

CHANGE IN MANAGEMENT IN POSTWAR JAPANESE COMPANIES

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1. IS JAPAN A CAPITALISTIC COUNTRY?

Can postwar Japan be described as a capitalistic country? It is difficult to answer this question accurately. According to some theories, such as Prof. Nishiyama's, Japan can even now not be called capitalistic. On the other hand, there are some researchers, such as Prof. Okumura Hiroshi, who describe Japan as a country of "corporate capitalism". In this contribution, however, Japan will be defined as a country of "company capitalism" (see Table 1).

2. THE REASON OF POSTWAR ECONOMIC DEVELOPMENT IN JAPAN

The following reasons can be given for the rapid development of the postwar Japanese economy:

1. active capital investment in private companies;
2. the diligent effort of private companies to improve productivity and product quality;
3. the high savings rate of the population;
4. the close cooperation between government and private companies;
5. the particular Japanese management approach which relies on cooperative management-labor relations;
6. the spirit of industriousness of the Japanese people.

Roughly speaking, the two oil shocks of 1973 and 1979 were decisive for the Japanese economy and led to drastic changes (see Table 2). These changes meant a transition from a quantitative to a qualitative economy, a shift from a period of high growth to a period of information networks, and, with regard to economic aims, from the expansion of industrial production to the extension of services and qualitative fulfillment.

3. THE JAPANESE VIEW OF THE "COMPANY"

Next, I would like to make some remarks on the Japanese people's idea of a company. The Japanese regard a company as a phenomenon of a positive nature. They are occupied by the idea that companies are creating new values for the society and that, if they are allowed to develop freely, they will contribute to the development of society. The Japanese also think that profit orientation is a means to achieving that goal. Moreover, the Japanese people regard human labor not as a mere commodity, but as a special commodity which, given education or training, can create high value-added products. Human beings, from this point of view, are value creators.

Why was this kind of idea about the company cultivated in Japan? There are three reasons that should be mentioned:

1. *The late development of capitalism in Japan.* Since modernization started late in Japan, compared with Europe and America, there was, particularly regarding economic matters, a need for permanent and rapid modernization in order to catch up with other industrial countries.
2. *The scarcity of natural resources in Japan.* In order to continue modernization and economic development, it was necessary to pursue this by means of first importing goods and resources, then transforming them into high value-added industrial goods, and finally exporting these goods.
3. *The unique spirit of industriousness in Japan.* The modernization of Japan was supported by a spirit of industriousness based on Confucianism. A major source of this was the practical ethics of Ishida Baigan in the Edo period. He regarded work as vocation and affirmed a strong relation between economy, industriousness and profit. As a result, the spiritual framework of the Japanese was formed by concepts of economy, industriousness, subordination to seniors and the group, and close human relations.

4. JAPANESE COMPANIES AS THE CORE OF JAPANESE DEVELOPMENT

As mentioned above, Japan can be regarded as a country of "company capitalism". Since the Meiji Restoration there has been a national consensus that the development and growth of companies brings about progress and development of the nation. Consequently, companies in Japan have been promoted as the embodiment of the unification of government and people. In 1989, there were about 1.84 million companies in Japan, as can be seen in Table 3. On the one hand, it cannot be said that all these com-

panies contribute to the welfare of the nation. On the other hand, it cannot be ignored that these firms are still the core of development and progress in Japan. According to this fact, it can be said that the national consensus mentioned above is still alive. However, one should be cautious about the idea that the firms are guaranteeing permanent development. Since Japanese companies are capitalistic like companies in Europe and America, they are basically competing units and are exposed to the risk of bankruptcy that is inherent in the system. Nevertheless, the Japanese business community, while ignoring this fact, now wishes to secure the permanent existence of companies as ongoing concerns or business entities.

5. TO WHOM DO JAPANESE COMPANIES BELONG?

Concerning the Japanese people's idea of a company, I especially want to deal with the question of to whom Japanese companies belong. In the following I will discuss the basic ideas of capitalism. It is clear that it is the shareholders who possess the company. This is the case in America. But there are a lot of different opinions concerning Japanese companies. Depending on the view, they can be seen as the property of the shareholders, the management, the employees, the management and the employees, or the shareholders, the management and the employees or as being possessed by the whole of society. I interpret Japanese companies as being essentially the property of shareholders, management and employees. The phenomenon of corporations being big shareholders is becoming stronger nowadays. At the same time, management's leadership is on the rise. As a result, the influence of individual or ordinary shareholders is being reduced. Nevertheless, I think of shareholders not as something outside the companies, but inside.

6. THE SOURCE OF THE STRENGTH OF JAPANESE COMPANIES AND "JAPANESE MANAGEMENT"

From where have Japanese companies, the core of the postwar economic development, been gaining their strength? The source is the companies' superior ability to adapt to changing times. At the time of the two oil shocks, for example, Japanese companies heavily used QC circles and TQC for thinking of ways to escape from the dependence on oil and to save energy. This is how they managed to get over the crisis. The advent of the strong yen and weak Dollar in autumn 1985 also led Japanese companies

to increase their competitive power by means of an even stronger use of high technology.

