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Evropska unija i Japan: spoljno-trgovinske relacije i transfer japanske biznis prakse u evropskom biznis okruženju

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Apstrakt: Evropsko tržište predstavlja jedno od najatraktivnijih tržišta inostranih investicija. Prisustvo japanskih direktnoih investicija, kao i velikog broja japanskih kompanija koje koegzistiraju sa evropskim kompanijama ukazuje na međusobne uticaje različitih menadžment filozofija u evropskom biznis okruženju. Rezultati istraživanja u radu ukazuju na identifikaciju oblasti u kojima je sa uspehom izvršen transfer japanske biznis prakse na evropskom tržištu. Istovremeno analiza kompanijski i poslovno specifične biznis prakse i kulturno zavisnih menadžment filozofija u radu identifikuju ključne parametre otežanog transfera japanske poslovne filozofije u evropskom biznis okruženju što predstavlja i osnov za dalja istraživanja u ovoj oblasti.

Ključne reči: menadžment, biznis, transfer biznis prakse, okruženje, relacije

The European Union and Japan: Foreign Trade Relations and the Transfer of Japanese Business Practices in the European Business Environment

Abstract: The European market is one of the most attractive markets for foreign investments. The presence of Japanese direct investments, as well as a large number of Japanese companies that coexist with European companies, indicates the mutual influence of different management philosophies in the European business environment. The results of the research in the paper indicate the identification of areas in which the transfer of Japanese business practices on the European market has been successfully carried out. At the same time, the analysis of company- and business-specific business practices and culturally dependent management philosophies in the work identify the key parameters of the difficult transfer of Japanese business philosophy in the European business environment, which is also the basis for further research in this area.

Key words: management, business, transfer of business practices, environment, relations

1. Introduction

The European market is one of the most attractive markets in international business. The presence of Japanese investments, as well as a large number of Japanese companies that coexist with European companies, indicate the mutual influence of different management philosophies on the European business scene. Acknowledging the differences between Japanese and European management styles, as well as a comparative analysis of the impact of Japanese management philosophy in the European business environment, points to the perspectives of the development of the European business environment.

The researches of Pascal and Athos, together with those of Ohmae and Ouchi, represent one of the most comprehensive studies that analyzed the characteristics and impacts of the Japanese management model as an alternative to the dominant Western model (Ohmae, 2003). According to them, the best companies are characterized by harmony among the elements of the "7 S" model. The similarity is expressed in the way they manage strategy, structure and systems, but they differ in the way they manage the remaining components: capabilities, style, professional staff and subordinate goals. The Japanese value interdependence as a relationship modality, individuals are considered an obstacle to development, individuals define their identity in the group they belong to.

Western society values independence and attaches importance to the individual. These authors quote T. Fujisaawa (co-founder of Honda) who says that he advocates the view that management in Japan and management in the West are 95 percent similar and completely different in the remaining 5 percent, the essential 5 percent (Pascle, Athos, 2003).

These differences are also commented on in other researches. The Western system is identified with "professional management" and is based on strategic planning. In contrast, in Japanese companies, priority is given to on-the-job training and is based on the definition of a long-term strategic goal and the careful implementation of the strategy (Hamel, Prahalad, 2010).

Abbeglen and Stark used a radically different perspective in their study of Japanese corporations. They advocate the view that "people power strategy" and not management style make Japanese management the one that sets the pace. Japanese companies tend toward "developmental management" that involves the expectation of continuous development while decisions and planning are formulated to lead to development (Abegglen, Stark, 1990).

Lester Thurow confirms this key difference in business logic: for the European and generally Western systems, the ultimate goal is profit and strengthening the company, while for the Japanese, profit means creating an empire and strengthening their company. This means that these two systems are fundamentally different: European society is oriented towards consumption and the interests of the owners, while Japanese society is oriented towards savings and investments. There are also significant differences between the roles played by governments in these two systems. The European system is characterized by liberalism. The Japanese government participates in the development of national industrial strategies by indirectly protecting domestic industries. The Japanese government never fully disbanded the "zaibatsu" so that the conglomerates remained, developed in the form of "keiretsu" (Thurow, 2005).

