The Yakuza: From Tattoos to Business Cards

Stuart Witchell
Senior Managing Director
Forensic & Litigation Consulting
Global Risk & Investigations Practice
FTI Consulting
It’s legal to be a “mobster” in Japan.

Indeed, crime groups often list their headquarters in the phone book. In the center of Tokyo, a bronze nameplate on a door identifies the building as the office of the Sumiyoshi-kai, one of the largest criminal organizations. Gang members carry business cards; some even have mob-sponsored pension plans. In fact, organized crime in Japan — referred to locally and internationally as the Yakuza — is regulated, and many of its members must comply with laws that require registering with the government.

The Yakuza made front page news in Japan this year when some 2,000 out of 23,400 members of the Yamaguchi-gumi — a 100-year-old Yakuza gang estimated to be making more than $6 billion a year from drugs, various real estate rackets, loan sharking, extortion and stock manipulation — split away from the gang, leaving the police and press to speculate about the potential for a gang war. The seriousness of the situation was underscored by the cancellation of a rather innocuous annual Halloween event hosted by the Yamaguchi-gumi where gang members put on costumes and hand out colorful bags of candy to kids.

Organized crime has a unique place in Japanese history and society. For more than a hundred years, Yakuza groups cultivated an image as a protector of deeply held Japanese values such as respect for authority and the elderly. Recently, their groups received credit for helping victims of the 2011 earthquake and tsunami (while profiting from the construction work that followed, infiltrating legitimate businesses and supplying illegal labor). But most important, crime groups have a history of having a close relationship with the government. After World War II, for example, the ruling Liberal Democratic Party used crime groups to bust unions and harass left-wing demonstrators. Today, Yakuza groups are involved in everything from the entertainment business to gambling to funeral homes. And they continue to be monitored by the government. In a society that places an enormous value on peace and order, many Japanese see the Yakuza as the lesser of two evils, preferring crime organized under the watchful eye of the government to coping with criminals roaming freely, invisible to the authorities.

Western business leaders commonly think of doing business in Japan as they would any developed country — and with good reason. Japan is modern, industrialized and highly organized, and the rule of law is strong. Western businesses rarely think about crime and corruption as a risk in Japan as they would in a developing economy. But Yakuza groups are real, and they are a fact of life and business in Japan. Companies not diligently on the lookout for Yakuza-influenced and/or owned businesses can find themselves at severe reputational risk, as well as vulnerable to fraud and even extortion.

Five Things You May Not Know About the Yakuza

1. Organized crime is regulated, but punishment is lenient.

Organized crime in Japan essentially is a regulated industry. But the consequence of regulatory non-compliance is quite mild compared with actions taken against organized crime groups in other countries. In 2012, for example, the Japanese government updated its 1991 anti-crime countermeasure laws to help curtail activities such as blackmail and protection rackets. However, organized crime members rarely are arrested unless they commit more clearly violent crimes.

In the same year, every prefecture in Japan (administrative regions analogous to states or provinces) adopted the Organized Crime Exclusion Ordinance that prohibits, among other things, knowingly renting office space to organized crime entities or persons or having profitable relationships with any member of a Yakuza group. However, the penalty for violating the ordinance is mild by Western standards: essentially, public shaming for participating in the relationship.

2. Organized crime is big in Japan, significantly more so than in most developed countries.

During its peak in the 1960s, the U.S. Mafia had about 5,000 members. In 2014, Japan’s organized crime groups had more than 53,000 members, according to government statistics. (Unofficial estimates, which include non-registered Yakuza affiliates, run considerably higher.) The government named 21 crime groups as particularly dangerous. In 2015, the U.S. Treasury identified the Yamaguchi-gumi as a global enterprise with ties to criminal organizations in Asia, Europe and the Americas.

3. The Yakuza lurks in many industries.

The Yakuza has its tentacles in multiple industries, including real estate, construction, financial services, entertainment and information technology. Japan’s real estate and construction sectors are highly influenced by organized crime. For example, companies buying land for development frequently find themselves negotiating with Yakuza syndicates that (using inside information) already have purchased key parcels within the development area and demand extortionate sums to release them.

The consequences of resisting the Yakuza can be severe. Cargill, for instance, has a long history of buying and selling...
The Yamaguchi-gumi commonly is called the country’s **second largest private equity fund**.
Categorizing a country as a developed or developing market is useful, but, in some cases, this also can be deceiving. Japan is a sophisticated and developed industrial nation so it may not occur to top executives that they need to vet Japanese partners or investment targets as rigorously as they do businesses in countries such as China and India. But, in fact, the Yakuza groups are a major force in virtually every industry in Japan. Not knowing exactly with whom a company is doing business can make an organization vulnerable to fraud and threats of extortion, as well as putting it at risk of reputational damage.

Three Things You Can Do to Protect Your Company in Japan

1. Thoroughly screen potential employees.

   Sokaiya and the Ponzi scheme that trapped Lehman Brothers relied on inside contacts. Nonetheless, employee screening processes in Japan can be quite lax. When employees are applying for a position, companies need to check all references thoroughly. In contrast to many other developed economies, however, information in Japan is not always easily accessible in the public domain. As a result, companies should conduct comprehensive Japanese language checks on potential employees. It also is critical to verify the accuracy and legitimacy of corporate affiliations, as well as directorships and business interests. Probing these relationships can unearth direct or indirect ties to organized crime.

2. Have a business continuity plan in place.

   Evidence or suspicion of misdeeds can easily make headlines. Organizations should be prepared to deal with the media fallout from a scandal and be able to operate if a business partner is under suspicion. It is extremely important to have a communications plan that has been pressure tested. Ensuring the safety of employees, and having well-rehearsed risk mitigation and response plans in place, is equally essential.

3. Conduct discreet investigations.

   Records of criminal or corrupt behavior are harder to find in Japan than in the United States and Western Europe. Public documents and records likely will cover only very high-profile figures. To truly understand with whom your prospective partners are doing business, companies need feet on the street to conduct discreet investigations. These inquiries can leverage informal contacts with people who might know the reputation of given individuals or companies.

Stuart Witchell
Senior Managing Director
Forensic & Litigation Consulting
Global Risk & Investigations Practice
FTI Consulting
Stuart.Witchell@fticonsulting.com

For more information and an online version of this article, visit ftijournal.com.