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Chapter One

**Japan's Invisible
Economy**

Saying Yes to Japan

What kind of envelope should I put the money in? wondered Tabata Toshie as she carefully counted 45 brownish-green 10,000 yen notes onto her kitchen table. The 52-year-old housewife had often prepared cash gifts for weddings, funerals and other occasions, using *oiwai* envelopes for the happy occasions and *koden* envelopes for condolences. But this was different. It's more like a bribe, Mrs. Tabata mused, smiling ruefully.

But then it's not really a bribe if everyone does it, Mrs. Tabata reassured herself, recalling some recent survey results—nearly one in three Japanese consumers had made at least one under-the-table *sharei* payment to a doctor entrusted with a loved one's life.

Mrs. Tabata took the stack of bills, worth about U.S. \$4,500, and tucked them carefully into a plain brown envelope. Her husband was about to undergo colon cancer surgery and the time had come for her own first *sharei*.

That's a lot of money, she thought, still unsure whether the amount was appropriate. She had researched the matter and 450,000 yen seemed about right, considering the reputation of her husband's physician and the 300,000 to one million yen "market" range she'd read about. Besides, she couldn't afford more and couldn't bear to offer less. She pushed the envelope into her bag and departed nervously for the hospital, hoping the payment would be sufficient to ensure a successful surgery.¹

While Mrs. Tabata wrestled with the feelings of desperation, guilt and resignation common among patients and families dealing with Japan's health care system, halfway across Tokyo another woman was learning hard lessons about a different service sector.

"What do you mean by 'insufficient years in current position?'" Wada Yuriko demanded of a flustered loan officer. "If I was a man, wouldn't four years of full-time employment be enough to qualify for a mortgage loan?"

She stalked out of the bank, furious at the unwritten policy every lender seemed to have against accepting single women as primary borrowers for home loans. She knew they assumed such women would eventually marry and quit their jobs, and she also realized the banks looked unfavorably on her employment with a foreign firm. Still she was insulted by the bank's suggestion that she find a *hoshonin*; someone who would personally guarantee her mortgage loan. *Why does this society treat fully grown adults like dependent children?* she fumed.

At 31, Ms. Wada had worked for three different companies since

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university graduation. She had been *under-employed*, though never entirely unemployed, until finding a career-changing position at a European advertising agency. In the four years since, she had gained self-confidence and earned the respect of clients and colleagues. Now she was an independent citizen, both socially and financially. She was ready, able and willing to buy her own home. The banks simply wouldn't accept her as the excellent prospective customer she in fact was.²

Similar scenes are repeated hundreds of times daily throughout Japan. The details change but the essentials are dreadfully consistent: consumers are woefully underserved in crucial service sectors such as finance, health care and real estate.

How can this be? Isn't Japan a consumer paradise, where king customer enjoys unparalleled care and attention?

The trivial and the pivotal

At first blush, the answer is yes. Japan is indeed the land of white-gloved taxi drivers in sparkling Toyotas with spotless seat doilies, politely and efficiently ushering riders to their destinations—no tip required. Gas station employees rush to fill tanks, wash windows, empty ashtrays and garbage containers, then step into the street to stop traffic so their customers can merge onto busy motorways. Elevator operators pilot store patrons up and down. Parking lot attendants redundantly operate automated ticket dispensers on behalf of drivers. Meanwhile, hordes of bank lobby greeters, restaurant servers, construction site traffic directors, hotel personnel, retail gift wrappers and other assistants cater deferentially to each individual's most trivial needs.

Japan *is* a paradise for consumers wanting to enjoy meals, fuel and park cars, have gifts wrapped or accomplish any of a thousand common, low value errands. But when it comes to services with lasting impact on their lives—diagnosis and treatment of diseases, financial investments or home purchases—the picture changes dramatically. Unfortunately, providers of these pivotal services often say “no” to customer needs and wishes. Poor hygiene at Japan's hospitals accounts for a disturbingly high number of patient deaths. Bank officers and financial brokers consistently offer bad service and investment products paying absurdly low rates.

