

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**;
- Clarify **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?

4. The Business System in Japan

5. The Business System in China

6. The Business System in South Korea

7. Conclusive Remarks



■ 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, Taoism, 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
- > ... 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:
 - **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?

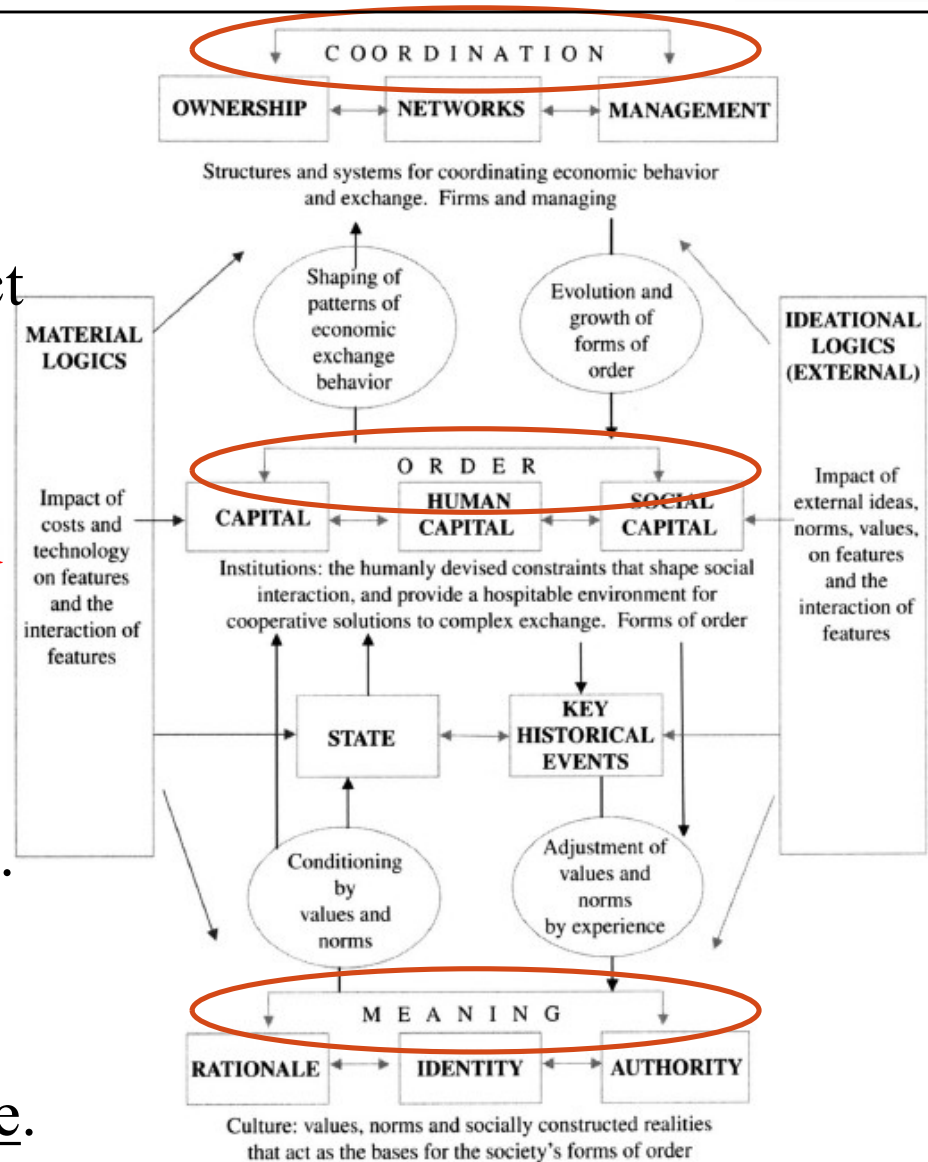


■ '3' Elements

❖ **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) 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**.

