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Comparison of "Business Climate"* — Portland and Six Japanese Localities —

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An area, whether it is a state or a city, has its own "business climate" as well as its own "meteorological climate". Various factors are considered to be decisive to the business climate, but among them ones such as business strategy or management expectations for employees must be the most fundamental, for they reflect key aspects of the values held by a business.

As is well known already, due to the past research, the business climate actually differs greatly between the US and Japan. And it also differs significantly according to locality even within Japan, although not so great as between the two countries. Undoubtedly understanding these differences of "business climate" would help any business managers in any area who wish to negotiate effectively with other business in other areas, and also would help him (or her) to learn from other types of "business climates".

By doing a survey, (being helped greatly by Trans Pacific Communication in Portland and Japan Association of Small and Medium Size Business) the author found various interesting differences in such "business climates" between Portland and 6 different cities of Japan. Although the survey done is a relatively simple one asking a few questions, it had the following peculiarities of its own, which are not found in research done so far.

① Since it is a survey for small and medium size business, it helps clarify glass-root features of climate differences which you cannot find out in other researches mostly done only for big business.

② Since it shows not only the difference between two countries but also differences among localities within Japan, it can give us such information as the following: with what areas in Japan does the American climate have the greatest difference; in what items surveyed are the most apparent differences found between American business and business in all areas of Japan. Those points were also clarified by the survey exclusively.

Business Strategy: In regard to business strategy, the survey asked businesses in each area to indicate the three most preferable strategic targets of the business, clarifying the preference ranking of them, out of given lists of six strategic targets, which were ① highest rate of return on capital investment ② greatest annual total sales ③ increase of personal equity percentage ④ successful new products/service

* This is the full text of the presentation given by the author for the Chamber of Commerce, Portland, Oregon, on April 12, 1989.

introductions ⑤ upgrading employee pay and working conditions ⑥ improving company image in community. Giving 3 points to the most preferred, 2 points to the second most preferred and 1 point to third most preferred, we calculated the average points of each item of each city. The result is shown in chart 1, where figures added to a city name indicate the number of companies which replied to this question.

The result clarifies various interesting findings.

(1) As expected, or as already pointed out so far rather frequently, American business have a conspicuous peculiarity in the aspect that they put far greater stress on ROI than Japanese business, whereas the latter put greater stress on the amount of annual sales. From all cities in Japan, Portland differs in these two points with more than 90 % statistical significance*.

(2) But if we observe more carefully, we find that those differences are particularly great when we compare Portland with those Japanese cities as Kyoto or Fukuoka. Portland differs from Kyoto and Fukuoka, concerning ① and ②, with more than 99 % statistical significance. Although those differences are still great even with Japanese metropolitan cities as Tokyo or Osaka, it is apparently important to realize that those differences are far greater with more traditional areas in Japan like Kyoto or Fukuoka (the city, located in northern Kyushu, is known to be the area where Japan was first originated as a country thousands years ago). I believe the above finding shows that the traditional way of doing business in Japan, which put greater stress on sales amount even at the sacrifice of ROI sometimes, is slightly changing in metropolitan areas where competition is more fierce.

(3) As clearly found on the chart 1, Japanese traditional cities — Kyoto and Fukuoka — differ significantly from Portland in all aspects questioned. Such significant difference could also be observed with regard to questions taken up later.

Although we do not show here the whole results of the survey, the number of items asked in the survey was 20 in total. The statistical degree of significant differences in terms of probability are over 99 % with regard to the half of those 20 items so far as comparisons between Portland and two cities are concerned. As to other items, the figures ranges roughly from 80 to 98, though in each case there exists one or two exceptions, where figures are as small as 50~60. Thus we can say here that the most traditional areas in Japan like Fukuoka or Kyoto are entirely different worlds from Portland at least in terms of business climate. In this sense, it could be said, though with very limited connotation, that Osaka might be the closest to Portland, since we find only(?) 14 items in which it differs from Portland with over 80 % statistical significance.