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Real estate agents matter-of-factly sell homes using practices that would be illegal overseas. Information technology, which has powerfully transformed service industries worldwide, tends to be applied in Japan mainly to concierge-like consumer services that may make life more pleasant, while critical needs remain largely ignored.

Japan's service economy is afflicted with a grave problem: businesses offer elaborate and trivial, even meaningless, services in areas where consumers are capable of helping themselves, while failing to provide quality services in areas where consumers require expert assistance.

The meaning of *saabisu*

In most advanced nations the term “service business” will evoke thoughts of accounting firms, law offices, medical clinics, consultancies and other professional service providers. But ask Japanese consumers to think of typical “service” businesses and they will mention merely restaurants, hotels, beauty salons and others providing necessary, but non-crucial, services characterized by heavy customer contact. Japan's concept of service is grounded in paying excessive, fawning attention to customers.

Even the primary definition of the Japanese word *saabisu* (“service”) illustrates this point. To most, *saabisu* means “a commercial blandishment, soft soap, special treatment, a discount, a free gift, a freebie.”¹³ In other words, a free glass of wine with each Thursday evening restaurant meal, or a complementary soft case with each purchased laptop computer. There's no reason to refuse such niceties, but these are not the important elements of a business interaction.

The concept of critical, highly valuable services is still so new in Japan that loanwords must be imported from other languages to describe them. In the health sector, for example, *sekondo opeenyon* (“second opinion”) and *infuomudo konsento* (“informed consent”) describe concepts almost unheard-of in Japan until the early 21st century. The recently adopted term *serufu ke-ah* (“self-care”) might suggest Japan is in tune with the worldwide trend toward consumers taking control over their own health care. But in Japan's medical world, where few dare question a doctor's absolute authority, the term merely describes the phenomenon of patients selecting and administering their own over-the-counter medica-

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tions. Patient responsibility and patient-centered health care remain fairy tale notions in Japan.

Consider real estate and finance. *Baiyaazu ejento* (“buyer’s agent”) expresses the notion, still surprising to Japanese consumers, that a real estate agent can represent a buyer exclusively, rather than both buyer and seller simultaneously. Concepts such as *reesuku taeku* (“risk-taking”) and *kyasshu furoh* (“cash flow”) are so elemental that one marvels at the need to borrow them from foreign tongues—until discovering that even Japan’s banks often fail to grasp their meaning.

Cataloging opportunities rather than problems

It is fashionable for writers both outside and in Japan to criticize the backward elements of this otherwise wealthy and technologically advanced society. But as businesspeople, our concern is not a simple catalog of Japan’s problems. Rather, we are interested in how specific problems create *massive opportunities for entrepreneurs in Japan’s service economy*.

Japanese consumers and businesses alike are woefully, even dangerously, underserved in the fields of finance, real estate, health care and information technology, the subjects of the following four chapters. Meanwhile, “outsider” service professionals are ideally positioned to provide the methodologies and rational approaches customers so desperately need. Those bold enough to say “yes” to Japan’s stunning opportunities will find themselves possessing a precious map pointing to a trillion dollar treasure.

Why Japan?

First, let’s remind ourselves why Japan offers such outstanding opportunity. After all, isn’t China the dreamboat of the world economy, the engine of capitalism’s future? China took over as the darling of investors and international business prognosticators soon after Japan’s economic bubble burst in 1990. Since then, white hot economic growth in this communist nation has dazzled observers, causing many international businesspeople to all but forget Japan.

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But ignoring Japan is a big mistake. Consider: When Japan's \$4.78 trillion dollar domestic market grows by a mere one-half percent, it generates nearly \$24 billion of new economic activity, greater than the entire gross national product of many smaller nations. Japan ranks fourth worldwide in per capita income at \$34,010, just behind the United States' \$35,400.⁴

Japan remains the world's largest economy after the United States, and its service sectors are proportionately huge. Corporations and individuals have sold more than *two trillion* dollars worth of services each year since 2000, with services forming an ever-growing portion of gross domestic product.