The comparative analysis of the European and Japanese management systems enabled a broader comparison of the "Anglo-Saxon individualistic form (Great Britain and the USA) and the "group model of management" (Japan and Germany). In this sense, Michel Albert distinguishes between "Capitalisme Anglo-Saxon" and "Capitalisme Rhenan". According to this author, Great Britain and the USA have a common paradigm: liberalism, orientation towards profit, dominance of finance over industry, orientation towards shareholders, individualism, greater mobility of personnel. Germany and Japan have similar paradigms: organized competitive power, long-term orientation, large investments, stable capital structure, loyalty to the company (Albert, 1998). However, in addition to the similarities, some non-existences also appear. German companies definitely belong to the western circle in which the individual dominates the working relationship, the German manager is a specialist, while the Japanese manager is a generalist. The German market economy and the relationship between top management and labor unions are fundamentally different from the Japanese model. Finally, both systems are characterized by a group decision-making model, but in Japan it is the result of a neutral consensus, while in German companies it is through a system of internal negotiations and co-determination (Zečević, Nedeljković, 2014).

When such contrasts between these two management systems are taken into account, it is clear that the five percent difference mentioned by Fujisawa is essential. However, these findings indirectly indicate that within Europe there are characteristics that make the European management system specific in relation to the Japanese one, but at the same time point to mutual interpenetration and influences of these two management systems.

2. Business and foreign trade relations between the European Union and Japan

The large increase in direct investments and the presence of Japanese companies in Europe represents a specific challenge for the European business environment - at the same time a "threat" and an "opportunity". The threat is through direct competition and the presence of Japanese companies on the European market, and the opportunity of the crisis is the creation of jobs where Japanese production units are located (Zečević, Nedeljković, 2014).

For the European Union, Japan is the second largest trading partner in Asia, after China. At the same time, Japan is the seventh largest partner for the European Union in the export and import of goods. Also, the European Union and Japan together account for a quarter of the world's GDP. Imports from Japan to the EU are dominated by machinery, engines, chemical products, optical and medical instruments and plastics. EU exports to Japan are dominated by chemical products, engines, food and beverages. Traditional trade relations between Japan and the EU are characterized by a larger surplus in favor of Japan. In the period from 2009 to 2021, the EU's trade deficit with Japan will increase from 18 billion euros to 82 million. At the same time, the export and import from Japan in the period 2009-2021 increased. EU exports to Japan reached the highest level in 2021 (62.4 billion), and the lowest in 2009 (32 billion euros). EU imports from Japan were the highest in 2019 (63 billion euros), and the lowest in 2013 (40 billion euros) (European Commission, Directorate-General for Trade, 2023).

In order to support and improve business relations, several agreements were concluded between Japan and the EU: Economic Partnership Agreement, 2019, Strategic Partnership Agreement, 2019, EU-Japan Mutual Recognition Agreement, 2002, Agreement on Co-operation on Anti-competitive Activities, 2003, Science and Technology Agreement, 2009.

Table 1. Japan and the EU in world trade-export

Country	In billion EUR	Percentage
China	2.268	18,0
EU	1.933	15,4
USA	1.253	10,0
Japan	561	4,5
Hong Kong	480	3,8
others		48,3

Source: Eurostat, 2022.

Table 2. Japan and the EU in world trade - imports

Country	In billion EUR	Percentage
USA	2.108	16,4
China	1.801	14,0
EU	1.717	13,4
Japan	556	4,3
Great Britain	556	4,3
others		47,5

Source: Eurostat, 2022.

