

Management in Japan

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- ▶ **1. Introduction**
- 2. Japanese Business System
- 3. Comparative Advantage
- 4. Continuity & Change
- 5. Conclusive Remarks



Map of Japan



Source: World Bank; * indicates data in 2022.

Basic data (2023)

Population: 124.5 million

Population growth: -0.5%

GDP: US\$4.2 trillion

GDP per capita: US\$36,990

GDP growth: 1.7%

Life expectancy: 84 years*

Unemployment rate: 2.6%

Inflation rate: 3.3%



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■ Culture & Key Historical Influences

- ❖ Japanese firms exist to serve **society & their employees**.
- ❖ **DEBT** instead of firing employees in Japan's lost decade of low economic growth
- ❖ **WHY** do Japanese business emphasize the concerns of society & employees? (**History matters !**)
 - Introduction of **a Confucian-style four tier social caste** in the Tokugawa era (*i.e.*, **samurai** was the **top** while **merchants** were the **bottom**.)
 - Commodore Matthew Perry in **1853** → (1) technological underdevelopment & (2) the fear of colonization
 - Meiji Restoration in 1868, **富国強兵** (**Rich Country, Strong Army**)
 - **Yoshida Doctrine**: **Economic growth** > Defense by the US.



■ Employment Security

- ❖ Employer provides **job security** while **employees cooperation**.
- ❖ **Lifelong employment** has a complementary relationship with the main bank system, the *keiretsu* system, & employee participation.
- ❖ The **insider-centered character** of Japan's permanent employment system = the basis of '4' types of **HRM institutions**:
 - (1) **Human capital development**: OJT, quality circles (small group activities to identify, analyze & resolve issues), job rotation.
 - (2) **Compensation system**: Seniority-plus-merit wage, internal promotion, bonuses, corporate pensions.
 - (3) **Employment adjustment methods**: Hiring freeze, *tenseki* & *shukko*.
 - (4) **Internal enforcement & coordination mechanisms**: Enterprise unions, workplace socialization.



■ Barriers to Labor Mobility

- ❖ Older workers are highly endowed with **FIRM-SPECIFIC** skills.
→ It makes it difficult for them to apply such skills to other firms.
- ❖ The **SENIORITY**-based compensation system does not motivate older workers to move to other firms → A deterioration of wages.
- ❖ A strict **LIMITATION**.
- ❖ **Social costs** arising from lifetime employment are the **STIGMA** to leave the company.
- ❖ Quitting a job & looking for another job indicate a **low** level of **corporate loyalty** → It thus results in **LOWER WAGES**.

Difficulties in being reemployed !



■ Identity

- ❖ A relatively **collectivist** sense of identity.
- ❖ Institutional **conformity**: *‘The nail that stands out gets hammered in.’*
- ❖ Many employees spend more hours with their **colleagues** than with their families.

■ Authority

- ❖ A sense of **community**, a desire for **harmony & consensus** in decision making.
- ❖ *Sempai & Kohai* (**senior & junior**).
- ❖ **Social position** can be a function of **educational attainment**.



■ Government

- ❖ The role of the Japanese government in the economy is to provide **stability & guidance**.
- ❖ **Market forces** are perceived as potentially **harmful**.
- ❖ To **limit competition** through *formal regulations* as well as through *administrative guidance (gyosei shido)*.
- ❖ **Industrial policy**: Encouraging firms to experiment with new technologies via *R&D consortia*.
- ❖ **Policymaking**: extensive **consultations** of government officials, deliberation councils within ministries (*shingikai*), industry associations → **No consensus = huge policy deadlock.**



■ Business Environment: Human Capital

- ❖ **High school: 90%, College: 40%** enter college.
- ❖ Japanese students are ranked **2nd** in natural sciences, **5th** in mathematics & **2nd** in reading in a 2022 OECD study.
- ❖ **Drawbacks:**
 - **Memorizing facts** over critical & creative thinking.
 - A lot of pressure on students to **enter good schools & cram schools**.
 - **Weak tertiary education & vocational training programs**.
- ❖ **Enterprise unions** = Close alignment with those of the company.
 - Management sees **unions as partners** in running the company.
 - The annual ‘**spring offensive**’ (*shunto*) is just **ritualistic**.