Still, this service economy is attractive for much more than its size. For reasons discussed later, Japan's citizens will bear far higher prices—for just about anything—than consumers elsewhere. And the nation's still-emerging market for non-trivial services is no exception.

To be sure, Japan has a reputation as a tough and exclusionary market with formidable logistical, cultural and linguistic barriers to entry. But those capable of meeting these challenges will discover an equal measure of advantages unavailable in “hotter” markets: sociopolitical stability; an easy-to-reach, affluent and highly educated population; an ultra-reliable transportation and utility infrastructure; and a political economy offering substantial freedom and unrestricted ability to repatriate hard currency earnings.

The invisible economy

Few people other than economists specializing in Asia realize that only ten percent of Japan's economy consists of internationally competitive, export-driven industries symbolized by global brands such as Toyota, Sony and Nintendo. Fully 90 percent of Japan's economy is domestic, mostly composed of inefficient, uncompetitive service businesses—an “invisible” economy not seen or experienced by the rest of the world.

Huge and inefficient, this invisible domestic economy is nonetheless the key to Japan's future. The nation's export sectors continue to do well, toughened by international competition and the harsh realities of globalization. Domestic industries such as health care, retailing, construction, agriculture, real estate, finance, information technology services, transportation and logistics are dragging the economy down. But any improve-

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ment in these areas will have to come from innovation and better productivity, not the fresh demand that Japan enjoyed during decades of population growth following World War II.

“Improvement in productivity is virtually the only way to create growth,” said Muto Toshiro, Deputy Governor of the Bank of Japan. “We will not be able to count on an increase in the population as a source of economic growth.”⁵

The population bomb

The year 2006 will be a watershed for Japan. For the first time in the nation's history, its population will start declining. This is a crisis point for a nation's financial health, because population growth is the single most basic driver of economic growth. While the population is increasing, demand for all sorts of products rises as well. If four people eat two pizzas, eight people will probably take four, and so on. When a population stops growing, older workers and retirees become an ever-larger portion of the citizenry. Overall demand for consumer goods slows. The aging population pushes costs up as older workers and retirees consume more health and social welfare services. At the same time, fewer younger workers pay into national health insurance and pension plans, reducing public funds available for the care of older citizens.

The only way Japan can resolve this is to improve service productivity—but boosting productivity merely to cover rising costs is not enough. An older nation requires not just more health care, but more and better services of all kinds.

Like older consumers everywhere, Japan's senior citizens care more about experiences than things. Older adults are already Japan's top purchasers of financial products, real estate, and health care services. They are also emerging buyers of travel, self-improvement and educational services. This distinguished class of citizens, who control the lion's share of the nation's \$13 trillion hoard of personal assets, await entrepreneurs who can say “yes” to their needs.⁶

In short, Japan's multitrillion dollar domestic economy needs revitalization that will no longer come from population increases. Instead, growth must derive from new and better ideas, strategies and approach-

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es—precisely the areas where we will show how outsiders can add value. That means huge opportunities for those bold enough to shoulder risk in markets for pivotal, not trivial, services.

Why services?

A generalized shift away from consuming products and toward consuming services—or “experiences” as marketers might say—is underway in every industrialized nation. At the same time, Japan is particularly saturated with top-quality manufactured goods. Nearly every household owns at least one or more air conditioner, automatic rice cooker, automobile, bicycle, digital camera, DVD player, game machine, facsimile machine, motorbike, mobile telephone, personal computer, television and video recorder. Meanwhile, the nation’s manufacturing industries have largely completed their optimization efforts and simply cannot improve efficiency much more.

Amid this material comfort, citizens seek a higher quality of life through services: witness how consumers slashed music CD, book and magazine purchases while boosting their spending on mobile telephone communications in the early years of the new century. This type of transition is happening across a wide range of services.