Tables 1 and 2 show the world's largest importers and exporters. Japan, with 561 billion euros or 4.5%, is the fourth largest exporter in the world. In front of him are China (with 2,268 billion euros or 18%), the EU with 1,933 euros or 15.4% and the United States with 1,253 billion or 10%. Also, Japan was the fourth largest importer in the world, with 556 billion or 4.3%, followed by the United States with 16.4%, China with 14% and the European Union with 1,717 billion euros or 13.4%. These data indicate that the EU and Japan represent the world's key markets in international business and foreign trade.

Table 3. The largest export partners of the EU

Country	Percentage %
USA	18,3
Great Britain	13,0
China	10,2
Swiss	7,2
Turkey	3,6
Japan	2,9
Norway	2,6

Source: Eurostrat, 2022.

Table 4. The largest import partners of the EU

Country	Percentage %
China	22,4
USA	11
Russia	7,5
Great Britain	6,9
Norway	3,5
Japan	3,0
South Korea	2,6

Source:Eurostat, 2022.

The data indicate that the European Union's exports to Japan and imports from Japan increased in the period from 2011 to 2021. The position of Japan among the most important trade partners of the European Union can be analyzed based on the data from tables 3 and 4. The four largest export partners of the EU were the United States with 18.3%, Great Britain with 13%, China with 10.2% and Switzerland with 7.2%. The four largest import partners of the European Union were China (22.4%), the United States (11%), Russia (7.5%) and Great Britain (6.9%). These data show that Japan is the seventh largest export partner of the EU with 2.9% (62 billion euros). In terms of imports, Japan ranks sixth among the EU's largest partners (3%), between Norway and South Korea. This shows that Japan represents one of the ten most important trading partners of the EU and further improvement of trade relations between these two markets.

Table 5. Trade balance (surplus-deficit) between EU countries and Japan

EU countries	Saldo Eur million
Italy	3.100
Denmark	1.726
Ireland	1.702
Sweden	1.382
Finland	1.352
Germany	1.191
France	724
Spain	638
Austria	509
Greece	80
Malta	74
Slovakia	72
Latvia	51
Estonia	42
Croacia	4
Romania	1
Lithuania	-10
Slovenia	-27

Cyprus	-92
Bulgaria	-152
Luxemburg	-283
Portugal	-305
Czechia	-809
Hungary	-852
Poland	-1.497
Belgium	-1.679
Netherlands	-6.930

Source: Eurostat, 2022.

The trade balance between the EU member states and Japan is shown in Table 5. These data show that 16 EU member states had a trade surplus with Japan. Italy had the largest surplus with Japan (EUR 3,100 milion), followed by Denmark (EUR 1,726 million) and Ireland (EUR 1,702 million). A significant share of exports to the Japanese market was achieved by Sweden, Finland, Germany and France. At the same time, a significant number of eleven EU member states had a trade deficit with Japan. The Netherlands (6,930 million euros), Belgium (1,679 million euros) and Poland (1,497 million euros) had the largest deficit. It is also important to point out that the three largest exporters to Japan were Germany (18,515 million euros), Belgium (7,629 million euros) and Italy (7,555 million euros). With 10.8%, Malta had the largest share of Japan in exports outside the EU. On the other hand, the three largest importers from Japan are Germany (EUR 17,323 million), the Netherlands (EUR 11,248 million) and Belgium (EUR 9,308 million). Luxembourg had the highest share of Japan in non-EU imports (15.4%) (Eurostat, 2022). These data indicate a further increase in the volume of foreign trade exchange between Japan and the European Union and a gradual equalization of import and export relations.

3. Transfer of Japanese business practices in the European business environment

In considering the influence of Japanese management philosophy, the main question is related to the behavior of Japanese companies on the European business scene: do they conduct their operations as "insiders" trying to adapt their operations to European business practices, or have they taken positions within the European market with the aim of transferring their own management model.

Most of the business operations of Japanese companies in Europe are of recent date and their adaptation to the local way of doing business has not yet been fully achieved. The main reason for this is the problem of transferring the methods and techniques of the Japanese management system to Europe. On the one hand, in the domain of production (organization and quality), the transfer of Japanese business practices in Europe was successfully achieved. On the other hand, in the domains of decision-making, leadership, communications and human resource management, cultural and social differences increase the complexity of Japanese companies' operations in Europe. Several limiting factors can be singled out here.

