

# **JAPANESE MANAGEMENT AND THE STRUCTURE**

## **"From Wa to Z"**

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## **INTRODUCTION**

The impetus for this report originated with my attendance at the Japan Studies Institute sponsored by the American Association of State Colleges and Universities (AASCU). The month-long Institute, held at San Diego State University is sponsored expressly for the purpose of introducing participants to Japan and the Japanese. The format of the Institute is centered around invited Japan experts in a variety of fields.

Why this extensive study of Japan? When two countries differ as much as Japan and the United States, they can benefit not only from exchanging goods but also from exchanging ideas. Curiosity about Japan may be stimulated by admiration for high quality products; by concern over trade policies or Japanese investment in the U.S.; or by interest in Japanese management practices or cultural characteristics.

## **WA: THE PATH TO CONSENSUS**

The concept of wa, or "Peace and Harmony" has been considered as the distinct ideological characteristic that helps to explain the accomplishments of the Japanese. This concept of peace and tranquility in behavior and thought may have originated in the native religion of Japan, or Shinto. Shinto, or The Way of the Gods, is an ancient body of beliefs which identifies the Japanese as "descendants of a group of heavenly beings, that all men and all things are spiritual brothers, that both spiritual and physical harmony is necessary to keep man and things right with the cosmos." (DeMente, p. 39)

Many people believe that the importance of wa cannot be under-estimated (Davis, 1990.) The trusting and friendly attitude associated with wa may have contributed to Japanese success by providing a unique style of decision making. Studies of Japanese management indicate that culture has a tremendous influence on the workability of group processes. The consensual style of decision making offers a method of empowering those involved in a participative system based on teamwork. This so-called 'communal consciousness' underscores group decision making in Japanese companies and transcends individual decision making.

## **JAPANESE MANAGEMENT: THE KEY TO ECONOMIC SUCCESS?**

American manufacturing and productivity concerns sparked our interest in the country which had done such a remarkable job of achieving economic success. The

study of Japanese management became a hot topic because it was considered the key to companies achieving high quality production thus maintaining customer satisfaction and loyalty. Participatory management, consensual decision making, quality circles and lifetime employment are a few of the topics addressed in connection with Japanese management.

Can these practices which have worked so well for the Japanese be transferred to American companies? Theory Z is the label originated by William Ouchi to describe American adaptations of Japanese philosophy. Ouchi advocated the Japanese philosophy of achieving 'productivity through people' but recognized that cultural differences prevented American firms from incorporating Japanese techniques without some modification.

Although many were convinced that Japanese management practices were the key to productivity, quality and customer satisfaction, other people viewed management as only one factor in the economic revitalization of Japan. Nakagawa (1983) was convinced that the "Japanese management system does not lead to business success if it is not combined with other factors." He believed that Japanese management could best be explained by the history of the country's industrialization: the extreme backwardness of the country, the rapidity of the process of industrialization, and the scarcity of resources to accompany industrialization. But he cautioned us to take into account the dimensions of culture, economic process, organization and historical development. Based on this background, Nakagawa predicted that Japanese management would change as new economic and social dimensions arose.

In fact, things may already be changing. Japanese managers working in the United States and other Western nations have been integrating many of our systems into their approach, and predict a new cross-cultural approach to management by the year 2000. This new approach retreats from the consensual teamwork focus to encourage a greater individuality to promote constructive dissension. (Holt, 1990)

## **ZAIBATSU TO KEIRETSU: JAPANESE ORGANIZATIONAL STRUCTURE**

In Japan, the concept of the organization is based on the collective membership of people, not on property rights. Therefore, the Japanese tend to view employees and managers as partners in a social endeavor, with each group believing they have a vested interest in organizational success.

