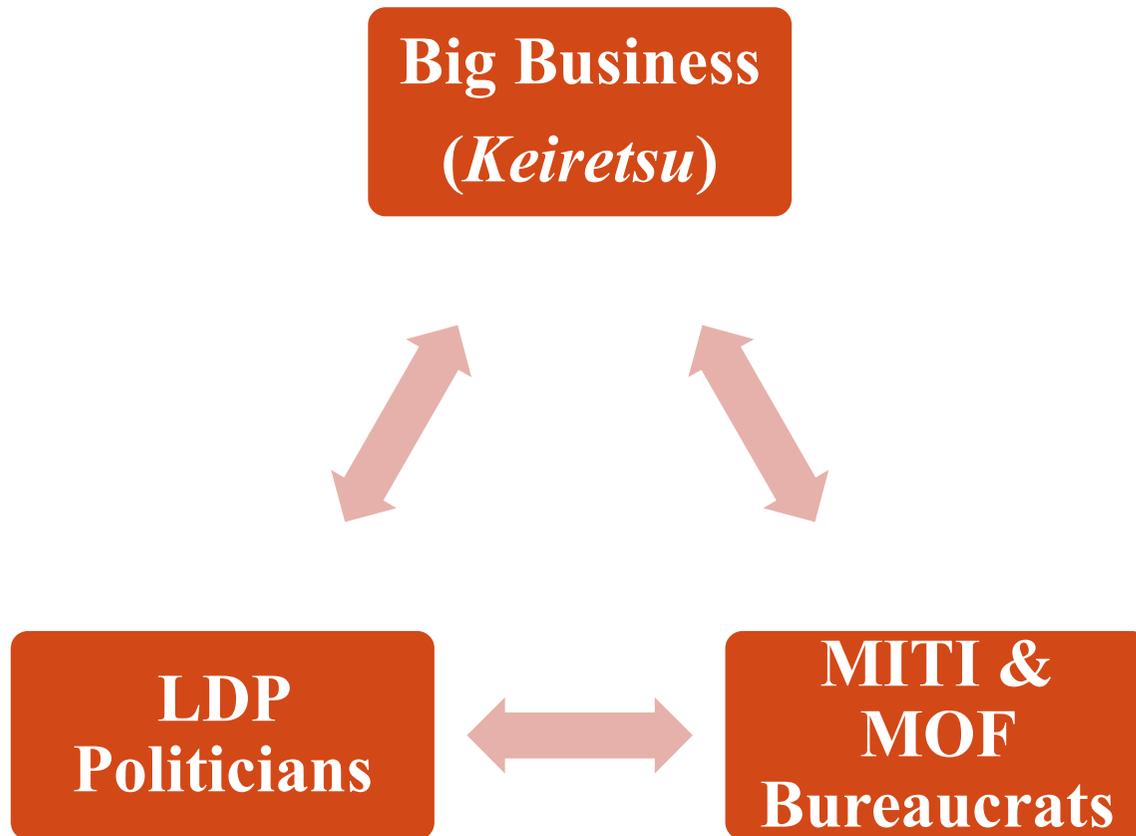
- > The subsequent overthrow of the old regime in 1868 led to the **modernization of the state**, & the **deliberate searching for external models to adopt & adapt**.
- > Japanese built huge conglomerate organizations – the *zaibatsu* – & relied upon their owning families to **control & direct them**.
- > **Government worked in close collaboration** with *zaibatsu* firms.

### After the Second World War

- > In 1946, Japan began again, but this time under conditions of **democracy** imposed by the conquering US.
- > **Public ownership** took over from private, & **professional management** took over from that of personal & family networks.
- > **New industrial conglomerates** grew & began to make a global impact.
- > By the **end of the 1980s**, Japanese management had become **the world's most respected form**, & its economy **the most formidable**.



## ■ Iron Triangle



## COMMENTS

### **Big Business => LDP**

- > **Funding** for politicians in order to curtail bureaucratic control.

### **LDP => Big Business**

- > Politicians **approve** & provide legitimacy for policies made.

