商学研究所報

Management of Cross-Cultural Risk in Business
—How should Japanese companies manage ASEAN workers? —

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1. Introduction (Main points)[1]

Due to globalization, companies that enter into foreign markets have various pressure at the level of marketing, personnel management, consumer behavior, and also cultural factors from foreign countries.

This paper explores and focuses on aspects to consider when companies that expand overseas faces different cultural aspects in the Vietnamese markets; particularly how they manage challenge, how they grasp the difficulties of their circumstances, and how they overcome problem.

By the definition of the writer, business culture is defined as "the synthesis of such factors as religion, law, regulation, social system, faith, courtesy, social custom, manner, sense of values that have an influence on a consumption, consumer behavior, and the decision-making of corporations."

Cross-cultural risk in business is defined by the definition of the writer as the "uncertainty of loss and opportunity in regard to corporate behavior due to differences in business cultures between trade partners".

Such cultural risks arise if advanced companies do not understand these differences. Conversely, if the culture of another country is understood and appropriate action is taken, the opportunity to expand and accommodate each other's companies is shared.

In this paper, I will first explore the risk of business culture through case studies, and secondly, examine the risk management process particularly from the viewpoint of cross-cultural risk and the theory of raising both the productivity of the company and the happiness of employees.

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[1] This paper was written in English after some amendments to the Japanese paper titled "Business niokeru ibunkarisukuno Manejimento", *Journal of Senshu Business Review,* Vol.14, 2019. Institute of Commerce of Senshu University.

2.　Some Cases of Loss from Cross-Cultural Risk in Asia

Case 1:　The gap between store layout and consumption custom in Asia produces reputational risk — Case of Yoshinoya (beef and rice bowl restaurant) —

Case 2:　Unfavorable business practices like bribing creates a loss for more advanced companies

Case 3:　Differences in thinking and expectations regarding welfare benefits cause such risks as strikes and career changes

2-Case 1: The gap between store layout and consumption custom in Asia produces reputational risk — Case of Yoshinoya (beef bowl restaurant) —

- Yoshinoya's flagship product is their beef and rice bowl in Japan, and beef and rice bowls served at a counter seat. The first Yoshinoya shop in Taiwan opened in 1988, and it was a counter seat, but people in Taiwan had a bad perception of counter seats.

- Since it was more common for Taiwanese families to eat together at a table, there was a resistance to lining up at a counter to eat beef and rice bowls[2].

- When I visited Yoshinoya in Taipei in March 2018, there were no counter seats, only tables. Being served at a counter had a bad reputation not only in Taiwan, but in other Asian countries as well as the United States.

2-Case 2: Unfavorable business practices like bribing creates a loss for more advanced companies

- The Japan Transportation Consultants Corporation (JTC) was forced to pay bribes (rebate) by government officials in Indonesia, Vietnam, Uzbekistan and paid a total of approximately 160 million yen to them. This is a violation of Unfair Competition Prevention Law.

- This is a case of providing a rebate (bribery) which is seen as the norm in the

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[2] Kawabata Motoo (2017), *Syouhi Tairiku Ajia,* Chikuma Sinsyo, pp.52-56

partner country in order to receive orders. This causes deterioration in the company's performance, as some of the business practices of the partner country are inappropriate.

- Human rights violations for workers such as illegal working hours and/or illegal payments make losses for the company not only in foreign markets but also in Japan where Japanese companies employ foreign workers.

2-Case 3: Differences in thinking and expectations regarding welfare benefits cause such risks as strikes and career changes

