Why Trust Is Key to Business in Japan: Earthberries CEO Patricia Bader-Johnston

Updated 12 November 2026

Intro: You are listening to C-Suite Perspectives, a podcast by The Conference Board.

Nico Sennegon: Welcome to C Street Perspectives, a signature series by The Conference Board. I'm Nico Sennegon, leader of the Economy, Strategy & Finance Center of The Conference Board Europe, and the guest host for today's episodes. Today, we'll explore the realities foreign business owners may face in the Japanese market.

How different is doing business in Japan from other markets? Is Japan truly as conservative as it is often assumed to be from the outside? Joining me is Patricia Bader-Johnston, CEO of Earthberries Capital. Patricia has spent more than 40 years in Japan working across the public, private, and venture sectors.

She's a veteran entrepreneur, an angel investor, and the only female past president of the Canadian Chamber of Commerce in Japan. Welcome, Patricia.

Patricia Bader-Johnston: Thank you very much, Nico. It's a pleasure to be here.

Nico Sennegon: Let's start with a very simple question. Is Japan's business culture as conservative as it is often assumed?

Patricia Bader-Johnston: Now you made me smile at the very beginning, Nico, because it's not a simple question at all. First of all, I have to caveat my answer with the fact that I've been in the Japanese market my entire business life. So to me, the Japanese system, the way business is done there, is probably my comfort zone. And so when I look at it objectively, I have to view it through a perspective of being in Japan, but also from my experience with a lot of global corporations that I've worked with from a footprint of Tokyo.

Japan is a very dichotomous kind of a place, and so it is extremely conservative in one

way, but by the same token, it was the first country in the world to have a crypto exchange. So there's this kind of two sides to the coin with Japan where it could be extremely innovative and at the same time be extremely conservative.

And when we identify what is the source of conservatism in Japan, I think that how I would approach that is to say that it's a trust-based society. Japan is an Asian country, I think the only one that's never been colonized by a European power. You could make an argument about Thailand, but Japan closed its borders for 300 years to keep colonialism out, and it has a very unique and distinct and far-reaching history of corporate life.

And in fact, the oldest company in the world is Japanese, dates back to the 12th century. It was acquired, I think, in 1985, but it's still existing. So you have these ancient companies still operating in Japan, and the very, very large corporations have their current entities' histories of over 150 years.

So of course it begs the question: how could it not be conservative? Because these corporate identities and cultures have been built up over many decades, even centuries. But by the same token, society itself is based on trusted relationships. And when you have any kind of a cultural organization where you have a very well-developed and, in a sense, opaque network of trusted relationships, it becomes very difficult for any sort of outside player to break into that.

And just intuitively, I think that's easy to understand, yes? So that when the Japanese have these huge corporations with relationships that date back decades if not centuries, for any new company coming in, it appears to be, on the surface, extremely conservative, extremely hard to break in, and operating at a very different kind of pace and speed because Japanese business operates for Japanese business and society.

In some ways, fundamentally, business missions are qualitatively different than business missions of much newer Western organizations.

Nico Sennegon: Thank you. What are the main challenges faced by non-Japanese entrepreneurs starting business in Japan?

Patricia Bader-Johnston: Going back to my earlier answer, I think the biggest issue faced is breaking into trust-based relationships. And so to come in starry-eyed and to think, "I have a great idea. I really like Japan. I'd like to live there. I'm going to start a company, and I'm gonna set it up like I would in Singapore or in Canada. It'll take me 30 minutes online. I'll have a company. I can get an online bank account and get right into business." There is going to be a very big surprise when you discover that's not how Japanese corporate start-ups start at all. And I think that's the biggest difference between non-Japanese and Japanese in terms of starting up businesses, that initial expectation that you can come in with an entrepreneurial spirit, and you can just get things going and get things started.

So that's the biggest difference and the biggest challenge for non-Japanese, I think,

coming in, is that expectation that things can happen quickly and that you can do quite a lot of the heavy lifting on your own and that you can set up a transactional business from scratch, whenever you decide to try to do it.

That's always a a big difference, I think, for non-Japanese entering the market.

Nico Sennegon: Thank you. And from a different angle, is starting a business in Japan different for a woman than it may be for a man?

Patricia Bader-Johnston: Yeah. Japan ranks, I think, 126th on the gender equality rankings globally. I do think that there are reasons for that, because the gender role identification in Japan is very cultural.

I believe that women are actually quite powerful in Japanese society. It's very often the wife that makes all of the investment and the buying decisions, and so marketers always target women in Japan, not the salarymen husbands. But in context of business, it appears that women have a much smaller role.

