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JAPAN'S ECONOMIC SUCCESS:  
CAN THE WEST BENEFIT FROM THE JAPANESE EXAMPLE?

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Thesis submitted for the degree of Master of Arts  
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October, 1990



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Japanese Economic Success:  
Can the West Benefit From the Japanese Example?  
Master of Arts  
October 1990

ABSTRACT

The astounding success of the Japanese economy has in the past decade or so been believed by many to provide an answer to the West's relative economic decline. This thesis attempts to provide a more complete account of the factors involved in the Japanese success than that which is generally found in the literature on the subject; the purpose of this is to suggest that the transference of only one success factor or element of the Japanese system may not be the simple solution to Western problems as is so often assumed. It begins with a chapter on Japanese economic development for background. Chapters 3 and 4 respectively cover corporate culture and the management practices considered unique to Japan. These two areas have received the most attention in the literature on how the West can benefit from the Japanese example, the assumptions being that if these are transferred to or copied by the West, than an economic turnaround would ensue. For balance, the next chapter discusses the concomitants of these management practices which may be considered negative by the West. It continues with an examination of Japanese subsidiaries in the United States and Great Britain and then presents the theories of whether or not the system is in actuality transferable to the West by Western managers. The last chapter presents other factors in Japan's economic success in order to argue that the 'popular' assumptions may be too simplistic to provide the resultant success expected.

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Declaration

None of the material contained in this thesis has previously been submitted for a degree in this or any other university and the work is entirely the author's individual contribution.

## CHAPTER 1

### INTRODUCTION

The economic success of the Japanese has gained widespread attention in the past decade or so. The relative decline of Western countries such as Britain and America, previously considered unimaginable, has also been the subject of much concern. Not surprisingly, much literature, written both by scholars and experienced business people, has focussed on how the success of the Japanese can benefit the West.

This thesis will examine the issues involved in this debate. Chapter 2 will provide the background: the development of the Japanese economy since 1868 and Japan's present and possible future economic states.

Next, the subject of corporate culture has become popular in the past few years as being a considerable influence on the success or failure of companies; gaining a strong corporate culture, such as that found in Japanese companies or the successful Western companies, is believed to be the way to the top of the economic success ladder. Because of this current popularity, a discussion of the topic has been included and appears in chapter 3.

Chapters 4 and 5 provide a discussion of what has been most widely considered the area to examine in order to provide the greatest benefit to the West: the management and employment system considered unique to

Japan. Books and articles have abounded with discussions of this seemingly miraculous system. Thus, chapter 4 presents what are considered the elements of the system and chapter 5 provides a discussion of the aspects of the system which may be considered negative in order to gain a well-balanced illustration.

The number of Japanese-owned subsidiaries in the West has reached a significant level. This has led to a number of studies on what has been transferred to the Western workers in these companies. These studies have generally been intended to offer an insight into what elements of the system the Western companies will be able to transfer successfully with the goal of improving their economic standing. Chapter 6 will examine these studies.

The transferability of the Japanese management system to the West has been proposed by many in the past decade as the answer to the West's economic ills. A discussion of the 3 main arguments as to whether this transference is possible is found in chapter 7.

Finally, chapter 8 strays from the line of argument that the Japanese management system is the primary cause of the Japanese economic success. It presents the other factors which may have played a role in this success, a role which some argue is more important than the management system.

The purpose of chapter 8 is to present a more complete picture of what has led to the success of the Japanese in order to provide almost a warning that the simple transfer of the management system, because it is only one element, may not provide the instant cure-all many expect. Further to this cautionary stance, a discussion of how the Japanese management system is changing in Japan itself is presented in chapter 7.

Lastly, it should be noted here in the introduction that throughout the thesis I use the term 'Western' although the bulk of the research contained in the thesis is on British or American companies. Though some may argue differently, I agree with White and Trevor (1983) that this broad term is both useful and acceptable 'because in many respects there is a common approach to management across the leading Western industrial nations -- an approach which has been greatly influenced by American management thinking.' (p.137).

## CHAPTER 2

### THE JAPANESE ECONOMY

#### 2.1 Introduction

'It is no secret that the Japanese economy is now more dynamic and expansive than America's. Concrete proof of Japan's commercial success is found in its exports. In 1945, Japan was a shattered, conquered country with its economy almost completely devastated; now Japan's exports challenge America's in a large number of markets, from pianos to television sets, from steel to automobiles, and from transistor radios to computer chips. The list is now almost endless, and increasingly so.' (Alston, 1986:3).

Of great concern to both Western authors and business leaders has been the relative economic decline of the British and American economies. The cause or causes of this turn around and possible ways to alleviate Western economic problems have, as a result, been the subject of much debate.

Some reasons postulated for the weakening of the economies of these two countries are as follows. Sethi et al. (1984) has presented Business Week magazine's view on America: 'In a special report analysing America's current economic malaise, Business Week blames it on a failure by labour and management to end their adversary relationship, contradictory government regulation and policies, and the decline of infrastructure and the educational system. Furthermore, it argues that decades of recessions, bouts of roaring inflation, near depression levels of unemployment, the deteriorating competitiveness of

basic industries, sliding productivity, the painful adjustment to dependence on high priced foreign aid, and a stagnating standard of living have shaken America's confidence and its ability to prosper and remain the world's leading industrial power.' (p.248).

Similarly, K. Smith (1984) has presented three explanations that have been proposed for Britain's decline: 1. Entrepreneurial failure -- '...British managers and industrialists have failed. They have lacked enterprise, they have lacked the technological skill of foreign managers, they have not invested enough: they are bad "entrepreneurs"'. (p.187-188). 2. Industrial relations -- '...British trade unions and working practices are at fault in various ways. British industry is "overmanned"; it is strike prone, and unions are too rigid in their opposition to the changes and work practices which technological change involves.' (p.188). 3. Investment --

'...looks not at a particular people, but at an economic process. It argues that Britain's problems stem from insufficient investment. This thesis is not necessarily separate from the previous two, in that poor management and bad industrial relations are frequently cited as the cause of low investment. But in either version, inadequate investment is the immediate cause of Britain's problems, and raising investment would serve to overcome them.' (p.188).

There is some debate, however, as to whether any of these are the case, though none has been rejected as being completely without merit. 'So none of these

factors ... can be dismissed as problem areas within the British economy. On the contrary, they involve complex and seemingly intractable problems which must be overcome. The point, rather, is that the stories that are based on them do not stand up as single all encompassing explanations of Britain's decline into crisis.' (Smith, 1984:188).

Whatever the explanation, the result is still the same:

'The uncompetitive performance of many British companies since the war has become painfully obvious. British manufacturers in key industries like motor vehicles and electronics have failed to keep their home markets, while industries like aerospace and nuclear power generation have not realized their earlier promise and have lost the lead they once had. Imported products that have taken the place of goods that were once competitively manufactured by British firms are conspicuous in shops and homes.' (Trevor, 1988:1).

In regards to the alleviation of these problems, one particular area of interest has been concerned with the prosperous economy of Japan -- one which was virtually shattered following World War II but has now grown to remarkable heights. Japan's success, if understood, is believed by many to be the answer for Britain and the U.S.. This subject, then, is of obvious importance.

Many areas must be examined to achieve a better understanding and to determine whether studying or even copying the Japanese will indeed be useful for the West. This chapter will provide a brief overview of

Japanese economic development, their present economic state, and their possible economic future.

## 2.2 Japanese Economic Development

Before beginning, it should be noted that this section relies heavily on Yoshihara Kunio's Japanese Economic Development. This book provides a standard description of the Japanese economic development not dissimilar to others found on the subject. The time frame divisions are also taken from Kunio and again these divisions are commonly found in other literature.

### 1868-1885

In 1869 Japan abolished the feudalism of the Tokugawa period (1603-1867) and entered a new economic age. There were significant social and political reforms in the first few years of the Meiji era, and these years included the modernization of the monetary and fiscal systems. Also, stress was placed upon the need for importing Western technology; because of its modernness, it was believed that it could alleviate the Japanese military weakness and economic backwardness thus ensuring their independence. 'Defence...became the main task of the new Government, while those numerous Japanese whose fear of the Western nations was mingled with admiration of their prowess overseas considered that the adoption of Western material equipment might enable Japan to find a place among the aggressors instead of among the victims of aggression.'

All this took several years so that the new economic system was not firmly established until the mid-1880s.

A significant event in this period was the reform and systematization of taxation. During the Tokugawa period, the local and central governments obtained the bulk of their revenue from the land tax which was arbitrary in amount and paid with rice. A uniform monetary tax was needed since that is what is required of a modern form of taxation and the Meiji government introduced a new land tax as a means of reform. Apart from providing this uniformity, this new land tax was also important in providing the most significant source of tax revenues needed by the government for development requirements. Also, this system enabled the tax payer to become the legal owner of the land, thus laying the foundation for the private property system.

The monetary system of the Tokugawa period also was quite inefficient as there was no central control over the issue of money and there were regional differences in the money standard. In 1871 there was a monetary reform which standardized a sound currency. This was accomplished through the following tactics: the central government issued money; a decimal system of monetary standard with the yen as the basic monetary unit was issued throughout the country; and the gold

standard was adopted with paper notes issued on a convertible basis.

However, the new system had its problems. The gold standard began to collapse in the mid-1870s. The gold coin was designated as standard but 1-yen silver coins, equal to 1/16 of a gold unit, were also minted and circulated in restricted areas in order to facilitate transactions among merchants engaged in foreign trade. By 1876, the ratio of the rate of silver to gold in Japan held at 1:20. However, abroad the rate was higher and this attracted foreign buyers who then exchanged their silver for gold and subsequently depleted Japan's gold reserves. The government had no choice but to adhere to the silver standard and the unrestricted use of silver coins.

By 1881, there was a surplus of paper money in Japan which was causing many inflationary problems. Matsukata Masayoshi, who had become Minister of Finance in that year, in response to these problems, created new taxes and reduced government expenditure by creating surpluses within the government itself which were able to absorb the excess paper money. This policy, known as 'Matsukata deflation' was used successfully until 1885 and led to the virtual restoration of the convertibility of paper notes. Matsukata then established the Bank of Japan as the

only note issuing bank and thereby laid the foundations for conservative monetary management.

The building of the country's infrastructure was begun in this period with the construction of railways and a modernized communications network through the introduction of postal and telegraphic systems; overseas telegraphic communication was also possible although the telephone service saw little progress.

Joint stock companies were established in 1873 because they were better suited to the economic climate: families by themselves could not finance the initial investments. The success of these companies is borne out by the statistics for by 1885 there were over 1200 companies with an accumulated capital of 50 million yen.

The government moved the economy toward the wide use of machines in industrial production: they imported machinery, and the technicians to service them, from the West. This policy led to the operation of various mines and factories and the production of textiles, cement, glass and shipbuilding. There was no great progress during this period but 'although the overall impact of machine production was small, its rise in these industries signalled the beginning of the machine age in Japan.' (Kunio, 1986:6).

## 1886-1911

During the second part of the Meiji era, Japan became a part of the Great Powers after winning 2 major wars -- the Sino-Japanese War (1894-1895) in which they obtained Taiwan as a colony, and the defeat of Russia in the fight over China and Korea (1904-1905). Since they had defeated a Western country, they were finally accepted by the Western Powers and the 5 per cent ceiling on the tariff rate that Japan could impose on imported goods was lifted. This was not enough, however, as Japan wanted supremacy over all of East Asia; in 1910, Korea was annexed.

Throughout this period the country's infrastructure continued to grow as did the importance of overseas investment. The latter was primarily the result of the rise of the cotton textile industry; in 1897 exports exceeded imports. New technology was adopted and there was an increase in the use of machines in industrial production.

Agriculture also developed impressively, though not as much as industry. This growth was important because the growth of the overall economy was affected by agriculture: '... as industrial production increased, more and more people moved from agricultural production to consumption. Consequently, an increasingly large percentage of the population was forced to purchase food.' (Kunio, 1986:9). If food had

to be imported, it would invariably drain finances necessary for industrialization so the government had to stimulate internal markets. These requirements were met internally in the end, and this danger was avoided.

Supplementary revenue was generated by the government's use of the land tax. Funds created by this tax were used to promote industry without burdening existing funds. The tax also increased tea and silk production: these products were essential for earning foreign currency which Japan needed to purchase the machinery and raw materials from abroad. 'In short, agriculture played an important supportive role in Japanese industrialization; without the vigour of agriculture, the rapid pace of industrialization in this period would have been inconceivable.' (Kunio, 1986:10).

#### 1912-1936

Agriculture gradually declined in importance during these years both as an earner of foreign capital and as a percentage of the national income, and by 1936, it had been surpassed by industrial income: it was now less than 20% of the total.

This period instead saw the rise of light industrial goods: cotton fabric production increased and as a result Japan became the world centre of textile production in this period.

Heavy industry was even more important. It didn't suddenly appear on the scene at this time as it had its base from the Tokugawa era, though in that period it was weak and unnoticeable. 'In this period, overall economic progress and the accelerated military build-up in the 1930s led to rapid industrialization of the heavy industry sector. By the end of the period, a fairly well-developed industrial complex had emerged in Japan.' (Kunio, 1986:11).

World War I was good for Japan's economy; the Japanese sided with the allies but no fighting actually took place on Japanese soil so there was no need for a military build-up. Imports from the West stopped so that prices were raised and a favourable economic environment for production in Japan arose. This boom was not to last, however, as shortly after the war ended in 1918, the West returned to recapture their markets and the Japanese government had to erect tariffs to protect domestic industry.

As a result, the prosperity of 1914-1919 was followed by the gloomy economy of the 1920s. Many companies suffered losses and bankruptcies and many people became unemployed. The economy suffered further because of the Tokyo earthquake of 1923; the financial crisis of 1927 which shook confidence in banks; and in 1929, the American stock market crashed resulting in a decline in the American market which meant a decline in

the exports of raw silk and silk fabric for the Japanese.

For 12 years after the success of 1914-1919, prices continued to fall, but the government eventually adopted expansionary measures which successfully halted the slump in 1932.

Economic concentration increased in the 1930s. For instance, after many banks had closed in the financial crisis of 1927, Mitsui, Mitsubishi, Sumitomo and Yashuda became dominant and heavy industry became oligopolistic. This is not unusual in capitalist countries but what was unusual was that the zaibatsu (family owned financial combines; 'The term zaibatsu means literally "money-cliques", and is used to signify certain great Japanese business houses with extremely wide-spread interests.' (Allen, 1981:137)) began to exert a considerable influence on the economy in the latter part of the period. Because the government had no large middle class with financial resources and expertise to help in executing their policy of Westernization, they turned to the family-owned combines, the zaibatsu, who had been in banking and commerce for many years with some having partially financed the political movements which led to the Restoration.

'The new Meiji Governments naturally turned to these families for financial help in tiding them over their initial difficulties, and they looked

to them to carry out any financial or commercial operations, or to launch any new enterprises, which were considered necessary as part of the general policy. So these families, together with notable recruits from the ranks of the samurai, became agents for the execution of the Government's economic policy and this function soon led to a concentration of economic power in them.' (Allen, 1981:136-137).

Mitsubishi, Mitsui and Sumitomo were the most diversified and powerful. Through holding companies, they controlled companies in finance, mining, industry etc. The government stimulated their growth through subsidies, protective tariffs, the approval of cartel formation etc. This encouraged the zaibatsu to enter heavy industry. In 1929, they reached the height of their power: 'whereas in early Meiji days they could be regarded as agents of the Government, though probably never as merely passive agents, by the later twenties they had reached a position in which they could, to an increasing extent, impose their wishes on the Government.' (Allen, 1981:138). As the 1930s went on, the government and the zaibatsu developed an even closer relationship as the government desired further expansion in heavy industry for military purposes. As a result, the zaibatsu evolved into powerful politico-economic organizations.

#### 1937-1951

This period had two phases: 1. the war years, 1937-1945; and 2. the occupation years, 1945-1952 (1951 being the last full year of occupation).

1937 was the turning point in the Japanese economy for two reasons. First, 'the financial orthodoxy which had been established by Matsukata in the mid-1880s, and which had been instrumental in maintaining price stability in the following years, was abandoned.' (Kunio, 1986:16). This was because the military 'held sway' and from 1936 to 1937 government spending more than doubled, and doubled again in the following 3 years. Second, laws were passed empowering the government to impose direct controls on the economy; soon after the war broke out the government made three important decisions: 1. The Armament Mobilization Law (first passed in World War I) which authorized an increase in arms production was made applicable to the present war. 2. The Law Relating to Temporary Measures for Export and Import Control gave the government absolute control over exports and imports. 3. The Temporary Adjustments Law stopped capital and credit from going to nonessential industries and redirected it to war-related industries. Still, these three laws were not enough for the military who then pressured the government who passed the National Mobilization Law in April 1938. This law gave the government power not only to control prices and wages but also to control distribution to ensure a constant supply to the war effort. In short, there was, then, a mobilization economy in force.

There were changes in the industrial structure during the war: light industry production declined absolutely and relatively primarily as a result of the Law Relating to Temporary Measures for Export and Import Control, and the Temporary Adjustments Law; production of heavy industry rose until mid-1944 because government policies concentrated available resources on what was considered essential to the war effort (heavy industry's share was 50% of total industrial production in 1936 but more than 70% in 1942).

Also important in this first phase of this period was that 'In order to establish more effective economic control and obtain greater efficiency in the utilization of scarce resources, the government preferred to deal with only a small number of large companies in each industry and pressed for mergers by using mobilization measures as a weapon.' (Kunio, 1986:18). This obviously led to greater economic power for the zaibatsu who took full advantage of this position.

In mid-1944, trouble began for the Japanese. Due to their loss of naval supremacy, they could no longer ensure supplies of raw materials from their overseas territories which were their biggest suppliers. As a result, production of basic materials declined sharply which affected the production of final goods. At the

beginning of 1945, acute shortages of oil, bauxite, iron ores and other raw materials were beginning to cripple the Japanese. Finally, an intensification of bombing delivered the *coup de grâce* to the Japanese economy.

At the end of the war, the Japanese economy was shattered. Industrial production was low, as was food production which resulted in a food crisis at the end of 1945. 'The shortage of goods was made more acute by the breakdown of the government machinery for collecting and distributing goods at fixed prices. The defeat caused a lack of confidence in the government, and brought about a state of near anarchy.' (Kunio, 1986:19).

Economic recovery was difficult because the bombing had destroyed approximately 25% of the national wealth and had caused acute housing shortages in major cities; they had lost the colonies Taiwan and Korea which meant they couldn't get natural resources at a concessionary rate and the millions of Japanese there had to return to already overcrowded conditions; overseas assets which had provided income and were a basis for overseas operations were confiscated; the Japanese had to meet occupation forces' demands for housing and transport. Finally, the war had caused political upheaval in Asia so that the Japanese government could no longer rely on the pre-war

industrial policies, in which Asia was a market for exports, to aid recovery.

Mid-1945 through early 1949 was a period of hyperinflation. However, production increased in 1948 and 1949. Following this brief increase, the government used expenditure cuts and tax increases in the budget in an attempt to stabilize the economy which was now high priority. To reinforce this attempt, the government adopted a single exchange rate (360 yen to one U.S. dollar) in April of that year. The government then monitored the movement of prices and adjusted monetary policy accordingly to maintain the fixed exchange rate. 'As these measures became effective in securing economic stability, the government removed various measures of direct control. By mid-1950, the market economy had been essentially restored.' (Kunio, 1986:20).

Economic recovery progressed through to the middle of 1950. Then, in June 1950, the Korean Conflict began. Japan was used as a supply base and a rest and relaxation spot for American soldiers. This led to a sharp increase in demand for Japanese goods and Japan had its first boom of the post-war era. This provided the final push for economic recovery; many companies had large profits which were mostly retained and used later for plant renewal and expansion. These

profits also provided for the introduction of new technology from abroad.

The occupation policies affected recovery as well. Despite an initial policy of 'non-responsibility', it soon became clear that food aid would be needed to prevent a famine in 1946. The SCAP (Supreme Commander for the Allied Powers) assumed responsibility for preventing disease and unrest, and by the end of 1946, allowed the economy to return to pre-war levels by providing aid in oil, iron ores, coal and other raw materials. At the end of 1948, the SCAP saw that the Japanese government needed to stabilize their economy and return to the economic levels of the pre-war period and thus supported all attempts to attain these goals. This change in policy resulted from the U.S.'s development of a positive view of Japan's role in the security of post-war Asia due to an intensification of the cold war (the Communists were winning in the Chinese civil war and Japan was seen as a counter force). This view persuaded the allies to end the occupation and they did so in 1952. 'The fact that the United States shaped the occupation policy and restored Japan's sovereignty determined the domestic and international framework of the Japanese economy in the post-war period.' (Kunio, 1986:22).

### 1952-1973

One consequence of the war was a decline in the growth of the GNP and overall per capita incomes. Despite this slowing of the growth trend from 1937 to 1951, there was still a great potential for growth. The occupation of the Allies had resulted in land reforms, labour reforms, education reforms and most significantly, the break up of the zaibatsu's monopolies; this more egalitarian and democratic environment of post war Japan allowed for more competition. Growth was also aided by peace: the government no longer had to shoulder the heavy burden of military expenditure. Therefore, energies and finances could once more be channelled into economic recovery and improvements.

During the war years, heavy industry advanced technologically, but the importance of industry declined briefly following the war because there was no longer a military demand or one for consumer goods. But not all was lost: 'The experiences of the war years, however, provided a basis not only for developing new products with great growth potential, but also for absorbing new Western technology; all of these factors made it possible for heavy industry to act as a spearhead for post-war economic growth.' (Kunio, 1986:23). Japan's growth potential was helped by the international environment: economic cooperation

between the West and Japan took shape through removing the barriers of the 1930s and allowing the Japanese access to Western technology. The economic ties were strengthened by the Bretton Wood system. One part of this system was the General Agreement on Tariffs and Trade (GATT) which maintained that a country's well being could be enhanced by the engaging in free trade. The financial partner to this system was the IMF (International Monetary Fund) which provided the necessary finances for stable international trade. These factors were especially good for Japan as they 'not only enabled Japan to increase the volume of its foreign trade and to enjoy greater gains from this trade, but also contributed to increased efficiency by subjecting Japanese companies to international competition and by enlarging the size of the market.' (Kunio 1986:24).

By the end of the occupation, there was a return to the 1934-1936 level of agricultural production, industrial production, national income, per capita income, per capita consumption, labour production, real wages and most other indicators of economic development. But there was no return to trade levels. The major barrier to Japanese exports was the renewed demand in favour of heavy industries. Japan had to become competitive in this field. There was improvement by 1960 gained through a policy of

maintaining large subsidies for plant expansion and renewal in order to encourage the use of up to date machinery and technology. The Japanese built large industrial estates along the coast for better coordination and to reduce transport costs. The protection of the coal industry was replaced with the use and promotion of oil where possible. In 1960, heavy industry was initially competitive and included the manufacturing of ships, steel, cement and more. Japan increased production of passenger cars, synthetic fibres, electronic products, and the volume of exports returned to pre-war levels by the mid-1960s and mushroomed several times into the early 1970s. This increase in exports in turn contributed to industrial production. 'By the early 1970s, in terms of both volume and diversity, Japanese industry had become one of the most advanced in the world.' (Kunio, 1986:26).

The rapid growth in the 1960s had a number of contributory elements. First, there was an increase in the labour force, an increase at an annual rate of 2.2%. The reasons for this was the absorption of excess labour after the war; a rise in the birth rate; the rise of educational standards leading to a better quality work force; and compositional changes in the work force, i.e. male workers between the ages of 20 and 64 increased.