The structure of the Japanese organization has no comparable American counterpart. The term zaibatsu, or "financial clique", is specifically applied to family-owned financial, commercial, and industrial combines, and is generally applied to prewar Japanese business. The zaibatsu, attacked for being the root cause of Japanese imperialism, were scheduled for eradication after the war. To foster democratic economic institutions ownership was removed from controlling families and broken into component parts. But the occupation reform program was never finished,

and gradually the conglomerates clustered into associations known as keiretsu. (Berger, 1990)

The keiretsu are structured as an association or family of interdependent companies who maintain separate identities. So rather than being viewed as a single corporate entity, these keiretsu are more like a conglomerate, in which influence moves in both directions between pairs of firms. Each keiretsu group recognizes that their success depends on the ability to "marshal disparate resources for a mutually beneficial goal" and not on hierarchical, formal control between independent companies. (Holstein, et al, 1990, p. 98) Although we use the term conglomerate, it should be noted that analysts describe keiretsu as having weaker links than those American groups described as conglomerates, which are operated as a single company. (Ostrom, 1990)

For example, financial keiretsu or 'kinyu keiretsu' are organized around a large bank, and may buy and sell to each other; but the glue that holds them together is assumed to be mutual stockholding and loans to members within the group. Supplementary to these financial relationships are the personal exchanges and cooperativeness of the leaders, illustrating the spirit of wa. (Ostrom, 1990)

The following are the names of the six top keiretsu and the number of independent associated firms:

|            |              |
|------------|--------------|
| Dai-Ichi   | 47 companies |
| Fuyo       | 29 companies |
| Mitsubishi | 29 companies |
| Mitsui     | 24 companies |
| Sumitomo   | 20 companies |
| Sanwa      | 44 companies |

For an example of a keiretsu see Table II which illustrates the industrial composition of the firms associated with Dai-Ichi.

## **UNDERSTANDING THE JAPANESE FIRM: WHICH MODEL TO USE?**

In our attempt to understand why Japan has managed to perform so well economically, many researchers have examined labor market behavior in Japanese firms and have arrived at various conclusions. The conclusions they have reached range from success-driven cultural peculiarity to an approach based on historical advantage to an approach based on structural-economic advantage.

### **MODEL 1: THE CULTURAL PECULIARITY OF JAPAN**

The culturalist interpretation of the distinctiveness of Japanese values and forms of social organizations was initiated by James Abegglen in 1958. He identified the practice of "nenko joretsu", or that of lifelong commitment of employees to the same

firms based on a system of "long service rank" under which pay and promotions are based on longevity first and ability and accomplishment second. (DeMente, 1981) Abegglen's research captured the attention of Westerners as an example of the effect culture has on organizations (and hence as the reason for their success). (Cole, 1979)

Karel von Wolferen, another advocate of the cultural peculiarity approach, is a 25 year resident of Japan. His controversial expose describes Japan's government as an entanglement of political arrangements with no accountability at its core. A power vacuum is created due to a cultural milieu that uses consensual decision making and thus avoids individual accountability. Without any clear national leadership, Japan cannot alter its post-war policy of economic growth at any and all costs. The message to trading partners is that the Japanese are not being intentionally devious but are unable to open markets and boost imports because of their cultural background. (MacEachron, 1989)

## **MODEL 2: CONVERGENCE AMONG NATIONS HYPOTHESIS**

A second thrust of research envisioned the reduction of differences in social organizations between the Western world and Japan. This convergence would quite naturally occur as Japan gradually achieved the status of a truly advanced industrialized nation. The Japanese would surely lose their unique national identity as they would work with other industrialized societies to overcome common problems in the achievement of high levels of economic growth. (Cole, 1979)

**Table II:  
INDUSTRIAL GROUPINGS OF THE DAI-ICHI KEIRETSU**

| <b>INDUSTRY</b>    | <b>FIRMS</b>   | <b>FIRMS</b>                   |
|--------------------|--|--------------------------------|
| Commercial banking | Dai-Ichi Kangyo Bank   |                                |
| Trust banking      |  |                                |
| Life Insurance     | Asahi Mutual   | Fukoku Mutual                  |
| Nonlife Insurance  | Nissan Fire & Marine   | Taisei Fire & Marine           |
| Trading            | C. Itoh<br>Kawasho   | Nissho Iwai<br>Kanematsu-Gosho |
| Forestry           |  |                                |
| Coal Mining        |  |                                |
| Construction       | Shimizu  |                                |
| Food/Beverages     |  |                                |
| Textiles           | Asahi Chemical<br>Industry                                   |                                |
| Pulp and Paper     | Honshu Paper   |                                |
| Chemicals          | Denki Kagaku Kogyo<br>Kyowa Kakko Kogyo<br>Asahi Denka Kogyo | Nippon Zeon<br>Sankyo<br>Lion  |

