A modern history of Japanese management thought

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Abstract
Purpose – The purpose of this paper is to trace the origins of "Japanese management" and explain how it was institutionalized. This historical overview aims to help readers to better understand and evaluate recent events and reforms.

Design/methodology/approach – The paper reviews the major literature of management history in Japan and conceptualizes these works into a framework of four main paradigms characterizing the production systems, behavioural elements, organizational structures and strategy of large Japanese companies.

Findings – Japanese management thought evolved in a developing nation and primarily in the manufacturing sector. The scientific management paradigm was dominant from the start of modern industry in Japan and its endurance is explained by its profound embeddedness in the Japanese business system. The need for change (*e.g.* in strategy) is identified, but as Japan has proved reluctant in the past to shift away from the efficiency concept, effecting reforms may remain difficult in the future as well.

Research limitations/implications – The paper challenges readers to consider the future of longstanding Japanese management practices in an economy that is undergoing rapid change and is increasingly moving toward service and knowledge-intensive industries.

Practical implications – The paper highlights the need to follow closely the current reforms and management trends in Japan, as they may lead to a decisive redesign of the traditional system more-or-less preserved since the Second World War. Following its logic on strategy, firms may reinforce their reorientation from pure cost-leadership goals.

Originality/value – This paper deals with management history in Japan as the emergence of four basic paradigms, where the fourth is newly identified here. The paper will be helpful to academics who study management history as well as current management practices in Japan. Practitioners will benefit by understanding the roots and applicability of methods being currently used.

Keywords Management history, Japanese management, Japan, Modern history, Management theory

Paper type General review

1. Introduction: purpose and importance
Since the early 1990s, Japanese companies and management have faced strong pressures for transformation. The reasons are manifold: the traditional business system of a developing country seemed increasingly ill-suited to the demands and level of development of a top-rank economy; sustaining growth has been a challenge since the bursting of Japan's "bubble economy"; national debt has risen steadily, along with

This paper was supported by the TÁMOP-4.2.1/B-09/1/KMR-2010-005 project.

Journal of Management History
Vol. 18 No. 4, 2012
pp. 368-385

1751-1348
DOI 10.1108/17511341211258729

a growing unemployment rate and a shrinking foreign trade surplus. Moreover, foreign investors have pushed corporations for enhanced transparency and a more heterogeneous management style. Social tensions may be on the rise with the rapid aging of Japanese society.

Amidst such ongoing pressures for change in governance and management issues in Japan, observers have sought insight into the direction that the state and corporations may take in the future, balancing security against risk tolerance, stability against innovation, and stakeholder against shareholder orientation. The future of corporate reforms is still uncertain but a deep understanding of the past will be an essential element in predicting further changes. Thus, the purpose of this paper is to trace the origins of "Japanese management" and explain how it was institutionalized. This historical overview will provide readers with a substantive basis for understanding and evaluating recent events and reforms.

In section 2, we will explore significant contextual elements – environmental, cultural, social, political, and economic – which have shaped Japan's business and management history. Then, in section 3, we will analyze how production systems, behavioral elements, organizational structure, and strategy have developed in large Japanese companies. Specifically, we will focus on the impact of scientific management, the human relations movement, American models of corporate organization, and the process of globalization on Japanese firms and their managerial practices over the past century and a half[1].

2. Contextual factors in the development of Japan's management system

Several important contextual elements have conditioned the evolution of Japanese management practices from the very beginning of modern industry in Japan in the late nineteenth century. Insofar as some of these factors continue to be significant to Japanese life today, they may play a role in inhibiting reform and keeping the traditional Japanese management system basically intact even in a time of rapid change.

2.1 A small living area with scarce resources

The Japanese islands were created by the collision of tectonic plates, which explains both the archipelago's frequent seismic activity and its mountainous terrain (Totman, 2005). With three quarters of the country covered with mountains, Japan's arable, inhabitable land area is very limited and the population density is high.

