Characteristics and Origins of Modern and Enduring Japanese Managerial Practice

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Japan was transformed after World War II into an industrial powerhouse. The combination of strategic support from the West, together with a unique set of cultural factors which manifest themselves in the corporate management culture, left many Western managers in awe at what Japan could accomplish in such a short period. Unfortunately the same factors that enabled Japan to become so strong also became impediments to Japanese organizations as globalization develop. Japan addressed these new trends and made efforts towards conforming to new realities; however venerated traditionally-conservative organizations which endured for many years did little to change these managerial practices.

Keywords: Japanese Managerial System, Theory Z, Managerial Autonomy, Lifetime Employment, Japanese Corporate Structural Reform

INTRODUCTION

Within a relatively short period of time, the Japanese turned a war-wracked nation into one of the most powerful economies in the world; to the point where Japan's economy grew at an average rate of 10% per year from 1981 to 1991. Many believe that a major factor for this post-war success is *Nihonteki Keiei* or Japanese-style management, also referred to as *Theory Z*.

This paper will analyze the concepts of Japanese-style management and the so-called pillars or fundamental elements on which it is based. It will further discuss certain historical origins of Japanese-style management and the corresponding socio-economic foundation of these, along with a critique of advantages and disadvantages and the future of *Nihonteki Keiei* based on current management practices for success.

Elements of Traditional Japanese-Style Management
*Zaibatsu, Keiretsu: Government and Corporate Structure*

Japan dates its beginnings to the founding Emperor Jimmu who in 660 BC established the Yamato imperial line. (Genzberger, 1994, p.3) But, it was not until 710 AD that the country was organized into coherent states with a permanent capital. Almost 500 years later in 1192 AD, local military warlords known as *shogun* seized power from the imperial court and the emperor at the time became simply a figurehead. Japan remained relatively isolated until 1854 when a military expedition from the U.S. opened relations with the country under threat of force. Fourteen years later the Tokugawa Shogunate collapsed and power returned to the emperor (Meiji Restoration). But, contrary to the hope that since the

shogunate military rule had ended, Japan would now reform its political systems unto a more democratic orientation; on the contrary, Japan embarked on a rapid political and economic transformation which was based on *fukoku kyohei* (rich country-strong army). (Chen, 1995, p.152) The ultimate objective was to match Western development and deal with the West on equal terms.

Starting in the 1870s the Japanese government proceeded to borrow private capital and invest in the development of strategic industries such as mining, shipbuilding, steel, textiles and armaments. When these enterprises matured beginning in 1880, the state transferred ownership to selected private hands at ridiculously low prices. This privatization paved the way for the formation of the large industrial and financial, vertically-linked conglomerates known as *zaibatsu* which included Mitsubishi, Mitsui and Sumitomo. The loyalties of these *zaibatsu* were rooted to the government. They supported, virtually without exception, both national and international initiatives of the Japanese government including Japan's expansionist policies and its foray into World War II.(Chen, 1995) In turn, the *zaibatsu* benefited from the expansionist-war efforts of the government and its armies and navies. This relationship forms the foundation of the current government - big business relationship that still exists in Japan today.

After World War II, MacArthur did not fundamentally change the relationship between government and big business. The *zaibatsu* were dismantled under charges of war crimes but were quickly replaced by large, now horizontally-linked, *keiretsu*. Where the *zaibatsu* groups formed monopolies, these new *keiretsu* were oligopolies. Thus, the pattern of ownership now changed from a hierarchical system in which the owning families controlled stocks of the holding company and it, in turn, controlled the stocks of affiliated companies; to an interlocking ownership pattern with the member companies cross-owning the stocks within their *keiretsu* group. Some groups, such as Mitsubishi and Sumitomo, even kept their former *zaibatsu* names. Thus while the militarists were tried and disgraced, the old theme of catching up to the West was maintained; the only difference being that, now the focus shifted from a military to a more economic-based expansion. A very basic comparison of the two Japanese business corporate structures is shown in Figure 1.

FIGURE 1
COMPARISON OF ZAIBATSU AND KEIRETSU (TYPICAL) STRUCTURES
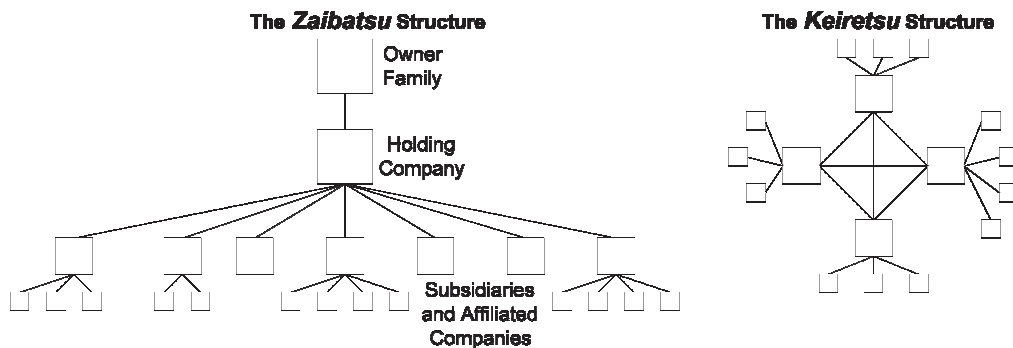
The basic underlying theme of Japanese corporate structure can be summarized by a sense of close ***groupism*** with relatively strong ties to government and the "*national ideal*." From the 1880s and up to and throughout the 1930s this "*ideal*" unfortunately took the form of military expansionism. Japanese big business mirrored this course. After World War II, this national ideal was transformed from a military basis to an economic one commonly referred to as ***Japan Inc***.

Managerial Autonomy but at a Price

One of the most important aspects of traditional Japanese management is the fact that Japanese executives and managers can devote their time to competing with other companies, both nationally and internationally, without having to worry too much about satisfying the interests of shareholders. In

traditional Western corporations the board of directors represents the interests of the shareholders - the de facto owners. Directors are named to the board from outside the company in the majority of cases. The board is supposed to monitor company affairs and intervene in cases of mismanagement. Dividend payout of 50% is seen as appropriate and dividends symbolize how successful company operations are and how well the company is managed. Essentially in the West, the company is a means for profit optimization.