- In Vietnam, between 2009 and 2014, a total of 3,120 labor strikes occurred.
- In 2006, a large-scale strike of about 10,000 people occurred in a Japanese company in Hanoi, and in June 2012, there were several thousand large-scale strikes in a Vietnamese industrial park for a Japanese trading company.
- The main cause is a problem in welfare, and in particular the problem of wages.
- Examples of issues in welfare include: a need for more vacations, more nap time during the day, and the quality and quantity of meals. It is easy to strike because other companies in the same industrial park have a reputation for more and better meals. There are also strikes that call for an increase in the volume of lunches in general is especially important. It is possible to improve workers' performance through better meals.
- There are cases in which the local wage levels and welfare programs (especially the quality of meals) can lead from dissatisfaction to strikes, and the differences in food culture and eating habits trigger the strike, so it is necessary to consider these risks.
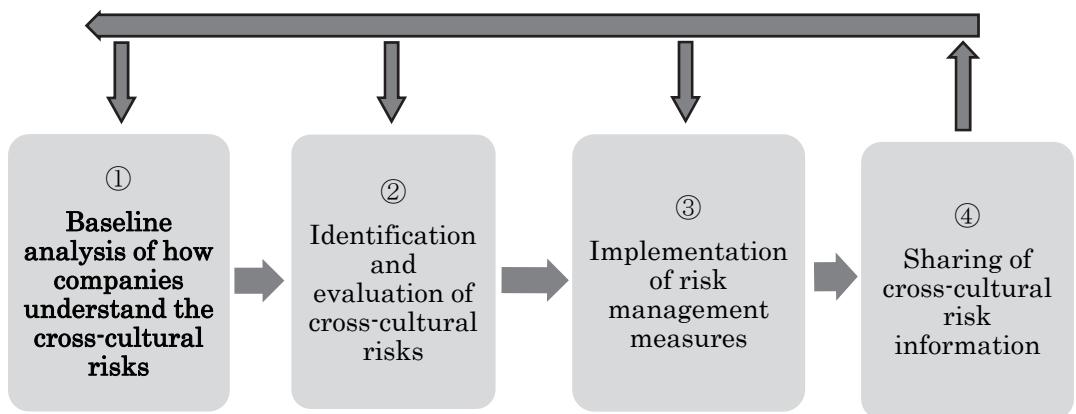- Compared to Japan, Vietnamese workers often quit their company because of welfare issues.

3. Cross-Cultural Risk Management Process

Cross cultural risk is defined by the definition of the writer as the "uncertainty of loss

and opportunity in regard to corporate behavior due to differences in business cultures between trade partners."

In order to effectively manage the losses that occur in Japan overseas companies due to cross-cultural risks, the management process of cross-cultural risks (Cross Cultural Risk Management Processes, CCRMP) should be introduced within the company (Figure1). There are four stages in this CCRMP.

Figure1　Overview of the Cross-cultural Risk Management Process (CCRMP)

① Baseline analysis of how companies understand the cross-cultural risks	② Identification and evaluation of cross-cultural risks	③ Implementation of risk management measures	④ Sharing of cross-cultural risk information

3-1. Four Stages of the Cross-Cultural Risk Management Process (CCRMP)

・The first stage is a baseline analysis of how Japanese companies understand the cross-cultural risks of the countries where they are advancing.

・The second stage is the identification and evaluation of cross-cultural risks by Japanese companies on how they perceive the cross-cultural risks of the countries in which they are located.

・The third step is to implement a variety of risk management measures to engage cross-cultural risks.

・The fourth stage is the sharing of cross-cultural risk information within the Japanese company. We can call this stage cross-cultural risk communication. This cross-cultural risk communication is necessary at each stage of this CCRMP.

3-2-① First Stage of CCRMP (Baseline analysis of cross-cultural risk)

In the first stage, the analysis of the following four items is important.

1) Existence of a corporate vision or mission that the employer and employees share with each other.

2) Understanding local employees ' work values and needs.

3) Full communication between local and head offices in Japan.

4) Whether company is an open organization or a bureaucratic organization.

For example, 1): If there is a "communication problem between the local and the head offices" and also in the "existence of the corporate vision that employees share with the CEO" as I pointed out above, it will produce an example of unfavorable business ethics and risk that lead to loss as I talked about in case 2.

In terms of "the value work, and understanding of needs of local employees," we must pay attention to the point that there is a big difference between Japan and Vietnam, as shown in the following survey results.

＜Research results1＞

• The reasons for "why I wanted to quit the company" was that there was a big difference between Vietnam and Japan(Table1).

• The first and most significant result was "the lack of welfare benefits". 21 percent of Vietnamese respondents and only 3 percent of Japanese respondents gave this as a reason for wanting to quit their jobs. The benefit package valued in Vietnam is "meal, parking subsidies for motorbikes, and employee travel" etc., and the lack of consideration to this aspect will be connected with the occurrence of a strike explored in 2-case3.