(4) As observed clearly on Ch.1, the general pattern of business strategy of small-medium size businesses of Sapporo belongs to the pattern of Japanese metropolitan areas as Tokyo and Osaka. However a few peculiarities which distinguish it from metropolitans are recognized here. First small-medium size business of Sapporo are more likely to adhere to a strategy such as "increase their

* Here, it is meant that probability to accept nul-hypothesis is less than 10%. The reversed expression was used just for the convenience of understandings of the audience.

personal equity ratios", which appears to be a rather defensive business strategy, whereas metropolitan business are more likely to put stress on a more aggressive strategy like "successful new product/service introductions". It also differs from Osaka in the respect that "improve company image" is not emphasized here. In brief, Sapporo could be defined as a type of Japanese metropolitan area with a relatively defensive business strategy.

From the above detailed explanation, it may be known that Japan is not so homogeneous as usually understood, so far as business culture is concerned. But still it should be said, the most important difference between Japanese and American business in regard to business strategy now under discussion must be the difference argued at first; that is the American preference of ROI and Japanese preference of sales amount. The difference, as already mentioned, not only covers all areas of Japan — and probably all areas of the US — but also explains such important matters as the recent retardation in solving trade imbalance problem despite of the remarkable decline of dollar value. In other words, it explains a reason why price elasticity didn't work as well as expected in recent US — Japan commodity trading.

We can deduce rather easily from the above that US exporters might have sought to enjoy a higher profit opportunity, which the lower dollar value offered, by setting higher dollar prices instead of increasing export amounts, whereas Japanese exporters might have tried to maintain exporting volume at the sacrifice of profit by not changing the dollar prices of their exporting goods. It is obvious, at the same time, that there may be other reasons to explain the stubbornness of trade imbalance problems between our two countries. Deindustrialization of the US economy, which is apparently greater than expected, or still remaining substantially closed nature of Japanese markets, (though experiencing a remarkable increase of foreign goods penetration in recent years), could also account for the problem from other aspects. But the important weight of business strategy differences would be still heavier.

Expectation For Employee: We next asked every business to give ranking to five items that they have chosen as their expectations for employees, out of the listed items as follows: ① Dedication ② Physical strength ③ Company loyalty ④ Creativity ⑤ Cooperation ⑥ Analytical skills ⑦ Cheerfulness ⑧ Previous work experience ⑨ Follow through ⑩ Leadership skills ⑪ Task concentration.

As well as in the case of business strategy, we graded their answers in a way to give the most expected item 5 points and 4, 3, 2, 1, points respectively to the following items. After calculating the average of the grading of each area, we gained a result as shown in Chart 2 (though Ch 2 omits ⑧ and ⑨ to avoid too much confusion of the picture).

As easily comprehended by Chart 2 which indicates a conspicuous contrast between Portland and Japanese cities, the peculiarity of Portland business with respect to their expectations for employees is also apparent when compared with Japanese business (regardless of the area).

(1) Portland businesses expect from employees far more than Japanese businesses particularly with respect to characteristics such as dedication, company loyalty, cooperation and follow through. Probability degrees of significant

differences in most cases are over 99 % with a few exceptions such as dedication with Fukuoka (98.7 %), cooperation with Fukuoka (90.3 %) and company loyalty with Tokyo (77.2 %).

At first glance, such a peculiarity of Portland business may look to be different from usual understanding. It is usually considered that Japanese employees are relatively more dedicated, loyal and cooperative than American employees, though it is not so clear whether they are better at follow through.

However, only if you remember that the answers we got from business are not about the reality of their employees but rather their hope and expectation, this kind of suspicion could be easily cleared. It might be, on the other hand, not so easy to decide exactly what business-expectations for employees mean. Such expectations may reflect the values of the business. But they also can indicate discrepancies between reality and value. Then, now that it is considered that American employees are generally less dedicated, less loyal and less cooperative than Japanese employees, we can infer that the results of the survey are implying the discrepancies rather than the value, though value element also has to be taken into account here.