Second, there was an increase in capital. It increased at an annual rate of 11 per cent -- very much higher than other countries. This was a result of a very high savings rate -- 40% of GNP. There are at least three explanations for this phenomenon: 1. household savings were (and still are) high for a variety of reasons including 'a general habit of the Japanese people, high growth rate but consumption lagging behind the rise in income, inadequate social security system causing people to prepare themselves financially for disease and old age, low ownership of houses and financial assets with people saving as much as they can to buy a home.' (Kanamori, 1985:219-220). 2. Enterprise savings were high because they 'have few individual stockholders and because banks and insurance companies have greater influence among the stockholders. These so-called institutional investors wanted to reserve their profits and to use them to provide for enterprise growth rate rather than to distribute them among stockholders as dividends.' (Kanamori, 1985:220). 3. The government had high savings since they spent little on social security and armaments. Also taxes were 20 per cent of the national income in Japan and the government was able to save a great deal of its annual income. Finally, 'the rate of investment in housing was also low, leaving most funds available for productive purposes. These investments

enabled new technologies to be employed.' (Kanamori, 1985:220).

Third, and probably the biggest contributor to growth in the 1960s, was the rise of productivity. 'This rise is explained partially by the fact that labour and capital moved from agriculture and self-supporting enterprises with low productivity to manufacturing and big businesses with higher productivity. But the most important reason was innovation.' (Kanamori, 1985:220). This innovation was enabled by post-war structural changes, e.g. the land reform which abolished landlordship and created landed farmers, dissolving of the zaibatsus, and the organization of labour unions. When Japan regained its independence, new technologies from the United States were introduced including new products and new production methods; with the land reform, these technologies provided a higher income for farmers which meant more consumers, especially of motor-cars. A local market then developed and mass production followed. Soon the Japanese were exporting to American markets.

Fourth, there was a strong growth of consumer demand.

Fifth, the regulation of supply and demand by the government. The government provided aid in times of recession caused by investment rising too rapidly.

And sixth, the role of the government in general. The size and importance attributed to the government's role is the subject of some debate and the view of it being especially significant will be further examined in Chapter 8. It can at least be mentioned here that immediately after the war, a government planning system came into being.

The one area that did not increase was the investment in housing. This was due to the high price of land and is an endemic problem that has yet to be solved.

This period, then, was one of industrial expansion. Other sectors of the economy grew rapidly and GNP had a large increase. The 1959 growth rate exceeded 10% and in 1960, the Japanese economy was termed an economic miracle. The growth rate was maintained through the 1960s and the increase of GNP averaged 10%. In 1970-1973, there was a slight decline to 7.8% but this was still high by international standards.

#### 1974-1984

Rapid growth stopped with the beginning of the oil crisis in October 1973. There was first an oil embargo which was temporary so that there were only temporary effects. However, at the time, Japan imported all of its oil and 90% of its overall energy requirements; because of this dependence, Japan was devastated by the

OPEC nations tripling oil prices and by 1974, Japan had a negative growth rate of -1.3%, the worst since the Second World War.

The economy did better in 1975 with a 2.4% growth rate. This was much slower than before but better than that of the West. In 1976, it rose to over 5% and seemed to stabilize there. In 1978, oil prices rose slowly again. The rise accelerated in 1979 marking the beginning of the second oil crisis. The pace slowed in 1980 but oil prices continued to increase. At the highest point, oil prices had tripled which was terrible for the Japanese economy. However, this time the Japanese were better prepared, i.e. less dependent on oil so that there was no decline in GNP although growth was down to 4% in 1981 and 3.3% in 1982-1983. In 1984, it returned to 5% as oil prices declined slowly after the highest point in 1981.

### 2.3 The Dark Side of Japanese Development

The growth of the Japanese economy can be said to have come at a price. During the economic development prior to World War II, the average person's standard of living rose but many suffered instead of prospering, e.g. factory workers, often indentured by parents, had to withstand horrible working conditions and long hours (12-15 hour days) every day with only one or two days off per month. Many died from industrial accidents and diseases.

Also punished were the tenants in villages who were the poorest among the rural population. Their plight existed also in the Tokugawa era but became more serious in the modern period. The property law increased the power of landlords and tenants' periods of tenure often became shorter and less certain. Also there was a greater proportion of tenants which led to an economic and social problem: that of many peasants living only at subsistence level and not benefiting from agricultural developments. Living conditions did not improve as development increased and large slum areas were abundant.

Another negative consequence of economic development was that of environmental pollution of all varieties: noise, air and water. 'While this is not a uniquely Japanese phenomenon, the problem is most serious in Japan.' (Kunio, 1986:169). The pollution affected both mental and physical health. Water in some parts was polluted with cadmium, mercury and other poisonous chemicals, air in major cities and near industrial complexes contained carbon monoxide, sulphuric acid gas, nitric oxide and lead compounds (Kunio, 1986) which led to asthma, bronchitis and lung cancer.

Admittedly, the housing shortages and the density of the large population played a role in this pollution. 'However, a large part of the

responsibility falls upon enterprises which pursued private profits and ignored the social costs of production, and upon the government which allowed business interests to dictate environmental policy.' (Kunio, 1986:170). An example of this negligence by the government and industry is that of the mercury poisoning at Minamata in Kyushu. The fish in the sea around Minamata were poisoned by the organic mercury discharged by a chemical factory in the city. Fishermen and families in the area ate the fish and later 100 of them died while 600 remained sick, i.e. they could not walk, hear, or see properly and some were totally incapacitated. The original poisoning was most likely unintentional, but when the problem came to the government's attention, it did not stop the poisoning immediately -- if it had, fewer would have been affected and the extent to which those who still would have been affected would have been less. 'The government, MITI in particular, objected to proposed precautionary measures for fear that approval of such measures might necessitate a re-evaluation of its overall policy, thereby adversely affecting industrial production within the country as a whole.' (Kunio, 1986:171). So despite a medical team pointing out the causal effects of the chemical discharge, the government allowed the factory to continue discharging for 10 more years.

Some people argue that economic development has not increased happiness in Japan. Famine has gone and most now have better nutrition, there is a prolonged life expectancy, better housing, increased leisure time, better education, better medical care, improved communication and transport systems, and increased employment opportunities, but new problems have replaced the old: the fear of competition, fear of bankruptcy, boredom at repetitive, simple work, adjustment problems in hierarchical corporate structures and industrial sickness and accidents, pollution and noise.

'To some economists, avoiding such excesses and maintaining high efficiency at the same time are incompatible concepts; in other words, if the excesses are to be avoided, economic efficiency must be sacrificed. However, since Sweden has succeeded in achieving a fairly high growth despite large welfare expenditures, it seems possible to devise an economic system which would meet the above requirements.'

(Kunio, 1986:172).

#### 2.4 Present Day Japanese Economy

On March 16th, 1990, it was announced by the Economic Planning Agency in Japan that real economic growth in 1989 was 4.9%. 'The expansion was led by strong domestic demand, including continued brisk capital investment and consumer spending. External

demand contracted, dampening economic growth by 1 percentage point. Economic growth in the October -- December quarter was 3.0% in annual terms.', (Economic Eye, 1990:32). The economy is expected to grow at another 4.5% this year as well. Japan has reached full employment, has more or less balanced its budget, and, in the opinion of Y. Kosai (1990), the balance of payments is in a healthy position. Japan's savings rate, after capital used for repairs is spent, is 17% of GNP, while the U.S.'s is less than 5% and the EC's is 10%.

Still, Japan has its problems too. For instance, on the 20th of March, 1990, the Bank of Japan raised the discount rate by 1 point to 5.25%, the highest level since October 1983. This, the fourth hike in less than a year, was done to stop the yen from weakening further and to prevent higher inflation. There are problems at the Tokyo Stock Exchange as well as a result of fears of rising interest rates, inflation, a weakening currency, program trading and -- virtually unheard of for Japan -- a policy conflict between the central bank and the government. (The conflict went as follows: 'Bank of Japan Governor Yasushi Mieno, a hardliner against inflation, infuriated Finance Ministry officials when he failed to consult them about an increase in the discount rate, to 4.25%, last December. His repeated warnings about

inflation have convinced many investors that another hike is imminent. With the ministry -- and the ruling Liberal Democratic Party -- opposed to further interest-rate hikes, some investors are unsettled by what they see as an uncharacteristic lack of consensus. "The Bank of Japan could not have handled matters more poorly," says Edwin C. Merner, director of Schroeder Investment Management (Japan). "There has been no coordination, and that's bad for the market." (International Business Week, 1990:40). On 26 February, the stock market plunged 1569 points, i.e. 4.5% of the market's value -- its second worst dive ever.

At present, however, Japan has plenty to be happy about. It's the third year in a row that Japan has had a GNP growth around 5 per cent which had led Japanese economists to introduce the term the 'Hesei boom' (named after the new emperor). This boom has taken place during a period of significant restructuring of the Japanese economy: they've survived the high yen and, 'contrary to common perceptions abroad, [the economy] now relies on domestic demands rather than exports to fuel growth. The gradually declining trend in both trade and current-account surpluses is likely to continue in 1990, even though the overall size of these surpluses is still a potent source of friction with trading partners, especially the United States.'

(Bridges, 1990:60). Furthermore, Japan is the world's biggest creditor nation, an investor whose overseas investment is increasing almost exponentially, and in starting 1989, the world's largest provider of overseas development assistance. In short, Japan is fast becoming recognized as an economic superpower.

### 2.5 The Economic Future of Japan

What does the future hold for Japan? Will it remain an economic leader and, if so, will it be able to take up the global responsibilities this position usually entails?

Some have taken a pessimistic view of Japan's future. It is argued that Japan may not be as economically dominant in the future as many expect. Most of these expectations of Japanese domination, argues Jeffrey Garter, are based on a few years' evidence and don't consider changes that have already begun and conceivably will and do have a great effect, i.e. some of the factors which have previously been the causes for success are changing.

First, the Japanese used to maintain growth through exports but now they are emphasizing domestic demand growth and are importing more and 'diverting to domestic consumers production once destined for overseas ... In 1988, Japan's GNP expanded by more than 6 per cent, and its imports expanded 1987 levels by more than 10 per cent.' (Garter, 1990:47).

Second, Japan's high personal-savings rate is declining. 'According to recent studies cited by William Emmott of The Economist, Japanese citizens in 1975 saved 23% of their disposable income, whereas 10 years later they saved only 16%.' (Garter, 1990:47). They still save more than Westerners but it looks like they will desire spending more: 'A new post-war generation without memories of hard times has become preoccupied with better housing, washing machines, big cars, designer clothing and travel.' (Garter, 1990:47).

Third, the Japanese are expected to spend trillions of dollars in the next 10 years on in-country improvements such as roads, ports, airports, housing, and medical and research facilities.

Fourth, foreign pressure has caused them to increase foreign aid. It's expected to be about \$30 million this year.

Fifth, military budgets will probably grow -- they have now reached the level of the world's third highest spender.

And finally, there may be destabilizing events; for example, if oil prices were to shoot up, they would face some serious problems because they still import 90% of their liquid fuel (in light of the present situation in the Gulf, whether these problems would be significant may soon become apparent), or if the

overheated stock market crashed, there would certainly be an economic downturn.

Similarly, Misawa (1987) has put forward his three reasons for why Japan's economic success may decline. In the past, the Japanese prospered by improving on others' technology; now, however, basic research and innovation is a must for success. Second, there has been a change in the nature of demand for goods -- people have all their 'necessities' already so there is a smaller market for the Japanese. And lastly, as will be seen in chapter 3, the Japanese youth is becoming more individualistic and, because they have grown up in prosperous times, they no longer have the drive to achieve *Japanese* economic success. 'With fewer workers willing to work fiercely and old products that will not sell well even with the expanded use of improved technology, the strength of Japanese-style management will naturally diminish. No one expects Japanese industry to collapse easily. However, if the situation remains the same, one must recognize that Japanese industry will decline in the long run.' (Misawa, 1987:14).

As regards the problems at present, as seen in section 3, a pessimistic view can be taken: 'In the past, most of the Japanese stock market ills could be cured by changing a rule here or there, or instituting some new regulation. But the problems of rising

interest rates and a weakening currency are not so easily fixed.' (International Business Week, 1990:40).

More optimistic views, however, can also be found: 'the present expansion is already one of the largest in modern Japanese history. The sustained upswing in the United States and the earlier expansionary phases in Japan, such as the Izanagi boom of 1965-1970, featured several dips that, by letting off excess steam, prolonged the prosperity. Since the Japanese economy still has considerable reserves, the current breather may be just what we need to keep the good times rolling.' (Kosai, 1990:17).

The global climate should be relatively favourable in the 1990s and it has been proposed that the main tasks for Japan will be internationalization, deregulation and responding to the aging of the population (Yashiro, 1990). 'The 1990s may be Japan's final golden years before the bills for an old-aged society spiral upward. We must take the fullest possible advantage of these remaining years to ease government regulations and adopt policies to promote true competition.' (Yashiro, 1990:21).

Though no one can be certain of Japan's future economic state, it is clear that presently they are in a position to become a global superpower.

In order for them to take on this position, Japan must open itself to the rest of the world. They were

able to do this in the 80s and it looks as though they'll continue this relaxation. 'If the Japanese can also prove that they stand for universal values, not exclusive ones, they will find it easier to persuade the world that their new assertiveness is to be welcomed. Their ability to do this will decide, more than anything else, how peaceful and prosperous post-cold-war Asia will be.' (The Economist, 1990:12).

Similarly,

'the Japanese recognize ... that to be much of a leader in Asia, let alone globally, they will have to generate ideas about government, social organization, and culture that all sorts of people can aspire to. Japanese profess confidence that their imitative phase is over, that they are producing original things that can sweep the world.

What things exactly? Concentrated soap powder, they say: skin creams, Nintendo games. These things do matter: in America's powerful 1950s, Coca-Cola did seem to embody American values. But they are not enough. Japan needs the shelter of its American alliance for a good many years before it can hope to produce the deeper examples and inspirations that would make it a superpower too.' (The Economist, 1990:56).

It has been argued as well that Japan will have a harder time than Germany will in reaching the top rank of power for 2 reasons: 1. Asia is a more complicated and dangerous place than Europe; the northeast still take cold war postures, for example China, who have nuclear capabilities, glower at those who threaten them; and the Koreas still dislike each other and are antagonists of Japan. Peace has been kept by the

United States for 40 years and it appears that a US-Japan alliance will be necessary to maintain this stability.

2. Japan is more deeply mistrusted than Germany. Germany has apologised more and confronted the past, so is more reassuring. 'The Japanese still appear, to themselves and to their neighbours, as too singular a race to offer an example of inspiration to other people. Germany is at least groping towards a common European ideal. Japaneseness is a creed which, by definition, has little appeal to non-Japanese.' (The Economist, 21-27 July, 1990:11).

## 2.6 Conclusion

Japan's place in the world economy has reached astounding proportions previously unthinkable following the Japanese devastation during World War II. At the same time, however, Britain and America are experiencing a relative decline. The question arises, then, as to whether Britain and the United States can look to Japan for guidance and example in order to get back on track.

In response to what is the current trend in the literature on the subject today, two possible causes of the great success of the Japanese economy will be examined at length. First, corporate culture has received widespread attention of late so that a

discussion of it in relation to Japans's economic boom appears relevant. Second, it is the management practices considered peculiar to Japan which have received the most attention and have been argued, by both Western and Japanese authors and business people, to be the primary key to Japan's success. This issue will be discussed and examined in the most depth in the following chapters. Finally, Chapter 8 will present those possible causes that have received less glorified attention.

## CHAPTER 3

### THE ROLE OF CORPORATE CULTURE

'In the mid-1960's, before current notions about 'Japanese organization' became popular, I had a group of Japanese students make a presentation to my MBA class about organizations in Japan. Despite some minor language problems, things went well until the discussion turned on the Japanese system of seniority in determining promotion upward in the management hierarchy.

'Several of my American students became agitated. But that will never work, they protested. What is there to motivate managers to do the best possible job? But there was consternation on the other side as well. What do you mean, won't work? the Japanese replied. it does work! In retrospect, I'm not sure that either group learned very much that afternoon. But the point should be clear enough: you can't understand the workings of Japanese organizations without understanding the Japanese corporate culture -- nor, in this case, without understanding the culture of Japanese society.' (Ritti and Funkhouser, 1987:255).

The catch-phrase on the lips of most managers in the 1980's and now into the 1990's has been 'corporate culture'. Through such best selling books as Peters and Waterman's In Search of Excellence (1982) and Deal's Corporate Culture (1982), the idea that the 'best companies' have a strong culture and lesser companies who intentionally implement a strong culture will become 'best companies' has gained considerable popularity. The Japanese are said to be at the top of industry as a result of their corporate culture. This emphasis on its importance to company success leads to some obvious questions: what actually is corporate

culture? Can it dramatically turn a company around? Can it be controlled?

As this subject has become so prominent, it seems impossible to neglect it when discussing the economic success of the Japanese. Though controversy surrounds its importance and manageability, a discussion of it will in any case contribute to the understanding of the Japanese system. This chapter will include, then, an overview of Japanese corporate culture.

### 3.1 Definition of Corporate Culture

There is, as yet, no set, textbook definition of corporate culture and there is some variation across the field. However, the most consensual ideas are as follows: 'The unique climate, processes and practices found in an organization may be referred to as its 'culture' -- defined as the philosophy, attitudes, beliefs, and shared values upon which the organization operates and which determine the problem solving behaviour of all its employees.' (Viljoen, 1986:20); or shared assumptions held by all the members of an organization which can be characterised as 'implicit social contracts which fill in the gap between formal employment contracts and the information employees learn regarding the way things really work. These shared assumptions are applied unthinkingly by individuals in an organization and reinforced by the fact that other members also take them for granted.'

(Smith and Kleiner, 1987:10). Furthermore, 'These values or patterns of belief are manifested by symbolic devices such as myth, ritual, stories, legends, and specialized language.' (Smircich, 1983:344).

A further distinction should be made between organizational culture and corporate culture (although many authors and managers use the terms interchangeably). Organizational culture is specific to a particular organization: every organization will have its own cultural characteristics as those discussed above. Cultures vary from company to company in terms of strength, pervasiveness, direction and content. What culture is appropriate for a certain organization 'depends on many factors, including the age of the organization, its market, its geographical location, history, and even the preferences of the Chief Executive and top management.' (Gorman, 1987:4). The corporate culture, on the other hand, is more encompassing and refers to 'the interpretive framework shared among all corporate organizations in 'Western' countries.' (Ritti and Funkhouser, 1987:254-255).

These terms have been taken from anthropology's idea of culture. They lose a bit in the translation, however, as only particular aspects are taken and applied. One problem may arise from the fact that there are different concepts of culture in anthropology depending on which school is referred to: in cognitive

anthropology, culture consists of shared knowledge; in symbolic anthropology, it is a system of shared meaning; and to structural anthropology and psychodynamics, culture is a manifestation and expression of the mind's unconscious operation (Smircich, 1983).

Finally, it should be noted that in most cases there isn't just a single, homogeneous culture, but there exists also within the organization subcultures and counter-cultures which may conflict with, threaten, or take over the existing organizational culture. They compete to 'define the nature of situations within organizational boundaries.' (Smircich, 1983:346). For example, within a university the professors may have more allegiance to their profession than to the university so conflict arises as the university's (i.e. the organization's) goals are not met. This multiculturalism, as we shall see, can play a very important role in the organization.

### 3.2 The Development of an Organizational Culture

Again there is no single, widely accepted theory of how an organizational culture develops. Smith and Kleiner (1987) contend that it is the company's founder who has the greatest effect on the culture -- the organizational culture reflects what the founders have brought to the company and how the employees subsequently learn from their experiences. Only the

elements that solve group problems, however, will survive. Not dissimilarly, Gorman (1987), though dismissing the importance of the founders, contends that '(t)he conditions under which past organizational issues and problems were resolved do not remain in the consciousness of the organization. Responses to the conditions become automatic and accepted as the way things are done. In this way, severe self-limitations are set on individuals' behaviour and thought; and the strong but hidden impact of culture is established.'

(p.4).

Wilkins and Ouchi (1983) put forth 3 conditions which encourage the development of organizational cultures [they use the anthropological term 'clan' which is designed to be taken as a synonym]:

1) A long history and stable membership -- this condition encourages the development of a culture as there is much opportunity for passing down social knowledge from generation to generation 'thus giving the image of historicity that Berger and Luckman (1967) claimed is the beginning of the institutionalization of social knowledge.' (p.473).

They give as evidence Japanese and Japanese-like American (what they call Z firms) firms who maintain a lifetime employment system of some kind. They found when comparing the successful Japanese firms with less successful American companies '(t)hat the stories told

by different employees were more often "shared stories" that illustrated and legitimated a common management philosophy' more so than in those companies with a less stable work force.

2) Absence of institutional alternatives -- Wilkins and Ouchi give 3 examples of how Japanese and Z firms are able to keep the alternatives to the organizational culture low. First, the Z firm they studied hired people only for positions lowest on the hierarchical ladder and promotions were only from within, thereby isolating the members from outside influences. Secondly, management went to great lengths, through screening of applicants, to hire employees who already held similar values and orientations to those of the organization. Finally, all the participants of the company maintained a conception of their uniqueness and significant superiority to other companies. This acted to 'discredit orientations that seemed to differ from their own.' (p.473).

3) Interaction among members -- to achieve a strong company-wide culture, it is best if the employees are able to know and communicate with as many other employees as possible as then common interpretations can be made. Cliques encourage the development of subcultures and counter-cultures which will often conflict with the culture of the organization. Z Companies encourage company-wide communication through

the implementation of non-specialized career paths and collective decision-making.

Viljoen (1986) gives 4 elements that affect the nature of an organizational culture:

- 1) The organization's critical success factors -- at least one performance criterion, related to its own unique products, customers, competitors, internal capabilities, technological expertise or any other similar variable, will be crucial to the success of the company. The company, then, must focus much attention and operations onto that criterion to keep the company going. As a result, 'every person in the company is able to see his job activities in terms of these priorities.' (p.22). This does not create a culture when there is no recognized, specific critical success factor or it is not communicated well enough to the employees so that there is no company-wide response.
- 2) The values of the organization -- these are derived directly from the critical success factors and constitute the basic philosophy and beliefs which guide the activities and decisions of employees. Viljoen offers an example: 'a company which believes that technological leadership is the key to success in its industry may adopt the value of "innovation and creativity." Accordingly, it will develop a range of support mechanisms to ensure that these values are enacted.' (p.22).

3) The style of management predominating within the organization -- he defines management style as 'the approach that managers adopt to their tasks and ... their collective philosophy about the priorities of the business.' (p.22).

4) The organization's idiosyncratic practices -- a strong component of corporate culture; includes fundamental, trivial things like meeting formats, writing styles, modes of speech, etc. as well as policies on budgeting, planning, and waste control. They are deeply entrenched and hard to change as they are affiliated with the practices after many years of them.

Wilkins and Ouchi, however, suggest that 'the extent to which organizations will develop cultures (in the sense of distinct and locally shared knowledge), especially at the level of the whole organization, will vary and indeed be relatively infrequent.' (1983:475).

Finally, Gorman (1987) maintains that, regardless of how it developed originally, random reinforcement increases the perpetuality of a culture and thus a certain strategy.

### 3.3 The Value of a Strong Organizational Culture

'Texas Instruments, Proctor & Gamble, 3M, and IBM, for example, all pay close attention to the customer and each has a highly developed value system that causes its employees to identify strongly with the firm. Perhaps the intense loyalty that these firms inspire is just an interesting idiosyncrasy. But we believe, on the

contrary, that this bond of shared values is fundamental to all of the rest. In our view, this is probably the most underpublicized "secret weapon" of great companies.' (Pascale and Athos, 1981:307).

Culture has recently been regarded as perhaps the most important factor in determining the success of a company. A good culture creates happy employees willing to devote themselves to the company: people 'desperately need meaning in their lives and will sacrifice a great deal to institutions which will provide that meaning.' (Peters and Waterman, 1982).

Culture is regarded as subtle and affecting all levels of the organizational hierarchy:

'Past crises, achievements, successes and failures lead to the creation of assumptions about reality (you can't trust banks), truth (people are a company's most important asset), time (you must always be seen to be busy), human nature (women are less committed to work than men) or human relationships (don't let subordinates get close to you).' (Gorman, 1987:4).

It has been argued, however, that culture is not a way of alleviating business ills, but it is the outside influences, e.g. decisions about finance, investment, market policy etc., which are much more important in deciding a company's success. The organizational culture is, this line of argument contends, only important in aiding the understanding of organizational life.