Table 1 : Significant Difference in Companies Where Employees Quit due to Welfare Benefits between Japan and Vietnam

Question: Why did you want to quit the company?

Answer	Vietnam	Japan
① Low pay	47%	32%
② Mismatch of work	24%	12%
③ Lack of welfare benefits	21% ⬅————————➡	3%

Research: 300 people in their twenties who work in Vietnam and Japan in 2014.
Source: Asia Plus(http://asia-plus-net)

＜**Research results 2**＞ : People's Labor Attitudes for Vietnamese Workers and Japanese Managers Who Work for Japanese Companies (2015)[3]

・According to the paper above in 2015 about attitudes to labor of Vietnamese workers and Japanese managers who work for Japanese companies, we can generally depict the working habits of Vietnamese people as the following(Table 2).

・It is important to realize one's dream and make the family happy through work ➡ the company is a member of the family.

・The CEO should be like the employee's mother, communication is important, and generous welfare benefits are necessary.

・The Japanese CEO is not desirable as the head manager, but can be a good uncle.

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[3] Kojima Kazuumi (2015), "Nihonkigyoudehataraku Betonamujinnroudoushanitaisuru Roumukanrinituite", paper of Kochi Institute University, pp.1-9.

Table2　Attitudes to Labor of Vietnamese Workers and Japanese Managers Who Work for Japanese companies

	Japan	Viet Nam
Family View	Work > Family events	Family events > Work
How to spend your leisure time	Friends or Lover or Family	Family
Wages	The seniority system Work for many years	Wages worth the skill Change of job
Business Style	Emphasis on generalist	Focus on personal skill

Source: Kojima Kazuumi (2015), "Nihonkigyoudehataraku Betonamujinnroudoushanitaisuru Roumukanrinituite", paper of Kochi Institute University, p.5.

3-2-②　The second stage of CCRMP(identify and evaluate cross-cultural risk)

Second stage of CCRMP is to identify and evaluate its own cross-cultural risks from the viewpoint of what frequency they occur and the negative effects of loss regarding the following items.
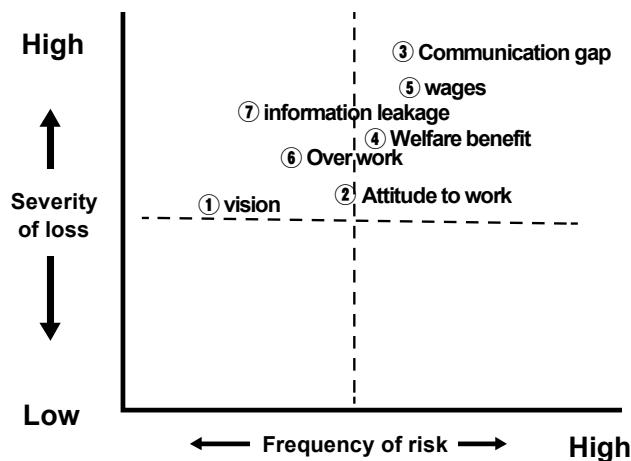
- Products and labor management in consideration to national character, differences in religion, etc.
- Evaluation of welfare programs (meals, holidays, internal events, etc.)
- Communication with employees and their families
- Evaluation of rewards and promotions
- Evaluation of overtime work
- Information leaks, etc.

One way of assessing cross-cultural risk is to create a cross-cultural risk map. It is possible to create the following risk map for each item shown above, the frequency of culture risk in the company and the severity of the loss from it via a double axis (X-Y) model. Although this map is primitive and mainly about labor management, I think there are few companies which use it.

<Example of a Cross-Cultural Risk Map>

Figure 2 is a virtual example, but if you recognize that there is a problem in communication with the family of the employees and employer, it is necessary to respond to them. Although the internal sharing of the corporate vision is assumed to be low in regard to frequency and the extent of the loss, in this map, the corporate vison is the one to play the role of a compass in regards to corporate action and cannot be disregarded. Specific risk responses are implemented in the third phase of CCRMP, "dealing with cross-cultural risks."