### **Big Business => Bureaucrats**

- > Providing *amakudari* positions to create solid working ties

### **Bureaucrats => Big Business**

- > Influence business through the ability to **regulate/licence**

### **LDP => Bureaucrats**

- > Oppose bureaucratic policies for **special interests** to protect.

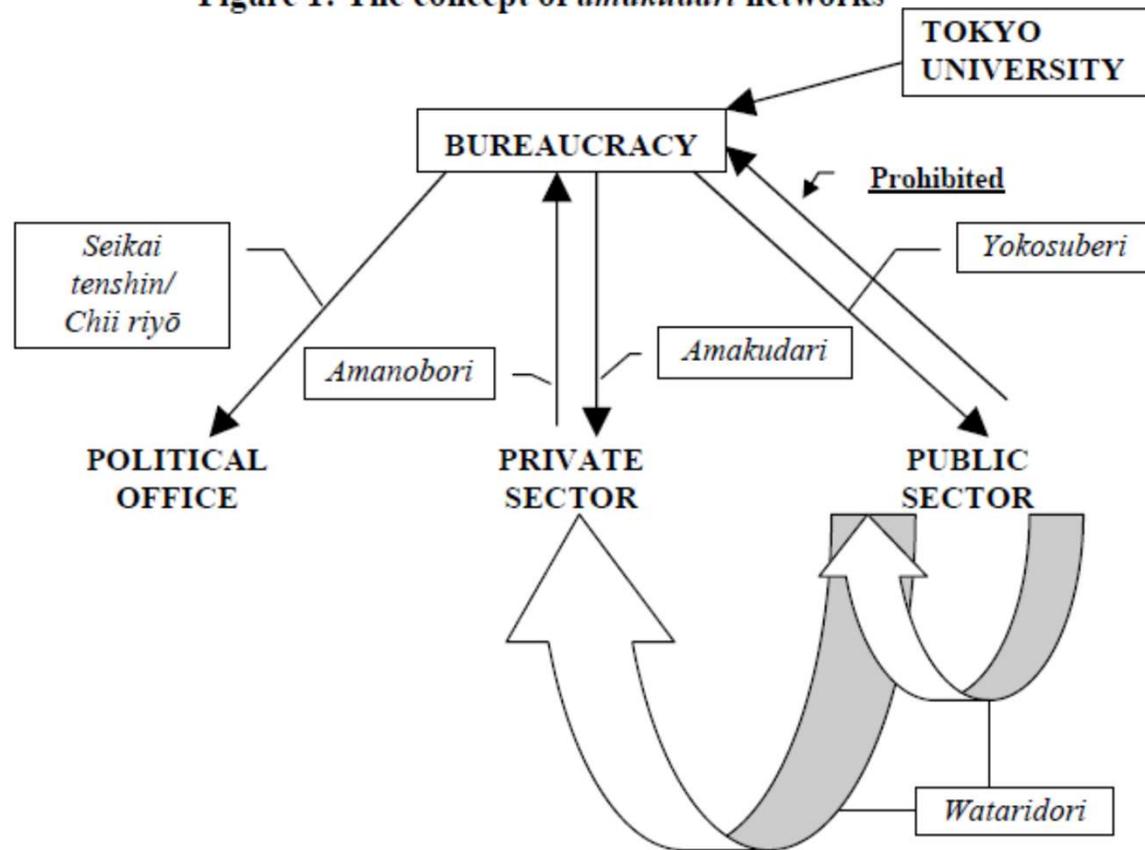
### **Bureaucrats => LDP**

- > Bureaucrats **make policies**.



