MANAGEMENT & INDUSTRIAL STRUCTURE IN JAPAN
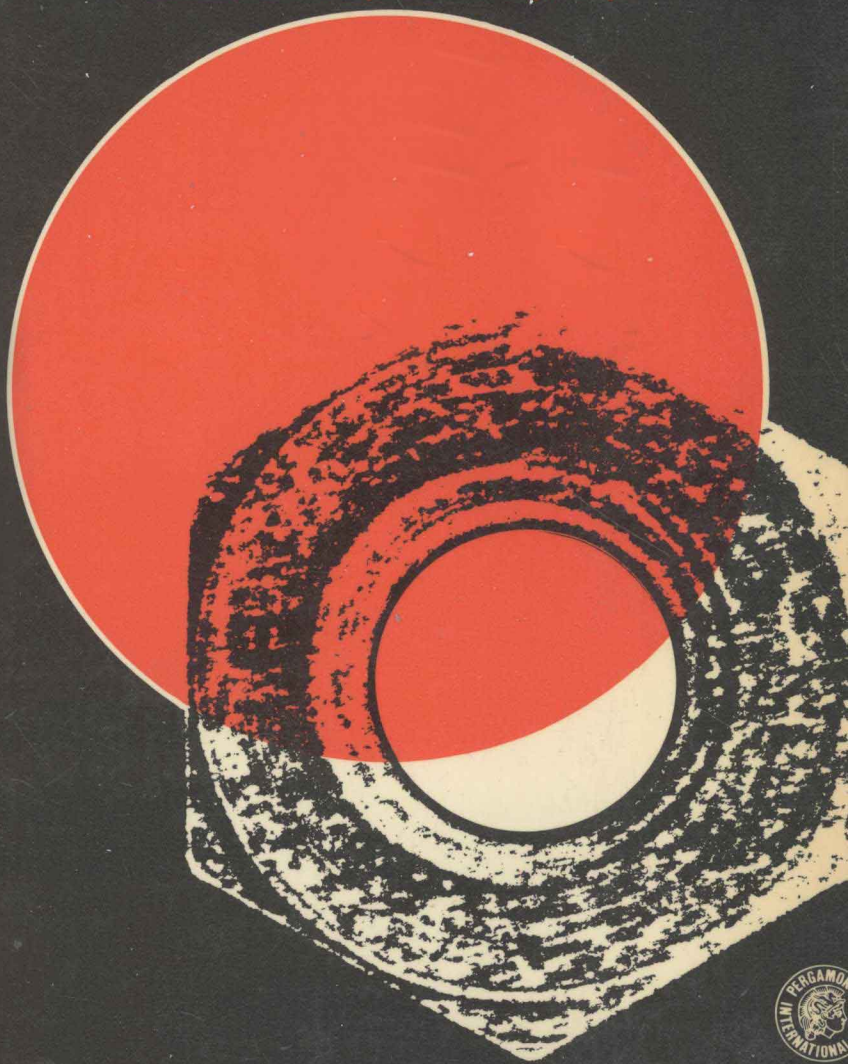
NAOTO SASAKI

Professor of Economics and Industrial Administration, Sophia University, Tokyo

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MANAGEMENT AND INDUSTRIAL STRUCTURE IN JAPAN

by

NAOTO SASAKI

Professor of Economics and Industrial Administration,
Sophia University, Tokyo

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To my deceased parents

Preface

Already over ten years have passed since I accompanied, as an academic coordinator, a team of thirty Japanese managers to a seminar arranged by the 'Graduate School of Industrial Administration (GSIA) at Carnegie-Mellon University, Pittsburgh, U.S.A. During the three week stay, students of the school came and asked me to give them a lecture on "Management and the Economy in Japan". This was the first of many such lectures and speeches I have given since in foreign countries.