The situation in Japanese companies is quite different. Japanese shareholders also expect a decent return on their investment in the form of dividends. But, the difference is that the dividends are paid as a percent of the par value of shares of the company. (Chen, 1995, p. 182) Consequently, dividend yields as a percent of market value of Japanese shares are very low, typically 1% ~ 2% as opposed to the 50% in the West. The shareholder in Japan, as long as this, albeit low, dividend is paid, has little or no further voice in corporate affairs. The board of directors of a typical Japanese company consists almost entirely of inside people, that is the most senior management of the company itself. Outside directors simply do not exist. Everyone on the board is usually an insider. Thus, in essence, Japanese managers have significantly more autonomy than their counterparts in the West. Their actions and decisions are, for the most part, not checked to the same degree as they are for Western executives and managers.

Additionally, since dividends are paid as a percent of par value of shares, a highly profitable Japanese company can meet its dividend requirements with only a small percent of its total earnings, while most of these earnings (as much as 97%) are reinvested back into the company; the result : successful companies become stronger and buy weaker ones. Thus *keiretsu* groups are strengthened while managers tend to do whatever they feel is to the best interest of the group. However, this managerial autonomy comes at a price; corporate managers ***personally*** guarantee the loans made to their companies. (Hasegawa, 1986, p.4) This is not a legal requirement but it is common practice of most traditional Japanese companies. One of the first duties of a newly appointed company president is to affix his personal seal to such a guarantee. Thus in effect the fate of many corporate managers is tied into that of their company's. This is the price they must pay for maintaining managerial autonomy.

Because of this system, Japanese managers are not subject to the pressures that their Western counterparts have for steady improvement in earnings per share. The Japanese manager is free to look further into the long-term future of the company without worrying to much about short-term gains. This long-term view is not completely culturally-based but a result of the corporate system in Japan. Similarly, in the West, especially in the U.S. were steady and constant gains are expected, the American executive's short-term outlook does not arise from a lack of understanding or concern for his company's future. He is operating in a system that emphasizes his shorter horizon outlook. Although this may represent an "ideal" system, it is only ideal when the overall economy is doing well. Once the economy begins to slip, this actual system turns on itself and becomes very disadvantageous.

Recruitment and Lifetime Employment

Managerial autonomy lies not only in the relationship between management and shareholders but also in the relationship between management and employees. Because of the way the human resource process functions in Japan, mobility among Japanese employees is virtually non-existent, although this is beginning to change in recent years. The fact is, Japanese employees overall have a high commitment to their companies. This high commitment essentially frees up management even further.

Lifetime employment is a basic element in Japanese management style. In fact, it is often cited as the very backbone of Japanese management. (Hasegawa, 1986, p.11) This system has 3 distinct components: the majority of employees are recruited directly from school rather than from the open job market; they are expected to stay with the company essentially until they retire, and in turn are offered solid job security; and, for the most part, recruitment focuses on general characteristics and abilities rather than particular skills.

Recruitment of new employees usually takes place in April which is also the start of most Japanese companies' fiscal year. The typical manager will seek out an individual which he can mold into what the company needs. Very rarely do companies seek out specialists. Thus an aerospace engineer, for example, may be recruited as a mechanical engineer in machine design in a company that manufactures gears and

gearboxes. The main point is that managers look at the individual's capacity to learn and be trained. Many Japanese managers look upon college graduates with liberal arts degrees as potentially ignorant, unreliable, and virtually worthless until they are whipped into shape at the company "*boot camp*." (Lafayette De Mente, 1993, 34) This "*boot camp*" closely emulates the traditional notion of military recruitment. New Japanese company recruits wake up in the morning, perform calisthenics at their desk, work, eat, sleep, bath, _**together**_. The next day they do it over again. What is the purpose of this? The same as with any military boot camp in the world, break down individualism to an extent, and begin to create a moldable individual that will serve well.

Managers in traditional Japanese companies do not look for the most intelligent, most ambitious, or the most energetic employee candidates. (Lafayette De Mente, 1993) The fact is that these young people may not fit into the traditional Japanese system. Those that are sought are those with average ambition, and average opinions and views. They will be molded into company soldiers who will adhere to the military-like hierarchy of the Japanese company, obey its rules, and devote their lives to diligently working and slowly rising in the ranks.

What is the implication of this system for managers? It is this sense of belonging to the Company-group, or more importantly, being part of the company _**family**_. Once the new recruit is accepted into the company, the company becomes an extension of his family. These ideas of groupism, belonging and family are fundamentally the strongest elements, not only in Japanese corporate life, but in the psyche of Japan as a country and as a people. Nothing in Japanese society is more feared than to be an outsider and to be excluded from the group. So this sense of recruitment, training and the relationship between the employee and the company, in the context of lifetime employment, is very important. Managers realize this in their everyday dealings with their employees. A Japanese manager will not worry that his employees are looking to leave, therefore his actions reflect this knowledge. This creates a sense of stability.

Furthermore, since every company provides its own distinct training program which may last up to two years or more, companies rarely value each other's training programs, making it nearly impossible for an employee to make a step up if he does change jobs. Usually, changing companies means a step down with less job security, and less pay and benefits. (Bacarr, 1994, p.128) As far as motivation is concerned, the Japanese lifetime employment system is a tradeoff of opportunity for security. And, owing to cultural and historical factors most Japanese prefer security. (Chen, 1995, p.190)

Seniority, Promotion, Compensation and Wage Parity
In addition to lifetime employment another major characteristic of Japanese-style management is seniority and the promotion system. The importance that length of service plays in determining promotion cannot be overly emphasized. The specific term *nenko* refers to the merit in the number of years an employee has provided service to the company. (Chen, 1995) Since the vast majority of *keiretsu* employees are recruited directly from school, age and length of service parallel each other and seniority seems to be an appropriate standard for reward in Japanese companies. This system also serves as an additional motivator for employees to stay with one company by assuring regular pay raises and promotions. An employee who quits to go work for another company must first tackle the stigma associated with his resigning, must then work very hard to be accepted at the new company by his new colleagues, and finally must resolve him/herself to the fact that they will not be a prime candidate for promotion unless special circumstances warrant. More than likely, this individual will be a specialist who will be staying at their initial entry post for a long time since they were probably hired for that specific job anyway.