Figure 2   Examples of Cross-Cultural Risk Map

3-2-③   The third stage of CCRMP (dealing with cross-cultural risks)

Risk management tools for many kinds of risks usually have two pillars: one is risk finance and the other is risk control. Risk finance means risk transfer, like insurance and other financial funds. Risk control means prevention and reduction of risks by a variety of ways and this risk control have two types: hard control and soft control.

Hard control refers to an approach that emphasizes a tangible and compelling approach, such as rules, procedures, manuals, or checklist systems. On the other hand, the meaning of soft control is somewhat variable, but in this instance, soft control refers to building relationships with stakeholders by trusting people, helping others, and sharing risk information, sharing company goals and values. The specific meaning of

soft control in this context is as follows:

・ Sharing the corporate vision

・ Leadership to optimize cross-culture risk after recognizing cultural differences

・ Programs to foster the happiness of employees

・ Fairness and transparency in personnel evaluations

・ Fostering a family atmosphere, etc.

In this paper, our objective is to control cross-cultural risks, in other words to control "uncertainty of loss and opportunity in regard to corporate behavior due to differences in business cultures between trade partners." So, to deal with such cross-cultural risk management has available only hard and soft controls (Figure 3).

Figure 3　Cross-cultural Risk Management Tools

Cross-cultural Risk Management Tools ── Hard control

Soft Control

People's values inform risks associated with labor. And most communication gaps between corporations and local employees can be seen in how employees and employers internalize the values of work, customs, and culture. We aim to decrease loss in this context through a soft control approach which emphasizes intangible assets such as voluntarily fostering trust.
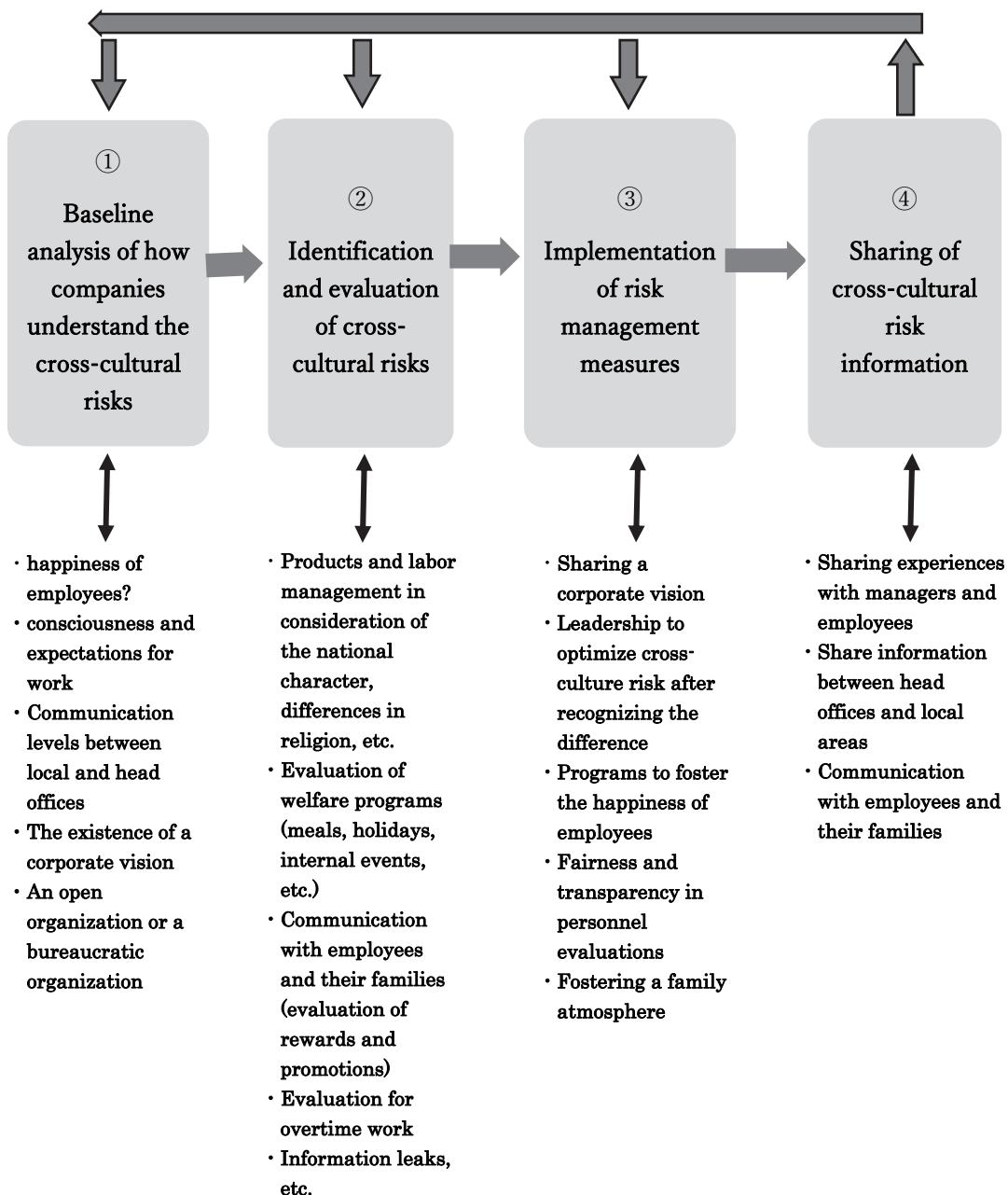
The approach of soft control is aimed at deepening mutual understanding, especially in regard to differences such as culture. Therefore, soft control can be effective in the medium and long term.

