Smart argainin

Doing Business with the Japanese

JOHN L. GRAHAM and
YOSHIHIRO SANO

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FOREWORD

While associate dean of the business school and director of the International Business Education and Research (IBEAR) program at the University of Southern California, I had the good fortune to work with John Graham and Yoshi Sano. Their book has brought to fruition some of the basic goals we established more than six years ago. In particular, the book is an important step toward bridging cultural differences and thereby reducing transaction costs of business relationships between the two largest economies of the free world: Japan and the United States. Executives of any company having present or future interests in Japan must read and follow the recommendations presented here.

Aside from Canada, our trade relationship with Japan is by far our most important. Some might argue it is the most important given the increasing size of our continuing bilateral trade deficit. Our total merchandise trade with Japan—that is, exports and imports—was more than $63 billion in 1982. Every American is affected by this trade. American consumers buy automobiles, televisions, cameras, film, pens, and watches. American companies buy copiers, machine tools, and robotics. The Japanese buy our agricultural products, lumber, coal, chemicals, computers, aircraft, petroleum and associated production equipment, sporting goods, and pharmaceuticals.

All of this trade—consumer and industrial goods sales, joint ventures, mergers, acquisitions, other investments, and government actions—requires that Americans and Japanese sit face to face and negotiate agreements. This has not been easy. Yet the explanations for our trade problems with Japan offered by Ambassador Mike Mansfield and others are at the macroeconomic or institutional level, that is, tariffs and quotas, government interference, labor, myopic business leadership, and the like. Certainly, these latter causes are important. But how much of the problem results from American ineptness at the international negotiation table?

More than twenty years ago anthropologist E.T. Hall warned: "When the American executive travels abroad to do business, he is frequently shocked to discover to what extent many variables of foreign behavior and custom complicate his efforts."[1] A few of our own business and government leaders have recently echoed this theme. For example, J. William Fulbright suggests that "our linguistic and cultural myopia is losing us friends, business, and respect in the world."[2] Still, we have only a superficial understanding of the difficulties involved in cross-cultural negotiations, and for good reason: problems at the negotiation table are difficult to observe and evaluate. Alternatively, government tax rates, increasing labor costs, and leadership attitudes are much more easily measured. Thus, we see an emphasis on institutional level solutions with little attention paid to the "typically ethnocentric American" sitting across the table from "inscrutable foreign customers" trying to negotiate an acceptable business contract. In this book Graham and Sano attempt to shed light on this circumstance. The topic is a worthy subject for investigation since Japanese-American business negotiations often fail for seemingly inexplicable reasons, and because most others have ignored such questions.

With the dramatic growth in international business activity during the last ten years, American executives have slowly adjusted their approaches to foreign markets. Early on, American executives were sent to live overseas and deal directly with foreign clients. The point of contact for the two cultures was often between an American representative and foreign client personnel. Thus, Americans were asked to live in a new environment and accomplish the difficult task of promoting communication and understanding not only between cultures but also between organizations. Generally, this strategy has been unsuccessful.

In response to these difficulties, American firms are increasingly hiring foreign nationals to represent their interests overseas. This moves the point of cross-cultural contact to within the firm where it can be more effectively managed. Consequently, the trend is for American executives (managers and technical experts) to take short trips to other countries.

Such a strategy for international trade neatly avoids the substantial problems of training executives to live in other cultures. We can now focus our attention on teaching executives how to negotiate with people from other countries. But there are still difficulties. First, knowledge and experience in one culture do not necessarily help in understanding other cultures. Different factors may be important in different places. Second, there are practical limitations on executive time. Often, management or technical people are required to participate in business negotiations in other countries on short notice. The focus of preparation is on commercial and technical issues, not on how to communicate effectively with foreigners.

In his research at USC, Graham has taken a unique approach to the study of cross-cultural business negotiations. He particularly has attempted to view Japanese-American business negotiations from several perspectives. During preliminary field work he interviewed experienced executives and observed business interactions in both the United States and Japan. Later, a negotiation experiment was conducted involving more than 200 American and Japanese businesspeople. Graham is presently extending his studies of international bargaining styles to include Taiwan, Brazil, and Mexico.