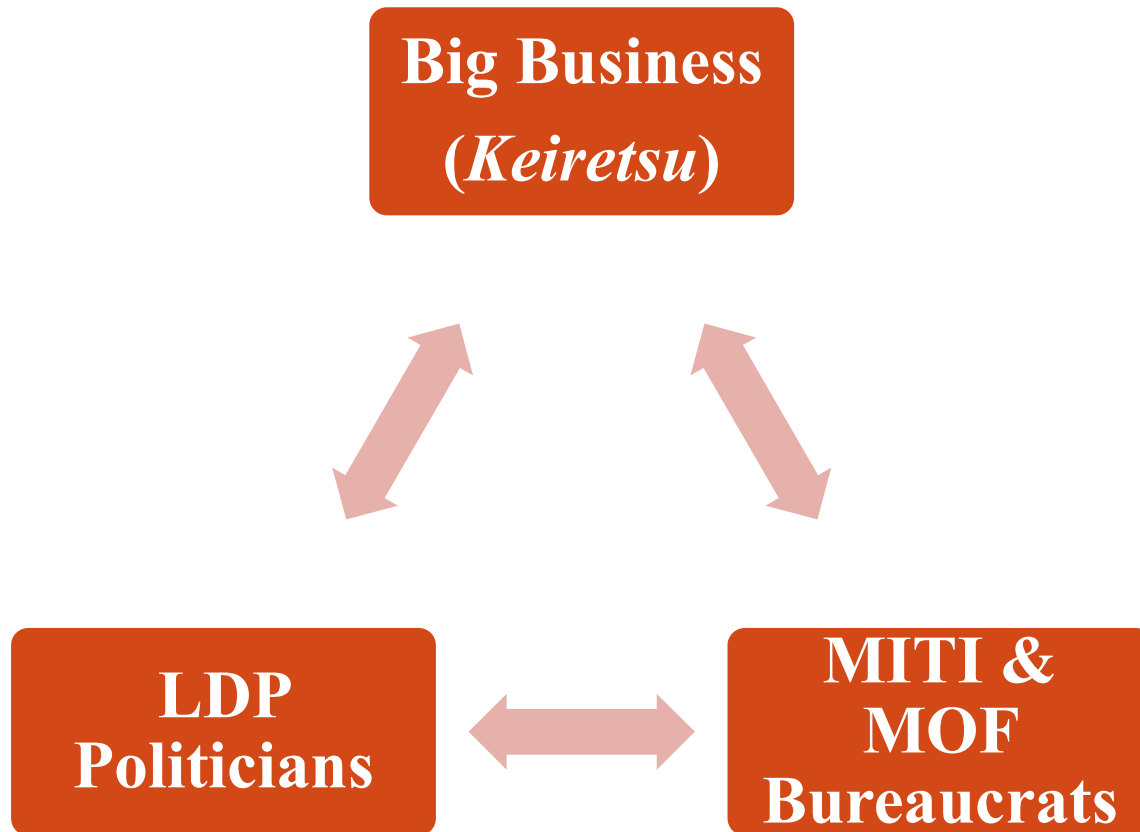


After the Second World War

- > 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 (*keiretsu*)** 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.