But are consumers getting their money’s worth? Japan’s service companies, long protected from international competition by regulations, geographic barriers, cultural differences and arcane business practices, suffer from a yawning productivity gap in comparison with the nation’s manufacturers, long subject to vigorous international competition. As we will see, many are stunningly inefficient, repeating uncompetitive strategies and practices as if they were still sheltered from international competition—and as if the Japanese people will never learn to expect world-class standards of service.

The good service myth

An old Tokyo joke about customer service goes like this: How do German, Japanese and U.S. machinery makers respond when a buyer complains about a breakdown? Answer: The Japanese immediately dis-

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patch an engineer to the site, the Germans promptly call the customer and the Americans send an e-mail message—when they get around to it.

Japan's reputation for outstanding customer service is well-deserved in the hardware manufacturing sectors. At the retail level, too, Japan's upscale stores, hotels and restaurants are famous for over-attentive customer service bordering on the obsequious. But for all the worshipful, superficial fussing over “king” customer, few businesses seek to understand or serve his deeper needs. Trouble starts when transaction values, and the customer's stake in the outcome, go up.

For example, seeing a postal savings system employee visit an elderly widow at her home to renew a time deposit and save her the trouble of visiting a post office seems heartwarming—until one realizes that the poor woman was sold a financial instrument paying the yen equivalent of \$15 annually on a \$25,000 deposit.

First-time visitors to Japan may notice “consumer finance” companies occupying prime real estate around nearly every train station. But few visitors realize these lenders inhabit the world's most vibrant legalized loan sharking market, where seven million consumers pay interest rates that can exceed 25% percent annually, a usurious figure by most standards.⁷ Meanwhile, Japan's banks, incapable of earning money by lending responsibly, are tripping over themselves to acquire or partner with the consumer financiers, whose massively advertised images of wholesomeness belie a service model closer to the financial underworld than they would have us believe.

Thinking of building a home in Japan? Consider the experience of a consumer who asked to do a site evaluation on a plot of land he wanted to buy. His builder needed to know whether the ground in question could support the full weight of the planned home. The seller's agent refused, saying prospective buyers could perform evaluations only after purchasing the property.⁸

Another major purchase example: A consumer asked to test drive a used car and was matter-of-factly informed by the salesman that test drives, if one could call them that, were permitted only after the customer agreed to purchase the vehicle.⁹

How about the case of a self-employed, multimillionaire businessman? He applied to a bank for a mortgage loan to purchase a home, but the bank refused, citing an “inadequate employment record” (meaning not being employed by a famous company), even though the applicant proposed keeping the full amount of the loan on deposit at that bank.¹⁰

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The case of three-year-old Kishimoto Daiki, who died of a hospital-acquired infection known as Methicillin-Resistant Staphylococcus Aureus (MRSA), is not unusual in Japan's health care sector. National television reported the cause as physicians failing to change gowns or even to wash hands between patient interactions, an allegedly chronic situation that had resulted in nine previous deaths at the same hospital.¹¹

With services like these, it's no wonder that Japan has no internationally respected banks, securities houses, real estate firms or medical clinics. But what produced this situation, which so surprisingly contradicts Japan's well-deserved reputation for quality and integrity in manufacturing?

These service firms languished too long in protected, uncompetitive domestic markets rather than excelling, as Japan's manufacturing companies did, through exposure to fierce international competition. They had no need to adopt or to emulate modern methodologies practiced by top-flight international competitors. The result: services such as health care that are critical to a high quality of life—not just optional “nice-to-haves”—are poorly delivered. Consumers receive low-quality services for their high value needs.

For all these problems, there is a clear upside—bold outside innovators in Japan have a trillion dollar opportunity to do better. In many cases, domestic competitors simply lack the well-established service methodologies and techniques that have long proven effective overseas. In others, outsiders can create powerful advantages over competitors simply by injecting common sense and rationality into existing processes.