First, key managerial positions in branches of Japanese companies in Europe are mostly occupied by Japanese people, who have not yet adopted local cultural and social customs. Japanese companies do not recruit top and higher levels of managers from the country where the branch is opened, due to the possibility of losing control in the process of making and implementing decisions and creating difficult communication between the branch and the directorate.

Second, the existence of a cultural gap between Japan and Europe that greatly affects the conduct of business operations. Because of their "long-term isolation", the Japanese shaped original principles in the process of making and implementing decisions. They can be described as follows: collective spirit, introversion, consensus, precision, group responsibility. These characteristics are opposite to most characteristics in the European management system: individualism, extroversion, approximation, acceptance of different options, control focused on the individual (Sachwald, 2016).

In contrast to European companies where decision-makers are top managers, in Japanese companies the decision-making center is at the level of middle managers ("Kacho" - heads of departments). In the Japanese management system, middle managers initiate and develop projects. The first stage in this process involves intensive communication of middle managers with heads of departments and lower hierarchical levels of the company's management. It aims to carry out the necessary consultations and test the idea. This phase is referred to as "Nemawashi" – consensus building process). In the second stage, middle managers consult the higher hierarchical levels to which they report. This phase is referred to as "Ringisho". The third stage involves obtaining the consent of the top management and after that the "ringisho" goes back to the middle level management who initiated the project and the implementation can begin (Lincoln J., Kerbo H., Wittenhagen E., 1995) (Naoki, 2013).

In European companies, similar processes of "nemawashiu" (system of co-determination in the German system or in the Scandinavian countries) may appear. However, in European business practice, the system of communication and information flow is limited, a smaller number of people are involved in the decision-making process (and these are rarely lower hierarchical structures).

One of the frequent challenges that European managers face in the European business environment is vertical organization. In European companies, each department is considered relatively "autonomous". Communication between departments is weak and no employee can "intervene" outside the department. Communication between departments in Japanese companies is much more direct. The flow of information is free both within and between the company's departments. In Japan, information is a common good, while information in the European business environment is an asset owned by a company department.

Cultural differences between the Japanese management system and management in Europe have influenced the management of Japanese companies to limit or slow down the transfer of their domestic management practices in their operations in the European business environment.

Table 6. Transfer of Japanese management practices in Japanese companies in Europe

Caracteristics	**Japanese companies in Europe incorporating Japanese business practices**
„just in time“	10,09 %
Lifetime employment	14,90 %
On-the-job training	69,90 %
Slow career progression	4,60 %
Daily meeting	36,20 %
Work uniforms	56,90 %

Source: JETRO Japanese External Trade Organization, 2020

The data from Table 6 shows some of the results of the study conducted by JETRO (Japanese External Trade Organization, 2020) which shows and confirms certain previously stated dilemmas. It is noticeable that the highest index in the transfer of Japanese business practice was achieved in the field of on-the-job training, and the lowest in the specific Japanese policy of slow career advancement. Also, lower indices are present in the "just in time" and "lifetime employment" categories. This speaks in support of the already stated position about expressed individualism, greater mobility; more pronounced orientation towards profit in the European management system, as opposed to the collective spirit, consensus and group responsibility in Japanese business practice.

Among the Japanese multinational companies that conduct their operations in Europe, Sony has become a pioneer among Japanese companies that have an organizational structure in which "global integration" and "local responsibility" are harmoniously applied. The company's headquarters is located in Germany, and two production branches are located in Great Britain and France. A "Frenchman" was appointed as the president of the Sony France branch, which was a rare practice of Japanese companies to appoint staff from the host country at the top level of their branches, and the directors of the three production plants were also French. Only 12% of the 2000 employees were Japanese (technicians and one executive director). Responsibility for making and implementing decisions is delegated to managers from the host country. The directorate of Sony in Japan retained the right to make decisions in the area of defining goals and determining strategy (Zečević, Nedeljković, 2014). Sony's management has put into practice such a model that integrates the positive aspects of Japanese and European corporate culture with the aim of preventing different interpretations of the decisions made.