I think it's not just Japan as well. I believe the statistic for venture capital is that less than 3% of venture capital goes to women-led businesses, and it would be even less in Japan. The number of board roles held by women is single digits in Japan, and that's improved a lot since I arrived. I think when I first looked at this issue 20 or 30 years ago, it was like .086% of board members were female. So Japan's made great strides.

But given that role identification issue in Japanese society, it becomes much more challenging for any female to step into the arena of trusted relationships that have been established by men over decades and many years.

So breaking in for any woman, whether they're foreign or not, is a bigger challenge than it would be for a male. If on top of that, you're a foreign female, then in a way you're sheltered from some of it, because in Japan your identity is very closely linked to a business card. So if you come armed with a business card that has seniority, you'll be treated according to the title that you have as opposed to your gender.

So corporate women in Japan actually don't face a lot of discrimination, and I've lived that experience as well. I've been a vice president with Goldman Sachs. I've been a board member director at IBM. And as long as you are senior in your organization, you'll be treated as senior.

But for a new entrepreneur coming in who is carrying a business card that does not have a known name, even if the title is CEO or representative director, they don't know how to treat you, and I think that becomes a hurdle. So for women getting even visa applications, it's more difficult for a woman entrepreneur in Japan.

I think that it's much easier for a male entrepreneur to get a five-year visa or a longer-term visa than it is for a female entrepreneur. And I believe that access to funding is much

more limited in Japan for a woman entrepreneur, whether they're Japanese or whether they are a foreigner. Japanese women get a lot of support now from government-supported and also large corporate-supported accelerators that are very difficult for foreign women to enter.

And so foreign women tend to have, again, a much bigger hurdle because they don't have the leg up that women entrepreneurs are getting currently in Japan. So again, it just depends on where you sit, what your associations are. It matters if you have a Japanese spouse, because if you have a Japanese spouse, then a lot of issues with getting bank financing, even mortgages are very different for you in Japan.

But being a standalone female entrepreneur is a very challenging position to be in, and you have to go in with your eyes wide open about it. But clearly it's not impossible, and there are pathways for non-Japanese women entrepreneurs. But it's much harder than for men.

Nico Sennegon: Thank you, Patricia. On the topic, you talk about funding, so I have a specific question related to this. How are new businesses in Japan usually funded, and from your experience, what challenges have you encountered in raising capital over there?

Patricia Bader-Johnston: Well, that's a very long answer. But basically, it's very difficult to get funding in Japan for foreign entrepreneurs, and whether they're male or female, I think it doesn't make any difference.

And part of the reason is that even setting up a corporation requires corporate bank accounts, and you can't even incorporate until you have a corporate bank account, and it's becoming increasingly difficult for foreigners to open corporate bank accounts in Japan. And in fact, I have friends just in the past year who've been turned down by six or seven different banks and gave up because they couldn't even register their entity until they had a corporate bank account.

It can be a very difficult thing to break into because you need introductions, relationships, and track record. to try to apply for government grants or subsidies the paperwork is extremely bureaucratic. It has to be done in Japanese. You have to have established entities.

The majority of them require a minimum of three years of tax records. So if you have difficulty even getting your incorporation off the ground, it's very difficult to survive for three years before you can even be eligible for any kind of subsidies and grants. So this is for bootstrapping entrepreneurs that I'm talking about. Getting bank finance, it's directly related now to visa status, and since last year, to get a business manager visa has become much, much more difficult. Where you used to be able to start a company for $50,000 capital, now you have to have $300,000 in paid-in capital just to start the incorporation, and you also have to have a certain level of fluency in Japanese that you can prove with evidence, which means you've taken exams or you have some other form

of evidence.

And you have to have your track record of tax that shows you can support yourself over a period of between one to three years. So the hurdles for getting a business manager visa have become so steep that actually the number of applications for business manager visas has dropped by over 95% in Japan in the last year or two.

It's creating a big hurdle for people to come in and even start companies. But without all of those pieces in place, you can't possibly go for bank financing, you can't apply to an accelerator, you can't apply for a venture capital company that requires due diligence on your track record, which is quite onerous in Japan.

It can be very challenging for anybody who is just a new entrant into the market to look for financing. In my own case, I've tried all of those avenues and in many cases failed. A venture capital firm or even a bank looking for project finance will drag you along for three to six months, and then in the end, there's no way that they're...

There is really no project finance in Japan. It's all corporate finance based off balance sheets. So companies that need money actually are not usually eligible for bank financing in Japan. And also, you need to have at least a permanent resident visa or a spouse who is Japanese in order to qualify for any kind of bank loans and financing.

So what people usually resort to is financing from abroad, and that this is why Silicon Valley has been able to make great inroads into the Japanese market. It's because they have more of a cash-based kind of due diligence approach, and they look at the merits of the company as opposed to the track record in many cases.