Japanese Business System



■ Ownership

❖ About **27%** constitute long-term shareholdings.

Germany		Hong Kong		Japan		Korea		US	
Shareholders	88%	Shareholders	60%	Society	88%	Employees	80%	Shareholders	93%
Employees	82%	Society	50%	Employees	82%	Shareholders	73%	Society	71%
Society	71%	Employees	50%	Shareholders	76%	Society	67%	Employees	71%
Customers	41%	Customers	30%	Customers	59%	Stakeholders	7%	Customers	57%
Stakeholders	29%	Stakeholders	10%	Stakeholders	47%	Customers	7%	Stakeholders	21%
Suppliers	24%			Suppliers	18%			Creditors	7%
				Creditors	6%				
				Distributors	6%				
	≥2.00		1.75-1.99		1.25-1.74		1.00-1.24		<1.00

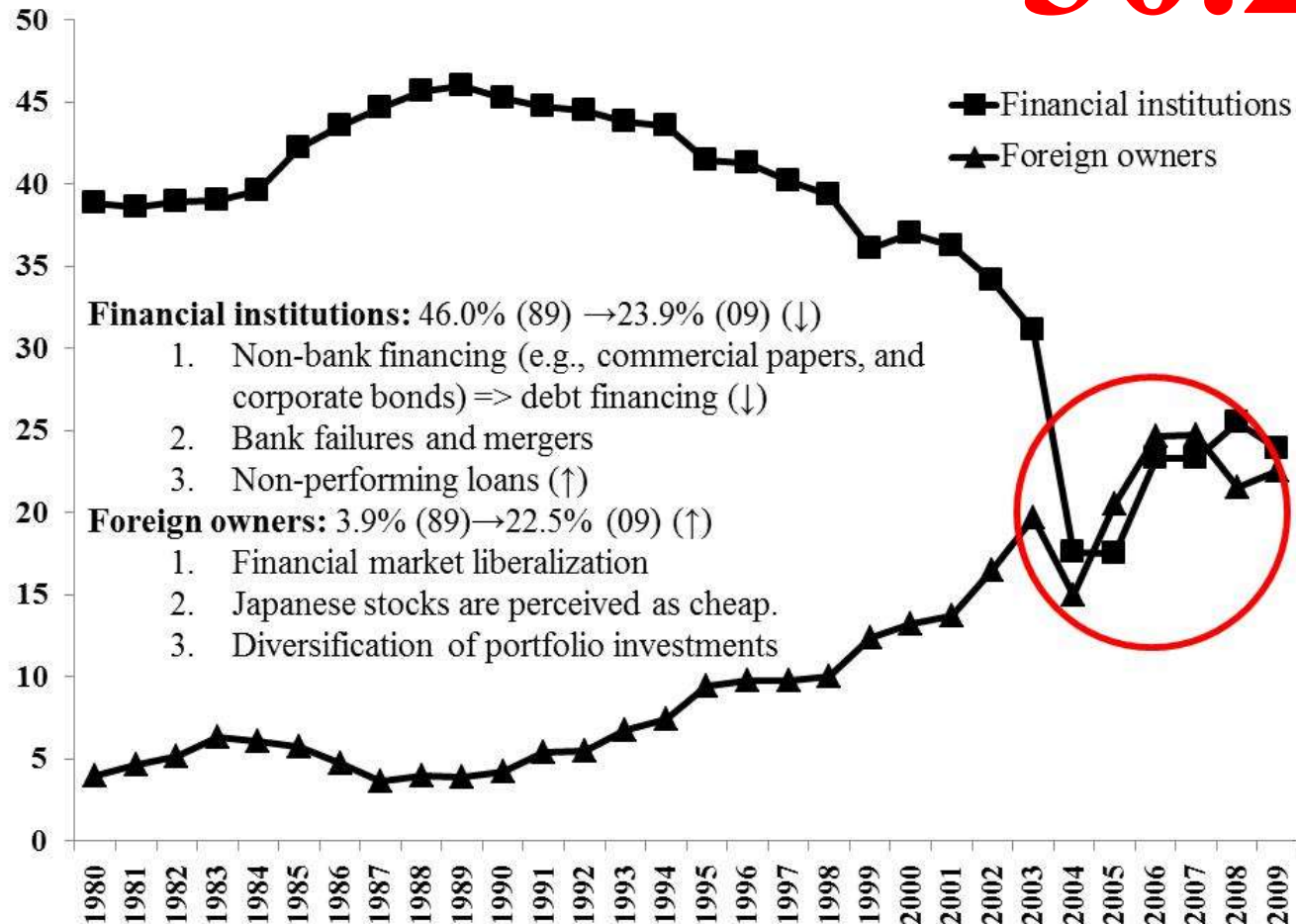
❖ Characterized by (1) **cross-shareholdings**, (2) **interlocking directorates** & (3) **intra-group purchasing**.