Seniority based wages and promotion further strengthen the sense of equality that Japanese companies feel permeates their structure. To the Japanese manager who, like his Western counterpart, has to try to keep spirits high, morale is best served by treating everyone in as equal a manner as possible. This attitude is held at all levels of the Japanese company. The notion is that if everyone is treated the same there will be no resentment. Unfortunately this is the complete opposite of the merit-based system which western companies seem to have adopted. Performance in Japanese companies need not be stellar

because: (1) you do not wish to stand out; and (2) there is no motivation to perform knowing that from a compensation and promotion point of view nothing much will change for you.

At Mitsubishi Heavy Industries for instance, the average difference in wage increases for new recruits after 10 years (1967-1977) was only about $1.50 per month. Even when employees with the best and worst records were compared to each other, the difference in salary per month was only about $17.00! (Hasegawa, 1986, p.20) In addition to promoting a sense of equality this relative equity in distribution of benefits is often cited as a major factor enhancing integration and a sense of common destiny. This seniority system within the context of lifetime employment has benefited Japanese companies in another way as well. Since most, if not all, hires are new recruits fresh out of school, the average age of a company's employees is decreased and so is the average pay level; thus the growth of the company is accelerated. However based on the overall aging demographics of the country as a whole and the ever-present difficulty with immigration, this overall trend is beginning to reverse. This has many companies worried.

Another component of the overall compensation system that is often cited as a competitive advantage of Japanese-style management is the bonus system. In large companies, *keiretsu*, 25% to 35% of the total annual compensation of virtually all employees is paid in the form of semiannual bonuses. Traditionally these are handed out in June and December. This is actually a deferred payment system that provides a good portion of working capital for the company until the bonus is paid. In reality the bonus system is a flexible payment system which is contingent more on the performance of the company; it can easily be cut during economic downturns without having to layoff employees. And, at times it is used to make up slight deficiencies inherent in the seniority system. (Chen, 1995, p.193) From a national point of view, the bonus system has served as a major factor in bringing about the high rate of savings of Japanese households. But this also has a down side because it has instilled a sense of frugality in the Japanese population which during economic downturns runs counter to what needs to happen to boost the economy- spending.

Labor Unions and Management

Another aspect of Japanese-style management is that of the relationship between labor unions, and management. The majority of non-management employees whether blue or white collar belong to a labor union closely associated with their company. Such unions do not differentiate based on skills or job category. Labor union law in Japan is largely a post-war phenomenon established by the US occupation forces. Most Japanese unions are organized on an enterprise, rather than on a trade or professional basis. As a result, unions in Japan are closely tied to the success of their associated companies. They do not exist as separate entities or with an adversarial role to their companies. Their future and their company's future are essentially one and the same. This linking of fate and common destiny limits the extent to which the union is prepared to risk damaging the economic situation of the company and is a direct contrast to the labor-management relationship found in most of the West. (Genzberger, 1994)

Unions are viewed as a protective measure against potential abuses by management but, as mentioned, the union members themselves are keenly aware of the fact that damage to their company may involve damage to their own self-interests. So the extent to which unions in Japan control or monitor employees / management relations is in fact very limited. Work stoppages are virtually unthinkable. This has obvious implications for the particular style managers may employ in Japanese companies. They are much more free to make decisions for the good of the company; decisions which may not be seen the same way by their employees. For example, unions pose no barriers to the movement of workers from one job to another. Unlike the situation where workers are organized by skills or job categories, there is no institutional restraint within the company against reassigning employees to the limits of their capabilities. Employees are constantly reassigned in Japan both within the same facility (from department-to-department) but also to other facilities; they and the unions have no real say in the matter.

Leadership, Decision-Making and Harmony: Ringi & Nemawashi

As with Japanese society in general, Japanese companies are rigidly organized and hierarchical. Although companies promote a sense of equality through equal compensation and wage parity this is true only within each specific level of the organization, that is, these concepts are valid horizontally not vertically. At the top of the organizational structure is the *kaicho* (chairman), who is followed by the *shacho* (president). In most companies however the vast majority of the actual work is accomplished by the *kacho* (department manager). The overall structure of this system is shown in Figure 2.

FIGURE 2
TYPICAL JAPANESE CORP. STRUCTURE
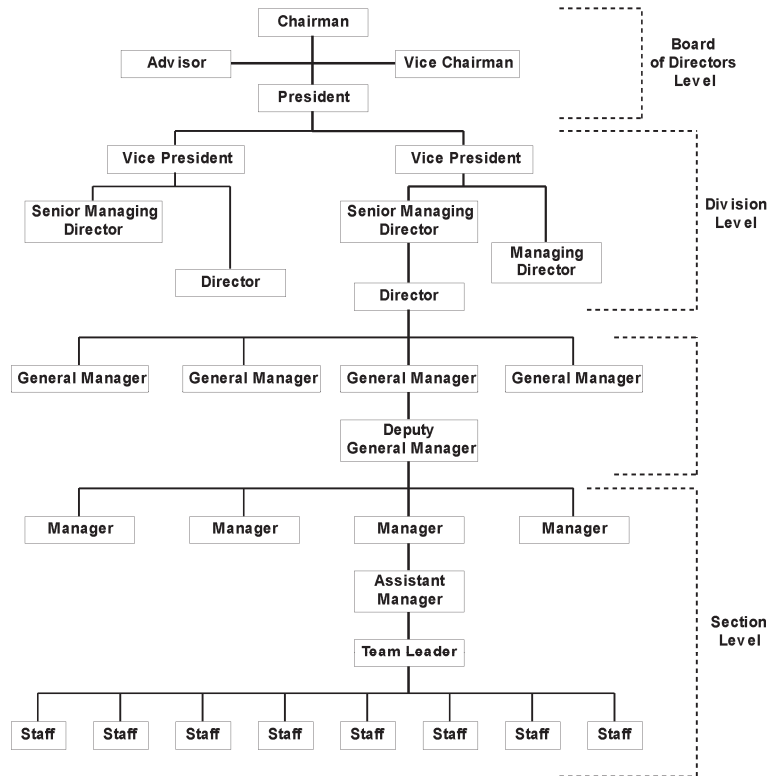
Leaders in Japan are generalists and their main responsibility is to maintain the morale of their workers, who do the actual work. (Alston, 1990) Japanese often choose their leaders with personal qualities in mind rather than particular skills, experience or some specific knowledge. Younger employees are closely observed as they come up the ranks. Those selected for promotion are not necessarily the brightest and quickest but they are likely to be the best listeners and above all the best harmonizers, the ones who work loyally, steadily and quietly and promote these qualities in others. (Lanier, 1991, p.75)