Still, the argument for the importance of organizational culture in affecting organizational life is one which is highly prevalent today, both in

management and social sciences, so should not be overlooked and ignored too easily. This section will examine how a strong culture is believed to be able to increase efficiency and turn a company into a success, and whether it can also act as a hindrance to a company.

#### Positive consequences of a strong culture

Ritti and Funkhouser (1987) give 3 functions of culture in organizations:

- '1) Integration. Culture carries with it a framework of meaning and interpretation that enables participants to integrate themselves and their activities into a meaningful whole.
- 2) Commitment. Culture provides reasons for participants to be willing to devote energy and loyalty to the organization. It provides reasons for sacrifice and investment of self in the future of the organization.
- 3) Control. Culture legitimates the structures of authority and organization that control activities within the organization. Myth, ritual, and symbol provide explanations for activities and thus help to reconcile differences between ideals and actual behaviour.' (p.256).

Their first function of integration has been most often considered relevant by various authors on the subject. Culture gives meaning to individuals' lives, justification for actions, and acts as a mode of transmission of learning. 'As it regards the organization, [culture] is the cement which bonds it together. Consistency in outlook and values makes decision-making, control, coordination, and common purpose possible at all levels.' (Gorman, 1987:5). A

shared culture is said to increase efficiency since much is then already understood and agreed upon so that communication, cooperation, commitment, decision-making, and implementation are aided (Smith and Kleiner, 1987). It is able to reduce uncertainty for individuals: 'Through the culture's myths, metaphors and symbols, a different world is created; a world in which the perception of complexity is reduced and in which the organization seems to have more control and to engage in rational action.' (Gorman, 1987:5).

Pascale and Athos are perhaps the most ardent supporters of the second element's value:

'Employment involves a psychological contract as well as a contract involving the exchange of labour for capital. In many Western organizations, that psychological contract, while never explicit, often assumes little trust by either party in the other. If the only basis for the relation of company and employee is an instrumental one, it should not be surprising that many people in our organizations do what they must do to get their paycheck but little more. While there can be all kinds of superordinate goals, those of employees can play a particularly important role in establishing the moral context for this psychological contract. If such superordinate values are consistently honoured ..., then employees tend to identify more fully with the company. They see the firm's interest and their own as more congruent and tend to invest themselves more fully in the organization -- including looking for ways to improve how they do their job.' (1981:304-305).

This argument has obvious implications in regards to theories on what makes the Japanese companies so successful. As we shall see in the following chapters, employee loyalty is a highly valued goal for Japanese

management and its regular attainment believed by many to be a reason for Japanese effectiveness. The question, however, of how important a role it plays remains.

Wilkins and Ouchi (1983)

'view culture as an efficient mode for governing exchanges or transactions within an organization. Their view is that cultures form in order to lower transaction costs associated with the most complex and ambiguous forms of exchange. By socialising the parties to an exchange such that a general paradigm determines the nature of transactions, the cost of these exchanges is reduced. They regard culture as an efficient form of transaction control.' (Smith and Kleiner, 1987:11).

In conclusion to the issue of the positive effects of strong organizational culture, it should be noted, as Smith & Kleiner (1987) have, that increased efficiency does not imply an increase in effectiveness ('efficiency is achieved when something is done with a minimum expenditure of resources' (p.11)). If the culture is inappropriate, it can lead to efficient, but obviously ineffective, implementation of poor decisions etc. The next section will examine some of the other possible hazards of a strong organizational culture.

#### Negative consequences of a strong organizational culture

Corporate culture, though generally thought of as a beneficial tool of management, can also cause trouble for a company. An organizational culture may be inflexible and resistant to change resulting in the

continuation of once effective operations which have become outdated and detrimental. Sethi et al. (1984) found that many of the most noteworthy 'turnarounds' have resulted from an irreparable break with the past.

Wilkins and Ouchi (1983) argued that organizational cultures (once again, they use the anthropological term 'clan' as a synonym for organizational culture) are especially useful when dealing with uncertainty, complexity, and ambiguity. However, there are some less attractive implications which arise from their theory of paradigm and goal congruence. 1) The clan may require the development and maintenance of too much social agreement to be efficient under less ambiguous transactional conditions. 2) In complex, ambiguous situations, the paradigm may not be shared by enough people or may be inappropriate. 3) The cost of developing and maintaining a clan is high. 4) A clan may form within the formal organization that helps this unit perform efficiently but may be detrimental to the overall organization, i.e. counter-cultures.

Sethi et al. (1984) maintain that a corporate culture should not be used as a manipulative management tool designed to achieve management goals. 'Corporate culture so defined becomes too narrow. It runs the danger of filtering out both new values and new employees that do not fit a preconceived mold. In the

process, it may end up protecting those individuals who support the institutionalized structure and uphold the symbols of the corporate culture while undermining its substantive aspects.' (p.293). They argue that 'the essence of a successful corporate culture does not lie in a unique set of shared values that converts its people into a tribe separate from the environment surrounding them...' but 'view the corporate culture in a more holistic mold -- one that internalizes the values of the external environment rather than insulating the organization from it.' (p.293).

Corporate culture, then, according to these authors, can be a valuable asset to a company as it encourages integration, commitment and control, thereby possibly resulting in greater efficiency and hopefully (but not necessarily) effectiveness. It can be a hindrance as well, however, contributing to the perpetuation of inappropriate business operations. As a result, it seems a good idea for a company to be aware of its culture to see if it's gaining the results the management wants. The Japanese have a very effective corporate culture it seems, but even they can come under the strain of the negative consequences as will be shown in the next section.

#### 3.4 Japanese Corporate Culture

'One of the reasons for the superiority of Japanese business organizations is attributed to the existence of a corporate culture that avoids

the cult of individualism, builds group loyalty and a mutual support system, and provides an environment that encourages individual employees to excel and give their best to the organization.' (Sethi et al., 1984:292).

Because Japanese success has often been attributed to a superlative Japanese corporate culture, it seems altogether necessary to examine Japanese corporate culture and some specific organizational cultures of different Japanese companies. Also important in achieving a complete picture of the Japanese success is how the culture is maintained and whether any changes are presently occurring in Japan.

Corporate culture in Japan is the term shafu, meaning literally 'the way the wind blows in a company, or the fashion of the company'. Kenkyusha's New Japanese-English Dictionary translates the term as "the ways of a company; a company's custom [tradition]." (Lu, 1987:55).

As will be seen in chapter 4, the Japanese company is often seen by the employees as a 'family' in which each member works hard and does his share for the good of the family. A powerful way of encouraging this idea and creating a strong bond between members is through legends of specific companies rising up from difficult times and ending in triumph as a result of the practices of the company and its management. Even more prevalent is the use of corporate philosophy to

transmit the values to be shared by the company members.

A corporate philosophy can be defined as 'a simple document containing the founder's ideals, moral injunctions, and later additions and amendments.' (Lu, 1987:55-56). Some examples of corporate philosophies follow with the intent of extrapolating a clearer understanding both of the term and of Japanese corporations.

#### Japanese Corporate Philosophies

Yoshida Tadao, head of YKK, the world's biggest zip manufacturers, espouses the following corporate philosophy: 'Sow the seeds of goodness and do good, then goodness is bound to be rewarded. Do not take but give. By giving, more is given back to the giver. There is in this world a thing called endless recycling of goodness.' (Lu, 1987:59-60). This philosophy is then put into practice by Yoshida in his management of the company and in labour negotiations. For example, 'repatriation of profits was a big issue at YKK but Yoshida's answer was simple: "we cannot remove profits from the host countries. We can accept the interest payments on our investment and nothing more. A bridge once built must not be withdrawn" if the principle of "endless recycling of goodness" is to be fully applied.' (Lu, 1987:60). And another example is as follows: 8000 employees at Kurobe wanted to form a

cooperative in light of their large combined purchasing power, but Yoshida opposed the idea, saying it would be detrimental to the local shopkeepers who had been good to the YKK plant. To do so would be contrary to the idea of 'cycling of goodness' which should involve kindness being returned to the town (Lu, 1987).

Corporate philosophies can and should be modified at appropriate times in order to reflect the present situation. Dentsu, an advertising firm, espoused what they called the 'Ten Spartan Rules' in 1951 when the economy showed signs of recovering from the war:

- 1) Create work for yourself; don't wait for it to be assigned to you.
- 2) Take the initiative in performing your job instead of playing a passive part.
- 3) Grapple with big jobs -- petty tasks debase you.
- 4) Choose difficult jobs. Progress lies in accomplishing difficult work.
- 5) Once you start a task, never give up -- complete it, no matter what.
- 6) Lead those around you. Leading others instead of being led makes a big difference in the long run.
- 7) Have a plan. A long-term plan engenders perseverance, planning and effort, and gives you hope for the future.
- 8) Have self-confidence. Otherwise, your work will lack force, persistence and even substance.
- 9) Use your brain to the fullest degree at all times. Keep your eye on all quarters and always be on the alert. This is the way we ensure satisfactory service.

10) Don't be afraid of friction. Friction is the mother of progress and the stimulus for aggressiveness. If you fear friction, you will become servile and timid.' (Lu, 1987:57-58).

Tradition allows this philosophy to be supplemented and in 1979, Tamura Hideharu, the leader then, proposed his 5 principles:

- '1) Go one step further
- 2) Broaden your sphere
- 3) Listen carefully to what others have to say
- 4) Have your own viewpoint, and
- 5) Don't forget the spirit of the founder and the tenacity of our predecessors.' (Lu, 1987:58).

In modern times characterized by continuous change, creativity is all-important to the success of an advertising firm and this gives rise to Tamaru's fourth principle. He said himself: 'The company needs all kinds of people of all kinds who possess a strong sense of individuality. Dentsu should be the organic integration of such people. When Dentsu is organized in that way, it will be able to see things from many different angles, respond to all kinds of situations, of all kinds, and make a bold leap toward total creativity.' (Lu, 1987:59). That is an apt summary of Dentsu's corporate culture.

Haruo Mitsuyama, standing auditor of Yamanouchi Pharmaceutical Co., Ltd., in his article 'Corporate culture and promotion of "human productivity"' (1987) discusses his company's philosophy. He states that his

company is already the leader in pharmaceuticals in Japan but that they wish to become world leader. The corporate philosophy is a reflection of how this goal is to be attained:

'We have a common view that all Yamanouchi employees are the builders of the future, essential for achieving our new goal. For it is them (sic) that form the basis of innovation, making the most of the company's available resources.

'The underlying philosophy is this: new abilities and strength are the incentives for one's striving for greater goals. The growth of each employee and every innovation he/she makes will lead to the growth and innovation of the company.' (p.13).

Yamanouchi's corporate philosophy was enhanced through involving all employees and allowing them to contribute to the philosophy. 33 people from lower-level staff to middle-management got together in 50 groups over the course of a year and presented their ideas and discussed them. These ideas were later finalized through staff and executive meetings and integrated into what was titled 'The Common Goals of Yamanouchi Employees'. The three which appeared in the paper were as follows:

Creativity The Yamanouchi employees advance every day with creativeness, expertise and foresight.

Vitality The Yamanouchi employees strive to attain their goals in high spirit with (sic) full of vigour, energy and enthusiasm.

Team work The Yamanouchi employees work together to make their company an international enterprise.' (adopted 1985) (p.14).

The use of symbolism was then practised with colours representing each goal:

- '1) Blue for Creativity  
associated with science, theory and ideal
- 2) Red for Vitality  
associated with passion, victory and  
activeness
- 3) Green for Team Work  
associated with harmony, cooperation and  
nature.' (p.14).

This symbolism is a simple but effective way of furthering the visibility of the corporate philosophy. A similar way of inculcating corporate philosophy is through morning ceremonies, company songs, mottos, company flags, badges and other institutional symbols (although the singing of songs and recitation of creeds, though still generally found, 'is publicly regarded as old fashioned, and among intellectuals as laughable.' (Rohlen, 1974:35).)

Across most Japanese corporations, 'wa is undoubtedly the single most popular component in the mottoes and names...' (Rohlen, 1974:47). *Wa* is defined by Rohlen as 'a quality of relationship, particularly within working groups, and it refers to the cooperation, trust, sharing, warmth, morale, and hard work of efficient, pleasant, and purposeful fellowship.' (1974:47). 'Collectiveness' is the most common goal. At Uedagin, the Japanese bank Rohlen studied, their goal is manifested in such catch phrases as 'one great family' and 'love Uedagin.' 'In Uedagin,

not only is there a general requirement for common direction and meaning, many informants indicate that the bank's philosophy is useful because it enhances the satisfaction of work by establishing a sense of joint effort and shared values.' (p.34).

A survey conducted by Inagami in March-April, 1984 shows, in relation to other countries, how much Japanese employees see their company's interests as their own and thereby indicating their high level of shared values:

Perception of Shared Interests With the Company (%)

	Japan (n=2147)	United States (n=1669)	United Kingdom (n=456)	Germany Fed, Rep. (n=672)
Yes	41.5	29.6	33.6	36.9
To a certain extent	43.8	26.7	23.6	35.2
No	13.4	33.3	32.7	29.0
It will work to my disadvantage	0.5	4.4	5.0	5.9
N.A.	0.7	6.0	5.0	3.1

Question: 'Do you think that by your company making profit your own well-being will be enhanced?'

(These findings were higher among white collar workers.)

'Compared to West Germany, the U.K. and Italy, Japanese electrical machinery workers feel more strongly that their interests overlap with their supervisors, managers, and even executives. On the other hand, they think that their interests overlap to a much smaller degree with other workers in the same industry. This suggests that Japanese workers consider their company a community of self interest.' (p.20).

The sense of the 'company as family' is increased through the use of unwallled offices in which even high level management sits in the same room with low level employees, company outings and after hours socializing.

#### Mixing With Colleagues

	Japan (n=2147)	United States (n=1669)	United Kingdom (n=456)	Germany Fed, Rep. (n=672)
Always	21.6	9.2	5.9	5.2
Sometimes	68.4	39.1	40.5	38.3
Occasionally	8.5	41.1	42.3	40.3
Almost never	1.0	10.1	10.9	15.9
N.A.	0.5	0.5	0.5	0.3

Question: 'to what extent do you mix often with co-workers outside work?'

Inagami further extrapolates:

'About half of those in managerial position, 40% of male workers over 35 and one third of regular male workers thought that their lifestyle was like that of a "Company Man". One third of managers and 20% of regular male employees thought that they often took their work home, and 72.8% of managers, 64.1% of foremen and superintendents and 52.3% of regular male employees thought that it was natural to sacrifice their private lives to some extent for the company (the figure was 27.1% for regular female employees).' (p.22).

This is not surprising in light of Lu's idea of corporate culture:

'Corporate culture has many manifestations. It is the way of doing things that is special to the company. There is a common understanding both spoken and unspoken. A word that means one thing in one company may mean something different in another company. People in the same company, however, have only one interpretation they share in common. As employees work together for many years, their mutual understanding becomes so intense that sometimes they joke about knowing each other's habits better than their immediate

family members. That is corporate culture.' (Lu, 1987:62).

The strength of Japanese corporate culture and workers' allegiance to their firm can, at least partially, be attributed to their selective recruitment practices in which those who already hold views close to those of the company are employed. Indoctrination programs are also very useful. These programs are generally 3-6 months in length and it is here that the employees are moulded into 'company men'. They learn their company's history, goals and songs; 'They learn to be loyal employees,' and 'develop the "spirit" and determination to work for the corporate good.' (Alston, 1988:33). [Western companies such as IBM practice similar tactics, as will be seen in chapter 7.]

#### Inappropriate Japanese corporate culture

As was seen in an earlier section, corporate cultures can be detrimental to a company if they are inappropriate or require modification. Ohmae (1990) provides an example of the need for change in a general principle of Japanese corporate culture. He argues that the Japanese corporate culture involves an emphasis on a strategy of competition. He uses as an example the automobile industry. He maintains that when the Japanese went global, they concentrated on differentiating themselves from their competitors and this has become a costly rather than effective strategy. The Japanese car manufacturers must compete

with the top-of-the-line German companies such as BMW and Mercedes and low costing Korean cars like Hyundai. To enter the Korean share of the market they would have to cut labour costs to the Korean level which is too low to be possible. Or they could go up-market with the Germans, but this goes against their corporate culture. For example, when compact disc players first hit, everyone wanted one and the Japanese had an opportunity to enter a 'Mercedes' model, but instead 'corporate culture and instinct took over, and they cut prices to 1/5 of what the U.S. and European companies were going to ask for their players. The Japanese instinct was to build share at any cost.' (p.60) The problem is that they're still playing a 'low-cost market entry game' when they no longer need to.

Ohmae proposes that the best strategy would be for the Japanese car manufacturers to create value for the customer and discard the Japanese corporate culture of competing on price even when they don't have to. An example of this approach is taken from the piano industry. Yamaha found themselves in a stagnant market -- there were already 40 million unplayed pianos in people's homes. Instead of cutting costs, however, they looked to the customers' needs and through their technology developed a digital software package that turned the previously unplayed instruments into high quality player pianos that could play back the owners'

live work or play that of any composer available on the software. Sales have been explosive.

Ohmae's article illustrates the possible negatives arising from corporate cultures and shows that even the Japanese make mistakes.

#### Are the Japanese changing?

It could be said that Japanese society is more predisposed to a strong corporate culture: from early years the Japanese are taught to put the group ahead of the individual and to maintain wa. It is important in light of this to note the changes taking place among the youth of today in modern Japan.

There is some suggestion that the youth are becoming individualistic.

'In PPRD, MOL, ed., 1987, an image of the younger generation as being self-centred, smart, only doing what they are asked to do, and lacking a "hungry spirit" is portrayed. They wish to live more for themselves. Not wishing to be "over-conformists," they make little attempt to adapt themselves to the patterns of behaviour required by established organizations. This is called "myself-ism" here.' (Inagami, 1988:22).

Reischauer in his book The Japanese,

'reported that younger Japanese frequently expressed resentment at the limitations of their lives imposed by a tightly organized educational and employment system. In fact, a survey found that young Japanese rank highest among young people in industrialized nations in their dissatisfaction with the way society works.' (survey from the Japanese prime minister's office, 1984. Tokyo, Japan. Quote from Ishii-Kuntz, 1989:176).

A 1987 survey by the Policy Planning and Research Department of the Ministry of Labour in Japan (PPRD) found that 53.7% of males and 57.3% of females have hobbies, study or participate in social activity groups independent of their company and co-workers (Inagami, 1988). This indicates a definite move away from company ties and towards an expanded private life.

Finally, it appears that the older workers also are lessening company ties:

'According to Japan Productivity Centre, 1988, slightly less than 40% of white-collar employees of large Japanese companies already think that their relationship with the company is merely that of employee and employed. Among respondents in their late 40's, the figure was a surprising 45%. This indicates a reaction against sacrificing one's life for the sake of the company.' (Inagami, 1988:22).

### 3.5 Can Corporate Culture Be Managed or Created?

If the corporate culture of Japanese firms is the reason for or an ingredient in the success of Japanese business then it would be of obvious value to Western companies to be able to adopt similar corporate cultures. But is it possible? Once again there is considerable debate on the subject.

A common argument among the anthropologists and sociologists is that 'culture should be regarded as something that an organization "is", not as something that an organization "has": it is not an independent variable, nor can it be created, discovered or

destroyed by the whims of management.' (Meek, 1988:470).

Still, even Meek goes on to argue that

'While it is maintained that culture as a whole cannot be consciously manipulated by management or any other group, culture is not necessarily static: cultures do change within organizations, and management does have more direct control than other organizational members over certain aspects of the corporate cultures, such as, control over logos and officially stated missions and ethos.' (1988:262).

Wilkins and Ouchi (1982) challenge the anthropological stance head on by arguing that

'since the learning of organizational "culture" typically occurs in adulthood and since members of contemporary organizations rarely live in "total institutions" (Goffman, 1961) and are thus exposed to alternative orientations, we assume that the social understandings in organizations, to the extent that they exist, are neither as deep nor as immutable as the anthropological metaphor would suggest.' (p.479).

The general consensus, then, is that cultures can and do change with the debate resting on management's power to control or implement this change. For those who maintain that managers can control it to their benefit there are various views on how this is done and a variety of practical guides (see for example Kilman et al, 1985 Gaining Control of the Corporate Culture).

Yet, even among these proponents of 'culture control', it is often put forward that it is not possible to take a blueprint of one company's corporate culture and replace it in another company unless the companies involved are situationally comparable.

'the true work of art, the real excellence, is only achieved as the materials and creator interact to produce what they together are uniquely able to do...Managers need to practise seeing the unique genius within a finite collection of people and resources rather than imposing a formula from some other company on their raw materials.' (Wilkins and Patterson, 1985:275).

Similarly,

'A really powerful culture will not be an import, it will be a natural outgrowth of how people feel about the company. Only if the employees feel that they want to "belong" to the company will they consider it worthwhile committing themselves to a shared group identity. The essential prerequisite is, once more, the trust built on the basis of full employment and company beliefs. If the beliefs are rich and strong (and genuinely strongly held by top management) it is more likely that the resulting culture will be rich and strong; as is IBM's.' (Mercer, 1987:251).

The question, then, is whether Japanese corporate culture, while generally considered so successful, would be worthy of application; or whether it would be too culturally bound to be a model on which to base a change of one's corporate culture, if this is in fact possible. The answer, from the research, appears to be that it is a useful model if the existing structures exist that would allow the Japanese philosophies to grow from them. Mercer (1987) disputes the culture bound hypothesis with concrete examples of how his company, IBM, maintains very similar philosophies and a strong culture. He goes so far as to say that the Japanese have taken their culture from IBM, not the other way round as so many believe. There is some room

for debate on this last point, but it cannot be denied that similar cultures exist both in Japan and in the Western company IBM.

### 3.6 Conclusion

'Certainly, attempts to explain the marked success of Japan in matching and exceeding levels of productivity, quality, innovation and service attained in Western economies have tended to point up the importance of values shared by Japanese management and workers as an important determinant of their success. These values, it has been argued, result in behavioural norms that demonstrate a commitment to quality, problem solving and co-operative effort in greater degree than is general in comparable organizations outside of Japan.' (Gorman, 1987:3).

This chapter has attempted to illustrate the corporate culture existing in present day Japan. While, as was seen in the previous section, it is not certain that the Japanese corporate culture can be adapted to Western companies, it is useful to understand those philosophies and cultural characteristics that are believed to play a role in the Japanese economic success.

Such obviously conflicting values as the Japanese desire for group harmony and consensus and the Western drive for individualism illustrate conflicts which may occur if one company's culture is systematically applied to another company. Cultures do change, however, and the Japanese national culture already appears to be changing. It will be interesting to see, then, what changes will appear in the Japanese

corporate culture and subsequently in their economy in future years.

## CHAPTER 4

### JAPANESE MANAGEMENT: PRACTICES

Japanese management practices have been exalted in the past decade as a primary reason for Japan's great economic success. That Western practices differ is the reason given for the West's relative decline. The Japanese are no longer looking to the once revered practices of the U.S. but in fact the tables, many believe, should be turned so that by adopting the winning methods of the Japanese, the West can regain economic strength.

These are big claims, and they make it appear as though there is an easy answer to Western economic ills. Just what are these 'super practices' of the Japanese? Can they be implemented as a whole in Western businesses? Would a miracle then ensue? These questions are best answered by first looking objectively at the common practices of the large firms; this is the purpose of this chapter.

#### 4.1 Cultural Characteristics

In order to best understand the common managerial practices that will follow in the subsequent sections of this chapter, it is necessary to first gain at least a moderate understanding of the cultural attributes specific to the Japanese as these characteristics permeate and are often central to the Japanese system of management.

The most important element of the Japanese value system for their management practices is the emphasis on maintaining *wa* or group harmony and consensus (Alston, 1986). 'It translates as the search for or the existence of mutual cooperation so a group's members can devote their total energies to attaining group goals.' (Alston, 1989:26). The Japanese are thus willing to put their own individual goals aside in favour of those which will improve the group's standing and the members profit by the group's success.