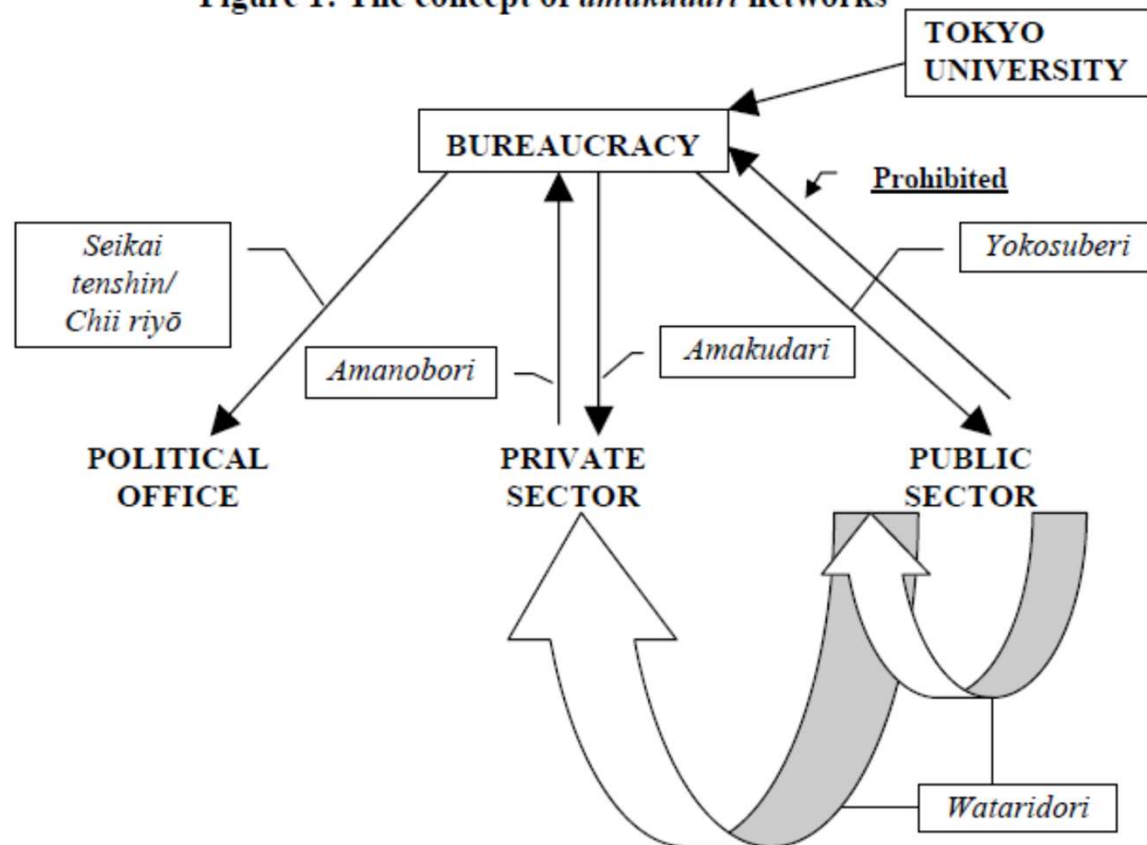
Bureaucrats => LDP

- > Bureaucrats **make policies**.



■ Amakudari ('Descend from Heaven')

Figure 1: The concept of *amakudari* networks



COMMENTS

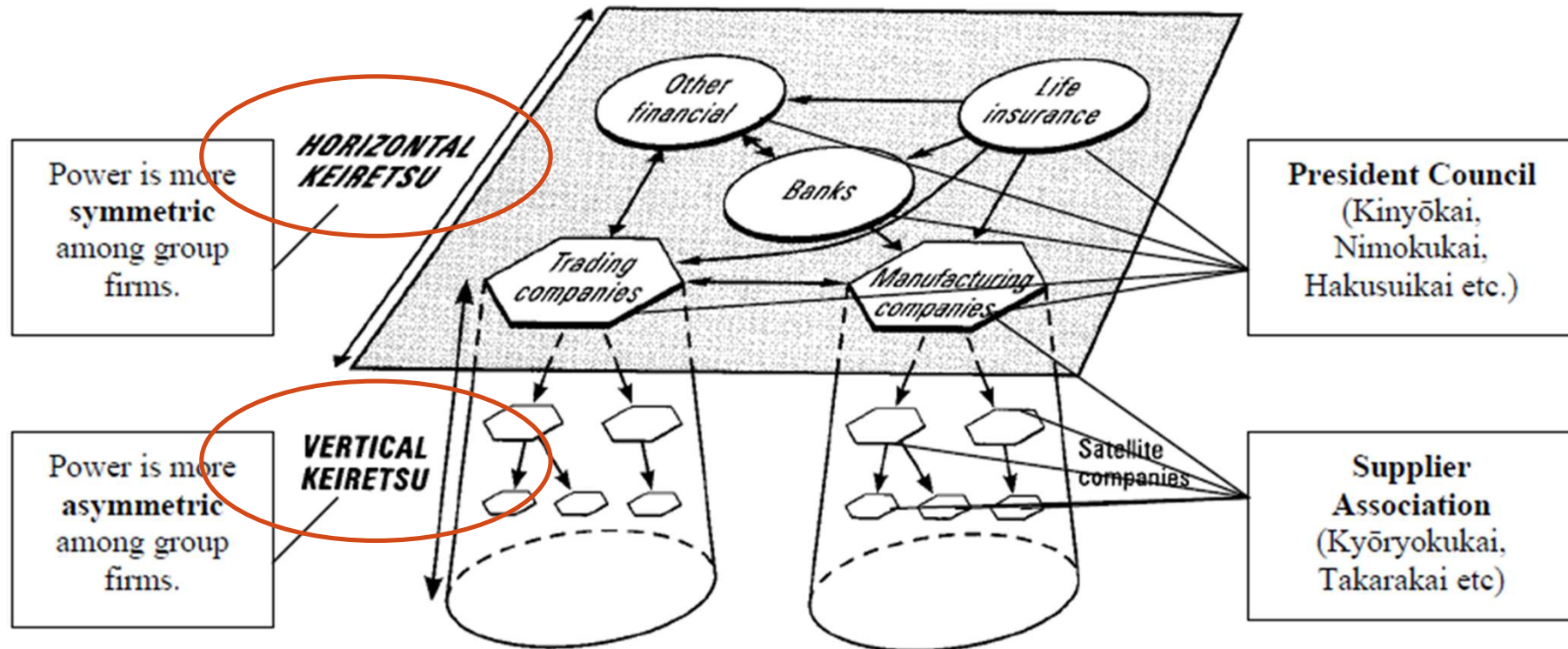
- > There are various **BENEFITS** firms enjoy from *amakudari*.
- (1) **Regulatory support** at the expense of high salary.
 - (2) **Strategic information** on state intervention & regulatory change through cultivating & capitalizing on informal ties with the regulators
 - (3) **More predictable** financial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