In the early autumn of that same year I went back to GSIA as a research fellow and, while doing my own research in the field of regulated business behavior, I gave one or two talks to the students. When the one year stay was coming to an end, GSIA members offered me a chance to join them and give a seminar in Europe. This chance opened a gate to Europe to me, and eventually led me to Brussels where I settled down at a newly established institute, the European Institute for Advanced Studies in Management (EIASM) as a visiting fellow.

Looking at my hand to mouth existence, the first dean of EIASM, Professor Richard Van Horn, suggested that I extend the "lecture and speech tour" to Europe to earn a livelihood, and was so kind as to recommend me to various places of management training and education. Thanks to his help and to the growing interest in Japan, gradually I began to be "in demand".

One morning, at the breakfast table in a humble hotel on Rue de la Concorde, an old gentleman talked to me, who turned out to be Dr. Reginald W. Revans of Fondation Industrie-Université. Dr. Revans

soon discovered my poverty and kindly introduced me to Dr. Michael Z. Brooke in order to get his help to extend my "tour" to the U.K. Dr. Brooke was at the University of Manchester and was editing a series of international business publications. After a few months he asked me to write a book on Japanese management for his series and so this book was conceived.

In the writing of it I have never forgotten what Dr. Revans told me when I was hesitating whether to return to Japan or not. He said, "Professor Sasaki, Japanese organizations have got so many good things which the Western organizations have not got. If you write a book on Japanese management, go back to your own country, see your organizations with your own eyes and touch them with your own hands."

Finally, after many turns and twists, this book comes into being by courtesy of Mr. Robert Maxwell, Chairman of Pergamon Press Ltd. It is a product of questions raised by my lecture audiences and of my preparations to answer them. However, it is not a book of thorough explanation based on my own research data but one of my own interpretations, based on as many and good existing data as possible, of Management and Industrial Structure in Japan. I do believe, from past experience, that the trade imbalance, for instance, between Europe and Japan has been caused chiefly by "information imbalance". Japanese know very much more about Europe than Europeans know about Japan. There is no comparison. If this book could contribute to filling the gap even a little, I would be very happy.

I gratefully acknowledge the assistance of Dr. Michael Z. Brooke in editing the drafts even though this book no longer forms part of his series. I should also remember the help of Miss Sheila Smith in typing and correcting the drafts. I should like to thank Principal Philip Sadler of Ashridge Management College and Professor Koichi Hamada of Tokyo University for the friendly encouragement they have shown me these ten years.

NAOTO SASAKI

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The Cultural Background

1.1 The Closed Nature of Japanese Society

As long as management is considered to be the "art" of managing organizations, the practice of management depends on the attributes of the people who form the organization as well as those of the organization itself. It is sometimes difficult to distinguish between the two, but if we do not pay sufficient attention to the difference, we cannot satisfactorily analyze Japanese management. We may misinterpret its unique character.

That it is "closed" is said to be one of the main characteristics of Japanese management, and here the contents of this will be examined. Being "closed" is part of the nature of the Japanese people. Whether they belong to a "closed" organization or not, the Japanese are not socializers. The origin of this may be traced to various features of an ethnic and anthropological nature. For example, geographically Japan is isolated from other countries. In spite of the nearness of Siberia, the Korean Peninsula and China, Japan had had virtually no substantial contact with these countries for many centuries. After the introduction of Buddhism from China through Korea in the 6th century, Japan sent mission after mission to China to learn various things, but with the start and passage of the Tokugawa Shogunate era, she gradually developed a policy of seclusion from other countries, and finally in 1639, officially announced a complete self-imposed seclusion. Since the Meiji Restoration in 1868, when the country was opened to foreigners, up to very recent years she pursued the progress of the "civilized countries" in the West. Accordingly, it may be accurate to say that Japan was not paying much attention to her neighbouring countries for almost four hundred years. Linguistically and culturally, the Japanese are a homogeneous race and very defensive

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against entrants from the outside, greatly because they live on irrigation farming, sharing the water supply only among themselves. Of the possible reasons for this the most distinctive is that Japan has never been invaded by a different ethnic group at any time in her whole history. Of course there was the United States occupation for some time after World War II, but this experience did not present itself on a sufficiently wide scale to influence greatly the basic outlook of the people. Thus, in addition to the geographical isolation, Japan has formed, as mentioned above, a culturally isolated island through promoting Westernization with a resultant detachment from Asia while strengthening her characteristics as a racially homogeneous society of a sort rarely found in the history of the world.