'A certain sense of satisfaction seems to be associated with the contribution an individual can make to the workings of a larger endeavour. In fact, if the system works properly, there should be no need for the self-assertive aspect of individualism, since close relations and associates, in whatever arenas they operate, should be taking care to consider each other's interests.' (Hendry, 1987:205).

In all cases, it is necessary to maintain harmony within the immediate group and with all others as well. It is sometimes difficult to know when a Japanese executive means yes -- he may disagree but wishes to maintain *wa* so he won't speak honestly. There is no room for blunt honesty if it will upset someone in a Japanese corporation. Entertaining becomes one of the few outlets for any sort of criticism: drinking allows personal relations to develop and inebriation offers an excuse for anything too critical that may be said. As we shall see, *wa* has been considered the backbone of

most managerial practices which have led to Japanese success.

A seemingly obvious but generally overlooked contribution to Japanese success is the work ethic of the employees: the Japanese work hard. This may be a result of the management practices, as will be seen shortly, but it appears that it is also a cultural characteristic: psychological studies have found the Japanese to have a high level of achievement motivation and to be achievement-oriented (McClelland, 1972; DeVos & Norbeck, 1961; Caudill & DeVos, 1956). McClelland's study suggested that 'people with high achievement motivation work harder, learn faster, and do their work best for the sense of achievement rather than purely for economic motive,' and concludes that 'it stands to reason, therefore, that this achievement motivation so permeated among the general population in Japan has contributed to the legendary hard work of the Japanese worker and has made possible Japan's massive industrialisation and economic development.'

Ronald Dore (1973) has summarised the general differences between the Japanese and the British in a somewhat exaggerated but still enlightening manner:

'1) The Japanese are lesser individualists, are more inclined to submerge their identity in some large group to which they belong, and more likely to be obsessed by a sense of duty.

The British are more selfish, more irresponsible, more inclined to tell Jack that they personally are right.

2) The Japanese are less self-confident and more neurotically preoccupied with retaining the good opinion of others.

The British are more apt to be dogmatic and aggressive, being less sensitive to the feelings of others.

3) The Japanese are more introverted.

The British are less hesitant about imposing their views and feelings on others.

4) The Japanese are less men of principle than the British.

The British are less willing to forgo the pleasures of self-assertion in the interests of social harmony.

5) The Japanese are imitative.

The British complacently fail to take opportunities to learn from others.

6) The Japanese are more ambitious.

The British, again from their complacency, have less concern with self-improvement.

7) The Japanese are more submissive to superiors.

The British are more inclined to resent authority by virtue of its very existence and irrespective of its functional necessity.

8) The Japanese are more slavishly diligent. The British are more afraid of hard work.

9) The Japanese care less about what happens outside their own group, and have less sense of social responsibility to correct abuses in their own society.

The British are more given to busyboding, less willing to live and let live.

10) The Japanese are more childishly naive.

The British are more suspicious and cynical, less good humoured and cheerful.' (Dore, 1973:297-298).

#### 4.2 The Common Managerial Practices

As the popularity of the notion of Japanese management as an economic cure-all would suggest, there have been many authors who have studied Japanese businesses and have come up with their list of common characteristics of the large Japanese firms (NB it is only the large firms that are able to offer most of these). Dore (1973:264) argues that Japanese companies consistently employ 'lifetime employment, a seniority-plus-merit wage system, an intra-enterprise career system, enterprise training, enterprise unions, a high level of enterprise welfare, and the careful nurturing of enterprise consciousness...' In his best seller Theory Z, William Ouchi (1981) gives his list: lifetime employment, slow evaluation and promotion, non-specialized career paths, implicit control mechanisms, collective decision-making, collective responsibility, and holistic concern. Ouchi, as well should I, clarifies his arguments by stating that 'no one organisation will contain each and every characteristic mentioned in pure form. On the other hand, virtually all managers of large enterprises in Japan seek to achieve, as nearly as possible, these underlying characteristics.' (1981:57).

So these are some of the common characteristics. But just what do they entail? A closer look at the

practices individually will give a better idea of what they offer and how they have been helpful to the Japanese success.

#### 4.3 Lifetime Employment

'The most important characteristic of the Japanese organisation is lifetime employment: lifetime employment, more than being a single policy, is the rubric under which many facets of Japanese life and work are integrated.' (Ouchi, 1981:17).

The much talked about lifetime employment system works in the following manner: the major firms recruit once a year in the spring and take on the employees, directly from the high schools or universities, who will stay with the firm until they retire (generally mandatorily at 55). These employees are then considered part of the family and will not be fired unless they commit a criminal offence.

Lifetime employment generates benefits both for the employer and employee. The employee gains absolute job security and knows that even if he makes a mistake or is a failure in some aspect of his job, he will still have a job. It is the responsibility of the company to train him or find an appropriate place in the company where the employee can work to his optimum. He thus, at lower managerial level at least, is able to initiate new, bold ideas and engage in experimentation which may very well benefit the company as well as

himself. He also doesn't need to compete with his co-workers to keep his job so a closer relationship and 'happy cooperation' can result. The harmony so prized in the Japanese culture is also the result of the workers' knowledge that they will be working with the same people throughout their working lives; no antagonisms should be made as they will not be forgotten throughout one's working life and similarly obligations should be built up for the same reason.

The company benefits as well since its offering of security and commitment to its workers results in the workers' indebtedness and obligation to the company in return. This obligation then leads to 'loyalty, enthusiasm and hard work' (Alston, 1986:258). The company's investment in the employees means the employees' investment in the company. This is a powerful ingredient in the Japanese success. Other advantages include a stable work force on which the company can count; employees who will think on more of a long range basis in the sense that innovation will be seen as helping themselves through helping the company (their 'family') succeed in the future; the availability of experienced workers who are able to show the new worker what to do which helps to cut back on bureaucracy.

The companies are also able to implement a company bonus system when lifetime employment is in use (Ouchi,

1981). This system involves a bonus as part of employees' compensation being paid to the employees, approximately every 6 months, based on how the company has done in that period. It is on a group not an individual basis so that the employees are motivated further to benefit the company through cooperation rather than to compete in order to help themselves. The firm also benefits by having the ability to pay only small or no bonuses in bad years thereby avoiding having to lay off their experienced employees -- this in turn, is attractive to the employees and makes them further indebted.

Despite the fact that only a small proportion of workers are able to take advantage of the system, it permeates throughout the Japanese society (Alston, 1986). Temporary workers also work hard as there is the chance, albeit small, that they may be considered loyal and enthusiastic enough to be recommended to receive it as well. This is an added bonus for the company.

#### 4.4 Seniority Based Payment Systems

As we have seen so far, loyalty to the firm is of optimum importance to the Japanese and seems to have fostered employee commitment and production. Another way the Japanese gain this loyalty is through a system of deferred rewards: *nenkoh joretsu* or seniority based payment system. When new graduates are hired, they all

begin at the same salary despite any differences in ability, dedication or motivation (Misawa, 1987). It may not be for another 5 or 10 years that they are evaluated, promoted, or given a pay rise higher than those who entered at the same time. Pay rises come as a result of seniority.

Not only does this system increase company loyalty as the employees recognise that they will have to stay (lifetime employment aside) with the same company if they are to attain significant salary increases, but it also is said to promote cooperation.

Ouchi (1981) argues that because workers are all paid the same and will not be given pay rises over others for quite some time, it is not necessary to engage in 'corporate games'. For example, an employee will not initiate projects that will look good for himself in the short term but won't be good for the company in the long term; an employee also will not advance his own career at another's expense. 'While this procedure seems painfully slow to aspiring young managers in Japanese firms, it promotes a very open attitude towards cooperation, performance, and evaluation, since the system makes it

highly likely that true performance will indeed come out in the wash.' (Ouchi, 1981:26).

#### 4.5 Company Union System

Ninety per cent of Japanese labour unions are based on a company-by-company organisation (kigyohbetsu kumiai) which include only regular (i.e. not temporary employees or workers of subcontractors) employees who are not in supervisory positions, and are independent and autonomous organizations. They are inclusive in that they involve both blue collar and white collar workers, and union officers are elected only by the members. The employees are expected to stay with the company until they retire or are made redundant or leave voluntarily. If they leave, they lose their union membership. Because all regular employees are both employees and union members in the same company, the enterprise-unions generally look to better the prosperity of the company as this in turn improves working conditions and employment opportunities. Thus, there is usually a cooperative attitude toward management. As a result, there have been relatively few conflicts between unions and management since the development of the enterprise-union system after World War II. If the sizes of the U.S. and Japan were controlled, the U.S. industrial sector is seen to lose 10 times more hours through strikes (Richmond and Kahan, 1983). However, there are conflicts at times despite the desire for harmony, but 'usually threats to strike or offers of low bonuses are enough to force

management and labour to sit down together to negotiate.' (Alston, 1986:63). Both parties avoid being unreasonable and there is a sense of failure from a lack of harmony. Open confrontations are generally avoided as would be expected. The emphasis on *wa* has played a large role in surviving disputes that would have arisen during the Japanese period of modernisation.

Industrial Disputes: Working Days Lost Per Thousand Employees In All Industries And Services 1977-1986

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
UK	450	410	1270	520	200	250	180	1280	300	90
USA	260	270	230	230	190	100	190	90	70	120
JAPAN	40	40	20	30	10	10	10	10	10	10

From Employment Gazette, June 1988, p.336.

Another advantage of enterprise-unionism is believed to be that 'it reflects the situation in each enterprise at the level of the firm, rather than any broader craft or political issue.' (Kawahara, 1987:217).

A disadvantage from the perspective of the union is that workers when newly employed, automatically acquire union membership and union dues are taken from their pay automatically as well, so that their 'union consciousness' is not as strong as their 'enterprise consciousness'. (Kawahara, 1987).

It should be stressed that enterprise unions, lifetime employment and the seniority-based payments system are very much mutually integrated.

'The personnel practices in enterprises and the seniority-oriented organizational principles based upon the custom of lifetime employment system provide the economic and social basis for the formation of the enterprise union. The continuation of this enterprise union in turn preserves the management system based on seniority and lifetime employment system. Among the Japanese employers and workers, the so-called seniority-oriented industrial relations or enterprise-based industrial relations are theoretically acknowledged with the above-mentioned hypothetical interpretation. This means that these three factors are unable to exist independently from each other, and at the same time under the situation in which one of the three does not exist, the other factors are naturally bound to change.' (Ono, 1971:5).

For example, actions or events that may upset a Western union, e.g. automation which would make many jobs redundant, are accepted by the union because the existence of lifetime employment ensures that it will benefit both the employees and the company.

It also then would follow that the enterprise unions have been successful thus far since permanent employment has been possible. As the workforce ages, automation is advanced, and more and more Japanese are reaching high levels of education, lifetime employment becomes more difficult to offer and it's likely that problems between the unions and management will arise when it no longer can be.

#### 4.6 Collective Decision-Making

'The word *ringi* means obtaining approval on a proposed matter through the vertical, and sometimes horizontal, circulation of documents to the concerned members in the organisation. As an administrative procedure it consists of 4 steps: proposal, circulation, approval and record.' (Sasaki, 1981:57).

The Japanese method of decision-making is another Japanese-specific characteristic. Rather than being a predominantly top-down system with one individual at the top of the hierarchy passing down orders as is traditional in the West, the Japanese use a bottom-up method which is entirely participative, i.e. all those who will be affected by a decision (and often even those who will not) play a role in the decision and have free reign to criticise or suggest modifications of it. 'The *ringi* system allows for criticism in a cultural system which emphasises conformity.' (Alston, 1986:182).

The process is carried through the steps included in Mr. Sasaki's introductory quote. It begins with the written proposal in the form of a document; this is called a *ringisho*. The *ringisho* presents a problem and the possible solution which is then 'first submitted horizontally to one's peers within the middle management levels, within one's department, and across divisional and departmental lines.' (Alston, 1986:183).

It is generally written up by the middle management as they are the ones who will have to implement the plan if it is accepted and they know the situation the best. Everyone who will be affected is shown the proposal and they accept it, reject it, or suggest modifications. After any suggested modifications are put on the *ringisho*, it must be shown again to those who haven't yet seen the suggestions. At every level there are many general discussions. After the middle management have modified and accepted the document, it is seen by the top executives. It is rarely rejected if it has reached this point. It then goes to the managing director and if accepted there, it returns to its origin where it's implemented.

Despite its time consuming nature, if a decision is made in this fashion there are many advantages. Kaufman (1970:1) argues that there are 4 primary advantages: 'fewer aspects of the decision are overlooked; the trauma that accompanies change is reduced; participants feel committed to implementing a decision they have helped to formulate; and far bolder decisions can be made.'

Because everyone was involved in and gave input into the decision, it is quickly implemented and accepted by all. Patchen (1970) has found that when employees participate in the company's decision-making,

their identification with the company and its goals increases.

Bolder decisions result from the fact that no one person will have to take the blame for its failure. Middle and lower managers especially will not take blame as this rests on the top management -- decisions are made from the bottom up but punishment is always in the opposite direction.

The participants during this process were also made aware of upcoming change and were able to prepare themselves for it.

Furthermore, whether the proposal is eventually implemented or not, there was still valuable communication across departments due to the lateral sending. This is especially useful for the newer, less experienced employees as they are able to improve their interpersonal skills necessary for a top executive position. Communication between managers and staff or technical personnel also results in their greater understanding of all aspects of the company which may at some stage be helpful in avoiding problems in those areas. This is very much in line with the Japanese sense of general management, rather than specialisation, as the ideal.

#### 4.7 Emphasis on the Group

'The most important value distinguishing the Japanese employee/employer from Americans is the

Japanese emphasis on the importance of the group.'  
(Alston, 1986:211).

The question that might arise from the last characteristic is why the workers work for no immediate reward based on their individual contribution. Yes, they are loyal to the firm as they realise they will have to stay with them, but even the Japanese need a reward or, perhaps more to the point, a punishment to allow them to take on further responsibility and pressure (i.e often the formal title of an employee and his actual responsibilities may not match as the work of a high ranking executive may be done by an untitled but skilled junior). In fact, the immediate rewards and sanctions are meted out by the group. 'The Japanese do not work hard for its own sake: few persons, even in Japan, are that altruistic. Japanese workers are motivated by the way they are rewarded to be group-oriented and motivated workers.' (Alston, 1986:39).

Every employee in a Japanese firm is a member of a small, closely knit working group and will always work in such a way (Ouchi, 1981). This has proved very effective.

'American social science research over the past few decades has demonstrated quite convincingly that our group memberships have more influence on our attitudes, motivation, and behaviour than does any other social phenomenon. What we care most about is what our peers think of us. A person who is part of a group whose members feel a close

kinship is subject to a very powerful influence. Failure to adhere to the norms of the group can bring loss of group support, approval, and ultimately the group can throw the offender out of the membership. To someone who feels closely integrated with any small group, these are severe penalties. More than hierarchical control, pay or promotion, it is our group memberships that influence behaviour.' (Ouchi, 1981:28-29).

In the Japanese firm there is no individual failure, only group failure, and everyone works hard in order to not let down the group.

J. Hendry in her book Understanding Japanese Society (1987), relates the work group to the *uchi* group similar to that first encountered in kindergarten. (An *uchi* group is the name given to an 'inside group', 'the word *uchi* is used to describe one's own company, school or other place of attachment and the other people who belong to it. In conversation with outsiders, one is expected to use self-deprecatory speech forms not only for oneself, but also for all the other members of one's own inside group, however high ranking their position.' (Hendry, 1987:77)). Again it is evident that the group exerts a great pressure on the workers, but she goes further to point out that this part of Japanese culture begins in early childhood and any other set up would probably be unacceptable.

'...there is considerable peer pressure to comply with the expectations of the wider group, and the principles of reciprocity and cooperation underlie much of the daily interaction between colleagues. Members of the company are encouraged to share responsibility for it, and they are said to take pride in being a small cog in an important big wheel.' (Hendry, 1987:137).

#### 4.8 Non-Specialised Career Paths and Extensive Training

'Japanese do not specialise only in a technical field; they also specialise in an organisation in learning how to make a specific, unique business operate as well as it possibly can.' (Ouchi, 1981:33).

The Japanese learn a wide variety of different job functions throughout their careers with a certain company. The length of stay at a given position is usually no longer than 3 years. They generally have no detailed expertise in any one aspect. Western managerial minds may consider this a weakness, but it has worked well for the Japanese as they are then able to coordinate across functions as a result of this practice. Furthermore, bearing in mind that the Japanese take a long term perspective, they realise that at some stage they may be a coworker to someone in a different function so that there is an incentive to cooperate with everyone. 'When people spend their entire careers within one speciality, they tend to develop sub goals devoted to that speciality rather than to the whole firm and they have neither the knowledge of the people nor of the problems to enable them to effectively help other specialists within their own organisation.' (Ouchi, 1981:32). (This is also an example of subcultures as discussed in the previous chapter).

It is a common belief of the Japanese that by the time an employee reaches top management level he should be a generalist (Sasaki, 1981). The many human contacts gained through the job rotation prove useful when, in middle management positions, they must make decisions in the *ringi* process; 'the competence of Japanese middle managers to be decision originators in the group-decision making system owes much to the job rotation system.' (Sasaki, 1981:37).

Also gained from the job rotation system is a happy workforce as research by management scholars at MIT, Columbia University and elsewhere has found. The research 'strongly suggests that workers at all levels who continually face new jobs will be more vital, more productive, and more satisfied with work than those who stay in one job, even though changes in job do not include a promotion but are entirely lateral.' (Ouchi, 1981:32).

A correlation of the job rotation system is extensive company training. The Japanese are willing and committed to training their employees unlike Western companies who fear that their employees will be sought after and taken by other companies following their expensive and time-consuming efforts (Ouchi, 1981).

Such company changing, however, is highly uncommon in Japan due to the lifetime employment system,

seniority payment system (starting at a new company would mean dropping down to the same rate as other entrants), the 'family' and obligatory nature of the firm, and in fact often this extensive training as well: the employee is trained and developed to specifically fit his own company so that he is less tempting to other companies (Sasaki, 1981).

#### 4.9 Quality Circles and Just-in-Time

Not to be left out are those practices commonly found in manufacturing firms in Japan: quality control circles and the just-in-time method of inventory.

The quality control circle was introduced to Japan by an American, Dr. W.R. Deming, after World War II. It was used more widely and was further developed in Japan, however.

It consists of a group of employees, the number can range from 4 to 12, but they are believed to function best with 5 to 8 members, who regularly meet voluntarily to 'identify, analyze and find solutions to quality problems and other issues in their work environment.' (Pegels, 1984:145). Their goal is to increase productivity and quality and each member is encouraged to express his view on what can be done in order to do so; all ideas, no matter how farfetched, are listened to and given consideration. The team then decides whether further study is necessary.

The just-in-time system of inventory is today often considered the most critical aspect of the Japanese production system (Pegels, 1984). In this system, inventory levels are kept as low as conceivably possible by bringing in parts to the place of assembly only when they are needed. By so doing, inventory is almost non-existent. To decrease the waiting time for supplies in an effort to increase productivity, supplies are delivered as often as necessary, sometimes even several times a day. The idea behind JIT is that lower inventories save money as less interest is needed to cover the cost of idle materials. It also reduces the amount of space that is needed for storage.

#### 4.10 Other Japanese Management Practices

The large Japanese companies engage in very selective recruitment processes. Prospective employees not only must meet strict qualifications requirements but also must possess and present the correct attitude and ideas. This selective procedure then enhances the likelihood of a workforce with similar goals and ideologies -- as this chapter and the chapter on corporate culture has indicated, the Japanese believe that such a homogeneity will lead to consensual decision-making, a congenial working atmosphere and greater worker commitment, teamwork and productivity.

The fact that these employees will stay with the company until retirement only reemphasizes the importance of hiring the right individuals.

Finally, the Japanese are also known for providing impressive company-based welfare schemes.

#### 4.11 Paternalistic Employee Management

The family is 'a model for company interaction, both for the hierarchical links, and for the way the individual is expected to put the wider uchi group before his own personal life.' (Hendry, 1987:138). The company becomes the employee's family. As mentioned earlier, great loyalty to the firm is built up in a number of ways, most particularly through lifetime employment. The family atmosphere both results from and builds up this loyalty, 'ideally, employees develop within such a framework throughout their working lives, and see their own interests as coinciding with those of the company.' (Hendry, 1987:138).

Within a Japanese company, a relationship builds up between the superior and the subordinate. These are the personal relations of loyalty and benevolence of the parent child model (oyabun/kobun). The superior becomes very involved and concerned with the life, even the outside life, of the subordinate, e.g. he may give the subordinate loans or act as a go between at a wedding. The employee is then obligated to the

superior and must offer him complete loyalty and support whenever it is needed (Hendry, 1987).

The family atmosphere is not just a guise to fool employees into greater productivity. The superior is often almost a father to his subordinate; as an extreme example, some family companies have adopted as sons employees who were better qualified to take over the company upon the owner's death than any of his own sons, so that they would inherit it and keep it prospering.

The family idea is further supported by the payment system:

'Relatively low salaries as well as low intra-firm salary differentials make it easier for a Japanese executive to claim that all workers are part of a family and still be believable. The Japanese workers can see for themselves that they share profits in common, and that improving productivity does not result in higher pay for executives only.' (Alston, 1986:200).

#### 4.12 Conclusion

'Social organisation and cultural values that support Japan's industrial and economic complex manifest many traits that are different from those of the West: the long-standing heritage of inner asceticism and self-discipline that has been the hallmark of the Japanese worker, the employer employee relationship as revealed in lifetime employment practices, a vertical hierarchy in human relations, the structure of Japanese cities that still reflect pre-industrial patterns of a federation of independent neighbourhoods reminiscent of the feudal period, the heritage of 'familism,' as revealed in the organisation of the Zaibatsu, that has played a pivotal role in the development of Japan's industrial and financial conglomerates, etc.' (Fuse, 1975:33).

Many of the characteristics mentioned in Mr. Fuse's statement have been revealed in this chapter. The Japanese have a cultural heritage which has been incorporated into their management practices, primarily the aspect of *wa*, and has helped make Japan an economic giant. Their way of managing and forms of strategy seem extremely workable and productive. For example, the strategy formation policy of C. Itoh Co., Ltd. is said to be as follows:

a) Develop a strategy with objectives and form an organisation to accomplish them. At the same time, construct conditions which will help those who will be put in charge to act to the best of their ability.

b) Most important is the consideration of human relations, therefore, complete teamwork should be attained.

c) A consensus among and understanding of the relevant members are essential in order to obtain their conscious participation.

d) When an idea is proposed, a decision on whether to adopt it or not should be made as soon as possible.

e) Once a proposal is adopted, those in charge should be backed up with the necessary organisation and financing.

f) When a project is successful, the initiator and the performers should be praised and a record should be kept in the minutes.

g) When it fails, however, sanctions are not to be taken against those who proposed and performed it. All of the responsibility lies with the top management who adopted it. Though rewards may go down, sanctions should not.' (Quoted in Sasaki, 1981:2).

White and Trevor (1983) summarize what the advantage of the Japanese employment practices is believed to be:

'It consists of a stable work-force with a high level of commitment to the company: extremely cooperative in accepting change, extremely unwilling to enter into strikes or other forms of conflict, and generally putting the company's interests level with or even ahead of its own. The outcome is a high and rising level of productivity, and an altogether easier climate in which management can plan for changes in products and processes. These results, it is argued, are produced by employment practices which emphasize the commitment of the company to its employees, which give them security, status and material benefits, and which develop their potential in a systematic, long-term manner. Another feature which is often stressed is the way in which group cohesiveness and cooperation are fostered, rather than individualism and personal initiative.' (p. 5).

Still, even though at first glance the Japanese employment system appears impeccable and thus the simple answer to the West's economic malaise, is it truly without any faults or negatives? The next chapter will examine those aspects and/or concomitants of the system which may be considered undesirable in the West, thus begging the question of whether the West *should* adopt all of the Japanese system if it is in fact possible to do so.