Japanese Business System



Foreign Ownership

30.2% (2020)



> 60%



Source: Tokyo Stock Exchange.



1. Introduction
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- ▶ 3. **Comparative Advantage**
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■ Vertical *Keiretsu* Networks

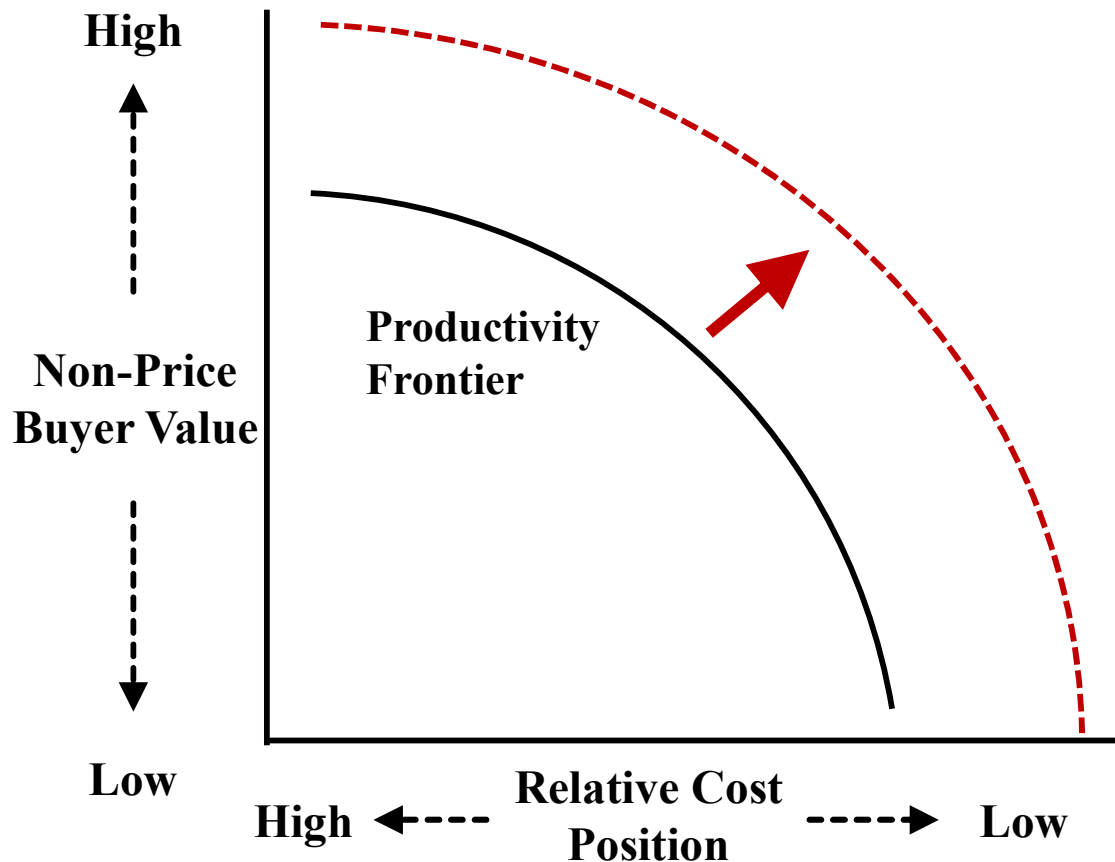
	Car Assembler	Car Parts Suppliers
Benefits	<ol style="list-style-type: none"> 1. well-established supplier relations 2. dissemination of corporate identity 3. <u>less opportunistic risks</u> 4. streamlined organization by externalization of various operations 5. production flexibility and adjustment 	<ol style="list-style-type: none"> 1. upgrading of technical capabilities and managerial know-how 2. a high degree of sales and demand stability 3. <u>effective communication</u> and coordination in product development 4. long-term contract
Costs	<ol style="list-style-type: none"> 1. pressure from foreign competitors 2. slow technological innovation 3. financial burden to assist own suppliers 4. <u>cost rigidity</u> 	<ol style="list-style-type: none"> 1. <u>less independence</u> 2. dependence on specific car assemblers 3. less adaptable to market environments 4. managerial and operational control by car assemblers 5. <u>less opportunities to learn</u>