Another way is to do a joint venture and to collaborate with Japanese companies that can provide corporate financing. And for this reason, a lot of the larger Japanese corporations now have venture capital arms, where they incubate their own entrepreneurs that may be foreigners that come in that have IP that they're interested in.

But different than Silicon Valley-type financing, this is more linked to whether the IP is of interest, whether there could be future collaborations, if it could be complimentary IP, or in some cases, they buy it to kill it. You know, the Japanese are very innovative, but we don't hear about it a lot.

I think per capita there are more patents registered in Japan than any other country in the world, although China may have surpassed them this year. But what happens to all that IP is that it's generally generated within the incubators of large corporations, and so they choose whether they activate the IP or not.

Foreigners entering that kind of VC arm in the past, say, five years or so, there's been a little bit more of a door opening in that direction, but it's still pretty much directed at Japanese entrepreneurs, not foreigners. In my own experience, bringing in investment from abroad has been much easier.

Japan doesn't really have a pre-seed or angel investor population, and so bringing in particularly pre-seed and angel money, I have always had to find that from outside of Japan in my own case.

Nico Sennegon: Thanks a lot for this very insightful analysis, Patricia. We're going to take a short break and be right back with more of my conversation with Patricia.

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Nico Sennegon: Welcome back to C-Suite Perspectives. I'm your host, Nico Sennegon, ESF Center Leader at The Conference Board Europe, and I'm joined with Patricia Bader-Johnston, CEO of Earthberries Capital. So Patricia, do you think Japan is still an attractive market for international business owners?

Patricia Bader-Johnston: Yeah, I think it's still a very attractive place in a number of areas.

I think it's getting more difficult for bootstrapping entrepreneurs and for young innovators, for instance, even though Japan is working hard to try to fix some of those issues. But for a company that already has an established footprint in a home market that is able to enter Japan in a position where they have no problem with paid-in capital, where they can immediately promise to hire 10 full-time employees, and they can set up, they can access some quite attractive tax incentives.

They can get help through the Japan External Trade Organization in order to have introductions and matchmaking into the market. And for those kinds of companies that are at a later stage, they can also have relatively easier discussions with local venture capital companies. But what they need to prove, I think, in Japan is that they have a long-term commitment.

And in our first segment, I think I mentioned that it's a trust-based society. So even a relatively well funded organization that is able to wait out the requirements of the bureaucracy in order to get set up, they still have to have a very high tolerance for a slow game. If you compare the Greek myth of Sisyphus pushing the boulder up the mountain, you have to assume that even for any company coming into Japan, you need to push the boulder up the mountain first.

And then once you get to the top and you've gone through that difficult stage, which can take six months or even a year, sometimes two years, then things can happen quite quickly, and Japan becomes a much easier terrain to navigate. But a lot of companies don't make it all the way to the top of that mountain, because that boulder seems to be very heavy for some of the reasons that I mentioned: the bureaucracy, the setting up of bank accounts, and the breaking in to the trusted relationship networks.

That takes time. I'll use as an example, in the West, we sign an NDA very often at the very first meeting. A Japanese can take three to six months to sign an NDA. I-- this isn't true for a lot of the really global international companies, but at a more local level, what a Japanese company that we would consider an SME would have hundreds of employees, okay?

Their definition of SME is much larger scale. That conservative Japanese company that might be the part of the supply chain or might be able to provide a pre-purchase agreement for product, for instance, may take quite a long time to even sign an NDA because they have to prove to themselves that you are serious, that you're trustworthy, and that you've been properly introduced, and that you're in it for the longer term before they'll even take that first preliminary step.

And this applies even to global trading companies. I've had experiences with companies I've been helping to market enter who have taken up to six months just to sign an NDA with a large trading company, names that you would probably recognize easily in Europe. So you can't come in with a short-term timeline in mind.

But if you have that long-term commitment in mind, you can come in with enough capacity to wait it out, and you're willing to put in the time to establish the trusted relationships, then I think it's still very attractive. Japan is going through a period in its history where there are massive retirements, and it's also aging society.

So there are literally thousands of Japanese companies that have been operating for decades, that have been quite successful, that have a large employee base and even manufacturing facilities and plants and assets under management, but they have no succession plan. And for that reason right now, Japan is a very attractive market for M&A.

Because a company that already has a global footprint outside that comes in, that can identify a complementary company in Japan, can bypass a lot of this setup angst and acquire a whole workforce and Japanese excellence-- just by providing a succession plan. This kind of acquisition is very welcomed by Japanese local governments because their primary purpose is to keep employment operating.