Foreigners are not the only victims of this characteristic. All Japanese seem to possess, at least potentially, what may be called "group cohesiveness". They can at any time identify themselves with an organization to which they belong, even if temporarily, and at the same time show a stubborn barrier against other organizations. This "closed" behaviour sometimes takes an offensive form. It has been noticed that students from two different high schools from the same prefecture fight with each other over minor matters. However, when confronted with students from another prefecture they quite easily join forces and form a new group showing a broader enclosure. As a result, an even bigger conflict may take place between students from different prefectures. And the broadest unit of such groups is Japan. This notion does not extend, however, to the ambiguously bordered entity "the society". Namely the Japanese people are lacking in the feeling of being "members of the public", which is often pointed out to be the reason for low public moral in Japan. As such the closed nature of Japanese firms is intrinsic to the Japanese people in the first place. However, this national characteristic must be clearly distinguished from the type of enclosure which firms develop as a system.

The lack of sociability on the part of the Japanese people often invites misunderstandings. For example, the Japanese are not good when talking to others at looking them straight in the face. When they feel shy, they steal a glance "from the corner of their eyes", to use a Western expression, and it is often wrongly assumed that an insult is intended. In Japan it is considered as a virtue to hide one's own feelings, whereas in Western countries the lack of frank expression creates problems in human relations.

Many of the troubles which Japanese firms have created abroad can in fact be traced to this individual trait.

What would then be the factor contributing to the creation of the character in the Japanese firms as a system ? The biggest factor may well be the life-time employment system. Japanese employees may be by nature loyal to the firm that employs them. On the other hand loyalty can be nurtured as it is usually the case that the longer a person stays with an organization, the more loyal he becomes. Therefore, under the life-time employment system, loyalty is strengthened as one's position rises within an organization. The seniority system, supporting lifetime employment from inside, and the wage system based on seniority are other "closed" systems found in Japanese firms. The rapid growth of the Japanese economy in the 1960s caused labour shortages in some sectors of the society but did not leave behind much labour mobility if compared internationally as Table 1.1 shows.

TABLE 1.1 *How many times have you changed jobs ?*

(%)

	Japan	U.S.A.	U.K.	F.R. Germany	India
Never	71.5	23.0	41.4	56.1	85.2
Once	14.8	17.9	23.8	24.9	9.0
Twice	5.4	18.2	14.6	12.5	2.4
Three times	2.2	13.3	7.7	3.6	0.4
Four or more times	1.3	27.0	12.2	1.8	0.7
No answer	4.9	0.7	0.3	1.1	2.3

Source: The Japanese Youth, The Prime Minister's Office, Tokyo, 1978.
Note: The samples are youth in each country whose ages are 18 to 24 inclusive.

Those in higher positions in an organization are usually older and better paid. This system almost completely eliminates the possibility of labour mobility among firms; it is extremely difficult to find a job in other firms with similar, let alone improved, terms and conditions. It is often said that Japanese youth have changed towards more meritocracy. But if we make

another international comparison, as is shown in Table 1.2, they still have a preference for the seniority system. In this table we should pay more attention to the fourth item than to the first three as it is taken to be a more honest expression of their feelings. The seniority system is too deeply rooted in the heart of the Japanese people to disappear overnight.