|                       |                            |                     |
|-----------------------|----------------------------|---------------------|
| Petroleum             | Shiseido                   |                     |
| Rubber                | Showa Shell Sekiyu         |                     |
| Glass/Cement          | Yokohama Rubber            |                     |
| Steel                 | Chichibu Cement            |                     |
|                       | Kawasaki                   | Kobe                |
|                       | Japan Metals and Chemicals |                     |
| Nonferrous Metals     | Nippon Light Metal         | Furukawa            |
|                       | Furukawa Ele               |                     |
| Nonelectric Machinery | Niigata Engineering        |                     |
|                       | Ebara                      | Iseki               |
| Electric Machinery    | Fuji Electric              | Hitachi             |
|                       | Yasakawa Electric          |                     |
|                       | Manufacturing              |                     |
|                       | Fujitsu                    | Nippon Columbia     |
| Transportation Equip. | Kawasaki Heavy             | Isuzu Motors        |
|                       | Ishikawajima-Harima        |                     |
|                       | Heavy                      |                     |
| Precision Instruments | Asahi Optical              |                     |
| Dept. Stores          | Seibu Department Store     |                     |
| Finance               | Nippon Kangyo              |                     |
|                       | Kakumaru Securities        |                     |
|                       | Orient                     |                     |
| Real Estate           |                            |                     |
| Transportation/       |                            |                     |
| Communications        | Nippon Express             | Shibusawa Warehouse |
|                       | Kawasaki Kisen             | Kaisha              |
| Services              | Korakuen                   |                     |

The following researchers found examples of convergence: 1) in his book *British Factory-Japanese Factory* (1973), Dore sees British industrial relations practices as converging with Japanese practices. (Cole, 1979); 2) in 1976 Marsh and Mannari found that similar factors determined work behavior of employees in both the U.S. and in Japan; and 3) as mentioned previously, Japanese managers working in the United States have been integrating many Western systems and predict a cross-cultural approach to management by the year 2000.

### **MODEL 3: ADJUSTING THE STRUCTURE TO THE FUNCTION**

Cole (1979) treads the ground between the convergence and culturalist positions. "For even when there is a tendency toward convergence in economic and institutional forms, there is still the possibility that there are many paths leading to this outcome. One way to understand the different trajectories followed by nations in the course of industrialization is to see traditional values and practices as providing a resource base which constrains original and subsequent choices and solutions." (Cole, 1979, p. 4)

In his book, *Japanese Blue-Collar* (1971) Cole presents the idea that the Japanese system and the American system are really not different and that both face common problems of industrialization. Why then, have the Japanese developed such a strong economic base? Probably because the Japanese have been better at handling their problems. The application of structural arrangements to suit the situation has defused most of the problems they face. For example, McKean notes that Japan's high economic growth has created places for displaced workers and maintained high employment in spite of the labor surplus and technological revolution. Japan has thus avoided the situation where the perpetual shortage of the highly trained cannot be filled by the unemployed. (McKean, 1989)

#### **MODEL 4: JAPAN IS A DIFFERENT ECONOMIC ANIMAL**

Clyde Prestowitz advocates the use of an economic perspective in trying to understand why the Japanese have done so well, but he views the Japanese economic system as far different from the American economic system. In his 1988 book *Trading Places: How We Allowed Japan to Take the Lead*, he states: "I don't think Japan thinks of its trading practices as predatory, nor do I think that Japan would say that it is less interested in free trade. I think the Japanese understand trade and industrial economics differently than we do. They believe comparative advantage does not necessarily arise from resource endowment, but can be created through policy actions. They don't believe in antitrust in the same way that we do. They don't believe in the theory of the firm as we do." Therefore, operating from a very different basis leads to a different result, and we operate at a disadvantage. (Prestowitz, 1988)