## CHAPTER 5

### JAPANESE MANAGEMENT PRACTICES: PROBLEMS

As was seen in the previous chapter, Japanese management has been effective in gaining loyalty and the subsequent productivity of employees. Taking these Japanese management practices as they are into Western countries has been seen by some to be a magical cure-all for what is considered the West's relative economic decline. It should be understood, however, that 'we can look at Japan and wonder if we can't also learn some lessons about what *not* to do.' (Dore, 1984:24). It is important that what we would probably consider negative appendages of the Japanese managerial system are recognised before the practices are imported on a non-edited basis. The goal of this chapter is to put forward objectively some of the criticisms which have been levelled at Japanese management by various authors; the 'complete story', so to speak, is necessary for critical analysis.

#### 5.1 The Dual Nature of the Economy

It should be clearly understood that most or all of the managerial practices related in the last chapter are only ideals. They are not present in fact in many firms and are in general only implemented in the large firms and not always wholly in those. Lifetime employment, supposedly one of the great Japanese institutions, is offered, in actuality, to only a small

minority of the Japanese work force. The large firms who can offer it only employ 1/3 of the work force. 35% of the population work in businesses with 50 workers or less (Briggs, 1988). Not all employees of the large companies receive it either so it is the elite of the large companies who prosper at the expense of those less fortunate.

To fully understand the previous statement, it is necessary to recognise how the Japanese corporate system works. Before the war, the major Japanese firms were organised into a small number of groups. These groups were called zaibatsu (the development of which was discussed in chapter 2). Each group was composed of 20 - 30 of these business firms which were clustered around a powerful bank. Surrounding each individual firm were supplier companies (the 'satellites') which supplied only the one parent company. In other words, there existed a bilateral monopoly. The companies learned to coordinate perfectly with each other and productivity was enhanced. After the war, the zaibatsu were legally dissolved but still these relationships continue, due to a large extent to the companies' dependence on the 'closely knit network of allied banks for their financing.' (Ouchi, 1981:20).

This has resulted in a dual structure in the economy: 'a few big businesses with high productivity and high wages and numerous small and medium companies

with low productivity and low wages coexist. The latter have been left behind by the progress of the former, and have had less advantages in the way of financial supplies and government assistance.' (Sasaki, 1981:20). There is also a duality in control as the satellites must supply the big firms continuously and exclusively and lack a say in any matter as a result. They 'exist largely at the pleasure and at the mercy of the major firms, and they have little hope of ever growing into major competitors.' (Ouchi, 1981:25). They *can* grow, to be fair, but only in new markets, and they generally cannot obtain import licences needed to obtain the necessary new machinery, parts or ideas. Furthermore, 'the major firms contract out to them those services most susceptible to fluctuation, with the result that during a recession, these small firms will sharply contract or go out of business.' (Ouchi, 1981:25).

These major firms which previously made up the Zaibatsu have a significant relationship with the lifetime employment system. Those privileged few who are offered this job security are also given help upon their mandatory retirement at 55 and often are given a part-time job at a satellite company. This makes things even more difficult for those working for the satellite companies as there is then no room for them for promotion. Also, once they're 55, they often have

no place to go. 'The practice of lifetime employment until age 55 had considerable merit when it was established after the war. At that point, life expectancy for the average male was only 55. Now that people are living longer, the system has its drawbacks. Japan still has not found a way to support and house its aging population.' (Harper, 1988:45). A possibility at the moment, however, is a proposal announced by the Ministry of International Trade and Industry (MITI) to build 'silver communities' abroad, specifically the United States, Canada, Australia and New Zealand.

'The idea was to export Japan's exploding "silver" population -- those over 65 -- to a series of Japanese-style leisure communities in countries that met 3 criteria: good medical care, political stability and a high concentration of Japanese restaurants. The meagre yen-based pensions of silver-haired Japanese who retired to the U.S. would convert into so many dollars that they'd live out their days like kings. By pumping their pension funds through the American economy, the retirees would be improving America's current account deficit.' (Burnstein, 1990:49).

Such extreme measures are needed due to the poor welfare system. Unemployment figures are low due to the fact that many people who are considered employed only help out their family business and need only to work more than an hour to receive employed status. Some see this as a 'disincentive for adequate development of social security services.' (Hendry, 1987:142). Hendry further remarks that although a national social

security system exists in Japan, and it has been continually developing its services throughout the post-war period of economic expansion, particularly since 1973, in some respects it still operates rather as a last resort when all else fails.' And 'one of the problems has been that a multiplicity of public and private schemes are available for social insurance, health coverage and pension plans, so that administration has been complicated and sometimes difficult for the most needy beneficiaries to understand.' (Hendry, 1987:145).

Furthermore, lifetime employment is possible only through the existence of a 'temporary' labour force. These workers, primarily made up of women, serve as a buffer for the male, permanently employed workers by being laid off in times of trouble and at will. Moreover, they receive no fringe benefits, are not recognised as the responsibility of unions or management and must perform the least likable tasks without hope of advancement (Alston, 1986).

### 5.2 Discrimination Towards Women

As mentioned in the previous section, it is primarily women who are the temporary workers who are so poorly treated.

'Japanese women, although protected by quite advanced legislation, enter the labour market under massive handicaps. They are so great that it is no exaggeration to say that while most women at one time or another in their lives hold down a job, it is still exceedingly rare for a woman to

pursue a *career* outside the home. It is only slightly less rare for a woman to find a rewarding or challenging job, and for the work they do, they receive somewhat less than 60 percent of a man's income...' (Smith, 1987:14).

Women who may have the same qualifications as men are still expected to retire upon marriage. Furthermore, they will not receive promotion if they fail to find a husband within a suitable time. Even teachers are hired on a yearly basis and can be fired without notice (Briggs, 1988). Work is considered 'not an alternative to housemaking; it is an extension of the domestic role.' (Smith, 1987:15). The supplemental income is good for the family but the work must be done close to home.

The equal opportunities law passed in April 1986 states that it 'will oblige corporations to work actively to give equal opportunity to both sexes in recruiting, hiring, job assignments and promotion, and to eliminate discrimination by gender in some aspects of job training and welfare benefits, as well as in compulsory retirement age, terms of severance and dismissal.' (Hendry, 1987:135). Yet there is still the problem of changing long held beliefs and attitudes. The Ministry of Labour, through its Bureau of Women and Minors, tries to enforce the law and has been successful to the extent that starting salaries are the same. Much divergence follows, however, as the

nenko-seido (age-seniority system) applies only to men. The reasons for this given by employers are as follows:

- '1. Women have less physical strength, less intelligence and less commitment to work.
2. Married women carry the burden of housework, and therefore have less energy to devote to their jobs.
3. Women's short working life makes it uneconomical for employers to invest in their training.
4. College graduates are the worst risk because they enter the firm at about 22 and leave it in 3 or 4 years to get married.
5. Since women are not trained, they cannot rise in the wage scale by taking on more demanding tasks.' (Smith, 1987:16-17).

In addition, women are generally hired for reasons other than ability or qualifications. The preference is given to those who are 'slightly ornamental'. For example,

'In a recently uncovered personnel department memorandum, a major Japanese firm was found to recommend against hiring several categories of female applicants. The long list, which speaks volumes for an attitude still very prevalent in the white collar and service sectors, includes the following: Be wary of young women who wear glasses, are very short, speak in loud voices, have been divorced or are daughters of college professors.' (Smith, 1987:17).

This obviously is not a country for ambitious and talented women and it seems that Japan is wasting a valuable resource: half its population.



### 5.3 Japanese Conformity

Japanese junior managers are dedicated followers of the concept of *Jyoi-katatsu*: the will of the superior, though unstated, should be understood, followed unquestioningly and should appear to be the junior manager's own opinion or idea. All this is thought to maintain *wa*: disagreeing with a superior obviously would be disruptive. The problem, then, occurs when the superior has made a faulty decision or proposed a poor plan: the subordinate must decide between pleasing his respected superior or rejecting his poor judgment. The subordinate will almost always do what supports *wa* even if this action may have detrimental effects on his firm. 'This tendency in Japan toward conformity does not always result in increased efficiency. Because conformity to the group is so important, employees ideally place their own needs second to the company's even when it's neither necessary nor useful.' (Alston, 1986:157). This is one of the biggest problems for the *ringi* decision-making system: 'A *ringisho* in this context reinforces existing biases rather than initiates change.' (Alston, 1986:190). This results in a 'snowball effect pressing for conformity as more and more officials accept a *ringisho*. The more a *ringisho* is accepted, the harder it becomes to criticise or reject it, since doing so gives one the impression that one is not a team player.

To sign may be easier than to criticise. Critics of the ringi system call it a system of collective irresponsibility.' (Alston, 1986:190).

Apart from implementing poor practices in order to maintain *wa*, another negative consequence of Japanese conformity is the lack of innovation and experimentation: clearly individual actions. 'Their culture does not encourage breaking away, and it does not promote the rugged individuality that is usually an integral part of entrepreneurial activity.' (Harper, 1988:45). Also, a ringisho is useful for avoiding responsibility and risk taking; this can be done by distributing a trivial ringisho that the manager thinks is too controversial to take individual responsibility for, i.e. 'he passes the buck.' (Alston, 1986).

'Some people believe that Japanese management works not because of good ideas but because anyone who fails to conform faces the horror of being fired and socially ostracised. Being fired is the equivalent of capital punishment in most Japanese traditional circles.' (Harper, 1988:49).

#### 5.4 Loyalty Conflicts

As was seen in the previous chapter, the Japanese Managers are constantly building up the loyalty of their employees in order to increase productivity. It should be clear that the Japanese have a strong sense of obligation and duty and must always repay favours.

This loyalty instinct, e.g. the 'entrance tie', is supposed to increase cooperation and reduce red tape through furthered interdepartmental communication, but there are problems: 'this entrance class tie encourages workers to become more loyal to some than to others. You can't trust everyone equally. They too may be more loyal to their former classmates than to you.' (Alston, 1986:36). The Japanese society is composed of a series of connected groups and each person belongs to a number of groups, each of which demands a certain amount of loyalty. There may be conflicts and competition between work teams as a result which may not be conducive to the company's overall cooperative ideal and may even be harmful.

#### 5.5 Lack of a Separate Personal/Home Life

Large Japanese companies usually provide many services and benefits for employees including pensions, healthcare, bonuses, accommodation, sports facilities, hobby clubs, and vacation sites, 'In return for all this, employees are expected to work hard and often late, to take few holidays, and to spend much of their leisure time with colleagues, drinking in the local bars, playing sports together, or going on office trips and outings with them.' (Hendry, 1987:137). In other words, to receive these benefits, the Japanese employees must give up the idea of any sort of life other than that which is directly involved with their

company. The reasoning is clear: '...Japanese executives assume it is *their* task to attend to much more of the whole of the person, and not leave so much to other institutions (such as government, family or religious ones). And they believe it is only when the individuals' needs are well met within the subculture of a corporation that they can largely be freed for productive work that is in larger part outstanding.' (Pascale and Athos, 1981:132). In the end, whatever the reason, 'company loyalty is more important than any others, even those based on a worker's family ties.' (Alston, 1986:43).

The disadvantages for the employee (and even more so for his family) are obvious. S. Kamata's book about life with the Toyota Company illustrates that it is 'vital for workers to show the right "attitude" by working evenings and weekends, and taking less than their allotted holiday entitlements; just as it is important to marry at the right time and to the right woman.' (Briggs, 1988:25). We in the West generally put more of an emphasis on a life apart from work and would probably have trouble accepting this extreme obligation. From an employer's perspective, however, it looks like a sure fire way of increasing productivity and the ever-busy Japanese offices and late working employees seems to provide evidence of

this view. However, this is not necessarily the case:

'No one dares to appear as if he's not completely loyal to the group. This can result in a facade of looking busy when there is in fact little to do. Japanese office workers often stay late in their office, even if this means extending the work day without extra pay. This practice would be expected to increase the work being done. But work productivity does not necessarily increase.' (Alston, 1986:157).

To be succinct, Alston goes on to say that 'At least some of the busy-seeming atmosphere in a Japanese office is pure sham.' (1986:158).

#### 5.6 The Education System

Japan's education system is in theory a meritocracy: all children have the opportunity to go to the school which is reflective of their ability and hard work. For the 6 years of primary and 3 years of middle schools it is compulsory for all students to attend and it is generally egalitarian. Following these years, students are admitted to an appropriate high school based on an examination result. In order to do well on this exam, a student, from a very early age, must work long and hard at rote memorisation. It is extremely important to get into the best high schools as then it is likely that a better result will come on the university exams. To attend one of the prestigious universities is a sure ticket to a

successful career since the best companies only recruit from these top schools.

On the surface, it does appear to be quite fair and it seems that anyone can succeed if they have the ability. However, it is much more class related than the Japanese are wont to consider. Rohlen's (1983) anthropological study of Japanese high schools demonstrated a correspondence between socio-economic circumstances and the high school attended. He administered questionnaires to second-year students in each of the five schools he studied, and the results showed clear correlations between the prestige of the school and the education of the parents, the facilities at the children's homes for study, and the general stability of their families. Furthermore, the use of the abundant private tutorial schools (*Juku*) with attendance beginning at an early age, sometimes even before they go to school, that take place 3 or 4 times a week cannot be afforded by all. It is these less well off children who are at a definite disadvantage. The 'escalator system' is what is most sought after in Tokyo; it involves the top universities and their attachments to schools from all levels. Getting in at the bottom bodes well for success in getting into the best universities and therefore getting the best careers. As a result, there is immense pressure even

to attend the right kindergarten. *Juku* for 1, 2 and 3 year olds have been established as a result.

As a result of this system, the Japanese are extremely well educated and illiteracy in Japan is virtually nonexistent. But is this at the expense of the students' childhood? And in a sense, it seems that it is the wealthier families who will continually succeed and get the more prized careers despite the supposed fairness of the system.

Other criticisms have been levelled at the Japanese educational system. It is argued that there is a strict loss of individualistic ideas and participation and a tendency towards rigorous socialisation. Rohlen's

'overwhelming image of high school classes is one of boredom -- of children sitting still and listening to their teacher, of accumulating facts but having little opportunity to discuss them, of having views, but not needing to express them, of possibly resenting the authority of teachers, but of learning not to challenge it (p.246).' (Hendry, 1987:97).

Alston has similar views:

'There is, in the educational system, no support for individuality. Students are not encouraged to develop a strong sense of individuality. While of high quality, Japanese education is based on already-established guide-lines determining what a student should learn. Individual interpretations of topics and speculations are not welcomed. The Japanese child learns very early to conform intellectually as well as socially.' (Alston, 1986:205).

Rohlen has found the high rates of school violence noted frequently in foreign press to be mainly in the

vocational rather than academic schools. This appears to be a result of these students' loss of purpose or sense of failure. It seems there is no place in the Japanese system for those students who have less than superior intelligence.

### 5.7 Stress and Suicide

Not surprisingly the educational system as described in the last section has been a source of considerable stress for the students involved. Those who are not as bright, as we saw, appear to need a release of their shame and lack of purpose and find it in violence and bullying often times. Those who are bright don't necessarily have it easy either. The pressure on them is enormous and the work load extremely strenuous especially for people so young.

K.V. Ujimoto describes Vogel's 1965 findings:

'No single event, with the possible exception of marriage, determines the course of a young man's life as much as entrance examinations, and nothing, including marriage, requires as many years of planning and hard work and [Vogel] notes that the intense concentration of pressure into one period of life undoubtedly accounts for the fact that the suicide rate is high for those in their teens and early 20's.' (Ujimoto, 1975:80).

*Shiken jigoku* is the name given to this process and translates as 'examination hell'. Ujimoto goes on to discuss a report in the Japan Times (1974:10) in which various surveys conducted in 1973 'indicated that cramming for school entrance examinations accounted for the high rate of suicide by teenagers. The extreme

stress situation occurs because of the emphasis placed on the achievement tests in order to determine one's future, whether it be employment or advancement to the next rung of the educational ladder.' (1975:80).

This pressure is relieved for four years at university but once employment is begun the pressure begins again:

'[Japanese] Absenteeism [at work] is usually low, but when it does occur it is often attributed to stress: a 1985 Ministry of Labour survey showed that, of all workers absent for more than one week, 47 per cent were suffering from stress-related illness. Still worse is the incidence of suicide resulting from pressure at work: a recent newspaper [The Guardian, Tuesday August 18th, 1987] article revealed that suicide accounted for three times as many deaths as road accidents last year -- a particularly bad year because of "endaka"; the sharp appreciation of the yen.' (Briggs, 1988:26).

As previously explained, there is a great deal of emphasis placed on membership in a group, and there exists a 'currency of indebtedness' whereby it's extremely important to remember others' contributions; it is an 'implicit rather than explicit understanding between colleagues.' (Briggs, 1988:27). Briggs argues that there is a 'Japanese sense of duty' which arises out of their "shame culture" in which each worker has a fundamental duty (termed *giri*), not only to keep his own reputation for good work spotless, but also to match exactly the contribution made by other members of a work team.' (1988:27). This matching is extremely difficult and the pressure that results is great.

## 5.8 Conclusion

It seems evident in conclusion that these magical managerial practices of the Japanese may have some concomitants which are not so attractive. Ronald Dore sums up this position perfectly:

'It seems to me that Japan is very much ahead of us in some trends that we see pretty universally in our advanced societies. Examples include the trend toward technocracy -- for bureaucrats to become much more important; and the trend toward a kind of dual structure in society, dividing those who are in the big organisations and in relatively privileged positions in society as a consequence and those who are in, as the Americans have now come to call it, "the secondary labour market", the people who are shut out of the big organisations and live much less secure and much less affluent lives in the lower parts of society. That kind of division I think has gone further in Japan, and it's the way we're going. And, third, the tendency to develop meritocratic systems of selection -- for people's position in society, particularly their chance of being in the organised affluent sector rather than in the other sector, qualifying functions of the educational system...

'In short I think we should look at Japan as a well-developed example of what some of my friends call *kanri shakai* -- administered society, which sums up many of these features -- and ask ourselves if this is really the kind of society we want to live in and if we can't think of alternative ways of getting some of the benefits of the new technology without what seem to be some of the disadvantages.' (Dore, 1984:24).

In light of these negative aspects of the system, the question of whether the West should, if it is possible, adopt Japanese practices arises. Is it possible to adopt the positives without the negatives? The primary arguments on this topic will be presented in full in chapter 7, but first the next chapter will

examine what has and hasn't been transferred by the Japanese into their subsidiaries in the West to see if any answers can be found in their examples.

## CHAPTER 6

### JAPANESE MANAGEMENT IN WESTERN SUBSIDIARIES

#### 6.1 Introduction

The Japanese, with their booming economy and what are generally considered superlative management techniques, intent on improving their economy still further, have come to the West. They are widely prevalent already and their presence will only increase in the 1990s as more companies seek to enjoy Western markets.

This influx of Japanese business is predicted to be very beneficial to the slowing economies of Britain and the U.S.. Professor Douglas McWilliams, chief economic adviser to the Confederation of British Industry, has suggested that within 20 years, 15 per cent of Britain's industrial output could be produced by Japanese companies, and the Nomura Research Institute has estimated that the trade balance could be improved by more than £13 billion by the year 2000 (Bowen, 1990).

It is also proposed that Japanese investment will make an impact on the West in another way, again for the West's benefit. As 'super managers' they can show the West what they're doing wrong (Bowen, 1990). This is not a unanimously accepted idea, however: James Flanigan of the Los Angeles Times maintains that the Japanese have been given 'an over-inflated reputation

earned in a hothouse work environment different from anywhere else.' (Los Angeles Times, July 10, 1988).

Japanese authors as well have some doubts about whether their managerial system is effective outside Japan:

'Japan's distinctive managerial system, which was nurtured in the home environment and proved effective in that setting, is an important factor inhibiting the growth of Japanese multinational enterprises. Unlike the areas of strategy and structure, there appears to be little likelihood of convergence with the American system in managerial practices.' (Yoshino, 1976:161-162).

Despite these pessimistic assertions, Japanese subsidiaries in the West have brought with them their techniques, albeit in varying degrees. Sethi et al.'s analysis (1984) suggests that Japanese subsidiaries can be divided into 4 groups 'based on their strategies and tactics in applying JABMAS [the Japanese Business and Management System] to their U.S. operations.' They are as follows:

1. Type A -- The Imperialist Approach -- These companies duplicate the Japanese system of organizational structure and decision-making processes, i.e. JABMAS is applied intact. 'The survival of the satellite organism depends on keeping in close touch with the parent body and, above all, maintaining the values of the corporate culture, which are considered

superior to those of the external environment and are at the core of the survival of the system.' (p.183). The 'clone' is imbued with the parent company's values so that they will react predictably and as the parent company would. The result of this approach is very insular managers as their only concern is with the parent company and not with the subsidiary.

Adding to the insularity is the maintenance of 2 classes of employees, i.e. the locals v. the expatriates, the latter receiving greater benefits. Furthermore, the application of Japanese management, while highly selective, is 'unilaterally determined by the company without regard to local employees' needs, preferences, or even equity with Japanese employees within the business unit.' (p.184).

These companies are among the most tradition-bound in Japan. The subsidiaries focus primarily on Japan, with their interests lying with Japan as a nation. The overseas operations are an integral part of Japan's foreign economic policy only. This internal communication with the home office is combined with the idea that foreigners lack the cultural values that make JABMAS unique and effective so that it comes as no surprise that 'Japanese companies in general, and trading companies in particular [e.g. Sumitomo, Mitsui, and C. Itoh], do not follow benevolent labour practices

in their overseas operations, especially as they relate to host-country citizens.' (p.184).

2. Type B -- The Enclave Approach -- The companies which follow this second approach prefer to set up in small towns in rural environments with stable and homogeneous communities and where unions are almost nonexistent. The locals may be suspicious of outsiders but will not interfere if they are not affected themselves. These companies, then, find 'a niche in the external environment that minimizes conflict between the organism and the environment.' Like the A type, they apply the Japanese system intact but differ in that they are able to integrate the locals more since they occupy low level positions and 'do not see the company as a ladder for upward mobility and a long term career; and are inclined to mind their own business as long as they are paid the going wages and are left alone.' (p.186).

The Japanese management believes that employees' sense of belonging leads to greater quality and efficiency so they pay considerable attention to employee selection, indoctrination in the corporate culture and philosophy, and training. In all ways, they try to facilitate the local community's acceptance. An example of a Type B company is Kikkoman in Walworth, Wisconsin in the U.S.

### 3. Type C -- The Domestication Approach --

Companies of this type 'call for the use of a modified form of Japanese management practices where the type of practice and the intensity of its use are both moderated to meet external and internal environmental conditions.' (p.188).

The approach is used if one or more of the following conditions exist.

1. The Japanese companies entered into joint ventures or took over already established ... companies. There is the existence of a corporate culture that cannot be easily dislodged, and workers are allied with strong industry unions.

2. The Japanese company is well known, large in size and highly visible, and has established operations in geographic locations with a tradition of strong trade unionism and therefore an antipaternalism bias.

3. The Japanese company operates in markets where the demand structure is quite competitive. The company's market edge may be marginal or vulnerable to factors outside its control. It would not risk instituting management of operational systems that may cause disharmony among its workers.

4. The Japanese company is engaged in the production of high-technology products where skilled workers and scientists may be in short supply. Given the American socio-political environment, the American workers are likely to be self-motivated, highly mobile, and may prefer higher current wages and performance-based compensation.' (p.188).

The rationale is 'strategic adaptation.' There is an open system of communication, an attempt to adapt to the external environment, and Japanese techniques are ad hoc and low key and may even be Westernized and given local flavour. These companies are generally in the high tech industries, operate in tight labour

markets, need highly skilled people, and don't strictly adhere to JABMAS in Japan. Examples are Matsushita, Sanyo, Sharp and Sony, but there is some variation in application among the companies: those with less external interference introduced more Japanese management techniques.

New companies of this type carefully screen employees and look for adaptability to company philosophy and those less inclined to unionization. All companies of this type try to avoid layoffs as this could lead to unionization, and provide extensive training.

4. Type D -- The Acculturation Approach -- here again there is an attempt to keep and apply JABMAS intact but these firms, primarily manufacturing, have the job of absorbing the local culture into their transferred culture. This approach "calls for creating a new corporate culture where both Japanese and American workers will share a common set of values and outlook towards work, organization, and the corporation." ( p.193). To do this "A painstaking indoctrination of the American workforce is required in order to imbue it with the thought processes and habits of Japanese workers, which are considered a necessary precondition for the successful introduction of Japanese Management practices."( p.193).