It was "Japanese management" that supported this kind of superior adaptation ability. "Japanese management" can be defined as a business administration system which consists of several social customs or practices typical to Japanese companies. There are in Japan several characteristic features such as lifetime employment, the yearly hiring of groups of new recruits directly from universities, colleges or high schools, the seniority system, company-wide unions, on-the-job training, bottom-up decision-making, small group activities, and a welfare benefits system. The basic philosophy behind these customs or practices is "groupism." "Groupism" means that the group's interests should take priority over the individual's interests; the group becomes the center of all thinking. If we are allowed to exaggerate a little bit, we have a "community with a common fate" in which the individual's fate is tied to the company's fate. The omnipotent "groupism" becomes apparent to Japanese companies as such "communities with a common fate." Prof. Hazama, for instance, calls prewar groupism "business familism" and the postwar groupism "business welfarism" respectively. Whereas the former made clear the separate identity of labor and management, the latter lays stress on the cooperation of labor and management.

Since the oil shocks, however, the Japanese economy has been moving from a "quantity-oriented economy" to a "quality-oriented economy," from the days of high growth to the days of an information economy. With the shift to an information economy, internationalization, high technology, advanced information networks, growing software and service industries, advanced aging, diversification of values, changes in attitudes towards work, and women participating in social affairs have been hitting Japanese companies. They are challenging Japanese companies to change their style of management.

7. MANAGEMENT IN JAPANESE COMPANIES IN THE FUTURE

We can find a common phenomenon of growing maturity in various aspects of goods, industry, market, and society in Japan since the strong yen. This maturing is also calling for changes in the style of Japanese management.

1. Changes from a "logic of the producer" towards a "logic of the consumer or employee" who wants to live a more enjoyable life;
2. changes from the business practice of concentrating upon a single

market or product towards business practices which stimulate creativity and originality;

3. Changes from a Japanese-style management towards a form of management that will be accepted in the world.

In summary, the traditional management in Japanese companies was a “management of assimilation” characterized by such features as competition through copying, the pursuing of efficiency to the utmost limit, the supremacy of growth rates and market shares and so forth. A “management of differentiation” will replace a “management of assimilation” from now on. And here a differentiation of products and services, that of business concepts, that of management philosophies or values and that of companies themselves will be strongly required of Japanese companies.

		Japan	U.S.
1)	Concept of capitalism	Company capitalism	Capitalist Capitalism
2)	Aim of companies	Strive for permanent existence	Strife for profit
3)	To whom belongs the company	Management and employees	Shareholder
4)	Shareholdings	Interlocking shareholdings	Shareholder, holding company
5)	Strategy/tactics	Long-term oriented	Short-term oriented
6)	Chairman/president	Representative of employees	Determined by shareholders
7)	Decision-making process	Bottom-up (collective responsibility)	Top-down (individual responsibility)
8)	Personnel policy	Periodical employment, seniority-based, immobile	Scout, selection, mobile
9)	Countermeasures in case of recession	Dividend cut → wage cut → layoff	Layoff → dividend cut
10)	Trade unions	Company-wide unions	Craft unions
11)	Production system	Synthetic (TQC, CIM)	Division of labor
12)	Concept of company workers	Multi-professional, dynamic productive factor	Single-professional, static productive factor
13)	Profit	Used for investments, regard on hidden assets	Dividend-payment privileged, regard on realized profit
14)	Provision of capital	Indirect financing → direct financing	Self-financing → reliance on outside capital

Table 1: Concept of “company” – comparison of Japan and the U.S.A.

Source: Nihon Keizai Shimbunsha (ed.) (1990): *Gendai kigyō nyūmon* [Introduction into Contemporary Companies]. Tōkyō, Nihon Keizai Shimbunsha, p. 13.

		Before the oil shock	After the oil shock
Generally/ macroeconomic		Quantity oriented	Quality oriented
Classification of Period		Period of high growth	Period of information economy
Economic goals		Quantitative growth (industrial goods- centered)	Qualitative fulfillment (service, information- centered)
Industrial structure	Specifics of industry	Heavy, thick, long, large	Light, thin, short, small
	Principles of behavior of companies	Economies of scale	Economies of diversifi- cation
	Main branches of industry	Steel, automotive (period of dominating large companies)	Electronics, communication, biotechnology (Venture business activities)
	Attitude toward trade	Export-oriented	Import-oriented
People's life	Idea of living	Homogeneous	Diversified, differentiated
	Age structure	Young society	Aging society
	Life-style	Male values dominating (striving for aims)	Female values dominat- ing (fulfillment of desires)
	Media	Newspaper, TV, radio, mail, telephone	CATV; VIDEO-TELE- TEX, videophone, electronic newspaper

Table 2: Changes in the Japanese economy (before and after the oil shocks)

Source: Nihon Keizai Shimbunsha (ed.) (1985): *Nihon keizai nyūmon* [Introduction into the Japanese Economy]. Tōkyō, Nihon Keizai Shimbunsha, p. 13.