Source: Own illustration based on Tabeta (1998), Gerlach (1992), & Lincoln & Gerlach (2004).

Comparative Advantage



■ Japanese Model



Source: Porter, Takeuchi & Sakakibara (2000).

POINTS

NOW

- (1) “**Unique**” strategy
- (2) Superior “**marketing**”
- (3) “**Global human capital**”
- (4) “**Open innovation**”
- (5) Promoting “**corporate entrepreneurship**”
- (6) Globalization of “**corporate missions**”
- (7) Internationalization of “**higher educational institutes**”
- (8) “**Choice & focus**”
- (9) “**Power balance**” between subsidiaries & headquarters



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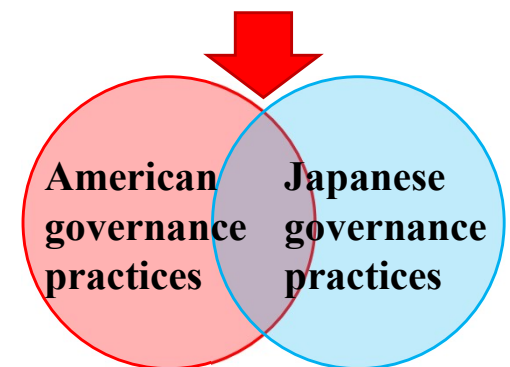
■ Japanese Government Pushes for Government Reform

❖ Cozy governance mechanisms = Slow to restructure

- Few independent board members → Few radical strategic changes.
- 274 director positions (out of 40,000) held by **foreigners** in 2015.
- **Cross shareholdings** & closely affiliated “outside” auditors.
- **Limited** performance-based remuneration.
- Enormous **retained capital** (**US\$1.9 trillion = Italy’s GDP**)