The efficiency myth

Japan's export-driven hardware manufacturing industries are famously efficient and productive. Proof lies in global market share numbers and worldwide admiration for brands such as Honda, Sony, Anritsu, Kyocera and many others. One study found Japan's exporting manufacturers 20 percent more productive than the international average.¹²

In contrast, the nation's domestic service workers are 37 percent less efficient than their U.S. counterparts, while overall labor force productivity is the lowest of the seven major industrialized nations.¹³

Studies by other organizations show similar results. Japan ranked 23rd

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in the 2004 World Competitiveness Ranking conducted by the Switzerland-based nonprofit foundation IMD.¹⁴ IMD's study placed Japan 37th worldwide in business efficiency. Japan's domestic economy is "rife with protection for the inefficient players, and competition is nearly nonexistent."¹⁵

Protecting the weak makes them weaker

Ironically, government efforts to protect Japan's domestic service economy have only weakened it. The bureaucracy's meddling left domestic businesses more vulnerable to competition once trade barriers fell and more nimble newcomers set their sights on Japan's huge services market. But meddling, after all, is what bureaucracies like to do.

"The Japanese government likes weak industries," wrote international management consultant Ohmae Kenichi. "And by the same token it hates strong ones."¹⁶

Ohmae referred to the government's pumping nearly a trillion dollars into Japan's money-losing banks over the previous decade, plus \$380 billion more into agriculture and other uncompetitive sectors. None of this improved competitiveness. Meddling had precisely the opposite effect, whereas manufacturing flourished whenever the government was uninvolved.

As we are about to see, systems dependent on bureaucratic control—whether official or indirect—eventually produce emasculated businesses and hot opportunities for outside competitors.

Why outsiders?

Japan is the least international of the world's advanced nations by any objective measure. About two million foreigners, or 1.57 percent of the nation's population of 127 million, live in Japan.¹⁷ That's a tiny fraction compared with these foreign-born resident numbers: 23% in Australia, 5.6% in France, 8.9% in Germany, 4.2% in the U.K. and 11.7% in the United States.¹⁸ Only three percent of Japan's citizens exchange e-mail with foreigners, compared to ten percent in Vietnam and China.¹⁹

Foreign direct investment in Japan is a mere two percent of GDP,

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compared with 39 percent in the U.K. and 19 percent in the U.S.²⁰ Japan ranked 29th, just above Botswana, in a study of globalization measuring factors including international trade, foreign direct investment, Internet usage, international trade and tourism, international telephone traffic, overseas funds transfers, membership in international organizations, and contributions to U.N. Security Council missions.²¹ Yet Japan can't get along without foreign workers, particularly those laboring outside major metropolitan areas in the nation's crucial manufacturing industries.

"Despite the reality that Japan's economy would grind to a halt without its foreign laborers, nothing is done to accommodate them," wrote a leading weekly news magazine.²² Toyota in particular relies heavily on these workers; some observers claim the automaker's famous just-in-time production system would collapse without them.

But manufacturers aren't the only ones needing outsider help. Banks and other service providers increasingly look to foreign companies for information systems development and other services. That demand has attracted an estimated 70 Indian software and technology firms to Japan as of this writing. The Indian firms initially built their businesses by offering faster turnaround and lower cost, but customers are discovering the value of vendor perspectives unbound by traditional "domestic" thinking—and the power of implementing modern methodologies proven in overseas markets.

Indian entrepreneurs are just one of the outsider groups noticing opportunities in Japan. Inefficiency and lack of competition in a two trillion dollar services market is a potent combination that over the years has attracted outsiders like American Family (Japan's largest writer of cancer insurance policies), property powerhouse General Motors Acceptance Corporation (GMAC) and clinical research outsourcer Quintiles. Today it is easier than ever for outsiders to start businesses in Japan.