Above all else **wa** or **_harmony_** is of prime importance to both Japanese society as well as to the Japanese organization. It can be said that *wa* constitutes the essence of Japanese life as a whole. The Japanese try to promote *wa* in all situations of their daily lives. Harmony is the single key for maintaining face. Japanese managers concentrate their efforts on motivating all workers, whatever their background and ways of thinking, to work harmoniously together. Japanese managers see themselves as humanists with utmost concern for human beings. However, Japanese humanism is different from Western humanism. In the West individual personalities are the focus of humanistic philosophy and personal liberties are of prime concern. Japanese humanism on the other hand is not concerned with the individual but rather with **_relationships_** between individuals and groups. Japanese see it as a sign of strength for an

individual to conform to the norms of society and not act out his or her selfish individual desires. Japanese strive to develop a self that is in harmony with the surroundings while in the West the exact opposite occurs. Westerners strive to express a unique personal character that sets each apart.

It is a deep part of the Japanese heritage to be extremely careful of other peoples' feelings. Harmony is to be maintained at all cost. Errors require deep and sincere apology. (Lanier, 1991, p.85) *Ringi seido* is a commonly-used formal procedure of management by group consensus. A *ringisho* is a proposal that originates in one section, and is forwarded to all relevant sections on the same level, the section heads, the managers, the directors and the president of the company.(Chen, 1995, p.186)   Upon receiving the *ringisho*, each individual reviews the proposal, makes comments and affixes his personal seal to it. He then passes on to the next individual. If there is significant opposition to the proposal as it stands, it will be revised and the process will be repeated once again. The ultimate purpose of this system is to eliminate dissension and get general agreement on a proposal. This system provides for greater participation in the decision-making process within the Japanese company.

Nemawashi means "root-binding" a term taken from *bonsai* culture in which, whenever a miniature tree is repotted, its roots are carefully pruned and positioned in such a way as to <u>determine</u> <u>the tree's future shape</u>.(Christopher, 1983, p.54) In terms of the Japanese company, *nemawashi* involves a cautious and informal feeling-out of all people legitimately concerned with a particular issue, a proposed course of action or project. This is a highly tentative process in which no firm stance is openly taken and arguments are implicit rather than explicit. From the Japanese point of view, the overriding advantage of this indirect approach is that it all but rules-out the possibility of direct personal conflicts thus maintaining harmony.

Historical Origins: *"Eating Rice from the Same Pot"*

According to Alston, Japanese corporations are organized around three general principles:

(1) ***groupism***, (2) what he refers to as ***familism***, and (3) the familiar ***Japan Inc***.(Alston, 1990, p.9) As we have seen, the concept of "*groupism*," is based on the fact that Japanese corporations promote the group and de-emphasize the individual. "*Familism"* reflects the notion that companies, in effect, are seen as extended families. Employees in Japan have come to expect companies to take care of them and in turn they exhibit loyalty and hard work in order to help the company grow. In Japan many times an employee will introduce himself in the following manner *"I am Yamamoto from Sumitomo Corporation"* Instead of saying *"I am an engineer."* They identify themselves very closely with their company. If we go even further and look at the <u>literal</u> translation, it translates as: "*I am Sumitomo Corporation's Yamamoto*" The individual comes in second after the company. Many times an employee will use the term *uchi* in introducing themselves. *Uchi* literally means "home" in Japanese but also has the connotation of "family." (Alston, 1990, p.10)

Traditional Sources of Japanese Values and Beliefs

In order to understand modern Japan one must look beyond the external Western-style façade and investigate the centuries-old traditional concepts that still continue to guide the Japanese. The Japanese value system stems from five basic cultural traditions: (1) **Shinto**, (2) **Confucianism**, (3) **Buddhism**, (4) **Taoism**, and (5) **Scientific Materialism**. (Genzberger, 1994, p.153) Today these five traditions have been fused together in Japanese society resulting in the so-called Japanese ethic.

Shinto (literally *Way of the Gods*) is the indigenous religion of Japan. It emphasizes harmony of all living and natural elements. Furthermore, Shinto holds that the Japanese race is descended from *kami* or gods. Thus, the overwhelming concept of harmony in all surroundings and situations and the traditional belief of superiority of the Japanese race, which many Japanese still believe in, originates from the *Shinto* tradition.

Confucianism was imported to Japan from China approximately 2,500 years ago and is more of a social code of behavior rather than a religion. Confucianism identifies five types of relationships with distinctly clear patterns of behavior that govern each. These include the relationship between ruler and those ruled, husband and wife, parent and child, older and younger, and friend-to-friend. This distinct social code is easily transferable to the Japanese corporation in relation to the seniority system previously

discussed. The main effect of Confucianism on Japanese business has been the development of the strict hierarchical nature of Japanese companies.

Like Confucianism, Buddhism and Taoism also originated in China and were brought to Japan approximately 1,000 years ago. Japanese society developed its own mixture of these two concepts calling the result Zen Buddhism. Zen stresses meditation and concentration and actually reinforces *Shinto*. Together these were practiced by the samurai. In modern Japan traditionalists still practice these concepts; and, in relation to the business culture, it can be said that modern-day samurai, in the form of company managers, practice these philosophies as well.

Scientific materialism refers to the Western concepts of the natural universe and the cause-and-effect relationships that are at the core of scientific thinking. (Genzberger, 1994) These concepts were first introduced to Japan beginning in 1854 when the country began opening up to active Western trade and modernization. Japan adopted this philosophy when it embarked on this course of modernizing its industries.