(2) Chart 2, on the other hand, indicates that Japanese businesses, regardless of location, have apparent characteristics in the respect that they have greater expectation for employees with regard to physical strength, creativity, leadership skills and task concentration (here probability degree of significant difference between them and Portland are too mostly over 99 %, with a few exceptions even where those ratios are around 98 %). It is also observed that differences between the six different cities are not so conspicuous in general as in the case of business strategy, except that Tokyo business is putting a little greater stress on company loyalty than other area businesses (probability degree of significant difference here are mostly over 96 % with one exception that is 83 % with Sapporo).

As in the case of Portland businesses, the interpretation of those peculiarities would not be so simple. Because here too, greater figures can show both the values of the relevant business, and their actual dissatisfaction caused by the discrepancy between reality and value. Although it cannot help being an inference without any concrete proof, it appears, this time, to be an indication of their values more than of the discrepancy, at least so far as their preference on creativity, leadership skills and task concentration are concerned. It is so considered because it is known that, in Japanese business, involvement of employees in management is relatively greater, enough to make business hold greater expectations for employees to have qualities which are usually expected for managers, at least to some extent. It is conceivable, on the other hand, that such a-quality-expectation is more likely to be betrayed by rank and file employees even in Japan, so that the discrepancy between reality and value could also be great enough.

In regard to greater expectation of Japanese businesses for physical strength, which is rarely observed in American businesses (which might think it a purely private matter of their employee), we can give a little different but rather clear interpretation. Japanese notoriously long working hours are doubtlessly causing businesses to hold greater expectations for employees to have as much tough physical strength as possible which is sufficient enough to endure longer working hours. Although Japanese are physically smaller than Americans on average, it

might not be correct to think that's why business indicates greater expectation regarding this point.

It is also observed that there exists relatively greater expectation of Tokyo businesses for higher company loyalty, compared with Japanese business in other areas. The background of this peculiarity looks somewhat similar with what was explained about Portland business. Because we can observe relatively higher mobility in the labor market in Tokyo, although not so much as in the US, which is likely to cause workers there to be less loyal to the company where they are working, so that management there indicates a greater expectation for employees concerning this point.

(3) Although cut out of Chart 2, we have other results of the survey with respect to 3 items. However, no further conspicuous peculiarities added to what have been taken up so far are observed, except that Portland businesses expect employees' cheerfulness a little more than Japanese business (only Osaka can compare with Portland in this respect), or that Portland businesses hold fairly strong expectations for an employee's analytical skills, though not higher than some Japanese cities' businesses).

Communication With Customers: We also asked businesses of all areas how they rate the quality of communications between them and their customers. The choice of reply was ① good ② not good and ③ don't know. We also calculated the results by way of giving 3 points to ①, 1 point to ② and 2 point to ③, which is shown in Chart 3.

As easily understood by the chart, Portland businesses have far greater supremacy in this respect than Japanese businesses in any area, with more than 99 % statistical significance degree.

Speaking only of Japanese business, businesses in the central area (Tokyo, Osaka, and Kyoto) are better in this respect than relatively peripheral areas like Fukuoka or Sapporo.

Since business is very likely to be more vigorous under good communication with the customers, a big problem to be solved by business is found in Sapporo. And the coming of Portland business to the city, based on sister city relationship, is hoped to be a good trigger to stimulate and change its bad business climate, which is less communicative than other areas. It, however, may not be fair if not to say, at the same time, that whenever they come to Sapporo they have to be well aware of this relative difficulty in making communication with their customers, as well as of other differences of the business climate.

Summary: Through the survey, which is rather simple questionnaire as mentioned earlier, several instructive points were clarified as referred to so far. Now we can figure out rough pictures of the types of business of various areas. American business, now represented by Portland small and medium size business, can be characterized as follows, especially in comparison with Japanese business.