All D Companies undertake similar activities:

'1. Employees are carefully selected and screened to ensure that workers hired will have a positive attitude towards the Japanese Management system, including an aversion to outside unionism, a willingness to learn, a capacity for obedience and discipline, and acceptance of the philosophy of placing group welfare over individual welfare in the belief that what serves the group best serves the individual.

2. To the extent possible, workers who have had no prior experience are preferred. This is done to avoid the hiring of workers who may have developed unhealthy work habits, have belonged to unions, and may be antagonistic toward the new employer. This tactic also has the effect of discriminating against workers for union membership, and also workers who are older and more experienced.

3. Workers are given extensive training not only in job related skills, but also in corporate history, folklore, culture, and traditions.

4. Any manufacturing operation is preceded by a long period of careful planning and painstaking attention to every detail of the human and technological aspects of the operation.

5. A selected number of workers is sent to the parent company in Japan, where they live and work in the parent company's plants side-by-side with the Japanese workers. On their return, the "instructor workers" are expected to train other workers in the Japanese way of doing things. These workers are accorded a higher status in the plant hierarchy through the use of different colour uniforms or identity caps and badges.

6. Not only do the Japanese companies bring in their management philosophy, they also bring in 'intact' their manufacturing processes.' (p.193-194).

The next section, with these divisions in mind, will discuss in general the transference and adaptation of Japanese management techniques and look at specific firms to provide more informative illustrations of what is being practised.

## 6.2 Japanese Management in British and American Subsidiaries

As Sethi's divisions imply, there is variation within the Western subsidiaries in regards to how much of the Japanese managerial system is transferred or adapted. The Japan External Trade Organization's official statistics showed that 60% of 57 Japanese firms in the West and East Coast of the U.S. utilised some form of Japanese management practices in 1983 (Matsuura, 1984). A closer look at the subsidiaries will extrapolate further.

Malcolm Trevor, on his own (1983) and with Michael White under the funding of ICERD (1983), has looked at those firms which fall into the Type A category, specifically 2 banks and 1 trading company, all in the City. At Bank A, one quarter of the staff were Japanese expatriates; at Bank B, only 15 per cent were expatriates (this is lower than the average which is between Bank A and the Trading Company suggesting that there is more variation in the management of Japanese subsidiaries than has been previously suggested); and 43 per cent were expatriates at Trading Company C. Very few (7 per cent) British managers were sent to Japan for fear they would not stay long with the company, and thus the time and money spent sending them to Japan would be wasted. A dual personnel system was found in which expatriates and local staff are given

separate conditions of service. The expatriates' careers are in Japan and they are placed in Britain for only a temporary period, usually 4-5 years. They are thus more concerned about their appraisal from Japan as it is the head office that will decide the course of their futures.

It was also found that the ringi decision-making process was utilised in the City for major branch decisions but they were carried out in Japanese and excluded the local managers and staff. They used open office plans to increase communication, consensus, team-work, and collectivism while at the same time maintaining close ties with the home office and excluding the locals; allowing local staff more responsibility is considered risky as any error would endanger the expatriates' future in Japan.

Bank A, it was found, put an emphasis on attitude in recruitment as is typical in Japan while Bank B took a more British approach in response to high job mobility in Britain; i.e. skills take precedence as the employees probably won't stay long. As is common in Japan, the City firms created broad, unclear job descriptions and definitions of responsibility. Staff in the City firms when interviewed indicated that the working practices in the Japanese subsidiaries were unusual compared with their previous experiences and expectations. They noted that the Japanese put more

emphasis on attention to details than they felt necessary although, as White and Trevor point out, even single figure errors can be devastating for these firms dealing in large sums of money. Also, this strict attention 'is believed by Japanese management to contribute to work discipline and the quality of performance, whether in Japan or Britain.' (p.115). The training in these firms, furthermore, is minimal in comparison to that seen in Japan, again due to labour mobility.

In short, 'The business procedures in the City firms as far as we could judge, followed Japanese practice.' (White and Trevor, 1983:111). This comment must be qualified, however: 'although the City firms may be very "Japanese" in their working practices and as regards their expatriate personnel, there has not been the same attempt as in manufacturing to communicate "Japanese" principles to local staff and to incorporate them into the same system.' (White and Trevor, 1983:96). This fits very well into Sethi's model.

According to Sethi et al., the Type C companies are much more inclined to adapt the Japanese system to fit the external environment. John Bevan, public relations manager at Sony in Bridgend, South Wales, 'is quick to emphasize that Sony learned from local culture, and did not simply impose its own practices

and traditions when it first arrived at Bridgend in 1973.' (Student Initiative, 1989:33). The Liaison officer for the 30 Japanese staff at Bridgend, Kazushi Ambe, has a similar view: 'It is almost by chance that Sony is a Japanese company, although we do have some traditional customs. The Sony way is for much more involvement and all other factors come out of that. Everybody must behave as if they are responsible for a particular matter.' (Student Initiative, 1989:33). Lifetime employment isn't given at Sony but it is stressed that layoffs are used only as a last resort. Also stressed at Sony is employee training, communication between the management, the foreman, and the workers, and tidiness in and around the workplace (Pegels, 1984).

At Sanyo, another Type C company, team-work is seen as the key element in productivity with management responsible for motivation; there is a narrowed salary gap between all levels of employees; and they recruit those with a higher level of education, especially among the younger employees so that everyone is essentially middle class which is hoped to lead to high morale and productivity (Pegels, 1984).

A third Type C company is Matsushita. Here they do attempt to transfer the business philosophy (Kono, 1984). While the practices that appear in subsidiaries in other Asian countries such as a display of the

'seven spirits' or the singing of company songs are not found in the UK branch, there are signs which read 'cleanliness and tidiness produce quality' everywhere around the plant; there is an emphasis on the idea that profit is the result of service to the society; morning meetings are held; and on Wednesday mornings, all members of the plant meet together. V. Scott, in a speech delivered at the Knoxville Forum in Tennessee, stated: 'We run our organization as an American company. But our operations are deeply intertwined with those in Japan. Day by day, we continue to learn from each other, adapt to each other, and find better ways to run our business together.' (Scott, 1988:23). Practices not typical of those found in Japan have been employed, however, including replacing most of the former top management personnel because they would not adjust to or accept the Japanese approach and 'due to the operating losses in the early years, coupled with the recession, it had to trim the size of both management and the workforce. The company closed plants in Pontiac, Illinois, and in Toronto, Canada, reducing the workforce from 6,000 to 2,000.' (Sethi et al., 1984:191). Still, it is more common to find Japanese-like practices being employed. According to Ms. Scott, there is now a policy of no layoffs or layoffs only as a last resort; an absence of status barriers; openness with all employees on the current

state of business; and 'sincere concern' by the management for all employees.

Finally, a fourth Type C company is YKK, the Zip manufacturers. The management found they were not able to adapt Japanese practices entirely so created a mixture. First, they evaluate employees twice a year and recognition is based on performance. Secondly, if production cutbacks are necessary, all employees' wages, from general manager down, are cut proportionally. And third, layoffs are only the result of extreme production cutbacks. (Pegels, 1984).

The most notable characteristic of Nissan, a Type D company, is the team-work and commitment of the production line. Stephen Wood visited the Washington plant in 1987 and commented: 'throughout a long, hard day, they remained good tempered, even happy. I was astonished...and repeatedly asked Mike and Mick about it. They shrugged their shoulders a lot, and smiled, when pressed, they explained that everyone in the team had to help each other out, if they didn't fix a problem one of their teammates would have to -- but I didn't get the impression that they had ever given the matter any serious thought. "It's team-work, isn't it," said Mick, smiling and shrugging.' (p.145).

An Independent investigation also found unusually high levels of commitment at the Washington plant.

'The most impressive element at Nissan is not immediately visible. The people, who were all carefully selected from a vast pool of applicants, really do appear to be committed. Adam Wilmott, senior supervisor in the new press shop, is a young Welshman who shows an enthusiasm that Ford or Rover would give their eye-teeth for. "We got the die change down from 50 minutes a year ago to 2.97 minutes," he says. "It was absolutely superb." A fast die change is crucial to a just-in-time operation: it means that a great variety of panels can be made in low runs without losing valuable manufacturing time. But to achieve such speed requires military precision and enormous commitment and Nissan has it.' (Bowen, 1990:12).

As touched on in the above quote, recruitment is selective and as there are many applicants to choose from due to the high unemployment in the Washington area, they are told of the difficult and boring nature of the work so that only the most committed are hired.

The British management sit in open plan offices and a further characteristic of their recruitment policy stresses the unity and team-work of the plant:

'The supervisors, each of whom is responsible (with his deputy, the team leader) for the 20-odd staff on his section of the line, talk about the importance of their role in hiring their own staff. They rather than the personnel department, make the decisions. This unusual and highly effective approach creates a solid bond between the supervisor and his team, based on loyalty and responsibility; the team members have a commitment to the man for whom they work day-to-day, because he hired them, and the supervisor has a responsibility to them, and to the company. "He hired them, so he will make damn sure they succeed," says John Cushnagan.' (Woods, 1987:144).

What's significant in this example is that this method of obtaining loyalty approaches that found in Japan -- as we've seen there are many bonds of loyalty between the supervisor and employee which increase commitment.

Ken Khi Pang and Nick Oliver (1988) carried out research work on Japanese manufacturing subsidiaries in the UK. Data was gathered from eleven of them. The object of the study was to find out how widely 'Japanese' methods are used in UK manufacturing subsidiaries. They chose six practices commonly considered 'Japanese': lifetime employment, seniority based payment systems, training and education, company-based welfare schemes, enterprise unionism, and quality circles and production methods.

It was found that there was no formal, contractual guarantee of lifetime employment but there was an informal commitment to avoiding layoffs giving employees a sense of high employment security. Labour turnover and job mobility is similar to other British manufacturers.

There was little evidence of anything similar to seniority-based payment systems. Only one reported pay increasing automatically with length of service, but that involved a highly individualised payments system. There is little difference from the British system and the most important criterion for promotion is performance followed by qualifications. The wage scales also were determined in the British model: negotiation with the trade union(s), surveys of industry and area wage rates.

There appears to be a strong emphasis on training at all levels. The resources devoted to training are striking as is the time devoted to induction programmes.

None of the company based welfare benefits were out of the ordinary: 9 offered pension schemes, 7 provided sick pay, 7 leisure facilities, and 2 offered medical benefit; '7 reported that these benefits were enjoyed by all grades of employees with the exception of one affiliate in which private medical care was offered to management only.' (p.18).

As for unions, it has been suggested that in order for Japanese production methods such as JIT to work, stable unions are necessary. Of the 11 studied, four are non-union, six are single-union and only one (an acquisition) is multi-union. Although no company had anything that could be termed an enterprise or company-based union, none (apart from the acquisition) conform to the British model of multi-unionism either.

Quality circles were found in some form in 8 of the 11, 'although most of these said that the scope of their circles was considerably more restricted than would be the case in Japan. The reasons to which this was attributed included the lack of budgets to implement formal quality circles, a lack of suitable circle leaders, the absence of specialist teams to implement circle suggestions quickly and the lack of

team spirit (for example a reluctance on the part of engineers to spend time developing suggestions from unskilled employees).' (p.19). Except for one, all the companies had quality control schemes of various types, suggestion scheme, consultative meeting etc. Four practised JIT or versions of it.

The overall picture is more one of adaptation of Japanese methods to fit the British environment than straight transference; but even this adaptation is of only a few of the 'Japanese-style' management practices with the others simply remaining British. This is true in the U.S. as well; for example, America also has a relatively strong and active labour movement and the Japanese have had to react: companies with unions have had to modify work rules, and firms without them often offer bonuses and other incentives to keep unions out.

Furthermore, a survey conducted by Nanshi Matsuura (1984) in the U.S. found that the overwhelming majority of U.S. workers (note that this included banks and a trading company as well as manufacturing companies) prefer wages and promotion based on ability and performance. Thus, one can only conclude that the Nenko system would be difficult to implement in the West.

White and Trevor (1983) argue more emphatically that on the whole it does not appear that those employment practices generally considered

characteristic of large companies in Japan were found in Western subsidiaries at all:

'There was no explicit system of lifetime employment; no company unions; no seniority-based payments system; no especially elaborate provision of welfare or fringe benefits; no schemes of lifelong training; no group decision-making processes involving employees. These negative conclusions applied equally to the manufacturing plants and the financial companies in the City ... some of the factors which would be likely to inhibit Japanese companies from introducing such practices ... include the more active labour markets in Britain, with greater individual mobility permitted and even encouraged; the institutional obstacles, especially represented by British trade unions and industrial relations traditions; and the high cost of departing from the practice of competitors in the host market in such matters as pay and benefits.' (White and Trevor, 1983:124).

This isn't to say, however, that Japanese subsidiaries operate just like Western companies, especially in terms of personnel matters. 'The point is, however, that the extent of that development so far has been very modest. The keynote of Japanese personnel management in Britain has been a piecemeal pragmatism rather than any attempt to introduce a comprehensive Japanese system of employment.' (White and Trevor, 1983:124).

The manufacturing subsidiaries have been more successful at transferring Japanese ideology, commitment and some practices than those subsidiaries in the white collar industries. Examples of workers' team-work, commitment and subsequent productivity in manufacturing firms like Nissan are both abundant and

impressive in the literature on Japanese subsidiaries. This is thought to be the result of a difference in expectations between blue collar workers and white collar workers -- the Japanese system is in general considered an improvement over that found in British or American factories where employee commitment and motivation is notoriously low, but in the white collar sector there is little difference. Conflicts of interests between Japanese expatriates and white collar workers are also greater (these shall be discussed further in section 6.4) and play a significant role.

In all the types of companies, though, as we've seen, modifications of the Japanese system in varying degrees are necessary in a Western environment. Said John Q. Anderson, a management consultant with McKinsey and Co.: 'I don't think the Japanese have illusions that they can change American Business culture. Most take it for granted they will have to mostly be adaptive to the U.S. approach.' (Los Angeles Times, July 10, 1988).

### 6.3 Japanese Reactions to Japanese Management in Western Subsidiaries

Apart from the obvious economic benefits derived from placing subsidiaries in the West, have the Japanese been happy with their Western workers? Very few positive statements can be found regarding Japanese opinion of their Western employees. A spokesman for

Kikkoman in an interview with Fortune magazine said he thought the American workers produced higher quality than the Japanese. This is a somewhat rare statement, however.

More common are harsh comments on Western workers' incompetence and ruthlessness. Productivity of western workers is said to be low. Kosuke Ikebuchi, manager of the General Motors-Toyota plant in California for almost 3 years, said that although productivity is double that at the GM plant, it is still 30% lower than the Japanese plants (Los Angeles Times, July 11, 1988). Nissan's factory in Tennessee built trucks instead of passenger cars because, as the president, Takashi Ishihara, stated in 1981, there were fewer parts to a truck and thus fewer chances for the American workers to make mistakes in the production. Matsuura writes, 'Most Japanese executives feel that American workers are much less skillful with hand and less dextrous than their Japanese counterparts. U.S. workers tend to be much less concerned with accuracy of work than the Japanese. They are much less insistent on specifications than Japanese workers are.' (1984). Because of this, 'Japanese executives have indicated that quality control cannot be delegated to American employees, while most other management functions can be.' (Matsuura, 1984). Similarly, a study of Mitsubishi International Corporation by the Research

Institute at St. John's University in the U.S. found that many Japanese believed Americans could not handle leadership positions (Los Angeles Times, July 10, 1988). One reason they attribute to poor management is the fact that unqualified people get jobs in the effort to promote women and minorities. In regard to this, the Japanese fault the West for taking egalitarianism 'too far'. Ikebushi of the GM-Toyota plant said that Americans and Japanese 'have a different concept of what constitutes fairness and equality. Americans are too sensitive about fairness.' (Los Angeles Times, July 11, 1988).

A second major Japanese dislike of Western workers is what the Japanese believe to be a lack of loyalty to the firm -- something highly prized within Japan as was seen in previous chapters. Britains and Americans are seen as ruthless individualistic mercenaries regardless of position. They are willing to increase skills and knowledge but only if it will benefit themselves -- sometimes knowledge is even guarded as a means to beating competitors, i.e. other managers hoping to get to the top. This drive for personal advantage takes form most readily in the high job mobility in the U.S. and Britain. The Japanese feel they cannot give the necessary training that is given in Japan to Westerners because they've had too many workers leave the firm and take these skills with them. In Matsuura's study, when

asked 'if you found a company that offers more of what you want, what would you do (percentage)?' 45% answered 'I would move to the new company', only 5% answered 'I would stay with the present company', 37.5% said they'd try to improve the conditions in the present company and 15.5% didn't know what they'd do. From this it appears the Japanese are correct in their assumptions and will have to work to keep employees happy.

The Japanese are also amazed by Westerners' emphasis on monetary reward and benefits over recognition or praise and without putting the company first. They have difficulty retaining graduates because of their expectations of career path promotion. This lack of loyalty is seen in a particularly bad light for an underlying reason: 'Loyalty is not only an ethical concept, although it is so often described in this way; it has practical foundations, especially in Japanese society with its exclusive and competing groups. Managers believe that maximum cooperative effort within an organization cannot be achieved if its members do not feel sure of each other and if they cannot be mobilised in pursuit of a common, as opposed to an individual, goal.' (White and Trevor, 1983:106-107).

Similarly, the Japanese often believe that Westerners are unable to work as part of a team, they think of work as limited to their own assignment, and

they ignore problems that occur outside their areas. 'Americans don't have the same concept that Japanese do.' said Takeshi Koshio, general manager of the trading company Marubeni Corporation for 3 years (Los Angeles Times, July 11, 1988).

The Japanese are extremely wary of labour disputes and multi-unionism: '...Multi-union representation, and a resultant difficulty in flexibility and labour utilisation, problems of demarcation and the complexity of multi-union bargaining are deeply worrying and seen by Japanese management as impediments to productive performance improvement.' (Pang and Oliver, 1988:19).

Further complaints include high absenteeism, reluctance to confess and learn from mistakes, and too much specialization.

#### 6.4 Western Reactions to Japanese Management in Subsidiaries

Matsuura's 1984 survey of 100 sample employees from subsidiaries in the U.S., including those from manufacturing, high tech industry, banks and trading companies asked 'Everything considered are you happy with your current job (percentage)?' The responses were: Very happy -- 32.4%; more or less happy -- 61.8%; neutral -- 5.9%; very unhappy -- 0; and not happy -- 0. It appears that most employees are happy with the employment. A more individual response is provided by 2 employees at the Nissan factory in Washington: 'Over

lunch Mike [Nelson] and Mick [Falwell] told me how much they had enjoyed working at Nissan -- not so much because the jobs were more interesting than their previous ones (Mike had been a charge-hand in a furniture factory, Mick had worked on a toy production line) but because they liked the atmosphere, the sense of team-spirit, and the extent to which they were respected by their superiors, and because the pay isn't bad -- it averages about £8,000 per annum for production line staff.' (Wood, 1987:151).

The Japanese emphasis on consideration of employees is also impressive to local staff. Interviews of City workers by White and Trevor (1983) found that locals were pleased with their relationships with their employers: Q: 'Does the firm have good relations with its employees?' The percentage answering yes were: Bank A -- 100%, Bank B -- 85%, and Trading Company -- 83% (p.120).

Still, all is not perfect in the subsidiaries. Like the Japanese, the Western workers too have their complaints. Theirs focus on the dual personnel system and their lack of inclusion in the running of the organization.

Sethi et al. (1984) argue that one problem with the application of Japanese management arises from the insularity of the Japanese expatriate managers; they exclude outsiders and those whose views differ from

their views within their company or culture. They remain unfamiliar with the practices and conditions in the new territory. They stay in close contact with the home office and consult them for even trivial decisions, thereby totally excluding the locals from the decision-making process. Confounding this is the Japanese preconception that Westerners are motivated exclusively by monetary incentive so they give high titles and lots of money, 'but what they miss is that Americans [Westerners] are also motivated by inclusion,' argues Clifford Clarke, president and chief executive of IRI International, a cross-cultural management consultant firm (Los Angeles Times, July 10, 1988). Increasing the problem still further is the fact, as has been mentioned above, that expatriates generally only stay in the overseas company for a short time (3-5 years) and with their long term careers seen as being in Japan, they are more concerned with their relations with the parent company than with their subsidiaries. While in the overseas firm they often cut themselves off completely from locals and make friends only with their colleagues. The locals often feel snubbed when they are not included in the after hours socializing which is so important in establishing relationships and is an integral part of the Japanese system. Those expatriates that do pick up the local

culture are ostracised and called derisively an L.A. *boke* or a New York *boke* (*boke*=fool).

This insularity, along with the Japanese conceptions of Western workers as incompetents, has led to an even more widely held complaint: lack of opportunity for promotion. The Japanese have argued that top management positions should be filled by Japanese.

The argument that 'it is relatively difficult to promote indigenous people in production-centre subsidiaries because new confidential techniques are being transferred all the time' (Kono, 1984:180) may be reasonable in some cases but obviously not for all positions in all subsidiaries. They also maintain that 'close interpersonal and cultural ties on top management levels are essential in Japanese firms.' (Matsuura, 1984). Probably the reason which is most difficult to accept for excluding Westerners from the top is that of racism. Many employers have argued that the Japanese are biased against foreigners, i.e. non-Japanese. T. Kono (1984) argues that the key to subsidiary success, apart from the technological strength of the parent company, is the 'transfer of Japanese management style to the subsidiary by way of the Japanese managers stationed at the subsidiary. The author found that when the management of the subsidiary is delegated to the local managers of the host country

from the beginning (not in later years), the operation fails...It is necessary to transplant the philosophy of management and to practise the style of Japanese management; a mixture of hard discipline and warm treatment.' (Kono, 1984:56). He goes on to add smugly that 'When there are differences in management skills between two companies or between two countries, the senior company or managers from the country with superior management skill should have greater control.'(p.163).

Whatever the reasons, the results are the same: the Japanese managers monopolize the key positions and the companies do not promote local people. For example, at Mitsubishi International Corporation, 'Americans head just two of the firm's 41 divisions, and one is a general counsel, a staff position typically reserved for a local in a multinational organization. The corporate secretary is an American, but American employees say it is unrealistic to aspire to a vice presidency or beyond. Even the Americans on MIC's board have second class status: They don't get to vote.' (Los Angeles Times, July 10, 1988).

T. Kono again offers his insight into when and why there are Japanese or locals in the management positions:

'1. The president, the plant manager and managers of all departments are Japanese. This type is used by

newly established companies or by production efficiency-oriented companies.

2. The plant manager and the managers of the finance department and technology department are Japanese. There is a large Japanese technological staff in the technology department. This type is seen in technology-intensive product companies.

3. The plant manager and the finance department manager are Japanese, and other Japanese have positions as assistants to heads of departments. This type is found in long established subsidiaries.' (p.165).

The Japanese will have to take notice of Westerners' desire for advancement. In many cases, Japanese subsidiaries lose the best qualified of the Western workers who move on to the top in another company while retaining the less qualified and ambitious. Yet, though no Westerner should ever expect to take control of a Tokyo-based company, some changes at least appear to be taking place. For example, Bridgestone USA, a Japanese owned tyre maker, named an American president in 1988.

Similar to the first two complaints and touched on in an earlier section, the benefits offered to the expatriates are greater than those offered to the locals. Lawsuits have been brought on these charges in America. Following from this is the extreme dismay the locals feel when what they believe has been offered to them, i.e. lifetime employment, turns out not to be; lawsuits have again resulted. One such suit was filed against the Kyocera International chip capacitor plant in San Diego, California. The 131 workers

involved in the suit claim that they were told that in return for sacrificing for the firm by accepting any job, no matter how menial, they would be given lifetime employment. 18 months later, however, the plant shut down without notice. They claim that the plant reopened the following day staffed with new, lower paid employees. Officials deny the allegations. (Los Angeles Times, July 11, 1988).