"This country is very friendly to foreigners," said Suga Hitoshi, former CEO of Mitsubishi Venture Capital. "Hurdles to entrepreneurship in Japan are low compared to the U.S."²³

More expatriates than ever are taking advantage of the nation's growing flexibility. Despite Japan's reputation for glacial change, its commercial code now enables companies to be created and capitalized in the venture-friendly manner of Silicon Valley. That's a far cry from the traditional Japanese structure whereby cozy insiders hold and rarely trade shares. And in September 2004, the government announced it would permit formation of limited liability corporations (LLC) sometime in 2005 or 2006.

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Ouch! A dislocated economy

Meanwhile, Japan's formerly high-growth, manufacturing-driven economy, stunned by effective competition from China, Korea and Southeast Asia, is casting about for new service models. Consumers and businesses alike are grappling with the hardware economy's slow decline and the software economy's rapid rise. That means dislocation, and dislocation means opportunity.

Those opportunities owe much to Japan's long history of protectionism, which left it particularly vulnerable to globalization's seemingly sudden onset. Even today, the nation's monolithic, exclusionary culture and its citizenry's poor English ability hinder the absorption of global business lessons. Yet cultural uniformity offers a powerful upside to savvy bilingual entrepreneurs. What other nation houses 127 million highly affluent, educated, literate consumers, all speaking the same language and living in the same time zone—and all easily reachable via the same nationwide newspapers and television broadcasts?

Outsiders who understand the culture will find already-learned lessons widely applicable. Over the past decade, an increasing number of sharp-witted foreigners have succeeded by acting as a bridge to global business practices and service methodologies.

Cultural arbitrage

Put simply, these entrepreneurs exploit business practice gaps between cultures. We'll see, for example, how a Chinese entrepreneur realized that Japanese sales methods are deeply rooted not only in manufacturing processes, but in manufacturing *culture*. Recognizing the irrationality of long-standing sales habits and replacing them with a software-driven service process transformed him into a multimillionaire business celebrity.

A U.S. turnaround professional rocked Japan's finance sector and created an industry-leading bank by enforcing contract terms, rather than obeying extralegal directives, and by treating customers impartially, instead of forgiving deadbeat borrowers favored by bureaucrats.

A Canadian entrepreneur, who observed mobile telephones in Japan functioning primarily to alleviate teenage boredom, built a portable handset-

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based personal health monitoring service offering diabetics a new lease on life.

Drawn by stunning opportunity, more outsiders are saying “yes,” not to fixed notions of “Japan, Inc.,” but to the newly emerging needs and aspirations of an aging culture at a high level of material and technological success. Outsiders are digging in, making a difference, making a contribution—and making fortunes.

What works and why

Over the past three decades we’ve seen many foreigners rewarded with personal and financial success for embracing Japan as a second home and taking up the challenge of transforming the nation’s service sector, if only in small ways. In our view, the single most important success factor is the ability to say “yes”—both to Japan’s enduring wisdom, and to opportunities available to positive, motivated outsiders who break new ground while operating effectively within Japan’s cultural system.

The successful entrepreneurs we spoke with exhibited five traits giving them an edge over their Japanese counterparts: a propensity for risk-taking, flexibility, customer focus, technology-driven speed and professionalism.

Low risk produces high rewards

“The risk-reward relationship in Japan is broken,” said Ito Joichi, a prominent Internet entrepreneur and social commentator. “People who follow low-risk career paths can often achieve high returns... It’s backwards from a normal free market economy.”²⁴

Ito’s low-risk, high return equation applies mostly to the elite—those who gain admission to Japan’s prestige universities and go on to become bureaucrats or white-collar executives at the nation’s top firms. Most citizens settle for careers and investments that are both low-risk and low-return, many working slavishly as salaried employees of less-than-stellar companies. But as the businesspeople in our book show, calculating and prudently embracing even modest risks can be a radical winning strategy in a cul-

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ture where risk is often denied, avoided or transferred to the government.