It is interesting to note that in certain areas the 5 concepts mentioned above actually conflict and compete with each other on an ideological basis. But, the Japanese have learned to accept such competing ideologies where many Westerners would find them mutually exclusive. In effect, the Japanese have come to use whatever belief system or ideology they see as appropriate at any given time based on the particular situation at hand. This is quite a profound ability on their part. This author believes that it is this particular ability and the resulting behavior patterns of the Japanese that causes confusion on the part of Westerners on "how the Japanese think."

An additional basis for modern day Japanese values and behavior is the notion of "wet-rice farming." Many historians claim that the introduction of wet-rice farming to Japan from China sometime between 1,000 to 300 BC created a lifestyle that instilled the Japanese with a high level of patience, perseverance, diligence, cooperation, and group dependence. Wet-rice farming is a fairly complicated process requiring elaborate irrigation systems. Maintaining such systems is virtually impossible for one individual or even one family, and requires those qualities mentioned above. (Lafayette De Mente, 1993, p.15) The fact that Japan is an isolated country of which the majority of the terrain is very rugged and natural resources are relatively scares, only adds to the difficulty. No wonder that the Japanese hold their rice almost sacred even to the point of preferring to pay up to 500% more for Japanese rice rather than import foreign versions. In Japan the saying goes "eating rice from the same pot" meaning: we, the Japanese, are all in it together.

We have seen that many of the traditional ideologies thought to make up the Japanese system of values and beliefs were actually brought over from China. A valid but purposely simplistic question is presented for discussion: *"why don't the Chinese act the same way as the Japanese?"* In fact China shares many of the cultural values of Japan but it also differs in many areas. The sense of groupism is not so strong in China as it is in Japan. Why? One theory is that China incorporates such a vast land territory with a mixture of ethnic groups that this groupism has not developed. So, physical landscape and proximity to other ethnic groups also plays a role. The homogenous nature of the Japanese race contributes to the psyche of the people. Japan is 99.8% ethnic Japanese. There are few countries in the world, even island nations that have such a homogenous structure in their people. It is important to note that in the Japanese scheme of things a foreigner is a non-Japanese first, an individual second, and possibly a business associate third.

Post War Development and Government's Administrative Guidance

Following the end of the Tokugawa Period in the 1860s and under the Meiji Restoration, Japan began a significant push to modernize its economy. During this period Japan came to realize that it's lack of natural resources and its vulnerability to modern Western powers was a significant threat to the country. The government first began by studying Western industry and methods. This was done by actively sending out thousands of bureaucrats and officials to both the U.S. and Europe to learn these modern industrial methods and bring them back to Japan. Japanese government then began a program to build up key industrial sectors that had never previously existed. These were then privatized (the *zaibatsu*). By

doing this the government and private industry created a very strong relationship which endures even today. This relationship has withstood significant turmoil. In 1894 Japan went to war with China and in 1904 with Russia. In 1910 Japan annexed the Korean peninsula. In the 1930s Japan made an explicit policy decision to deal with its domestic economic problems through territorial expansion first by seizing Manchuria in 1931 and by invading China in 1937. In 1941 Pearl Harbor was attacked and the cycle of conflict directly involved the U.S. It was during this period that "administrative guidance" initially began. This refers to the policy in which the government "guides" industry in a direction it sees as the best course of action for the country and a necessary step to eliminate unhealthy domestic rivalry and focus this instead unto the international sector. Whether the ultimate direction of this guidance is the correct one or not is a different issue as was the case with World War II and more recently with the Bubble-Economy.

Japan's workforce and its infrastructure were completely decimated at the end of WW II. The country set out to rebuild essentially from the ground up. "Administrative guidance" really took off in earnest during this time because of the circumstances of the war. The idea had informally begun some 30 years earlier, but was essentially validated and actually institutionalized in the form of MITI the Ministry of International Trade and Industry.

The first task Japan faced after WW II was to satisfy its domestic demand for basic every-day necessities; and reconstruct its infrastructure. During this period, strict restrictions on imports kept demand under tight control. And, in order to generate the funds needed to rebuild, Japan developed its export-oriented light manufacturing industries.(Genzberger, 1994) During the 1950s the slogan "*export or die*" became popular.(Alston, 1990, p.31) It is here that the notion of Japan Inc. was born. Throughout the 1950s and early 1960s all groups in Japanese society were called upon to forsake their natural competitiveness towards each other and work together for the nation's overall well-being. At Kawasaki Heavy Industries the slogan was "steel is the nation." At Matsushita (Panasonic) the linking of business with patriotism can clearly be seen in their so-called anthem:

> *For the building of a new Japan, Let's put our strength and minds together,*
> *Doing our best to promote production, Sending our goods to the people of the world.*
> *Endlessly and continuously, Like water gushing from a fountain*. (Alston, 1990, p.33)

In addition to close cooperation between government and industry, several additional factors enabled Japan to move quickly beyond its post-war recovery efforts to major economic growth in a relatively short span: a strong work ethic; a conscious decision to focus on quality control; a small defense budget at a time when other economies were spending billions on a global arms race; substantial foreign aid credits; and the opportunity to replace old obsolete plants with new state-of-the-art facilities and machinery.(Genzberger, 1994, p.4)

Until the 1970s Japan did not possess the resources needed to support basic research and development activities on its own. Instead, its industries became highly adept at developing **applications** for technology that had been created elsewhere. One example is of course consumer electronics. The result of this particular endeavor was that Japan amassed an increasingly large trade surplus and in the process significant wealth as a nation.