## ■ Amakudari ('Descend from Heaven')

Figure 1: The concept of *amakudari* networks



### COMMENTS

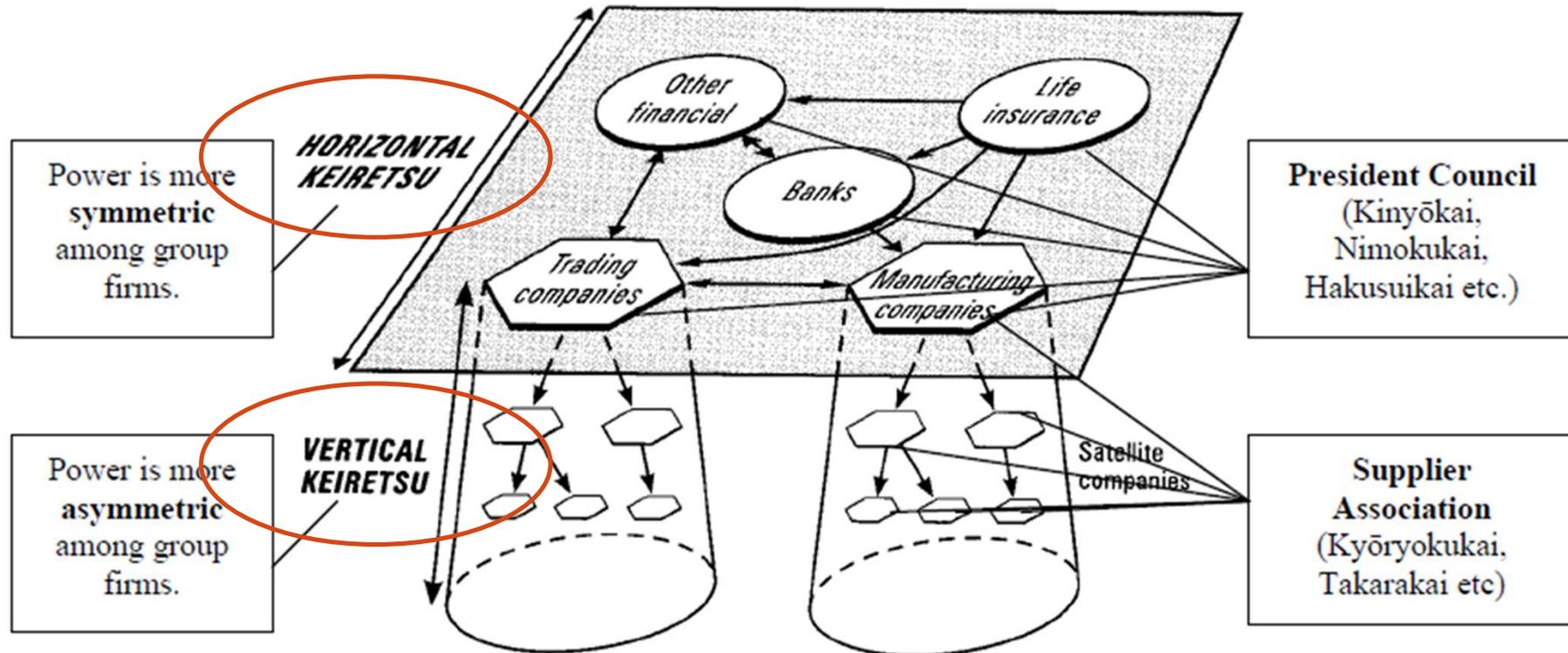
- > There are various **BENEFITS** firms enjoy from *amakudari*.
- (1) **Regulatory support** at the expense of high salary.
  - (2) **Strategic information** on state intervention & regulatory change through cultivating & capitalizing on informal ties with the regulators
  - (3) **More predictable** financial regulatory environments.

Source: Author's slight modifications (Colignon & Usui 2003: 12).

# What is a Business System?



## ■ Keiretsu (系列) Network



Source: Own modification based on Dicken (1998, Figure 7.10: 224).

# Japan: Institutions



## ■ Suppliers' Associations

Auto makers	Association members			Total number of parts suppliers	% of total parts purchasing cost taken up by members
	P	M	E		
Toyota	183	0	65	350	98
Nissan	191	0	0	350	90
Mitsubishi	376	0	0	600	85
Mazda	198	0	0	350	86
Isuzu	217	41	40	427	90–95
Fuji	168	0	0	246	96
Daihatsu	175	68	17	260	90
Suzuki	104	0	0	186	31
Hino	190	0	57	500	80
Nissan Diesel	147	0	0	300	85

P, Parts suppliers; M, materials suppliers; E, equipment (including tool and jig) suppliers.