This distortion of the risk equation is seen not just in career paths but in the overall attitude towards design of business operations. “In Japan, systems are designed to be foolproof, meaning they’re expensive to build—and disaster strikes if anything goes wrong,” said Anzai Takashi, President of IY Bank. “It’s exactly the opposite in the United States. Risk management there doesn’t mean building systems on the premise that problems won’t occur, but rather designing them so you can respond immediately when something goes wrong.”²⁵

Anzai says proper understanding of risk allows businesses to be more flexible and adaptable, two universal hallmarks of effective service organizations. Japan’s customers are flocking to businesses that break free of rigid norms.

Big deal over small request

“May I have that dressing on the side rather than on the salad?” the diner asked the waitress at the Italian restaurant off the Mark City Tower promenade in Tokyo’s trendy Shibuya district.

“Umm... Let me ask the chef,” the waitress replied. She scurried off to the kitchen, leaving the diner and his companion momentarily dumbfounded as to why such a request required intermediation.

Several minutes later she returned.

“Yes, you may,” she reported to the bemused couple.

From afar, Japan gives the impression of offering outstanding customer care. In truth it does so in standardized, one-size-fits-all services offered in assembly line fashion. The focus is on proscribed roles, homogeneity, uniform quality and speed—all driven by strict enforcement of internal rules. In short, a manufacturing model.

But Japan’s material abundance has caused consumer needs to diverge and multiply, creating demand for a multiplicity of services that can frustrate employees of rigidly operated companies. Service workers must learn that pleasing customers is more important than enforcing internal procedures and their employers must empower them to act on what they learn.

Enterprising outsiders who can offer both efficiency and true customer focus are needed immediately. Japanese society has long empha-

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sized producers over consumers, the state over the citizenry. People often express fatalistic resignation to the notion that big institutions, whether public or corporate, will eternally get their way at the expense of consumer concerns. Outside entrepreneurs from cultures where consumers truly are king are well-positioned to win customers in Japan.

No speed limit

Many entrepreneurial successes owe much to speedy implementation of technology as well as increased focus on customers. Speed itself can become a strategic advantage.

“In Japan we are still the inheritors of an agrarian cultural tradition and philosophy, which are influenced by nature and change of the seasons. Perhaps because of this we are not a hasty people,” wrote the legendary businessman Morita Akio, then-CEO of Sony.²⁶

These words of nearly twenty years ago are still relevant today. Japan’s tendencies toward slow motion and analog, hardwired processes make speed a powerful stratagem for creating a successful new business. In Chapter Two, for example, we’ll see how the incoming American president of a failed Japanese bank enabled important accomplishments by immediately throwing out the old organization chart, with its complicated tangle of rules.

Another way to achieve speed, of course, is to use information technology fueled by digital data. We’ll discover in Chapters Four and Five how three very different entrepreneurs—a Chinese software maverick, a Canadian health care pioneer and an Indian technology strategist—each offered valuable new services to Japanese consumers by tapping the power of Japan’s ubiquitous mobile telephone network.

Professionally speaking

Japan’s hardware manufacturing industries exemplify professionalism. But visit any large electronics or computer retailer in Tokyo or Osaka to get a taste of what Japanese-style “service” really means. You’ll find ten polite

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but unknowledgeable sales associates who merely relay customer questions to one overwhelmed employee who actually understands the merchandise.

Japan's traditional work ethic advocates a lack of independence, greater allegiance to organizations than to one's profession (or even one's self) and self-sacrifice for the sake of the group. These ideals produce loyal, dedicated, team-oriented employees, but they also cause trouble in finance, real estate, health care and other areas where customers lack specialized knowledge and need expert assistance rather than fawning, empty gestures of service. Most people face high stakes decisions at only a few critical times in their lives; in those moments they need deep expertise, quick responses, a total focus on their needs and a flexible set of choices clearly showing potential risks and benefits.

Effort alone won't prevail

Japan's unexpectedly rich medal harvest in the 2004 Athens Olympics sparked interest in coaching techniques from businesspeople looking to become more successful. Celebrity rugby coach and commentator Hirao Seiji responded to the new attention in a leading business weekly.