The real strength of this book lies in the synergy created by the integration of Graham's scholarly approach with Sano's breadth of experience in Japanese-American business negotiations and his personal understanding of Japan. Yoshi was born in Osaka and was educated in Japan prior to receiving degrees in economics and international business from USC and UCLA. In 1976 Yoshi joined the IBEAR program where, as associate director, he worked both in curriculum development and promotion of the IBEAR throughout the Pacific Basin.

Since 1980 Yoshi has worked for Ernst & Whinney and is now manager of Japanese Practice Development for the Western Region. Through such experiences Yoshi has a truly unique understanding of Japanese-American trade problems. He has seen first hand how American managers have been successful in dealings with Japanese clients and partners, and he has been witness to failures of executives on both sides of the Pacific.

Graham and Sano's book will go a long way toward helping American managers handle assignments in Japan. Managers, sales representatives, technical experts, and all business executives involved in commercial negotiations will benefit by reading this book. The knowledge presented here will aid Americans in establishing and maintaining economically and personally satisfying relationships with Japanese clients, partners, and suppliers.

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NOTES

1. E. T. Hall, "The Silent Language in Overseas Business," *Harvard Business Review* (May–June 1960): 87–96.
2. J. William Fulbright, "We're tongue-tied," *Newsweek*, July 30, 1979, p. 15.

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Finally, we must thank our families—for they have lent us to this task. Thanks to all!

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THE AISATSU

The initial meeting was scheduled weeks in advance for a Thursday afternoon in the Japanese firm's corporate offices in Tokyo. The primary purpose was the introduction of a high-level American executive to the president of a Japanese firm in a typical Japanese *aisatsu* (a formal greeting). The principal American negotiator was a relatively young (early forties), recently promoted sales vice president of an American capital equipment manufacturer. The two firms were in the final stages of establishing an important agreement for distribution of the American products in Japan. Protocol dictated a visit by a high-level representative of the American firm. A visit by the vice president was convenient because at that time he was scheduled to tour some of his new areas of responsibility, including Japan.

I had spent the early part of the week with the American firm's Tokyo representative observing a variety of Japanese-American business meetings. Much of that activity involved preparations for the Thursday meeting, working with lower level executives of the Japanese firm to coordinate final details.

As Thursday approached things began to go wrong. Final approval of the distribution agreement from the U.S. corporate headquarters and legal counsel was expected before the meeting. However, the

Tokyo representative received news that, if the approval came at all, it would be delayed until after the vice president's arrival and scheduled meetings. This presented the ticklish problem of holding the scheduled meetings but avoiding making commitments—acting positive but not saying yes.

The American vice president was due to arrive in Tokyo Wednesday evening before the Thursday *aisatsu.* He was to be briefed regarding the commercial aspects of the deal by the company's Far East district sales manager accompanying him on the flight. The flight from Singapore was delayed twelve hours and the two executives arrived at their Tokyo hotel at 9:00 A.M. Thursday. The Tokyo representative and I met them for a quick breakfast at the hotel.

The Tokyo representative briefed his superiors on the recent developments. The three Americans decided on a strategy of "dancing" with the Japanese—avoiding discussion of business as long as possible and avoiding making any firm commitments.

This was the vice president's first visit to Japan. His previous international experiences were extensive and included business negotiations in Europe, the Middle East, and Africa. He appropriately asked the Tokyo representative about protocol and other cultural considerations. He was told generally not to worry and to just act naturally. He was also told that substantive business discussions were not appropriate at the *aisatsu.* Following the briefing the two senior executives retreated to their rooms to shower and take a rest before the 2:00 P.M. meeting.

