



The Yakuza: From Tattoos to Business Cards

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

distressed properties in Japan. However, bad loans from Japan's real estate bubble in the 1980s are widely believed to have been collateralized with property owned by organized crime groups. Since Cargill had been one of the most active buyers of distressed real estate loans, there was a conflict. In 1997, the home of a Cargill executive in Tokyo was torched in an **assumed arson attack**. A Yakuza group was suspected to have set the fire.

Entertainment is another Yakuza stronghold. In addition to bars and nightclubs offering prostitutes (connecting the Yakuza to the sex trade and human trafficking), Yakuza groups have interests in many legitimate Japanese talent agencies. In 2011, the popular TV host Shinsuke Shimada, who appeared daily in front of millions, was forced to resign and apologize for his alleged link with the Yamaguchi-gumi.

The extensive involvement of the Yakuza in the real estate, construction and entertainment sectors will pose major threats to any sponsors of the upcoming 2020 Tokyo Summer Olympics that need everything from new structures built to talent for special events. Indeed, Hidetoshi Tanaka, Vice Chairman of Japan's Olympic Committee, **was photographed in 1998 with the head of the Sumiyoshi-kai** and later **with the head of the Yamaguchi-gumi** (Tanaka has declared the photos to be fake). Tanaka also was an amateur Sumo wrestling champion and President of the International Sumo Federation. **Sumo wrestling got a black eye** in a 2010 scandal in which some wrestlers were involved in illegal gambling syndicates organized by the Yamaguchi-gumi. The International Sumo Federation thereafter pledged to end its ties to the Yakuza.

Although the Olympics itself is perceived widely to be clean, connections to organized crime run deep in the various

business sectors that will be involved with the games.

4

Legitimate-looking companies can be anything but.

A Yakuza member once could be recognized by tattoos covering most of their body and missing digits such as the ring or pinky finger, which would be sliced off by the member to atone for blunders, repay debts or assume responsibility for the mistakes of friends. Among the Yakuza, these were symbols of commitment and strength. Today's younger Yakuza members, however, shun tattoos; their bosses prefer cash to fingers, and the members want to blend in and look like typical businessmen.

This new breed of the Yakuza also is more interested in legitimate businesses such as brokerage firms, although there often is very little that's legitimate about the trading they do. It is not unusual for Yakuza members to trade on inside information they glean from prostitutes who have executive clients and are privy to confidential tips.

The Yamaguchi-gumi commonly is called the country's **second largest private equity fund**.

Many businesses serve as fronts that have fooled some of the world's most sophisticated businesses. Insurance companies, for example, frequently have been cheated by Yakuza members who pose as agents buying group life insurance plans. However, most of the customers in the putative group don't even know they are on the list of the insured. And after the policies are purchased and the commissions paid, the Yakuza-fronted insurance agents cancel the contracts, keeping the commissions.

Global financial services companies, including Lehman Brothers and other well-known investment firms, **were bilked out of nearly \$1 billion** in a cleverly executed scam that appeared to be the legitimate offering of a major Tokyo trading company. In 2008, two members of a Yakuza crime group faked a job at the trading company and, through internal connections, used its letterhead, business cards and meeting rooms to present what appeared to be a sound investment in a company that was renovating Japanese hospitals. But the fund was a Ponzi scheme that had no relationship with the trading company purportedly endorsing it. The conspiracy is one of the largest cases of revealed fraud in Japan to date.

5

Blackmail and extortion are real threats.

The practice of blackmailing executives at publically traded companies — referred to in Japan as *Sokaiya* — has been common for decades. Yakuza members will recruit and work with company insiders to dig up embarrassing information about executives and then threaten to expose them during the company's annual meeting. A refusal to pay invites the risk of physical violence, as well as career-threatening shaming.

Attempting to crack down on the problem in the 1990s, the Japanese government made it illegal for executives to pay bribes and also significantly increased the number of shares a person must own in order to attend an annual meeting. Although these measures have helped drive down incidents of *Sokaiya* from the peak in the 1980s and 1990s, blackmailing again is on the rise. One indicator is the growing involvement of organized crime groups in online services. In 2007, **Japanese newspapers reported that the head of a Yakuza faction took over Yubitoma**, Japan's equivalent of **Classmates.com**, and gained access to the personal data of 3.5 million people. Confidential information in the hands of skilled extortionists poses a new and uncharted threat to both individuals and businesses.

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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.

Categorizing a country as a developed or developing market is useful, but, in some cases, this also can be devceiving. 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. ■

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