In this way, other Japanese companies, such as Sony, from the former "outsider" approach, began to implement the "insider" approach in the European business environment.

Japanese companies incorporated only a part of their management practices (in the field of production) into their business operations in Europe, but the management of Japanese companies was simultaneously forced to adapt to European local management practices (especially in the field of leadership and management of shell resources).

Most of the typically "Japanese" business policies and techniques are successfully transferred and incorporated into the European branches of Japanese companies. They include the long-term perspective of goals, the demand for superior quality, priority in production and horizontal integration (Yamazaki, 2012).

The management of Japanese companies does not prioritize short-term profitable goals, as is the case with managers of European companies. The management of Japanese companies is guided by the goal of "long-term strategic intent". Japanese companies generally start their operations in Europe with small investments. Only in the second phase, after getting to know the market better and establishing stable networks of relations with suppliers and clients, they expand the network of investments. The dominant goal of the management of Japanese companies is constant development and increase in market share. Another characteristic of Japanese management, when it comes to the transfer of business policy on the European market, is the prioritization of production and production departments. Japanese managers possess specialized technical knowledge, skills and experience in production. With the exception of the German management system, in European companies, manufacturing is far less "prestigious" than marketing, research and development or finance. That is why technical staff and production employees in European branches of Japanese companies accept with approval the attention given to their functions, and Japanese skills in this area are easily transferred and adopted (Zečević, Nedeljković, 2014).

Japanese business strategies prioritize consumers in terms of product or service quality. In this sense, Japanese companies in Europe implement this type of strategy without facing much resistance: consumers approve of excellent service (to the extent that the price difference is not too great), and employees are incentivized to perform quality operations (as long as their training).

Japanese business strategies are based on product quality, and it is the primary goal in both domestic and foreign markets. In the European business environment, where consumers consider quality to be essential, the management of Japanese companies has successfully carried out the transfer of the Japanese quality strategy.

A large number of researchers, including Bartlett and Ghoshal, define the organization of Japanese companies as a "centralized node". In their research, Bartlett and Ghoshal compared a large number of Japanese and European companies: "Kao" with "Unilever" (in the cosmetics industry), "Nec" with "Ericsson" (in the telecommunications sector), "Matksushita" with "Philips" (in the field of electronics). These examples indicate that the specific way of decision-making and control characteristic of Japanese companies is the result of a "culturally dependent management system based on collective-oriented behavior" (Bartlett, Ghoshal, 2002).

4. Conclusion

Researches in the paper point to growing trends in business relations between the EU and Japan. In the observed period, according to the analyzed parameters, the EU and Japan together participate with about 20% in world trade, while the increase in imports and exports on these two markets is constantly on the rise.

The more significant presence of Japanese companies and investments in the European Union market has led to an increase in the trend in the transfer of Japanese business practices in the European business environment. The operation of Japanese companies in Europe made it possible for the European business environment to adopt certain principles and adapt to Japanese business practices, such as: orientation towards interpersonal relations and social responsibility, orientation towards quality, adoption of the principles of workplace training, long-term development of the company as a dominant priority.

The research in the paper also identified some of the basic problems in the transfer of Japanese business practices and problems in the business of Japanese companies on the European market, which primarily relate to specific decision-making systems (Japanese consensus versus the European system of internal negotiation), the relationship between the European orientation of management towards individualism and Japanese collectivism, mobility of human resources, communication and information flow systems in business, as well as control systems (individual-oriented control in European companies, as opposed to group-oriented control in Japanese companies).

Analysis and research of company- and business-specific business practices and culturally dependent management philosophies at work point to the need for further research, especially in the area of more efficient business adaptation of Japanese companies in the European business environment.

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