#### **MODEL 5: JAPAN'S HISTORICAL ADVANTAGE**

Paul Kennedy in his book *The Rise and Fall of Great Powers* (1988) relies on a reasoned projection of global economies to explain the 'Japanese miracle.' He believes that "the best way to comprehend what lies ahead is to look backward briefly." (Kennedy, 1988, p. 438) The basic premise of his book is that economic and technological developments influence change which then impacts on social structures, political systems, and military power.

The economic growth of Japan has been stimulated by such factors as: a tremendous rise in industrial productivity and thus increases in foreign trade, a dramatic move into new applications of technology, and significant increases in agricultural output which outpace population growth. Japan's successes have interacted with each other to produce a synergistic rate of economic expansion, "which has far eclipsed that of the traditional western powers." (Kennedy, 1988, p. 441)

## **MODEL 6: JAPANESE STRUCTURE AND STRATEGY**

We have examined a variety of perspectives to try to explain the performance of the Japanese enterprise system. W. Mark Fruin argues that examining Japanese performance fitted to the Western perspective can never lead to full understanding. He proposes a model grounded in the Japanese experience, a model based on the smaller size of Japanese firms, their higher levels of performance, and their renowned interorganizational interdependencies.

The Fruin model of organizational growth and performance recognizes that smaller firms are notably more flexible, responsive, and adaptive to changing conditions. The interdependencies inherent among Japanese firms (illustrated by the keiretsu) creates an even greater flexibility to adapt to changing conditions. (Fruin, 1990)

Fruin's model offers institutional balance during rapid change. The strategic consequence of these interrelated firms is the creation of coalitions and networks that maximize firm-specific competencies while building network-specific competitiveness and excellence. (Fruin, 1990, p. 650)

## **CONCLUSION: WHAT DO WE DO NOW?**

We have not specifically addressed controversial topics such as Japanese trade, investments in the United States, import restrictions, and so on in this paper. Such issues are newsworthy and tend to stimulate questions and concerns about American productivity, quality, and customer satisfaction, but they are also not easily addressed.

This paper set out to examine differences between Japan and the United States, with the specific purpose of examining Japan from the institutional perspective of management and the structure of the organization. In our attempt to understand why Japan has managed to perform so well economically, many researchers have examined labor market behavior in Japanese firms, and have arrived at various conclusions identified as models in this paper. Recommendations from several of those individuals regarding the American-Japan interface deal with different cultural perspectives of the two countries.

Prestowitz, often called a 'Japan-basher', would advocate that we: 1) recognize that we have a problem, and 2) try to put our trade policy with Japan on a results-focused basis. He argues that our usual mode of negotiations concentrates on a procedural focus - we ask them to change their administrative procedures to achieve openness, but they do not do it satisfactorily because they do not know what we mean. We accuse them of being unfair and they respond by accusing us of not trying hard enough. He believes that "we can negotiate for price or market share, a particular amount of sales - anything quantifiable. But I don't think we can negotiate philosophy or culture." (Cavanaugh, 1988)

Von Wolferen has several helpful suggestions for dealing with the Japanese: 1) don't optimistically expect to force them to fit Western patterns of experience, 2) lower your sails and expect to spend a great deal of time on the deal, and 3) don't expect the Japanese system to change - although we may see it at a crossroad, it gives little indication of veering from its path. (von Wolferen, 1990)

Cole's (1979) perspective says a lot: "the studies that have laid the basis for our understanding of Japanese organizational behavior is that although they make inferences about differences and similarities between the West and Japan, they are not commonly explicitly comparative. Worse still, they are often implicitly comparative, which is to say that they contain many unstated assumptions about the state of affairs in the nation being compared with Japan." (p.2)



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