TABLE 1.2 *How would you like promotions and salary increases to be decided?*

(%)

	Japan	U.S.A.	U.K.	F.R. Germany	Sweden
Only by seniority	10.2	2.1	3.2	3.7	14.2
Mainly by seniority but performance also considered	36.0	14.0	12.4	14.3	27.6
Mainly by performance but seniority also considered	25.8	44.9	40.8	39.2	30.5
Only by performance	6.5	34.3	35.5	39.0	12.6

Source: *The Japanese Youth*, The Prime Minister's Office, Tokyo, 1978.
Note: The samples are youth in each country whose ages are 18 to 24 inclusive.

When these closed systems are combined with the intrinsic closed-mindedness and group cohesiveness of the Japanese people themselves, they begin to show a total situation which may be extremely strong and exclusive. When they are further amplified by unsociability and un-friendly looks, they may give an impression of a rock hard coldness towards outsiders. It is here that the concepts of *Uchi*, the insides of one's world, and *Soto*, the outside, emerge.[1]*

1.2 Social Norms

The closed-mindedness and the group cohesiveness mentioned above are often described as "collectivism". But they should be considered as

* Superior numbers refer to the "Notes" at the end of each chapter.

unconscious social norms rather than as rationally designed ideologies. Group decision-making based on consensus, for example, is a product of this norm. As the community, *Uchi*, is formed within an originally homogeneous society each member naturally wishes to obtain agreement from other members about his own activities and when he gains the agreement, he feels at ease, and in turn shows interest in the activities of others. Consensus by all the members is therefore necessary, to make an extreme statement, for every activity in an organization. Accordingly it is likely to be a norm that members of an organization discuss their intentions with each other, on the basis of existing information. After completion of a particular activity, they report the results to one another. Through this process of sharing information, the parties confirm that they are members of the same organization. The complexity involved in exchanging information is multiplied as the number of members grows. Japanese firms spend a great amount of energy in developing a consensus. The criticism that Japanese managers in their foreign subsidiaries are over-concerned about their head office's reactions is often heard. In fact, however, this concern is usually part of the consensus forming process between the head office and the subsidiaries. Attention should be paid to the fact that this can happen regardless of the degree of authority delegated to the subsidiaries. This can make the system appear to be a centralized one.

To express the situation differently, in the homogeneous society of Japan it is vital for each member to keep harmony with other members of his organization. It may not be too extreme to say that cutting an over-conspicuous figure in a Japanese organization is regarded as a sin. For example, if a business manager becomes famous as an economist in the outside world, or *Soto*, he will have only a narrow chance of being promoted to the top. Quite often Japanese management style is characterized as familyism. But in a family to be conspicuous is not a sin. The familyism of Japanese organizations, therefore, should not be exaggerated. It would not be unreasonable to say that it is partly a product of egalitarianism backed with jealousy. As a matter of fact, this egalitarianism has been advancing also in terms of economic equality. Table 1.3 shows that the gaps in the lifetime income among primary and/or middle school graduates, high school graduates, and university graduates are getting smaller. This is proved internationally, too. According to an OECD report, the income gap between the rich and the poor is the smallest in

TABLE 1.3 *Differences of lifetime income by school careers*

(index)

	Primary and middle school graduates	High school graduates	University graduates
1965	57.7	70.2	100.0
1977	74.5	75.6	100.0

Source: *Trend of Life and Consciousness of the Japanese*, The Economic Planning Agency, Tokyo, 1979.

TABLE 1.4 *Consciousness of the people of belonging to income class*

(%)

Classes	1962	1975	1978
Upper upper	0.4	0.8	0.9
Lower upper	2.1	3.0	4.8
Upper middle	35.0	43.4	49.3
Lower middle	38.2	35.3	31.7
Upper lower	12.2	7.4	7.0
Lower lower	3.7	2.4	2.0

Source: *Trend of Life and Consciousness of the Japanese*, The Economic Planning Agency, Tokyo, 1979.

Japan among the OECD countries, and the income equalization is most advanced.[2] Though there may not be much difference among those countries, as Table 1.4 shows, a great majority of the people in Japan consider themselves to be "middle class".