Other complaints include the absence of direct feedback and regular performance evaluations. Many Westerners claim that they're never sure where they stand. Others, particularly white collar workers, complain about mountains of paperwork and attention to what they consider trivial details.

#### 6.5 Further problems

T. Kiuchi (1985) argues that 'Japanese corporations have a major problem in efficiently employing foreigners in that it is very difficult to integrate them into the traditional management structure.' (p.128). There are in fact many cultural differences which have caused further conflict and problems in the Japanese owned subsidiaries. These problems stem not necessarily from the Westerners' inability to perform under the Japanese managerial system, but from the problems the expatriates and the locals have in dealing with each other, often neither understands or accepts the other's culture.

The first problem arises out of the language barrier. Few Japanese speak English and even fewer Britons or Americans speak Japanese. Most faxes and telexes are received in Japanese and meetings too are often held in Japanese leading to the further exclusion of locals from the decision-making process and from involvement in the goings on in the firm in general. White and Trevor (1983) argue that 'the conflict of interest involving the exclusion of local staff from more than limited decision making and substantive authority, is the more intractable problem and ...as long as this remains the case, communication will be unsatisfactory. This state of affairs is the fundamental explanation for Japanese management's "deviation" from its home policies and practices.' (p.179). The language barrier further separates the locals and expatriates and hampers communication and understanding.

Further problems arise from differing ideas of leadership style. Westerners expect the top leadership to make all decisions, especially controversial ones. The Japanese, on the other hand, are used to shared values and goals across the organization so that the manager doesn't have to be involved in inter-divisional disputes, etc. and is able to leave it to the middle management. 'American subordinates test their chief executive's ability to lead, to decisively resolve

problems, and to seize opportunities. Unfortunately, most Japanese chief executives fail this test.' (Tsurumi, 1978:57). For example, if there is a dispute between two American managers, the Japanese managers will just listen and assume they'll work it out themselves and don't attempt to solve it. The Americans then think the Japanese are indecisive and incompetent and try to build up the power of their department without at the same time accepting greater responsibility for performance. This behaviour is attributed by Japanese managers, in turn, to the incompetence of American managers.' (Tsurumi, 1978:57).

The cultures also have different conceptions of work. Westerners separate work and leisure, while the Japanese combine the two and work is seen as all important. The Japanese stay late at the office and spend most weekends and evenings socializing with business colleagues thereby engaging in informal communication and establishing important relationships. The insular Japanese generally exclude the Westerners from this socializing which is damaging to the Westerners' career prospects. A senior manager at Tanaka stated 'The values of a manager depend on how many relationships he has built up during his years in the company.' -- it is difficult for Westerners to build up these relationships as they are excluded from the opportunities to do so. Further, Westerners

believe in returning home to their families after work and 'for local staff, overtime can be a way of increasing earnings, while for Japanese it can be used as a gauge of local employees' "loyalty" to the firm or seriousness about the job.' (White and Trevor, 1983:118). This difference in understanding again leads to misconceptions by the two groups.

There are also difficulties arising from a conflict of interests: the Japanese are culturally collectivistic while Westerners are individualistic. A department manager at Tanaka said of the Japanese:

'The lifetime philosophy continues even with the young. Therefore each individual belongs to someone or something, such as parents, family, place, prefecture or organization. We tend to stick to relationships with the family, old school friends, teachers etc. We can't be individuals like you. These are not cool friendships. We trust and rely on each other. I think of my community or family, parents, company or group, before speaking to outsiders and I will stop speaking out if it may harm my group, even if I know it is true.' (Trevor, 1983:174).

As touched on in the previous section, White and Trevor (1983) found that communication was better with blue collar workers rather than white collar workers and Western managers resulting from a difference in interests: 'the individualism and careerism of British managers and white collar employees lead to a divergence of outlook and considerable difficulties in communication. The job mobility of white-collar and managerial staff makes it difficult for Japanese

management to control them as it would be able to in Japan; consequently it has no precedent in the home society that would help it to find more effective means of communication.' (p.179).

Similarly, the Japanese believe in informal organization in which 'interdepartmental consultation and negotiation is understood to be everyone's concern.' (Tsurumi, 1978:109). The Westerners, on the other hand, believe in a formal organization in which 'the organization chart outlines the boundary of each manager's authority and identifies who should resolve interdepartmental disputes at each echelon of the hierarchy.' (Tsurumi, 1978:110).

The Japanese, used to a male, homogenous workforce, are often accused of racism and sexism. The Japanese believe their homogeneity is a primary factor in their economic success and the diversity of the Western workers is seen as a hindrance. In the US, the Equal Employment Opportunity Commission has investigated many claims on these matters. In March 1988, the Honda plant in Marysville, Ohio was found to be discriminatory and agreed to pay \$6 million to 377 female and black employees as a result of past discrimination in hiring and promotion (Los Angeles Times, July 11, 1988). In 1987, Sumitomo Corp. of America agreed to pay \$2.6 million and institute broad employment reforms in settling a federal lawsuit that

accused them of favouring American males and any Japanese over females. It took 12 years to resolve and generated a Supreme Court ruling that civil rights laws apply to US subsidiaries of foreign companies (Los Angeles Times, July 11, 1988).

The Japanese also avoid confrontation in order to maintain *wa* so in many cases conflicts remain unresolved.

Nearly all the problems here are based on lack of communication, trust, and understanding. Both cultures have preconceived ideas on the way things should be done and neither attempts to understand the others or explain their own. Again, these problems are more those of white collar workers and managers whose contact with Japanese expatriates and desire for inclusion is greatest.

For smooth and effective running of their subsidiaries, Japanese expatriates will have to take some steps to alleviate these problems. Tsurumi (1978) has suggested greater consultation of Westerners and more Japanese interaction with Westerners (at Sony, for example, Japanese expatriates are discouraged from living close together to avoid the emergence of a 'Japanese ghetto') as this would hopefully lead to greater understanding and trust. Mitsubishi is actually taking some steps towards greater understanding. A handful of Americans are spending

two-year stints in Japan, working side-by-side with key contacts in the company. For a decade, too, the firm has held weeklong retreats at a New York resort where Americans and Japanese work together on simulated business projects in an effort to foster closer relationships (Los Angeles Times, July 10, 1988). Still, there is a high turnover due mainly to lack of opportunity for promotion and inclusion in decision-making so perhaps these are where the real changes will have to take place.

#### 6.6 Conclusion

The number of Japanese subsidiaries in Britain and the US continues to grow. Some obvious advantages for the Japanese, particularly for manufacturers, include easier access to raw materials, close proximity to a large retail market, support from local and state governments and few environmental problems and restrictions. Most subsidiaries so far have generally been successful and surveys show that Western employees for the moment are relatively satisfied with their employment conditions (Matsuura, 1984). Still, some serious problems loom threateningly: the West for example simply won't accept seniority based payment systems, and beyond the Japanese managerial system loom even larger problems of cultural misunderstanding.

At first glance, it appears that the best way to determine whether or not Japanese management techniques

can be transferred to the West is to look at what has taken place in the Japanese subsidiaries in Western companies. The problem with this method, however, is that it is not possible to determine whether it is the techniques themselves or the influence of the Japanese expatriates which has determined the success or failure of these subsidiaries, i.e. there are outside factors which confuse the results. The question, then, is whether the managerial system could be transferred to the West or at least adapted to fit Western systems by Western managers. Without the interference of Japanese expatriates and their cultural differences could the Westerners improve their own managerial systems through copying Japanese techniques? This will be the subject of the next chapter.

## CHAPTER 7

### THE TRANSFERABILITY OF THE JAPANESE MANAGEMENT SYSTEM

#### 7.1 Introduction.

The Japanese continue to grow and prosper economically while many Western countries decline: many would argue, then, that the West can and should adopt the Japanese system and then they too will succeed. Still others argue, however, that the techniques and practices central to the Japanese success are intrinsically culturally bound and any attempt to implement them in the West would be met by employee resentment and ultimate failure.

For the past decade or so these have been the two dominant positions held on the matter of Japanese transferability: culture-boundness versus easy adoption. An understanding of the issues is useful and necessary for developing a stance on this debated but important subject.

Firstly, one subject that needs to be taken into consideration when asking whether the Japanese system can be transported to the West is whether the system is actually acceptable or will remain intact in Japan itself or if there will be changes. If there are impending changes then perhaps transferability is not desirable anyway or at least not in full. This chapter will seek to examine what changes may take place and

the significance they will have on the managerial system in Japan.

### 7.2 Changes in Japan.

As has been shown, since the end of World War II a certain economic system has developed in Japan, the characteristics of which are considered central to the success of Japan's economy even though those characteristics are found only in about one third of the businesses in Japan, typically the large, elite organizations, and in varying degrees even in these. Still, it is these that have been deemed the potential saviours for Western industry.

But are these characteristics stable even in the few businesses in which they exist? Sethi et al. (1984) have offered what they argue are the main factors accounting for change in Japan: first, 'the slow-down in Japan's economic growth and the resulting constraint on corporate expansion, which has exposed corporate inefficiencies in terms of an excessive labour force, a cumbersome decision-making process, and lack of innovativeness in generating new products and ideas.'; second, 'Japan can no longer compete on the basis of production efficiencies alone; it is facing severe competition from other low-cost producers like South Korea and Taiwan. It must therefore compete in the area of high technology, which is associated with a

high degree of risk and uncertainty, conditions for which JABMAS is ill-suited in its traditional form.'; and third, 'the Japanese people are themselves changing, and new generations are less apt to respond to traditional incentives and to conform rigidly to traditional social norms.' (p.231). How is Japan developing now after years of success? What changes can be found? What will result from the changes?

As mentioned previously, the population in Japan is ageing rapidly. This is a significant problem in Japan for two central reasons. First of all, while the young are positive savers the elderly are negative ones; if there is a higher ratio of young to old the country has a much greater ability to save. This is important because 'the amount of money saved by a nation determines the amount available for investment purposes in housing and public construction, but especially for plant and equipment expansion and modernization.' (Pegels, 1984:183). Japan's saving rate has been one of the highest in the world which has resulted in extensive investments in modern production technology. As Japan's population ages, however, there will be a convergence with other developed countries and less modernization in Japan. The Japanese can reassure themselves with the fact that most other competing countries will have an increasing elderly fraction but for all, including the Japanese, 'the

results will be slower rates of growth in average net disposable incomes as more and more of national income will be devoted to medical care and retirement income for the elderly.' (Pegels, 1984:184).

A second problem emerges in terms of basic practices central to the Japanese managerial system as a whole: lifetime employment and seniority-based payment systems. As the population ages the company hierarchy becomes bloated in the middle as there's no place for the younger employees to go. One option is early retirement. This was voluntarily accepted during bad times in the past, as it was seen as necessary and only temporary, but now it is disrupting the employer-worker relationships so prized in Japan as the retirements become more coerced and the option of inter and intra-company transfers becomes impossible. To keep lifetime employment intact some companies promote ageing employees to 'undefined positions and newly established ranks.' (Sethi et al., 1984:235). The incapable managers are given sideline positions without specific job responsibilities. They are called madogiwa-zoku, meaning 'those who sit along windows.' They are generally 40-50 years old and haven't and never will make it to top management positions. This sidelining maintains lifetime employment and allows the more qualified individuals to get to the top, but it also causes friction in the Japanese system:

competition breaks out between those within the same age group which weakens the bonds of primary groups and strains working relationships between primary and secondary groups. Favouritism becomes an issue as well: because Japanese are group oriented workers it is difficult to objectively know who is doing what.

The result, then, is that more and more large companies are drifting from seniority-based promotions and wages to ones relating directly to individual performance (Sethi et al, 1984; Sakaiya, 1986).

The ageing population is not the only threat to these two central institutions of the Japanese system; new cultural and industrial trends are also playing their parts. In the 1970's there was a trend of formalism and bureaucratic control of society (Sakaiya, 1986). It was an era of rapid growth and price and consumption stability with mass consumption being seen as a virtue. The 1980's, however, was the era of the 'culture of ideas', a decade of 'short production runs of a wide variety of products. The value of a product and the knowledge it embodies is no longer stable, and may even be ephemeral.' (Sakaiya, 1986:168). Companies make fashionable products leading to rapid growth and they are answering the needs of a culture. The possible result?: 'This emerging phase of Japanese culture will, I believe, signal the end of the preferential treatment given salaried workers. The era

of rapid economic growth was one of bureaucratic-style administrative ability; the new era will be one of entrepreneurial acumen.' (Sakaiya, 1986:168).

Substance and results rather than effort will be what matters so seniority based promotion and lifetime employment cannot continue.

Similarly, as the 80s and 90s look to be the era of knowledge intensive products, a giant service sector and a flourishing high technology information industry, more small companies are arising. This has led to a move to more white collar workers than blue collar, and in Japanese business today, there are two types of industries, clearly divided: the traditional and the newer ones. The two have differences in management style and operating environment: e.g. the traditional companies recruit only recent graduates from the top universities, while the newer industries, because of a labour shortage, hire those with previous work experience. 'And while growth is sluggish in traditional businesses, it is not unusual to hear of new-style companies doubling in size every year.' (Shimada, 1986:189). Another difference is in the use of women. As we've seen, in traditional companies, women are seldom promoted and generally treated as second class citizens. At the newer companies, however, women can be found in key planning and management posts. Also, the formal training found in

the traditional companies is replaced in the busy new style companies with learning by doing. 'The differences between the 2 styles of business represent more than a simple contrast between industrial categories. They in fact mark what can be seen as a historical turning point for the world of Japanese industry.' (Shimada, 1986:190). A result of this new era, as one might imagine, is greater job mobility as these companies hire outside, better qualified employees. Talented engineers and middle management, often with no place to go in the traditional companies, are finding these new companies to be the lucrative answer. Lifetime employment at the traditional companies is based on interpersonal relationships built up by keeping outsiders out and being very insular. In the present high tech environment, however, even traditional companies are finding that they are unable to train and develop employees in this field and are needing to call in outside experts. This often leads to the laying off of more temporary employees and more early retirements in order to make room for these new additions. This could prove to have a very great impact on Japanese industry: much of its success has been based on employee loyalty and diligence. As lay offs increase, employees will likely feel betrayed while the ones who remain will realize that it's no longer 'their company' and they may be laid off when

necessary. This certainly will adversely affect employee loyalty and dedication.

Another important practice which distinguishes the Japanese system from those of the West, consensus decision-making, also looks set to face some obstacles. The main virtue of consensus decision-making is that it involves everyone who will be affected by the decision so that implementation is smooth and all feel included. But, new external conditions are making this more of a hindrance than a help. Sethi et al. (1984) argue that there are 3 main drawbacks of the system:

[1.] 'The rapid rate of technological growth and change introduces new risks and uncertainties, calling for different types of inputs into the decision-making process, ones that do not fit the organizational structure. In fact, the most important skills necessary to evaluate risks may not even be available within the organization.

[2.] 'The nature of markets, competition, and lead times for making decisions is becoming increasingly shorter, requiring fast reaction times.

[3.] 'The need to protect all those involved creates a bias toward risk avoidance.' (p.236).

Companies with great exposure to high technology, like Sony, are breaking away and modifying their decision-making procedures and the trend is accelerating (Moroi, 1986; Sethi et al., 1984). Some companies are sidelining more managers so have less people to consult, while others get senior managers working more closely with low and middle management so that they think like the top. Obvious problems arise

from these practices: exclusion and 'a reduction in the time span and more direct involvement by top management lead to dissatisfaction among the lower ranks, who consider their initiative and expertise not adequately appreciated by the company. Thus the system acquires more and more of the Western-style top-down decision-making, which the corporate culture is not equipped to handle. The result is alienation and erosion of employee loyalty.' (Sethi et al., 1984:237).

Company unions are also facing disruptions. Company unions have been possible in Japan because employers have always been able to look after the interests of their employees with the aid of the institutions of lifetime employment, consensus decision-making, and the sharing of company profits. But problems have arisen.

When automation first came on the scene, it was seen as positive as it improved the wealth of the company which would in turn increase the wealth of the employees. But now it is increasingly being seen as a threat to the size of the workforce with the result being unemployment. Also, older workers' skills are becoming obsolete so that they are often reassigned and must work under younger technically skilled employees. This disrupts the seniority-based relationships central to Japanese culture. The young are also higher paid if

technically skilled, leading to an increasing disparity in wages.

These changes are leading to changes in unions' ways of thinking about management needs and putting waves into their formerly smooth sailing relationship. Concrete examples of this change of thought are as follows:

'The General Council of Trade Unions of Japan has launched a campaign to spread work by reducing the average working week from 5.5 days to 5 days.

Unions have won agreements aimed at protecting the jobs of older workers. These include provisions for training in new skills, protection against job or wage downgrading, and sharing the productivity benefits of new technology.

To save the jobs of older workers, unions are also demanding an increase in the current mandatory retirement age of 55 years. They have already won this concession from some major trading houses, and from steel and electric appliance makers.

To help offset the effect of these measures on new recruits, Japan's Council of Metalworkers' Union and other labour groups have begun a nationwide campaign to persuade employees to spread the work by taking all the paid vacation time they earn each year.

Efforts are also under way to cut the growth of part-time jobs.' (Sethi et al., 1984:238).

If they don't succeed the unions will become more militant; 'to the extent that they do succeed, they will dissipate some of the savings in wage costs generated by the companies through automation. They will also adversely affect Japan's international competitive position and potentially hurt its exports and domestic employment.' (Sethi et al, 1984:239).

As seen in chapter 3, social and cultural changes are also taking place in Japan as the young begin to prefer more free time and as individualism grows. Touched on previously in this chapter is the changing role of women in Japanese business. Though generally still discriminated against, they are becoming more common in the workforce. Contributing factors include the spread of higher education for women, the increasing weight of the service sector, and changing values. Women at present are becoming more and more dissatisfied with their places in industry so that they may press for further advances for themselves. And chapter 2 discussed how previous causes for Japan's success are changing.

One further problem the Japanese may soon be facing is the education of the workforce. The problem in Japan is not one of a poorly educated workforce but of a too well educated one. Those entering the labour force have probably completed high school or both high school and university (nearly all Japanese finish high school and nearly 60% go on to university (Pegels, 1984)). The present workers in general have only finished middle school at 15 so that the new entrants are better educated but often lower paid because of the seniority system: sometimes only two fifths of the older workers' pay. This new force, then, is against any suggestion of raising the retirement age to allow

the aging workforce a source of financial security, instead they hope to lower it to allow room for their own promotions. Another problem resulting from the high level of education is that now there are nearly no students who finish at middle school -- these were the people traditionally employed in blue collar jobs because of their low educational attainment. But now there are relatively few individuals willing to do these jobs. This has been accounted for so far through the use of automation and robotization and the increase in white collar workers in the service industries. Finally, the majority of males entering the workforce now have a university degree. This traditionally means a managerial position but soon there may not be enough of these positions to go around and eventually many will have to be satisfied with those jobs previously held by high school graduates. (Pegels, 1984).

Ken Moroi (1986) summarizes what are/will be the characteristics of the new Japanese management style:

Conventional and New Japanese Management Styles

	<u>Conventional Style</u>	<u>New Style</u>
<b>Strategy</b>	Operations Orientation Internal accumulation Pursuit of main business Applications research Priority on efficiency	Strategy Orientation Use of external resources Diversification Basic research Priority on innovation
<b>Organization</b>	Pyramidal hierarchy	Horizontal network

	Centralization	Decentralization
	Large headquarters	Small headquarters
	Stable bureaucratic structure	mobile innovative structure
	Bottom-up decision making	Top-down decision making
	Powerful production divisions	Powerful Research and Development divisions
<b>Systems and Customs</b>	Lifetime employment	Lifetime employment
	Seniority system	Meritocracy
	Total quality control	Modified Total Quality Control
	Enterprise union	Redefined Enterprise union
	In-house training	In-house training
	Generous welfare spending	Generous welfare spending
<b>Human Resources</b>	Homogeneous work force	Heterogeneous workforce *
	Groupism	Tolerance of Individualism *
	Loyalty to company	Loyalty to company *
	Egalitarianism	Respect for individuality *
	Evangelical leaders	Innovative leaders
<b>Behaviour Mode</b>	Incremental	Entrepreneurial

\* Expected: more women managers, a higher degree of job mobility, and more hiring of non-Japanese employees. (p.187).

The question, then, would be whether the West should adopt the successful practices of the Japanese if these practices are having to be modified in Japan itself. Should the new or traditional methods be

adopted? Are some practices more easily transferable than others? Does taking one practice without the others break up the interdependency and disrupt the whole system? All these questions must be addressed.

### 7.3 Opinions on Transferability

Scholars and professionals have looked at and expressed their opinions on the possibility of transferring Japanese style management to the West. Their research will be looked at here.

As stated earlier, the primary argument against the possibility of transferring Japanese management to the West is centred around the idea of culture-boundness. These opponents maintain that the Japanese system is only possible in Japan because of the unique cultural characteristics of the Japanese people which have been embedded in the practices of the system.

One such cultural characteristic with deep historical roots which is inherent in the maintenance of the Japanese management system is collectivism: 'Many of the unique characteristics of JABMAS stem from, and receive societal support from, this collectivistic orientation.' (Sethi et al, 1984:243). Because Westerners are strictly individualistic, it is believed, they will not accept the groupism inherent in the system, the paternal approach is seen as 'an encroachment on their privacy and a denial of their individual rights.' (Sethi et al, 1984:244).

This collectiveness vs individualism stance is the most common argument against the possibility of transferability based on the culture-bound theory. Others, primarily Japanese authors, put forward the argument that Japanese success has arisen from the frugality and strong work ethic of the Japanese that is not found in and cannot be installed into the Western psyche. Kunio (1986) is one such author. His view is as follows: first, the Japanese work more hours, take fewer holidays, and are more concerned with their work. Second, in 1960 the Japanese saved 18% of their household income even though per capita income was low; this figure is much higher than that in the West indicating to Kunio the frugality of the Japanese. And third, the Japanese have a high degree of ascetism.

Other cultural characteristics such as loyalty, homogeneity, respect for seniority and hierarchy and emphasis on maintaining *wa* (harmony) are also said to be central to the Japanese system but not found in Western cultures; this thereby renders the transference of the system impossible. 'Japanese firms in Japan operate with a highly industrious and homogeneous work force, cooperative unions, cordial relations between business and government, etc. While these factors might yield higher productivity in Japan, they are largely tied to the Japanese culture and presumably not transferable to their operations abroad.' (Johnson,

1977:31). The culture-bound hypothesis is quite straightforward, simple, and held by a wide variety of authors and business personnel.

Some opponents stress that the system is not possible in the West without the support of MITI (see chapter 2) and still others maintain that to adopt only parts or bits of the Japanese system is to dismantle it and render it useless as a whole.

The problems with the hypothesis arise when one considers the arguments of the proponents of transferability. Pegels (1984) argues point-blankly that 'students of management practices in Japanese firms have known for quite some time that the concept of Japanese management is transferable to other countries and cultures and is practised in effect by a number of Western firms.' (p.137). Similar views are held by the authors of the popular books Theory Z (Ouchi, 1981), In Search of Excellence (Peters and Waterman, 1982) and The Art of Japanese Management (Pascale and Athos, 1981), i.e. that many American companies already practise Japanese techniques and many even have similar corporate cultures. Mercer, a former manager at IBM, argues that IBM operates under

'the same management philosophies and techniques that have made the Japanese so successful. A study of how IBM operates its philosophies will, therefore, also derive the lessons that so many have tried to deduce from the Japanese; and these lessons are "written" in a cultural context which is more understandable (and is not confused by

irrelevant Zen accretions). In addition, its practices as developed by Tom Watson Jr. (after the time that MITI probably made the Japanese copy), go beyond the Japanese examples to begin to form the "cultures" needed to handle the cellular organic organization structures increasingly demanded by the information revolution.' (p.236).