The three representatives of the American firm and I arrived at the Japanese corporate offices at 2:00 P.M. We were greeted by a female employee in the uniform of the company. She escorted us to a nearby formal meeting room. The room was furnished in expensive but conservative easy chairs with several coffee tables. The sixteen chairs were arranged in a square. We were not asked to sit, and shortly after our arrival three Japanese executives entered the room. The executives whom I had met earlier in the week were assigned specific management responsibilities related to the distribution of the American products. Introductions were made and business cards exchanged, but in a relatively more formal manner than I had previously observed in other interactions with the same managers. The American vice president was treated with obvious respect. The seven of us chatted in English about travel from Singapore and other non-task-related matters.

Behavioral scientists tell us that Americans are relatively uncomfortable with obvious status distinctions. As the conversation progressed it became apparent that all four Americans (including myself) were unconsciously imitating the respectful and formal behaviors of the three Japanese, thus equalizing the initial status distinctions. About the time this interpersonal equalization had been completed, three more Japanese executives entered the room. These three were members of the president's executive staff, much older than the first three (late fifties) and treated with utmost respect by the first three Japanese. Because the Americans had successfully established an ambiance of status equality with the first three Japanese, there now existed a large status gap between the Americans and the three Japanese executive staff members. This again was an uncomfortable situation for the Americans, who began to try to establish status equality with the three new Japanese executives. However, before this status manipulation could be completed, the Japanese company president entered the room. The six Japanese already in the room acted most formally and respectfully, and thus, the status position of the Americans took another dip from which it never fully recovered.

Once again business cards were exchanged and formal introductions made. One of the first three Japanese acted as an interpreter for the Japanese president, even though the president spoke and understood English. The president asked us to be seated. We seated ourselves *in exact order of rank.* The interpreter sat on a stool between the two senior executives. The general attitude between the parties was friendly but polite. Tea and a Japanese orange drink were served.

The Japanese president controlled the interaction completely, asking questions of all the Americans through the interpreter. Attention of all participants was given to each speaker in turn. After this initial round of questions for all Americans, the Japanese president focused on developing a conversation with the American vice president. During this interaction an interesting pattern in nonverbal behaviors developed. The Japanese president would ask a question in Japanese. The interpreter then translated the question for the American vice president. While the interpreter spoke, the American's attention (gaze direction) was given to the interpreter. However, the Japanese president's gaze direction was at the American. Thus, the Japanese president could carefully and unobtrusively observe the American's facial expressions and nonverbal responses. Alternatively, when the American spoke the Japanese president had twice the response time. Because he understood English, he could formulate his responses during the translation process.

This interesting conversational interaction continued on non-task-related matters for several minutes, the Japanese viewing business discussions at an *aisatsu* as inappropriate and the Americans specifically avoiding business discussion for strategic reasons. The weight of the conversation was clearly directed toward the senior American executive by the Japanese president. The seating arrangement also served to focus everyone's attention on the American vice president, who often filled the gaps in the conversation. When the topic turned to golf, a favorite sport of the American, his mood noticeably improved. He mentioned the several golf courses in the local area of the American headquarters and an upcoming professional golf tournament.

Then, to everyone's disbelief, the American vice president invited the Japanese president to the Golf tournament when the president traveled to the United States *to sign the distribution agreement!* The American continued to talk about business and the distribution agreement and predicted a long and prosperous relationship between the two firms. The Japanese president courteously responded to the American's statements. He also ended the meeting shortly thereafter by excusing himself and suggesting moving to another conference room for a presentation by his executive staff.

It seemed incomprehensible that the American vice president would make such statements and commitments given his briefing prior to the *aisatsu.* A brief recap of the antecedent conditions helps to explain this major error. Four characteristics of the vice president seem to be relevant. He was younger than his Japanese counterpart by approximately twenty years. He was inexperienced in the Far East, particularly in Japan. He was physically fatigued after a long flight and little sleep. And finally he was unprepared, having been told to "act naturally" in his morning briefing. The process of the meeting also appears to have worked against the American. In particular, the hierarchical introductions and vertical status relations put him in an unfamiliar and uncomfortable status position. The Japanese president's use of the interpreter further disadvantaged him. Also, the vice president obviously felt the weight of both the conversational responsibility of answering questions and filling gaps and the distinct physical focus of attention.