In some respects, however, true familyism does exist in Japan. For instance, from time to time Japanese managers abroad receive publicity for the way in which they work with local workers and mix with them. This is not at all unusual in Japan where plant managers and supervisors

concern themselves with the private affairs of their workers or sub-ordinates. Frequently managers invite their staff for a drink after work, and it is not rare when a manager is transferred to another plant or office that his workers and subordinates come to the house to help with the packing, cleaning and other activities, and on the day he leaves they line up at the railway station to see him off. Such a scene would not be understood in Western society. What may be considered as an invasion of privacy in the West is accepted in Japan as consideration for subordinates.

An extreme example of this is found in the case of Idemitsu Petroleum. There they have neither time recorders nor a retirement age. According to Mr. Idemitsu, a past president of the company, "We do not fire employees, no matter what bad ways they may have. Who would fire his children ? As we do not let them quit, we do not have to have a retirement age. If an employee gets married, we will pay his wife 60% of his wage or salary, because we think she has become a member of our family. And we do not give any sanction or penalty. Let a child think over his failure, then he will learn from it."[3] As a matter of fact, still at present in progress of so-called "Westernization" more than 70% of Japanese youth think it better to live with their parents when the latter gets old. This figure is contrasted with 23% of the youth in the United States and 13% in F.R. Germany.[4]

What is to be noted, concerning this familyism, is that the father or the leader should not have or even wish to have authoritative power. The leader should be a man who "takes care" of those around him.[5] This has much to do with group leadership not only in the business organization but also in government. It is the inheritance of a long political tradition, which can be traced back to the thirteenth century when the political body already had a power-sharing system. In the Tokugawa era, prior to the Meiji Restoration, this sytem of group leadership was developed to its full extreme. Again, after the Restoration, the new leaders continued its practice. In Japan "unlike the situation in most countries undergoing rapid change, there was never any one dictatorial leader, nor did any person ever attempt to gain such powers".[6]

In this sytem authority based on seniority coexists, at first sight strangely, with the egalitarianism which lets members of an organization say: "Let's all share work together, enjoy and suffer together, as we are members of the same family".

1.3 A Plywood of Traditional and Imported Systems

The Japanese society is "mysterious" to foreigners and quite often confuses them to the point that they use descriptive phrases such as the "Face of the East behind a Western Mask"[7] or, in the extreme case, "Schizophrenic Superstate".[8] Perhaps the following quotation seems to be the most comprehensive of the impressions of foreigners.

> "Japan is a society of great complexity and subtlety. The best word I can think of to describe it is that it is a mosaic society, in the sense that it is composed of numerous colourful pieces all of which together form, in some mysterious way, a pattern. If I may be permitted to play on words, it is the least Mosaic of all societies, participating hardly at all in the great stream of history which comes down from Mt. Sinai—until the last one hundred years".[9]

What should be kept in mind is that in the course of those 100 years of modernization, accompanied by an extremely rapid economic growth, the Japanese people have always looked to Western society as a model. Prior to World War II, everything was geared towards European methods. The philosophy and technology taught in the schools and universities were almost exclusively those of Europe. Songs taught in primary schools were usually from Britain or Germany. After World War II, the United States took the place of Europe as a favourite subject for investigation and admiration on the part of the Japanese people. Hence, although Japan had some involvement with South-east Asian countries in the form of the Greater East Asia Co-Prosperity Sphere, such schemes were kept outside the normal modernization process. Much earlier, after the Meiji Restoration in 1868, she hastily started adopting Western or European technologies, the civil service system, and educational system—"a craze for Westernization",[10] as it has been called.

But in this process, the Japanese have naturally followed a principle called *Wa Kon Yoh Sai* which means "Japanese Spirit and Western Technology". This westernization has been so extensive in all aspects of life in Japan that the behaviour of businesses, for instance, looks much the same as that in the West. This may give the impression that the behaviour is thought out in the way it would be in the West, too. But this is not the case. The norms of business conduct form a pseudo-amalgamation or,