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**.





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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[®]
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 & executives.
 - > **Anxiety** about a possible invasion from the **uncertain regime of N. Korea.**

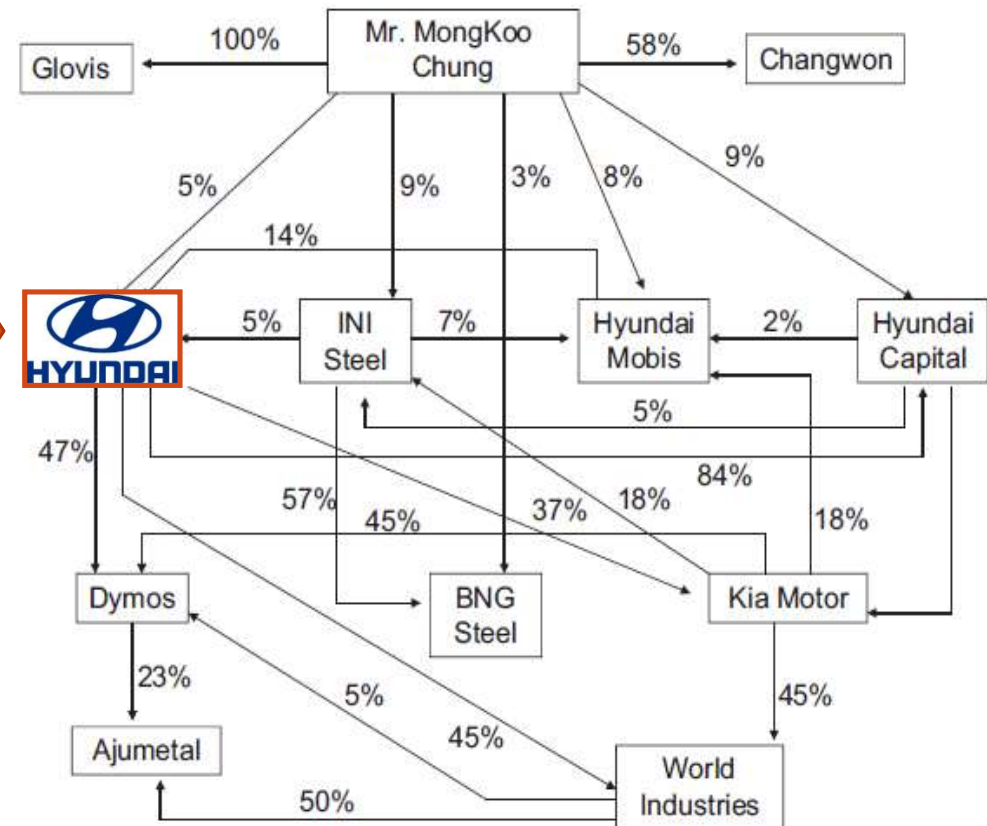
The Business System in South Korea



■ The Business System

- ❖ The great strength of the *chaebol* has come from the **ambitions & the vision of the owners** who ran them.
- ❖ The **government** invests to back the *chaebol*.
- ❖ Such concentration of power does bring great capacity to **inspire creativity & to respond to change**.

Ownership Structure of Hyundai Motors in 2004



Source: Almeida et al. (2011: 453). "The structure & formation of business groups: Evidence from Korean chaebol", *Journal of Financial Economics*, 99, 447-475.



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Conclusive Remarks



■ 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**.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille!

Merci beaucoup!

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