"In the past, Japan focused solely on strong athlete-coach personal relationships and was weak at collecting and analyzing information about rivals and developing strategy," he wrote. "Without professional staff to perform these functions this time, we couldn't have won so many gold medals."

Hirao added a comment that could well be directed at many of the nation's service firms. "In the past there was a tendency to overemphasize getting mentally fired up. [Winning] takes more than just personal effort."²⁷

Japan's traditional workplace focus on loyalty and emotional exhortations to "try harder" has resulted in widespread use of the so-called "shoe leather" approach to sales and service. Few hold salespeople accountable for poor results as long as they make lots of calls. Fortunately, amid pressure to reduce costs and boost efficiency, Japan's consumers and businesses are questioning this approach and becoming more responsive to rational, professional service models—the kind of models outsiders are ideally positioned to provide.

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Tough love

We contend throughout this book that Japanese cultural tendencies pose barriers to effective service business strategies. By this we do not mean to criticize or judge Japanese culture itself. The ideas we offer are not about “fixing” something “wrong” with Japanese culture. Describing a culture simply as right, wrong, good or bad employs distinctions that miss the point. Cultures are what they are: accumulated centuries of human experience and wisdom. Above all, they are to be respected. We agree with Edward Lincoln that all societies have important values other than economic efficiency, and that Japan is no exception.²⁸

Yet in any culture certain elements may become overextended, creating irrational obstacles to positive change, even as people widely recognize the need for change. This book is about challenging entrenched patterns and opening the door to massive economic and social benefits.

Challenging entrenched thinking, of course, is hardly the exclusive province of foreigners. Some Japanese have already taken clear stands against ill-serving hallmarks of the status quo.

We believe, though, that foreigners enjoy an edge. Naturally grounded in thinking and behavior outside uniform Japanese cultural patterns, many simply find it easier to act differently. Though they face the challenges of mastering Japanese culture and language, the expatriates profiled here also dearly love Japan and strive toward bettering their adopted home.

We also believe entrepreneurship will trigger the changes Japan needs. Japan has traditionally been like the weather: many complain about it, but no one does anything about it. The best way to promote change in Japan, in our view, is to start a business. Alex Kerr, arguably Japan’s harshest modern critic, started two tourism businesses to address the problems he so vividly identified in *Dogs and Demons*.²⁹ Going forward, we’re convinced micro-level entrepreneurial action will outshine political solutions.

We’re taking a businessperson’s approach to Japan, and the medium of measurement in business is, of course, money. We begin our story of outsider-inspired revival by looking at Japan’s finance industry. Money movement, business financing and the fate of citizen savings are fundamental factors in every economy, but Japan’s system for handling these functions is broken. In the next chapter we’ll learn how outsiders are making their fortunes fixing it.

Notes

Chapter 1

- 1 Fictionalized scenario based on common practices, market *sharei* rates and survey results described in Kadokura Takashi's *Nihon Chika Keizai Hakusho* [White Paper on Japan's Underground Economy], Shodensha, 2003, p. 52.
- 2 Fictionalized scenario based on facts presented in "Suruga Ginko: Okane no Tema Paaku" [Suruga Bank: Money Theme Park], *Nikkei Business*, 10/20/2003, p. 58. Borrowers most banks avoid include women, people who work for smaller firms, frequent job changers working in technical positions or at foreign companies, and even professional athletes, whose incomes are considered unstable.
- 3 *Kenkyusha's New Japanese-English Dictionary*, Fifth Edition, 2003, p. 1,040.
- 4 World Bank 2004.
- 5 *Japan Entrepreneur Report*, 10/2003.
- 6 Personal assets of 1,425 trillion yen as per Bank of Japan *Shikin Junkan* [Flow of Funds] statistics 6/30/2004. U.S. dollar value calculated using Oanda's 6/30/2004 interbank rate of 0.009231. These are financial assets only; they do not include real estate or other real or personal property.
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