It is apparently more profit-oriented and less aggressive in increasing its sales amount and fairly innovative in trying to introduce new business areas. Its attitude or expectations toward employees is a typical one of management: expectations for dedication, company loyalty and cooperation are relatively

impressive whereas the company doesn't seem to be hoping to involve its employees in the management, though an expectation such as analytical skill, which looks to be a quality hoped to be held even by employees working under the supervision of managers, is fairly strong among them.

On the contrary, it is apparent that Japanese business seeks more eagerly to enlarge its sales amount rather than to pursue higher profit. The characteristic is particularly outstanding when we look at Japanese business in more traditional areas, which indicates that this kind of business culture is deeply rooted in Japanese history, though remarkably changing now in metropolitan areas. A higher preference to try to involve employees in the management is obviously another characteristic of Japanese business, judging from its higher expectation for creativity or leadership skills from its employees. Because of notoriously long working hours in Japan, business is obliged to expect tough physical strength from employees. In addition to these, it is observed that Tokyo business has a high expectation for employees for company loyalty, though not so high as in the US. However, in general, the locality difference of Japanese business with regard to the expectations for employees is not so outstanding as the difference with regard to business strategy. Japanese business in relatively peripheral areas is indicating not a little problem with regard to its communication with customers.

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Chart I *Business Strategy*

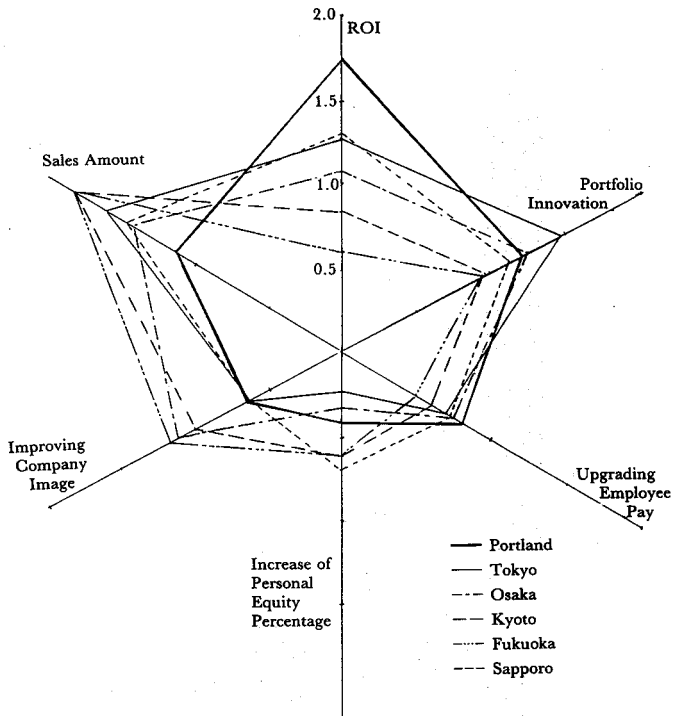


Chart II *Expectation from Employee*

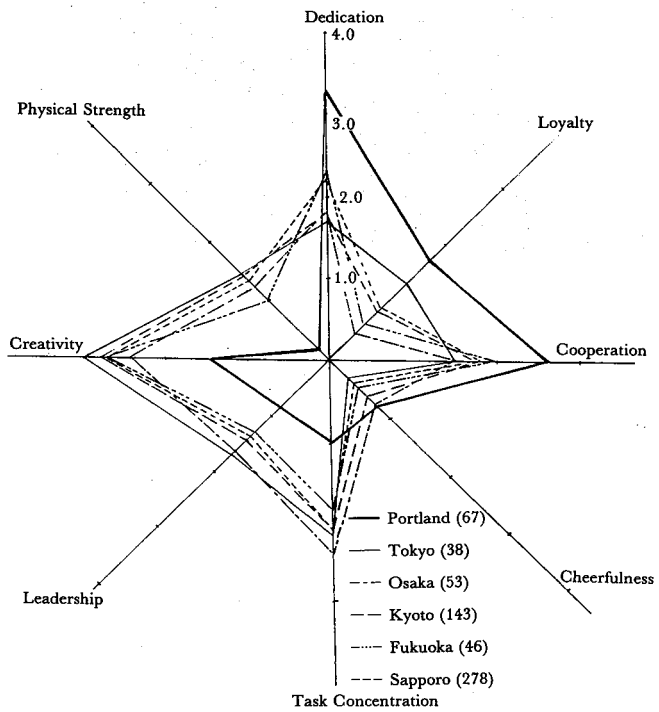
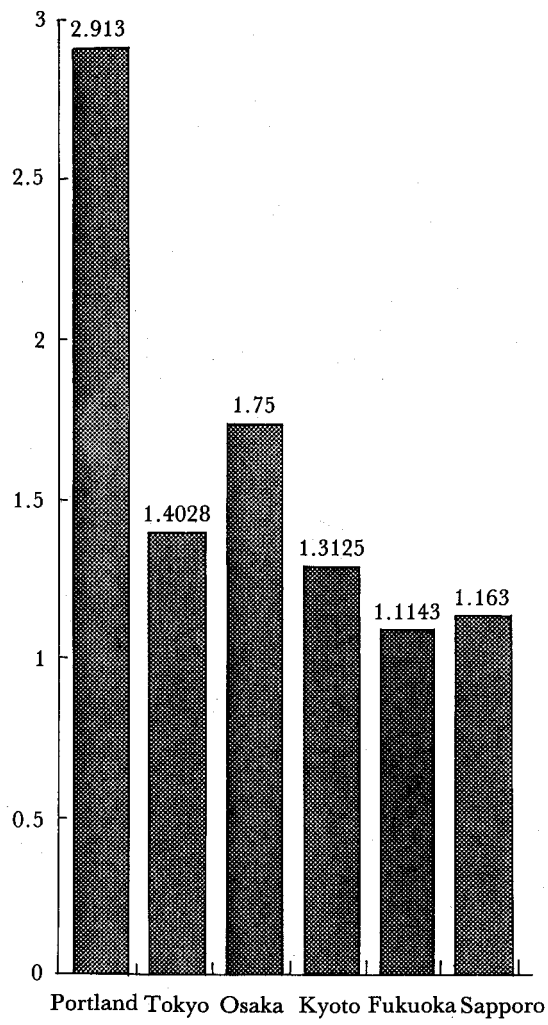


Chart III *Communication with Customers*

The coverages of samples in each area, in terms of the sort of industry and the size of business, are as follows. Figures show percentage ratios.

The Sort of Business

	Portland	Tokyo	Osaka	Kyoto	Fukuoka	Nagoya	Sapporo
Man.	29.8	31.5	20.7	22.2	15.2	21.0	15.1
W & R	29.8	23.6	13.2	18.2	10.8	21.0	33.4
Tran.	4.4	5.2	1.9	2.0	6.5	5.2	1.4
Fin.	2.9	0.0	1.9	1.3	2.1	0.0	0.4
Serv.	20.8	21.0	24.5	26.3	36.9	21.8	23.4
Cons.	7.5	10.5	15.1	15.5	19.6	14.3	17.6
Othe.	10.4	2.6	15.0	7.4	6.5	7.5	1.4

The Size of Business

	Port.	Tokyo	Osaka	Kyoto	Fukuoka	Nagoya	Sapporo
1000~	4.4	0.0	0.0	0.0	0.0	0.0	0.3
500~999	0.0	0.0	0.0	1.4	0.0	0.8	1.1
300~499	4.4	0.0	0.0	0.0	0.0	0.8	0.0
100~299	29.9	21.0	5.7	7.0	8.7	3.8	6.8
50~99	61.2	23.7	7.5	4.9	8.7	9.8	14.3
~49	6.0	52.6	75.5	80.4	71.7	66.9	75.9
Unknown	0.0	2.6	11.4	9.8	8.7	6.0	1.4
Total of Samples	67	38	53	143	46	133	278

From above, it is judged that no significant affect by the difference of industrial or size diversity is conceivable to the result of the survey.