Change in Management in Postwar Japanese Companies

	1977		1983		1988	
Joint stock company	748,582	55.5%	852,595	54.0%	975,861	52.7%
Limited company	548,183	40.6%	676,709	42.9%	829,151	44.8%
Unlimited partnership	7,003	0.5%	7,278	0.5%	6,207	0.3%
Limited partnership	36,870	2.7%	33,075	2.1%	30,429	1.6%
Others	8,697	0.6%	8,795	0.6%	10,025	0.5%
Total	1,349,335	100.0%	1,578,452	100.0%	1,851,673	100.0%

Table 3: Incorporated business in Japan

Source: Kokuzeichō (ed.) (1978/1983/1988): *Zeimu tōkei ni miru hōjin kigyō no jittai* [The Actual conditions of the Incorporated Businesses]. Tōkyō: Kokuzeichō.

Managers, employees and shareholders	64%
Shareholders	18%
Other types of ownership	16%
	100%

Table 4-1: To whom belongs the company? – Opinions of management –

Source: Nikkei Sangyō Shimbun, "Survey of 100 Major Firms' Presidents," August 6th, 1981.

	To whom belongs the company	To whom ought to belong the company
Shareholders	59%	67%
Management	65%	19%
Employees	77%	80%
Society	23%	70%
Customers	26%	27%
Community	3%	10%
Government	6%	4%
Other type of ownership, NA	9%	3%

Table 4-2: To whom belongs the company? – Opinions of the head of the departments –

Source: Nihon Keizai Shimbun, "Survey of 100 Major Firms' Heads of the Departments," Apr. 23rd, 1990.

		Past management-style	Future management-style
Aims/ objectives	Paradigm	Equality oriented	Individualism
	Business objectives	Strong emphasis on sharing	Stable business conditions
	Pattern of competitive power	Competitive power through copying and quality-building	Competitive through unique strength
	Overall business strategies	Production-efficiency-oriented	Soft values-creativity-oriented
Strategy, administration, organization	R&D-strategy	Mainly inside R&D	Balance of inside and outside R&D
	Internationalization strategy	Establishment of production and salespoint	Production, sales, R&D, finance at most suitable locations
	Control	Centralization-oriented	Balanced between centralization and decentralization
	organization structure	pyramid-shaped structure	network-shaped structure

Table 5: Changes in management style of Japanese companies

Source: Keizai Dōyūkai (ed.) (1988): *Kigyō hakusho – Koseishugi ni yoru senryakuteki jinji shisutemu* [White Paper on Japanese Companies 1987/88 – Strategic Personnel Management by Individualism]. Tokyo: Keizai Dōyūkai, p. 21.

Rank	1982		1990	
1	Unity	15.2%	Faithfulness	13.2%
2	Faithfulness	12.9%	Effort	10.8%
3	Effort	10.6%	Unity	8.0%
4	Trust	4.6%	Advance	5.9%
5	Sincerity	3.8%	Sincerity	4.9%
6	Service	3.5%	Patience	4.0%
7	Responsibility	2.7%	Action	3.9%
8	Contribution	2.3%	Customer	3.3%
9	Inventive idea	2.0%	Eagerness	3.1%
10	Safety	1.9%	Reliance	3.1%

Table 6: *Shaze and shakun*

Source: Sumitomo Life Insurance Company (ed.) (1990): *Shaze-shakun*. Tokyo: Sumitomo Life Insurance Company, p. 5.

Note: *Shaze* means a statement of corporate principles and ideas, and loosely corresponds

to the motto of a Western company. *Shakun* is a statement of basic precepts or exhortations directed at company employees.

	Present Japanese Management Style	New Japanese Management Style
Strategic Action	Emphasis on operation Internal reserve buildup Emphasis on principal line of business Development research Emphasis on good rate of return	Emphasis on strategy Flexibility (making use of external resources) Diversification in related business fields Basic research Emphasis on innovation
Organization	Class pyramid Centralization of authority Large head office Stable bureaucratic structure Bottom-up type decision-making Power base in production division	Horizontal division-of-labor network Decentralization of authority Small head office Flexible innovation structure Top-management-led decision-making Power base in R&D division
System, Practices	Life employment Seniority system TQC Company labor union In-house training/education Welfare	(Retain) Meritocracy Partial revision (Retain but redefine its value) (Retain) (Retain)
Human Resources	Homogeneous personnel Collectivism Loyalty to company Equality Missionary-type leader	Heterogeneous personnel Tolerance of individualism (Retain) Attach importance to individuality Leader of reform
Behavioral Mode	Incremental	Entrepreneurial

Table 7: Features of new style of Japanese management

Source: Keizai Dōyūkai (ed.) (1985): *1990 nendai no kigyō keiei* [Corporate Management in the 1990s]. Tōkyō: Keizai Dōyūkai, p. 13.