The "Golden 80's" Give Way to the "Lost Decades"

From 1975 to 1990 the Japanese economy grew by almost 5% per year. And, if we focus on the 1980s (1981-1991) the average growth rate was a staggering 10% per year. This was primarily accomplished through excess government budget deficits and excess trade surpluses with the rest of the world. Essentially Japan was continuing to follow a variation of its 1950s slogan "*export or die*," but the new slogan was "*export to live high*." During this period, approximately 40% of all GDP growth was supplied by a trade surplus. However, Japan could generate ever-increasing surpluses only as long as the rest of the world absorbed ever-increasing deficits; and for a time many countries were willing to do just that due to the value of Japanese goods like electronics and automobiles. However, this soon came to a

halt in 1985-1986 by the Plaza Accords and by the soaring yen, effectively placing a ceiling on deficit absorption. The Japanese economy felt a collective tremor and the country was posed at the proverbial fork in the road. Industrial production fell and there was talk of recession. The Japanese government however, through "administrative guidance" felt the best course of action was to step in and boost the yen. By doing this MITI inadvertently unleashed an enormous stock and real-estate bubble which eventually caused Japan's economic woes throughout the 1990s, the "*lost decade.*"

The mid-to-late 1980s was a time of record growth and profits for Japanese banks. Through a combination of aggressive lending both in Japan and overseas, combined with huge investments in stocks and bonds, Japanese banks reported unparalleled profits. Virtually assured of these profits from their stock portfolios, banks had plenty of cheap money to lend, at very low interest rates, to virtually anybody who came knocking. Because of this, a vicious cycle ensued in which companies issued stock at almost no cost because share prices rose so steeply and regularly that they could borrow against their stock to invest in other assets including stock in other companies and real-estate.(Genzberger, 1994) The fact is that during the late 1980s many of Japan's famous *keiretsu* derived the vast majority of their earnings from just such financial manipulation rather than from actual operation of businesses they were supposed to be engaged in. *Keiretsu* were buying up everything they could get a hold of, from Hollywood movie studios to Rockefeller Center in New York City. It seemed that Japan Inc. was unstoppable and many were praising the relationship between MITI and the *keiretsu*. Outside Japan many Western business leaders were lauding Japanese-style management which suddenly became vogue. Numerous books were written on the subject and **Theory Z** was born to the West. But all this came crashing down by 1992.

The Nikkei collapsed from a high of 40,000 in 1989 to just 14,000 in 1992. Today the Nikkei hovers around 21,000 (March 2019). The value of portfolios held by *keiretsu* including Japanese banks was wiped out. Furthermore, the risky loans the banks made in the 1980s went into default and the assets that keiretsu and banks acquired especially in real estate could not be sold at any price, further tying-up huge amounts of capital. Japan fell into a recession that has lasted almost two decade.

Although things are slowly changing, Japan even today is still managed by an "iron triangle" composed of big business (the *keiretsu*), bureaucrats - Ministry of Economy, Trade and Industry (the successor of MITI), and politicians, all of whom generally work towards the same indirect goal – a strong Japan Corporate structure. "Administrative guidance" is still a factor in today's Japan although it is losing some of its power as Japanese multinational companies are setting their own, more-independent and profit-oriented, course both in business decisions and managerial style.

IMPLICATIONS FOR TODAY'S BUSINESS MANAGEMENT CULTURE

Managerial Autonomy

Japanese corporations have concentrated on the long-term, developing relationships and gaining market share at the expense of near-term profitability. It can be argued that this was the overall objective of Japanese business. *Keiretsu* set out to establish themselves in the world market and they have done exactly that; but now they must refocus their objectives. In the past, shareholders have long been considered to be an unimportant constituency thus providing management of large *keiretsu* the freedom to focus on their companies. However, companies realized that they must move away from a focus on gaining market share to one of increasing profits and satisfying shareholders if they are to adapt successfully to a new global economy; the rise of China has seen to that.(Genzberger, 1994, p.16) And for the most part Japan has heeded the call with corporate profits coming back comparably strongly over the past few years.

On the one hand managerial autonomy can be seen as a tremendous advantage for managers to do what they feel is right for their companies, but the Japanese system has no checks and balances and in a significant number of situations, managerial decisions were simply not correct and mistakes were never caught. Furthermore, there have been numerous times when managers sought to hide their mistakes mainly to save face. This is possible only in a system where such managers are not accountable to independent third parties. The Sumitomo Copper incident of the 1990s is a prime example. A top

Sumitomo Metals executive hid losses hoping that eventually things would turn around for the world copper market. They didn't and Sumitomo caused a significant impact to the market when the executives actions were brought to light. Situations such as these demonstrate the significant disadvantage of managerial autonomy; the lack of third party neutral checks and balances. And Sumitomo is not the only one, opaque rules and systems enable companies like Sony, Olympus, even recently with Nissan to do similar things that may not be perfectly above board.

Lifetime Employment

Japanese corporate profits have declined significantly over the past two decades, as a whole. This is the first time this has happened since World War II. Although few employees have been actually laid off so far, they are feeling the squeeze in other ways. Starting in the mid-1990s a majority of companies have cut overtime pay and bonuses. Many more large, over-staffed, *keiretsu* are forcing their employees to take early retirement or dropping the retirement age in order to systematically reduce head-count. A significant number of companies now require retirement at age 55. Other companies have frozen promotions across the board from the top level executives to the lowest blue-collar factory worker. New hiring has trickled to an all-time low. From the 1960s though 1980s it was not uncommon to see large auditoriums filled with hundreds of new recruits being initiated into a particular *keiretsu* during the month of April (recruiting season), see Figure 3.

FIGURE 3
THE JAPANESE RECRUITING CYCLE

By the mid-to-late 1990s these same companies were hiring less than a dozen new employees per year and many times none at all. The once-filled auditoriums were now empty. In what is perhaps the most psychologically significant move that Japanese companies are now forced to make is essentially the tearing down of one of the most sacred pillars of Japanese style management: the slow dismantling of white-collar lifetime employment itself. In more and more cases new employees can no longer count on lifetime employment with their new company. What does this do to these employees? It would seem that their very group, their very "family" can no longer offer the security that the majority of Japanese employees seek. Employers' loyalty to their employees is slowly fading as is workers' loyalty to their companies. Why is this happening? Lifetime employment cannot quickly adjust to economic downturns. It was instituted when Japan was going through rapid economic growth, when companies were competing with each other for workers to satisfy their expanding businesses. Now, Japan's economy has essentially matured. Also, the dismantling of this system is a consequence of the fact that Japan has to adjust to its *post-industrial* economy. In the 1960s and 1970s workers were needed to *apply* new technologies gained from abroad in the form of consumer goods. Now that Japan itself has become one of the world's most

technologically advanced countries, this no longer seems to be a factor in the company-employee relationship.