3-2-④ The fourth stage of CCRMP (sharing cross-cultural risk information)

The fourth stage of CCRMP is sharing cross-cultural risk information as follows.

• Sharing experience and risk information with managers and employees

• Sharing the corporate vison and mission

• Sharing information between the head office and local areas

• Communication with employees and their families

Figure 4　CCRMP and Soft Control Risk Management Tools

①	②	③	④
Baseline analysis of how companies understand the cross-cultural risks	Identification and evaluation of cross-cultural risks	Implementation of risk management measures	Sharing of cross-cultural risk information

· happiness of employees? · consciousness and expectations for work · Communication levels between local and head offices · The existence of a corporate vision · An open organization or a bureaucratic organization	· Products and labor management in consideration of the national character, differences in religion, etc. · Evaluation of welfare programs (meals, holidays, internal events, etc.) · Communication with employees and their families (evaluation of rewards and promotions) · Evaluation for overtime work · Information leaks, etc.	· Sharing a corporate vision · Leadership to optimize cross-culture risk after recognizing the difference · Programs to foster the happiness of employees · Fairness and transparency in personnel evaluations · Fostering a family atmosphere	· Sharing experiences with managers and employees · Share information between head offices and local areas · Communication with employees and their families

This sharing of cross-cultural risk information stage should relate to the other three stages each other. Stage 4 of the CCRMP will be effective when a CEO reviews existing corporate cultures and set up new management visions and missions by using soft control activities (Figure 4). The essence of cross-cultural risk management is how

employees can work in a sense of well-being (happiness at work) in both domestic and overseas market.

In the last of this paper, I will discuss theories that generate "how happiness at work and also productivity can be achieved in business."

4. Theories that generate "Flow" in business

In the risk of life, it is said that "happiness at work" is a major risk that affects happiness in life. Accordingly, in this section, I will explain theories and mindsets related to business resilience, specifically focusing on how one can work passionately, in other words, how "happiness at work" can be achieved.

4-1. "Flow" in business[4]

P. F. Drucker says, "Working means to carry out responsible work", which suggests a company needs to ① provide truly necessary work, ② give feedback information on outcomes ③ provide a continuous learning environment; resulting in work that is joyful. He points out conforming to the above leads to self-realization (i.e. thrill and excitement). Drucker's view is similar to some of the "flow" conditions others consider.

To clearly define the definition of "flow" by M. Csiksgentmihalyi (Professor of Psychology at the University of Chicago and the first researcher of "Flow), "Flow is optimal productivity for humans; a state of being emotionally satisfied and overall happy". Companies aiming for a flowing state are strongly protected against management risks, and even if they fall into adversity, their resilience will be strong. Csiksgentmihalyi applies the "flow" experience to the business field as well and summarizes the following as a condition for achieving the "flow" state.