Because especially in rural areas outside of Tokyo or Osaka or Fukuoka, for instance, when a plant or a company like this shuts down, it often causes an entire town to die. And so there's a lot of incentive right now for companies to come in, provide basically a

succession plan for the current ownership, and to keep that goodwill in the community that can be very productive.

So to me, that is probably the hugest area of opportunity right now for global businesses looking at the Japanese market.

Nico Sennegon: Thank you again, Patricia. Once these companies have reached the top of the mountain, as you mentioned or referred to, what lessons can they take away from Japan?

Patricia Bader-Johnston: I think that Japan, in my view, and perhaps I'm biased because I truly love Japan, it's my second home I think it's a society that truly works.

I think that the corporate cultures in Japan, although they appear to be very Western on the surface, still hold very much true to very old founders' principles which see the role of a company to provide stability to communities, to provide long-term employment, and to give back to society in a great number of ways that goes well beyond paying taxes.

I think that the West can learn from this by adopting corporate cultures that are not transactional, that are very long term, that go in with a view to becoming good corporate citizens, collaborating with companies that already have those deep roots in community. I think that it can be a very productive way to do business over the long term, to establish true sustainability for business cultures.

In a way it moves beyond the pure GDP measures of success. And very often Japan doesn't measure up well to the GDP approach to success because it doesn't operate on that as a metric of success, and Japan doesn't need to advertise that mindset. But if you go to Japan, and I'm sure that many people listening have spent time in Japan if you're interested in the country, it's a place where everything works, where society's extremely stable, and where the role of women may seem to be somewhat repressed, but by the same token if you scratch a little you'll see the huge role that women play in being in control of investments and long-term planning and culture carrying with a population of children in that society that the world is envying for their kindness and their empathy and their attention to being good community members.

And I think that's a huge role that women play actually in Japanese society. So by allowing women to enter different pathways into the business world so that they can continue to play that role, I think that we'll see a rise in the rankings in terms of gender equality, but equality by slightly different measures. I think that Japan can teach us that a society can be extremely stable by establishing labor laws, for instance, that are protective enough of employees that they don't need to unionize.

Union activities, I think in Europe we're watching what's happening in France and the protests this past week. This is something that's unimaginable in Japan. If there's a strike for instance, in the railway system in Japan, you will get at least a day warning. The railway company will strike at an hour that is not going to inconvenience commuters.

It will be a maximum of two hours stoppage with apologies and the workers literally lining the streets, bowing and apologizing for the inconvenience they are causing to the local population in order to make their points. The mentality of service to society and the fact that we don't inconvenience others, and that we make sure that our needs are met by meeting the needs of society, I think is something that the West can really learn from Japan.

It's a beautiful thing to live within and how it manifests in so many ways. I lived through the tsunami, the disaster in 2011, and that to me really brought this message home about what Japan can share. In Japan, the rule of law is so embedded in society that even when the world ended, like literally seven prefectures were washed away, the local citizens still followed the rules and regulations.

There was no vandalism. There was no looting. When the government asked the country to cooperate in reducing electrical use because they lost 28% of their electricity overnight, there was not a single uncontrolled blackout because everyone turned off their lights and cooperated. This is something that is embedded not only in society, but in corporate culture as well, where the reason for doing business is to bring benefit to society, and I think that is a beautiful thing that sometimes goes a bit too far in Japan, the salaryman culture, and we could talk a lot more about this.

But these are lessons that there are definitely many things that the West can learn from.

Nico Sennegon: And this leads to my final question. If the listeners remember one thing from today's conversation, what would you like it to be?

Patricia Bader-Johnston: I think that I would say establishing trust in your business networks is very important.

And one thing that I have learned from Japan is that beyond reputation, actual trust is something that is hugely valuable, and it's something that plays out over weeks and months and years and decades. I literally do business with people that I have known for 20 or 30 or 40 years, and those people have provided most of my extended business network through introductions.

And these are warm introductions where a new person sees me not as a person they don't know, but as a person who was introduced by someone they trust. So you can gain the halo of trust, and this is the single most elevating attribute that you can bring to the Japanese market. So establishing trust, working through people, taking the time to build that trust-- this is the key to success in Japan, in my view, and everything else builds from there.

Nico Sennegon: Thank you very much. Personal takeaway, if I link this to the topic of our initial conversation, launching and growing a start-up in Japan, I would say the path is not an easy one, specifically for outside companies, and we've only said for women. But to

your point, if you understand Japan as a trust-based society and you clearly understand the sort of mixed economy between conservative and innovative value, there's a path to reach the top of the mountain.

Patricia Bader-Johnston: Absolutely. Thank you. There is a path.

Nico Sennegon: Thank you for joining us today.

Patricia Bader-Johnston: Thank you, Nico. I appreciate the opportunity.

Nico Sennegon: And thanks to all of you for listening.

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