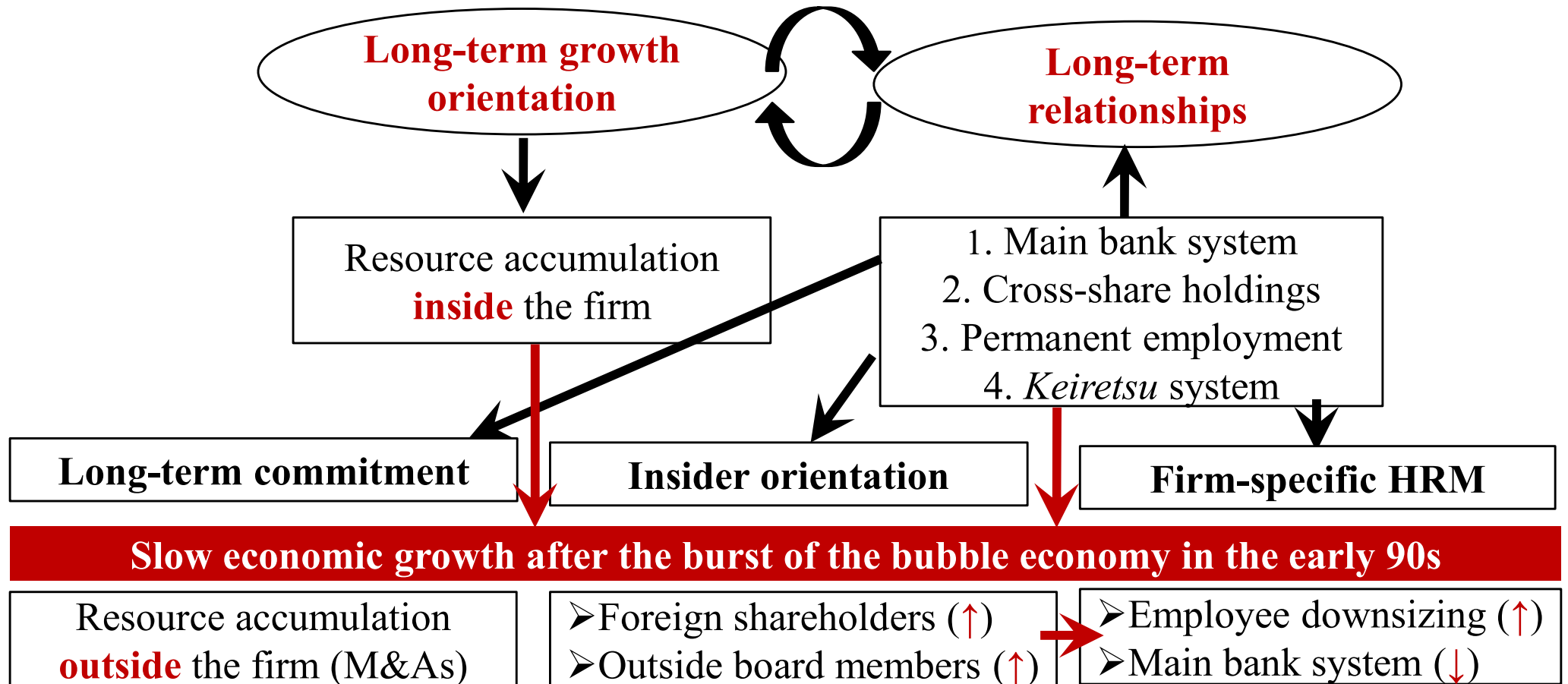
❖ Governance reform by Shinzo Abe (NOT coercive)

- Improvements in **communication** with shareholders.
- Effective **responses** to **shareholder concerns**.
- Focus on **shareholder values**.
- **Removal** of **anti-takeover provision**.
- Promotion of **gender diversity** in leadership.
- **Board & auditor independence**.





■ Japan's Institutional Complementarities



Source: Asaba (2004).