Overall, the lifetime employment system has been prone to over-employment for a number of years. This phenomenon is actually referred to in Japan as *in-house unemployment*. (Sakaiya, 1993, p.40) Many employees have been kept on the payroll without producing. This creates tremendous inefficiency from a country which prides itself on its efficient manufacturing systems. But now Japan is sacrificing this efficiency for the sake of job security, and as a result is ending-up with neither. Over the past several years the cycle seems to have reversed with companies scrambling to fill positions with more foreign employees.

Seniority, Promotion, Compensation and Wage Parity

Seniority, promotion and compensation / wage parity has always been based on a perception of fairness in Japanese corporations. But fairness is highly relative and subjective. A "slack" performer may view the Japanese system as "fair" but how does a young, bright engineer who has contributed many new ideas view a system which compensates him equally, exactly the same as with the "slacker"? It is highly doubtful that he would view the Japanese system as fair.

In the past, the Western-style merit system was seen as weak because, it was argued, no objective standards to evaluate merit could be found - at least none that could be adapted for use in Japanese companies. The basic flaw in this reasoning is obvious. Japanese management makes the wrong assumption that everyone is exactly equal in their performance. This assumption is made within the context of equality, harmony and saving face, factors which have been virtually hammered into Japanese managers for years. It is the same assumption made under their own system, now trying to be applied to the merit-based system. This assumption can not hold. People are **_not_** equal. Everyone does not have the same abilities. Employee performance varies and so should compensation. Young researchers in Japan are subject to the directives of old-fashioned, hard-headed top executives in setting research projects, but receive little rewards even though they may be at the cutting edge of the company research.

Consider the following:

> "*Japanese businesses start with the belief that all employees have the same ability.*
> *Lets suppose that Mr. Suzuki has developed an innovative technology. Other employees of the company recognize his achievement but this does not mean that they assess his ability particularly highly. They will probably say: Mr. Sato, Mr. Yamada, and others worked hard at the factory and earned profits to provide ample funds for Mr. Suzuki to perform his research. If Mr. Sato, Mr. Yamada and others had been assigned to the same job as Mr. Suzuki, they too would have produced the same achievement. They were engaged in harder and thankless work instead. Mr. Suzuki was able to develop the technology by the efforts of many other researchers working under him and by his seniors and fellow workers*" (Dudley, 1989, p.125)

This is a very realistic and typical example of how Japanese companies view achievement. Yes, in many situations accomplishment is a group effort but appropriate individuals must be recognized when recognition is due. Although things are slowly changing, Japan has a long way to go in this areas. The Japanese must realize that in order to participate in business successfully on a truly global scale their management practices relating to recognizing high performers must be modified.

Kenichi Ohmae in his work "*The Mind of the Strategist: The Art of Japanese Business*" notes, "A person spends 25 years with Sumitomo or Mitsubishi as a **_nobody_**. After 25 years, he begins to become somebody. After 35 years he is somebody of consequence." (Ohmae, 1982, p.206) Japanese companies can no longer afford to maintain such a system which "carries" non-performers and is based only on age-based seniority. Younger employees who want to contribute, either can not, or are not recognized for their contributions. Slowly these employees become increasingly frustrated at the system that sacrifices them for the good of the group.

Leadership, Decision-Making and Harmony: Ringi & Nemawashi

The concept of maintaining and respecting harmony is so strong in Japanese culture that it continues to weed out most of the more competent, maverick-type individuals, thus frequently resulting in inferior leaders reaching the summit of the seniority system in all areas of Japanese life.(Lafayette De Mente, 1993) This is exactly opposite of what is valued in the West. It will be very difficult for Japan to move away from this thinking based on its cultural background of emphasizing conformity.

In the Ringi and Nemawashi systems, besides the obvious fact that these processes take an extraordinary amount of time to make a decision, the actual initiative does not even come from below. There is a tendency on the part of the West to think that Japanese companies are driven from the bottom-up. And on the surface this seems to be the case, however, deep down it is not so. Initiative comes from the **_top_**, just like it does in Western companies. The Japanese wait around to be told what to do and otherwise are in a waiting mode. (March, 1992, p.140) Consensus in Japan is not usually everybody getting together and deciding what to do. More often than not, consensus is everybody else assimilating what the boss has decided and following suit. Furthermore, Ringi is a method of actually **_diluting_** responsibility. This is very surprising coming from a society where taking responsibility is viewed as honorable. So is it a matter of the Top diluting their potential responsibility by using Ringi? Or is the case that the Japanese fear so much being alienated from their group for making a potentially wrong move that they purposefully seek out all and every means of approval prior to proceeding with a proposal? The reader is left to decide by themselves the answer to these questions. What is clear however, as mentioned above, the process is very slow; often too many people get involved; and to much time is spent on too many meeting. This is a potential problem if Japan is going to be a player in the global market place.

This author believes that the Ringi and Nemawashi systems are nothing more than confirmation-authorization processes. They often end up being nothing more than a *record* of a decision already made at the top and instruments of distributing responsibility throughout the entire company.

The Relative Failure of Theory Z and Japan Inc.

It is clear that Japanese-style management has significant shortcomings. Theory Z may have served the Japanese well the past 40 years but with the maturing of their economy, and with the post-industrial, more service-oriented trend the country is now facing, Theory Z is simply outdated and grossly inefficient. This is evident today when we see Japan struggling to position itself, especially in relation to China.

Japan is a nation of groups and groupism but while group-orientation has many advantages for mass production, in the distribution and information industries, where there are many opportunities for spontaneous creativity and decision-making, it is a drawback. The major advantages of Japanese-style management can be exploited primarily in growing mass-production manufacturing industries that require little decision making and are focused inward. Japan is changing, moving away from manufacturing towards service economy, thus their style must also change.