Not all authors believe transference to be that simple or possible on such a great scale although they are not opponents of the possibility altogether either. These authors take a more piecemeal, 'adopt what will work in that particular culture or business' approach. 'Generally speaking, most aspects of the Japanese personnel management system took shape after the war as a result of rational thinking rather than of the unique culture of Japan, so to a great extent they are transferable to other countries. The systems of successful US companies and UK companies have many similarities. Any system that originates in the core of the culture, however, is not transferable.' (Kono, 1989:177). What Kono maintains is not transferable is as follows: 1. A strong identification with the company as is found in Japan is not possible in individualistic countries. Thus, lifetime commitment and long overtime hours do not transfer. 2. Ambiguous job titles are not transferable and clearly stated responsibilities are necessary -- 'It is necessary to outline the authority and responsibility because the sense of identification is not high and there are also differences of capability between individual workers.' (p.177).

3. Seniority based promotion is not transferable. On the other hand, Kono believes the following to be transferable:

(i) 'Systems that are congruent with the value of the society. One union in one company is advantageous both to the workforce and to the company ... Also, many opportunities for promotion and wage increase, stability of employment, and other systems that respect human rights are transferred.

(ii) Systems that are related to conflicting values. The class system and egalitarianism are conflicting values, and both are still in existence. Equal treatment can be transferred and can be supported by a majority of the workforce. For example, no differentiation between blue collar and white collar workers in the wearing of uniforms.

(iii) Unclear aspiration levels. A system of working in one large room, or one with a frequent change of jobs, is transferable, because the aspiration levels on these matters are not clear.'(p.177).

White and Trevor (1983) believe in the piecemeal approach to a certain extent as they maintain that so much of Japanese expertise 'consists in quite specific details rather than in complex or abstract knowledge.' (p.134). However, they also believe that 'the details of Japanese management are consistent and mutually supportive, like the mesh of a net.'(p.134) -- some will lose effectiveness if isolated. They, therefore, propose that the West

'must analyse and evaluate their own systems as a whole, and then perhaps adapt details of the Japanese approach wherever these contribute to an overall advantage. And they cannot expect to achieve a substantial overall advantage until they have made a wide range of innovations and

adaptations, probably over a period of several years. After all, it required about twenty years of persistent effort on the part of Japanese firms before their manufacturing advantage became apparent.' (p.134-5).

They offer further warnings for those wishing to transfer: 'In short, there seems to be some deeply rooted aspects of British [i.e. Western] management methods which are difficult either to "unlearn" or to reconcile with Japanese-style systems.' (p.136); this appears to be an issue particularly when discussing managers who don't, for example, believe in involvement with their workers but in a sort of elitism. Still, the authors stress that there is no certainty on this subject and that it's only postulation and believe that 'Better understanding of differences in behaviour between Japanese and British managers could prove to be the key to effective transfer of Japanese production systems.' (p.136).'

Still other authors maintain that this piecemeal approach isn't enough. They maintain that Japan adopted Chinese practices in the 7th and 11th centuries and Western practices in the 19th and 20th centuries by studying the entire culture, not the specific parts. They believe the West should do the same rather than looking only at specific management techniques (Yamazaki, 1985). Yamazaki postulates that Japan was able to easily adopt foreign culture and practices in their pre-modern mode because they were isolated enough

not to worry about invasions so were secure enough to accept foreign ideas; they were also not strong enough to conquer others and force their ideology on these peoples so didn't need to solidify their own culture or ideology. All countries today are in a similar state so that they can accept foreign tastes without anxiety and dispense with a homogeneous culture: 'Any country can now accept some of the Japanese lessons if it wishes to do so.' (Yamazaki, 1985:39). The point, though, is that the culture itself can and must be changed: 'To change institutions or practices, it is necessary in most cases to change the attitudes of the people involved. And usually this change in attitudes is of more lasting importance than any specific change in practices.' (Thurow, 1985:39).

The most common argument against the culture-bound theory is the use of the actual history of the Japanese system. First, that Japan was able to adopt what management practices they believed most worthwhile from the US and Europe in the 15 years following World War II, begs the question of why the West cannot now do the same. Second, the results of their effort deny the importance of culture:

'Interestingly, one characteristic of the century long effort of the Japanese to catch up with the West was itself a conviction not to overestimate the importance of the cultural "binding" of Western method. The hope of the promoters of the Meiji restoration and their successors was that successful business and industrial methods and

strategies could indeed be de-coupled from "culture", for if it could not be, a then-inferior Japan was condemned to lag perpetually behind the obviously superior West. The slogan was, "Western methods, Japanese spirit." Evidently the combination worked.' (L.G.Franco, 1983:3).

Other factors already touched on should also be taken into consideration. As we've seen, there are environmental factors with a direct effect on the Japanese managerial system:

'Stable economic growth, dual structures of industries and the labour market, rapid and far-reaching technological innovations led by advancement of micro-electronics, aging of the population, structural changes in the labour market caused by shifting to a service economy, and more women at work -- are changing forces of Japanese style human resource management. On the other hand, such characteristics of Japanese society as homogeneity, weak class-consciousness, and group-oriented culture work for maintaining the system as it is. But changes of social, cultural, and political factors which will be brought out by an "affluent society", will also more or less affect the traditional value system and work ethic. In addition, "internationalization" of Japanese companies may have some impact on the homogeneous and "groupist" mentality of the Japanese.' (Ishida, 1986:103).

Is it sensible to attempt to transfer a system that may not be that system for much longer even where it has been successful? If any of those practices or techniques generally considered 'Japanese' are changed in Japan, should the West attempt to adopt them? Sethi et al. (1984) provide their argument:

'Japanese society is undergoing a gradual transformation whose pace is likely to accelerate. Change is being brought about as a consequence of internal pressures as groups seek to broaden their share of the economic pie and as people's expectations change in response to new realities. There are also external pressures as the Japanese

are exposed to new realities and value systems and are forced to examine their own within a broader perspective. Moreover, as other nations develop new strategies to respond to the Japanese challenge, the Japanese must modify current responses to meet an altered international environment.' (p.230).

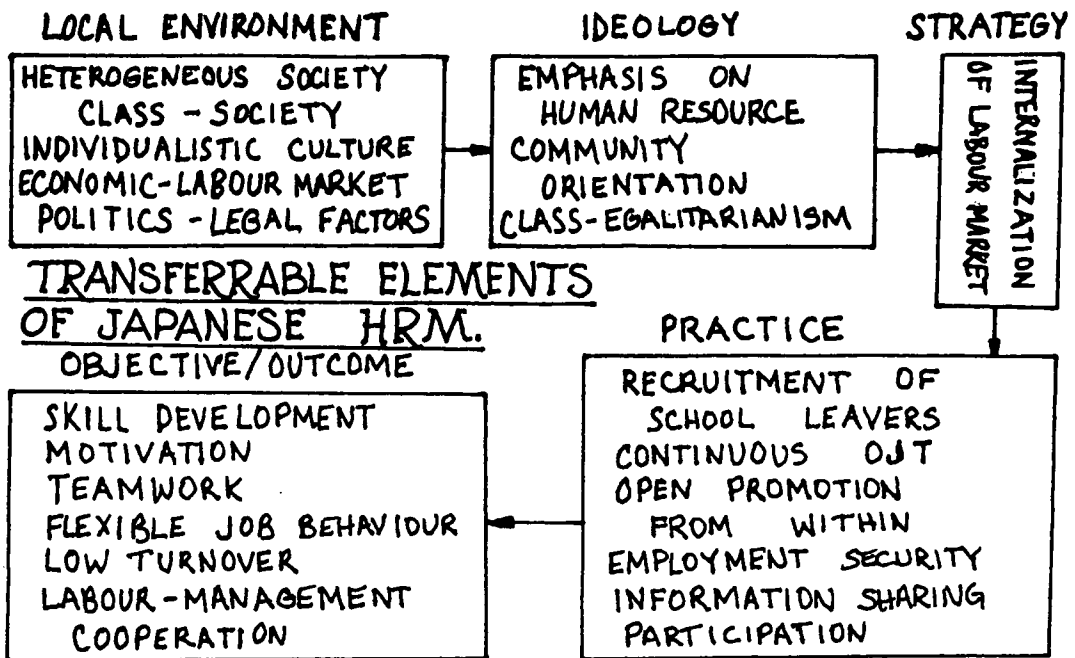
Because of this, they go on to argue that 'If these changes will alter JABMAS in some fundamental ways, it would be sheer folly for us to try to become more like the Japanese while they are trying very hard to become different from what they are.' (p.230).

Of obvious value in determining what is or isn't transferable is to look at what has been successful in Japanese subsidiaries in Britain and the US (see Chapter 6).

Ueki's (in Kono, 1985) survey on the transfer of Japanese management styles to subsidiaries in Brazil found that those companies who transferred Japanese management practices performed better. Not all methods were transferred, however. 'For example, over-high expectations of devotion to the organization, large group conferences, unclear responsibility, suggestion systems, and expectations of long term service from highly skilled employees do not work well. The transfer was thus highly selective. He found that training and communication was important as a means of making the transfer acceptable to the local people. Ueki's finding that the selective transfer of Japanese

management skills is effective for better performance coincides with our own.' (p.178).

Ishida's (1986) survey of eighteen Japanese managers at subsidiaries in the United States found the following: Elements which cannot be taken as particularly Japanese: class-egalitarianism; elements which can be achieved: community orientation, employment security; elements which can be more or less achieved: information sharing, flexible job behaviour; elements which are least achieved: groupism, low turnover; and elements which are adapted to the local culture: seniority wages and seniority promotion. Similarly to White and Trevor, Ishida also notes that 'It can be surmised that Japanese style human resource management, which has a characteristic of treating employees on a single basis approach, tends to be well accepted by workers on lower echelons and to be faced with a lot of problems in dealing with upper-echelon employees.' (p.116). Finally, he provides a chart which 'shows a modified model of Japanese style human resource management that results from the findings of the surveys and is considered to be transferable to Japanese firms operating in different cultural environments.' (p.117):



#### 7.4 Conclusion

Still, these studies of Japanese subsidiaries don't actually provide a definitive answer as to whether Japanese management is transferable. As seen in Chapter 6, the problems that have arisen in the white collar sector because of the cultural misunderstandings between the Japanese expatriates and the British and American workers, especially managers, put the matter of transferability out of perspective: it becomes not simply a matter of transferring these practices but also of dealing with foreign management. The question of whether the West can adopt these practices remains unanswered.

First, each subsidiary has taken a unique approach and each subsidiary has had its own successes and failures. The studies on various subsidiaries by a wide variety of authors provide a plethora of different

results -- some say they haven't found the practices considered Japanese at all (White and Trevor, 1983) while others claim that at least some are found (e.g. Bowman and Caison, 1986, Ouchi, 1981). Because of this variability in results a single position cannot be derived.

Secondly, there are primarily three hypotheses as to whether or not Japanese management is transferable:

1. The culture bound hypothesis which argues that the system is so enmeshed in the cultural conditions of the Japanese people that it cannot possibly be transferred to the distinctly different West.
2. The piecemeal approach which maintains that those practices which are the most productive and will be adaptable can be transferred -- weight is given to this argument by the historical reality of the Japanese adopting in this fashion from the West following World War II.
3. The all or nothing approach which insists that all the parts are intertwined and inseparable so that the system no longer is productive if one part is missing and if the culture it has developed in is ignored.

None of these, however, can be proven even by looking at Japanese subsidiaries. I believe this is because the subject of the West learning from Japan is so complex in terms of what Japan has done to achieve their position in the world economy. It is not clear whether it is simply the employment practices which are

at the heart of this success -- many other factors may have been involved.

The next chapter will present other possible causes for the impressive success of the Japanese economy which have been postulated in order to present a more inclusive account of what is at issue.

## CHAPTER 8

### OTHER FACTORS IN JAPAN'S SUCCESS

As Japan's economic success has come more and more into the spotlight in the past decade or so, much of the literature on the subject has dealt with how the West can learn from the Japanese example. As a result of this line of analysis, such issues as corporate culture and management practices considered unique to Japan came to the forefront as the areas which could provide the answers: since these areas are possibly transferable, the West could theoretically engage in the same practices and in that way regain their economic impetus.

The problem with this line of reasoning is that it ignores the many other factors which may have contributed to Japan's success. By so doing, it provides only a simplistic answer which is unlikely to provide an end to the West's relative economic decline.

This chapter will provide a brief discussion of these other factors which have been postulated to have played a role in Japan's impressive development in order to put into context the role of Japanese management practices.

First, Prof. M. Takamiya (in White and Trevor, 1983) found that in the Japanese subsidiaries in Britain that he looked at, lifetime employment, exceptional levels of welfare, and an emphasis on

'human relations' were not found. He also discovered that workers were no more satisfied with their employment than were other workers in comparable British or American companies. But, the Japanese-owned subsidiaries achieved higher levels of labour productivity and product quality than normally found in Britain. 'It therefore seems from these observations that Japanese success does not necessarily depend either on the employment practices usually thought of as distinctively Japanese, nor on having particularly "happy" or "motivated" workers. There must be other sources of Japanese effectiveness.' (White and Trevor, 1983:8).

Takamiya's explanation was the organisation of production work itself.

'Their methods of production, located in the workplace and often consisting of relatively fine details, would be much less conspicuous than many of the (perhaps superficial) features of Japanese employment systems which are popularly known. But by the same token they would be both more transferable and more fundamental. Examples of the types of work practices to which Takamiya referred were: immediate rectification of defective work, close involvement of technicians and supervisors in daily production tasks, and emphasis on small but continuous and cumulative technical improvements (often fitted to the individual -- for instance, jigs designed specifically to overcome weaknesses in a worker's performance). Much that Takamiya was saying might be interpreted as a type of intensive, craftsmanlike approach to production management.' White and Trevor, 1983:8).

Cultural characteristics have been the subject of great interest in the debate over Japanese success.

Despite having a hierarchical society, there is an underlying idea of sameness, with interest going beyond that of a personal level. There is 'great mutual loyalty' which has had significant economic consequences as it makes consensus policies possible as all is done in the national interest. This is manifested in business enterprises in terms of the lifetime employment policy and worker loyalty to the firm. Historically this idea of sameness was apparent in the zaibatsus and their close relationship with the government.

But are these cultural characteristics the primary cause of Japanese growth? K. Smith (1984) argues that in fact this consensus society resulted from the 'economic miracle', not vice versa. Before their success, he argues, Japanese society was a factionally and socially divided system. Lifetime employment was also made possible by success -- it is not possible for the West because of the insecure economic environment and the risks their enterprises face. 'Lifetime contracts are best viewed as an expression, by Japanese managers, of confidence in continued growth, an expression of a belief that they do not face significant risks which threaten their corporate future.' (Smith, 1984:217). Furthermore, '...while worker loyalty may well be part of the "Japanese ethos", we should remember that economic security, and

particularly employment security, is very highly valued by people everywhere; once workers are guaranteed a degree of security, their loyalty to the firm that provides it may not be all that surprising.' (Smith, 1984:217).

Smith, then, maintains that success has come as a result not of cultural characteristics but of the Japanese economic environment. The Japanese policy framework: there are 3 distinctive features of the approach taken by Japanese policy makers. First, there is a 'firm rejection of some orthodox ideas on international trade, concerning both the types of goods which Japan should be producing and exporting, and the desirability of free trade as opposed to protection and import controls.' (Smith, 1984:218). Second, there is 'an equally firm commitment to the expansionary demand-management ideas associated with the economics of Keynes.' (Smith, 1984:218). Third, there is 'a kind of two faced attitude to competition within the economy: in general the Japanese economy has combined a high degree of government intervention with the promotion of competition. Competition has been encouraged where it was felt that this would enhance efficiency; but it has been firmly discouraged where it would threaten the prospects for growth.' (Smith, 1984:218).

In regards to the first, which is the most important to Britain, the Japanese rejected the widely

accepted law of comparative advantage (a law from the theory of international trade) and rejected free trade. Mr. Y. Ojima, vice-minister for International Trade and Industry, has explained this move: it was

'decided that to establish in Japan industries which required intensive employment of capital and technology, industries that in consideration of comparative costs of production should be the most inappropriate for Japan, industries such as steel, oil refining, petrochemicals, automobiles, aircraft, industrial machinery of all sorts, and electronics including electronic computers. From a short run, static view point, encouragement of such industries would seem to conflict with economic rationalism. But from a long-range viewpoint, these are precisely the industries where ... demand is high, technological progress is rapid, and labour productivity rises fast.' (In Smith, 1984:220).

These industries were protected in their formative years with import controls. It was more difficult, however, to actually set up these industries; it required more policies and, argues Smith, a specific institution. This institution which Smith believes to be the main reason for Japanese success is MITI.

The measures available to MITI have changed over the years, but Smith has compiled a list of those that have appeared at some time during the reconstruction and growth period:

1. 'The ability to control the import and use of foreign technologies', i.e. MITI's approval was necessary to use foreign patents and 'during ten years of foreign currency shortage, MITI had the power to allocate foreign currency for technology imports, and thus to control the types of technology which were imported.' (p.223).

2. 'The ability to modify competition and monopoly policy within any sector, and thus to control the

number and size of firms in that sector. Competition often increases efficiency, but it can also increase risk, which inhibits the long-term investments needed for growth.' (p.223).

3. 'The ability to draft and enact laws concerning import controls, tariff rates, export subsidies and foreign investment in Japan.' (p.223).

4. 'The ability to encourage and control particular investment projects by controlling the availability of funds for such projects, either through the Japan Development Bank or through the private banks with which MITI has close links.' (p.223-224).

5. 'It can carry out particular research and development projects on its own account where these are not likely to be profitable for private firms within a reasonable time period.' (p.224). An example of this in the past has been major computer development projects.

The above are 'used vigorously and flexibly in many combinations in a wide variety of industrial circumstances' (p.224) but there are four basic types of intervention (all four of these must be operated simultaneously): 1. the creation and sustenance of new industries; 2. programmes of industry modernization, especially in sectors with many small firms; 3. control capacity in particular industries, i.e. prevent excessive investment; 4. policies for declining industries include: subsidies over the period while industries are reduced in size or phased out, government purchase of obsolete equipment for scrapping, aid to workers in moving to other areas, and grants and subsidies for retraining: 'this is crucial to Japan's continued growth for .. economies must manage the process of decline and de-industrialization

at least as well as they manage the process of creating new industries. Both complement each other in economic growth.' (p.224).

Others, however, down play the role of government. Kanamori (1985), for instance, argues that the 'government's role centred on assisting the free activities of private enterprises.' (p.223). It did contribute to growth, mainly through gyosei-shido or 'administrative guidance' which involved the government persuading postponement of investment if there are fears of overinvesting, but it is innovation which has played a much greater role.

G.C. Allen (1981) also argues that the role of the State should not be over-emphasized, as shall be seen, and details what he believes to be the many intermingled causes of Japan's economic progress since 1952. They are as follows.

1. America's 'contribution' during the post-war occupation period. This includes financial 'aid' or 'special procurement' that was given, and some reforms which were introduced: for example,

'the Land Reform initially made some contribution to agricultural productivity as well as to social stability, even though in later years the legal restraints imposed on the alienation of peasant properties may have impeded the transition to large-scale farming. The breaking up of the zaibatsu and the "purging" of the industrial leaders for a time brought confusion to the economy, but in the end they probably helped to stimulate development by opening the way for new men and new methods.' (p.230).

2. The good luck of the Japanese at critical moments during the post-war period. For example, the Korean War, the world investment boom of the mid-1950s and, after 1964, the Vietnam War which, because of American expenditures, resulted in direct and indirect demands on the Japanese for resources.

3. Industrial structure change in the early post-war years. Of significant importance was the transference from textiles (which, apart from silk, was highly dependent upon overseas raw materials for production) 'to types of manufacture of which the import-content was relatively small.' (p.231). This was necessary for the Japanese to be able to finance the imports needed for industrial expansion.

4. After 1959, the importance of number three had declined and there was a steep increase in exports. This increase was assisted by several factors but the main contributor was 'the increase in her industrial efficiency compared with that of other nations.' (p.232).

Allen goes on to qualify that number four was not necessarily the main instrument of growth as indicated by the relatively low ratio of exports to GNP. But still, it was quite essential during times of recession.

Allen also proposes chief proximate causes of rapid economic development. 1. Increases in the labour

supply. There was only a moderate population expansion but there was a significant increase in the number of those who had reached working age and there was a large number of underemployed agricultural workers who were able to be transferred to industry. The quality of the workers was also high because of the efficient education system so that the Japanese were 'able to assimilate new technical knowledge and to introduce new productive methods without delay.' (p.232-233).

Also in regards to labour and the introduction of new methods, Allen emphasises the importance of two other factors: the unions didn't present opposition and management promoted cooperation.

2. The rise in capital stock. 'Gross savings increased from 24% of GNP in the early 1950s to 38% in the late 1960s, and a high proportion of these savings were invested in types of industrial equipment which yielded quick and measurable results.' (p.233).

How was this done?

'Japan's massive investments, together with her army of competent technicians made it possible for her rapidly to absorb innovations imported from advanced countries. In this way she soon reduced the wide gap that existed at the end of the war between her level of technical accomplishment and that of Western Europe and America. By the middle 1960s she had caught up with Europe in this respect and was even beginning to supply 'know-how' to firms in other industrial countries.' (p.233).

Allen maintains that behind all these factors was 'a fundamental cause of her outstanding performance,

namely her whole-hearted pursuit of a single objective, economic expansion.' (p.233).

An example of this devotion to the building up of the Japanese economy is a statement made by Mr. S. Honda when he first established his company: 'Even if my company becomes bankrupt because of the rate at which I expand my plant, the plant itself will remain to be used for the development of Japanese industry. So I will take the risk.' (p.234).

This single-mindedness led to a priority being given to industrial efficiency: The Japanese didn't build or purchase 'prestige' products, and they gave up industries which had poor prospects and concentrated only on those which appeared profitable.

It also led to impressive social cohesion and morale -- Allen believes that the success of government policy was partly because of its acceptance by the Japanese people:

'The government has, of course, been prominent in decision-making in the economic sphere. But its most valuable function has been that of interpreting, guiding and serving the national purpose. It is the decisions of individuals, firms and groups, working within an environment of propitious institutions and sustaining government policies that have carried Japan to her present eminence. On this argument, the government's chief contribution after the war was the creation of conditions congenial to the exercise of industrial enterprise.'

Allen, finally, presents a few more possible contributors: the Japanese skill in coping with the

problem of an 'over-heated' economy caused by a serious disequilibrium in the balance of payments; government checks and deflationary measures.

This may not be a complete list of the other factors which may have contributed to Japan's economic success, but it should still indicate that there are many factors other than the fashionable ones, such as corporate culture and management practices, which have played a role. Even from this partial list it can be seen that there are many possible contributors to the success of the Japanese economy. It is impossible to judge whether all or some of these factors were so significant and had such an effect on the economy that, if they hadn't happened, this 'miracle' would not have taken place. It is possible and necessary to accept, however, that to ignore any of these is to provide too simplistic an answer to the question of how the West can benefit from the Japanese example.

## CHAPTER 9

### CONCLUSION

The purpose of this thesis has been to provide a more inclusive discussion of the success of the Japanese economy than is often found in articles and books designed to provide the solution to the Western economic malaise. By presenting both the most common views, specifically the role of corporate culture and more predominantly that of the Japanese management system, along with the less publicised but still important views, primarily of economic historians, of the causes of this success, I hope to have provided a well-balanced account of the issues involved in deciding what is to be benefited from the Japanese example by the West. By so doing, the intention was both to give readers the material with which to make their own interpretations, and to provide something of a cautionary message that a simplistic transference of only one element in the Japanese success may not be enough on its own and subsequently may not provide the easy remedy for the West's economic ills. That the system is changing in Japan itself also does not encourage its full adoption in the West.

At the moment there is no source of evidence to support any of the transferability arguments: the use of subsidiaries is confused by the issue of foreign control and culture clash and there are no Western

companies that have adopted Japanese methods wholesale. And although in the past the Japanese themselves benefited from the lessons of the West, implying that there's no reason to assume that the West can't now benefit from them, until a Western company does adopt the Japanese system, the question of whether transference of the Japanese employment system is either possible or useful will remain unanswered.

A more complete understanding of all the issues, however, will help to provide a less superficial and more educated theory than those generally found at present as to what aspect of the Japanese success story can and will provide the most benefit.

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