Source: Company visits and interviews by the author in 1992 and 1993.

Source: Sako, M. (1996: 655). "Suppliers' associations in the Japanese automobile industry: Collective action for technology diffusion", *Cambridge Journal of Economics*, 20: 651-671.

# The Business System in Japan



## ■ Culture

- ❖ The idea dominates that the firm exists to **keep people employed**.
- ❖ **Return on capital** for the advantage of shareholders is **NOT a primary rationale** for economic action.
- ❖ The assertion individual views remains constrained by the instincts for **conformity to group norms**.



**Extensive consensus seeking**



**High levels of group creativity**



**Commitment in the workplace**



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# The Business System in China



## ■ History & Politics

❖ The system of governance in China has continually displayed the same **3** components, adapting them to changing surroundings:

- (1) Reliance on a **powerful emperor-like figure** providing **direction**;
- (2) Use of an **administrative apparatus** to extend the will of the central figure into the entire society; &
- (3) Reliance on the **family units** (*i.e.*, belonging, duty, & welfare)



- > During the **Mao experiments** the family was temporarily **destroyed** & the emperor role vastly expanded.
- > ... resulted in **mass destruction of assets & lives**, although giving China back its pride in a reasserted independence.



- > China recovered **only in 1980**.
- > Created the **special economic zones**;
- > Tries **various formulae** for the survival of agriculture & industry;
- > Permitted **the return of the private entrepreneurs**.

# The Business System in China



## ■ Foxconn Suicide

**“Life is meaningless.  
Everyday, I repeat the  
same thing I did  
yesterday. We get yelled  
at all the time. It’s very  
tough around here.”**

**-Foxconn Employee**

**FOXCONN**<sup>®</sup>  
Advancing Through Innovation



# The Business System in China



## ■ The Business System

❖ China has **3** business systems inside its complex economy.

- (1) **SOEs:** Legacies from the communist era of **central planning & totalitarian control**. Most of it has been sold off in recent years & its remaining industries are those seen as crucial to the **national interest**. SOEs operate under very close scrutiny & account for about **15% of GDP**.
- (2) **The local corporates:** The construction of factories to meet all local needs. As reform took hold in the 1980s & speeded up in the 1990s, to permit the disposal of these assets to **entrepreneurs often in coalition with local administrators**.
- (3) **Private business:** SMEs under personal control & often connected with a family. Since the 1980s, privately owned companies in China have received increasing legal & political support & legitimacy, & now account for about **65% of the economy**.



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# The Business System in South Korea



## ■ History & Politics

- ❖ South Korea absorbed from China a number of key features of its culture & societal fabric (**Confucianism**: hierarchy & families)
- ❖ The **Korean War** (1950-53) ruined the nation & divided it, & S. Korea began after it only with the drive & skills of its people.

## ■ Culture

- ❖ Korea is evident in the **hierarchical** nature of many of its organizations & of its management style.
- ❖ There is also a strong tendency to build **personalistic relations horizontally**, often with **school groups** or **place-of-origin ties**.
- ❖ **An instinct for discipline** is perhaps rooted in:
  - > The experience of **military service** by many workers and executives.
  - > Anxiety about a possible invasion from the **uncertain regime of N. Korea**.





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# Conclusive Remarks

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## ■ Asian Variety

- ❖ **A business system** is a way of understanding how the economy is affected by the unique social & cultural environment.
- ❖ **Japan's business system** is highly influenced by its cultural heritage, strong **social trust** & the ability to deal with **complex coordination**.
- ❖ **China's business system model** has evolved after many years of turbulence & changes.
  - > Today China's private sector is developing at an astonishing speed & has taken the role of 'the workshop of the world'.
- ❖ **South Korea's business model** is based on originally family-oriented conglomerates.
- ❖ In fact, each Asian business system has its **own salient features**.