■ The Declining Role of the Main Bank Relationship

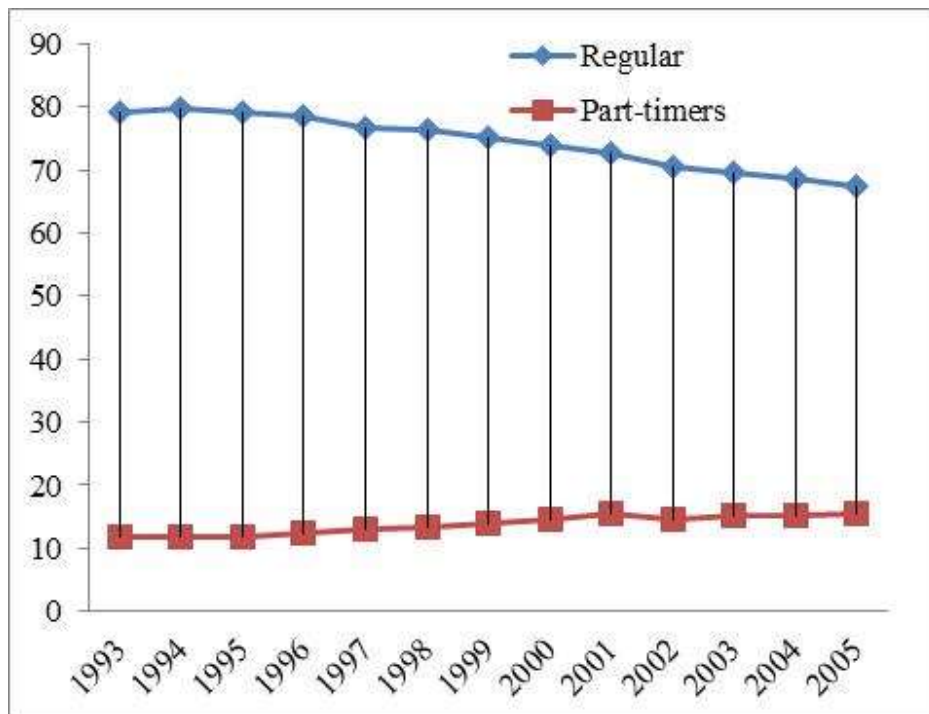
- ❖ **NOT ONLY bank loans BUT ALSO shareholding** by financial institutions.
- ❖ The main bank plays a role in **monitoring** its client firms & intervene in their management practices by sending managerial staff to them if necessary (**Relational contingent governance**).
- ❖ Does the main bank relationship **persist or decline** with the globalization of capital markets?
 - Non-bank financing (e.g., commercial papers, corporate bonds) (↓)
 - Bank failures & mergers
 - Non-performing loans (↑)
 - Foreign ownership (↑)
 - Some firms retain strong bank ties, while others loose them.

Continuity & Change



■ The End of PES?

Percentage of Employees by Type



Source: Jackson (2007: 285, 290); Keizer (2009).

Method of Employment Adjustment

Restricting overtime	14%
Shorter hours	3%
Cut in mid-year hiring	16%
Reduction in outsourcing	9%
Reallocation	28%
Transfer to other companies	26%
Cut in hiring new graduates	44%
Reducing of non-regular employees	14%
Layoff	5%
Voluntary early retirement	28%
Others	2%

Type of Employment System

No merit pay, lifetime employment	8%
Limited merit pay, lifetime employment	34%
Merit pay, lifetime employment	43%
Merit pay, limited lifetime employment	2%
Merit pay, no lifetime employment	12%
Other	1%



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■ Key Points

- ❖ Japanese firms are controlled by their **employees** & run for the **benefit of employees & society** as a whole.
- ❖ **Cooperation** within & across firms & with other organizations.
- ❖ Japanese firms are **world leaders** in industries characterized by **incremental innovation**.
- ❖ The **government role**? **Ensuring order & guiding the economy**.
- ❖ **Change in Japan is slow** due to **high levels of social coordination**.
- ❖ For **foreign firms**, Japan has been **difficult to enter**. However, once established, foreign firms can be **highly profitable** in Japan.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille!

Merci beaucoup!

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