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[4] The discussion of this chapter is mainly referring to the following articles. Susan A. Jakson & Mihay Csikszentmihalyi, *Flow in Sports: The Keys to optimal experiences and performances*,1999, Human Kinetics. Japanese edition is translated in 2005 by Imamura, Kawabata etc. in 2005, Syuichi Tsuji (2008)
Flow Company, Business publication, Mihay Csikszentmihalyi, *Good Business: Leadership, Flow and the making of Meaning*, 2003, Japanese edition is translated in 2008 by Hiroshi Omori in 2008, Hiroaki Imamura etc. edition, *Flow Rironnno Tenkai,* Sekai Sisousha,2003.

4-2. Six conditions for achieving the "flow" state

① To clarify organizational goals

It is necessary to clarify organizational goals by sharing the corporate vision, philosophy, and mission among employees and management in an effort to instill empathy. These things also create a sense of unity in the company and motivate all involved to achieve goals.

② Giving freedom and responsibility to employees (centered on trust and independence)

Employees need the skills necessary not only to achieve the goals, but furthermore, create the "flow" necessary to delegate authority to employees. In terms of how to work, that could mean controlling employees in a restraining manner. When there is a range of choices, managers can provide opportunities for employees to find the best solutions. Doing so creates credit and new ideas. It is also a factor that leads to "flow" (a viewpoint held by managers and bosses).

③ The balance between the challenge (goal) and one's skill are comparatively at relatively high level for someone

Skills refers not only to technical skills, but includes in its definition one's ability in regards to values, feelings, humor, compassion etc. For example, in terms of recruitment in human resources, it is also important to ask "whether job seekers are suitable for the organization's goals and values".

Sometimes there are situations where a challenging goals and one's skills cannot be balanced. Determining whether such a situation is temporary or ongoing based on daily communication and thus making appropriate changes will in turn create "flow".

④ The existence of objective and fair evaluations (i.e. clear feedback)

Learning and growth opportunities are created when employees quickly receive specific feedback regarding the results of their work. However, if a boss gives detailed feedback that leads to over management, the employee's motivation and motivation to learn are hindered, which can be a factor that leads to ethical risks and thus becomes a reason or justification for employees' decisions due to pressure.

Feedback also has feedback from the work itself. By showing the measure of work-specific outcomes, if you know the progress of employees' work in the organization as a whole, it often becomes appealing feedback for the whole organization.

In addition, feedback from friends is also important, and when employees demonstrate their abilities and uniqueness, it is also important to have a "face-visible companion" that understands them.

⑤ The pride and satisfaction that comes from contributing to the creation of public interest and social value

Employees can reduce any psychological strain over their work when they're convinced that the products and services they create contributes to the creation of public interest and social value. Providing products and services (social business) that contribute to solving social problems has inherent advantages in this respect.

⑥ Preparing oneself for receiving not only extrinsic rewards, such as money, but also intrinsic rewards such as education, training, and career planning

In recent years, several companies have reconsidered the performance-based approach that typically results in extrinsic rewards. It is believed that by focusing on adjusting intrinsic rewards, there will be increases in employee satisfaction (ES), which in turn leads to increases in customer satisfaction (CS).

5. Conclusion

It is not easy to manage cross-cultural risk related to the values, customes, corporate culture and corporate structure of workers and managers because the risks are inherently invisible to them. However, the important thing is that cross-cultural risk can turn into an opportunity and be a potential strength of the company, due to efforts and consideration by the management to make it a workplace with a sense of wellbeing through the fostering of employee's working motivation. The Cross-Cultural Risk Management Process (CCRMP) discussed in this article will help managers to carry out such efforts.

In this paper, we have considered the case of Japanese company expanding into Asia, but as pointed out in this paper, similar problems may occur in domestic companies employing foreign workers. The problem of cross-cultural risk, mainly related to labor management, is also related to the way of working reform.

In the future, if there is opportunity, I would like to examine the extent to which the Cross-Cultural Risk Management Process (CCRMP) and theories presented in this paper will work on both domestic and overseas job sites.

Main references

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