It is true that there are many positive aspects of Japanese-style management and this author truly believes that when the management style was developed there was sincere effort to account for the equality and fairness of all, but the outcome is such that this has not been maintained in the long-run. Japanese-style management is not fair for the best and brightest employees. In fact, they are made to conform to relative mediocrity in most cases. Japanese-style management protects those making decisions by enabling the dilution of responsibility.

The idea that Japanese companies treat everyone fairly and equally is, in reality, **_not true_**. This author has witnessed first-hand how younger employees are treated by their older colleagues. In some cases this treatment borders on a master-servant relationship at worst, to a drill sergeant-enlistee relationship at best. It was not uncommon for the author to see younger employees literally run when called, usually with the slang "*oi,*" or "hey you" by older colleagues. Superiors are immediately recognized by the language they use, by how they act, and by where they sit in the office. As it was shown in this report, some Japanese authors attempt to portray the Japanese office as a place of equals but this is far from the truth.

The Japanese themselves know and understand this issue of fairness. Keitaro Hasegawa in his text "*Japanese-Style Management: An Insider's Analysis*" states "One outstanding weakness of the Japanese system has been the failure to achieve complete fairness and equality, which are otherwise unique to Japanese business management."(Hasegawa, 1986, p.65)   There is no equality between men and women in the workforce; no equality between younger and more senior workers regardless of performance. Mr. Hasegawa in fact goes on to criticize the very system of seniority which the Japanese hold so dear. The number of outstanding young engineers who resign from major companies is on the increase. Unable to gain promotion and wage increases commensurate with their achievements because of restrictions in the seniority system. (Hasegawa, 1986, p.68)   Job hopping, unheard of up until the late 1970s, is slowly but surely increasing. The younger generation or "new breed" as they are called in Japan is no longer willing to trade job satisfaction for security something their parents did without any thought. With the current trends, they may not have a choice. As we have seen, job security is slowly but surely diminishing and Japan is at least beginning to acknowledge the need for a more flexible approach to seniority and lifetime employment.

While Japan's business façade generally presents a world of *wa* (harmony) in excellent if not perfect working order, reality is often quite different. In many companies there are overriding conflicts of interest among the section and department managers as each tries to outdo or outmaneuver the other to stay on the corporate escalator to the top.(Lafayette De Mente, 1993, p.117)   Furthermore, the combination of exclusive group orientation and the vertical structure of traditional Japanese companies – the classic pyramid organization – often results in very poor communication between the departments within companies, inability to delegate authority and verify slow response time – this author has witness this first-hand.

CONCLUSION

It has been said by several Japanese management experts that Japanese style management would be a good system to apply to the U.S. since it shares the U.S. affinity for freedom and equality – but this is true only on the surface. This author contends that the Japanese system is more reflective of the former Soviet system rather than that of the U.S. At the risk of over-simplifying the issue, Japan can be described as the ideal communist society. Based on the points outlined in this report, it is felt that in Japan, the pure, ideal form of communism / socialism actually has been made to work!

Japan is a nation of *kata*. Those familiar with martial arts know that *kata* refers to the stylized pre-arranged form movements done to simulate a battle. So *kata* means **_form_**. Japan has always been a nation of *kata:* proper forms and rules. But in today's Japan the playing field is changing, as it should, but the *kata* of the nation unfortunately is staying the same, this is the main problem. In traditional isolated Japan, the *kata* served as a specific, absolute guideline for all behavior. Now they are often a trap. But, from growing exposure to other cultures, the Japanese are slowly realizing that they are living in a fish bowl of a sort, that their society is ruled by form and formulas but is empty of true individual human content.(Lafayette De Mente, 1993, p.128) The traditional cultural values and rigid molds of the past are slowly being broken, but, Japan has a very long way to go.

In the end, Japanese management style will be modified because of external pressures, but it remains highly unlikely that it will become a copy of the American system for example. Cultural values and norms are too deep-rooted. Japan has always discouraged heroes, but now, this is exactly what it needs in order to bring the country up again financially to its optimal full potential once again: heroes in the form of young, talented individuals that go beyond traditional thinking and truly are internationally-oriented. It remains to be seen if the Japanese system will ever allow these potential heroes to emerge. It is trying, but centuries of cultural pressures remain.

Over the last 10 years several administrations in Japan have made significant efforts to position the country to more competitive external as well as internal growth and development levels; overall these efforts have met with some success. Japan has been climbing out of its (two) "lost decades" for a few years now and has strived to a better position economically.(Kingston, 2011, p.242) Due to significant

growth in competition from South Korea and subsequently form China, it has established a strategic focus primarily on high-tech and precision products; for example, being a leader in robotics has distinguished the country. One lingering macro-factor however remains in that it is number one among developed countries in public debt to GDP at approximately 240%. The positive side to this however is that the debt is actually owned by the Japanese themselves, therefore maintaining stable leverage. A critical factor with a potentially huge impact however remains – that of the steady decline of the population. Japan's population is estimated to fall below 100 million within 30 years. At the same time, Japan unfortunately but consistently ranks almost at the bottom of countries with wage and opportunity parity in terms of equal employment between men and women. A cultural factor which endures; this is not the only one.

Culturally we must address once again the managerial style of Japanese organizations regardless of the fact that the country seems to be making a stronger effort at the macro-level. When we dive back deeper into the very traditional Japanese style organizations, we find that essentially little has changed in terms of managerial style. And, unfortunately this will continue to impact the country in the near future. The samurai culture that is at the heart of Japan does endure into the business world. Things are still done, managed, under **kata** or "*form*" "*way of doing things*" …….that essentially has not much deviated over the past centuries for the culture, and decades for Japan Incorporated.(Pesek, 2014) The sense of **giri** or obligation in the management-employee relationship endures thus still having an effect on organizational management. While Western culture conditions individuals to a more self-centered concept where workers look upon themselves as individuals, and relationships are based on self-interest; in Japan's business world, an idealized relationship of the **group's** self-interests strictly remains and based on the factors outlined in this paper. Whereas in the West, the nature of work is evolving into a "*free-lancer*," the concept of the company as "*family*" remains and thus the managerial factors in the organizational behavior of many companies. It will be interesting to see the inter-relationships that may develop emanating from the macro-environment of the country overall, with the more micro-environment of such traditional corporate structures and behaviors in management.

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