In addition, many critical natural resources are scarce in Japan, especially those most in demand in industrial societies. The relative dearth of land has hindered large-scale agriculture and made cities extremely compact, and the limited natural resources has often forced people and companies to self-restriction, in terms of product range for instance (Marosi, 2003; Vaszkun, 2010). Japan's natural limitations can even cause surprising consequences when their impact reaches beyond individual lifestyles or some corporate concerns (such as location, import dependence, etc.). Transportation is one such example. The Japanese road network has remained largely unchanged for centuries. Even during the transport revolution brought by railway construction in the nineteenth and twentieth centuries, the rail lines were generally laid along the pre-existing roads, thus reinforcing traditional distribution systems. So although railway construction frequently challenged established business forms in the US, this was not the case in modernizing Japan (Fruin, 1992).

2.2 Confucianism and collectivism

The philosophy and political economy of Confucianism were vigorously promoted in Japan by the Tokugawa shogunate and later by the Meiji state. Originating in China, Confucianism provided a world-view and a coherent set of values for social administration and social interactions rooted in a profound sense of (and respect for) hierarchy as well as a broad commitment to education, hard work, and harmonious relationships. Indeed, according to Bellah (1957), Confucianism shaped the development of Japanese business institutions more than any other system of thought, although the impact of Buddhism has also been considerable. Confucianism continues to exert an influence on societies throughout East Asia and according to many commentors, including Ohtsu (2002), it still affects Japanese business performance today through its core values of harmony, hierarchy, benevolence, loyalty, and learning.

Japanese society is also said to be characterized by collectivism, which can be seen as an integration of the values of equality and group membership (Fujimura, 2006). The processes of modernization and globalization tend to push societies towards individualistic values and some scholars claim that, after more than a century of industrialization and international engagement, the Japanese are no longer a collectivist nation (Matsumoto, 2002). Comparing Japanese and Western societies, however, many observers suggest that in the West, individuals are integrated into society through their functions, which are largely based on contracts, but in Japan people identify themselves in society through groups, such as corporations, and based on a sense of belonging (Maruyama, 1997).

Although the significance of cultural legacies on modern Japanese business practices has been widely debated, it seems apparent that the hierarchical order of Confucianism and the egalitarian group thinking of collectivism remain salient in Japanese society, not least because so many contemporary Japanese accept their enduring importance.

2.3 Late industrialization

From the early seventeenth century to the mid-nineteenth century, Japan was largely isolated from the Western world by its leaders, the Tokugawa shoguns, to preserve domestic political stability. When contacts were restored after 1853, the Japanese felt a keen sense of inferiority toward the Western powers, whose technological advancements were spectacular compared to those of long-secluded Japan.

Alexander Gerschenkron's (1962) thesis about the effects of late development can be considered to be valid for Japan as well: he claims that late developers have to be more calculating and organized in the process of industrialization and that this leads to higher levels of political, economic, and social interdependence.

Japan's relatively late development has had numerous consequences for its industries, financial markets, and institutions, and affected the organizational structure and strategy of Japanese firms. Dore (1973), for instance, highlights the predominant role of the state, the accelerated industrialization and bureaucratization of firms, and the greater recognition of workers as human beings in Japan. Jacoby (2007) also emphasizes that after World War I, as Japan underwent rapid industrialization, government and business leaders strongly wanted to avoid the contentious labor movements seen abroad and thus adopted both scientific management and welfare capitalism at the same time.

2.4 The developmental state and protected markets

A strong and interventionist political elite has long had a formative impact on business in Japan. First, we will look at elements reinforcing the role of the state in corporate life in Japan, and then we will examine the international effects of Japan's "developmental state" on trade policy and the exporting position of Japanese firms.

In the late nineteenth century, Japan's political and economic elites felt their nation was very vulnerable to colonization by the Western powers. Therefore, even when foreign experts were invited to help the Japanese carry out reforms and acquire new technologies, the final goal of Japanese authorities was to send them home as soon as local personnel were adequately trained and able to operate modern factories or government institutions on their own. One of the obvious examples was the construction of the railway system, where the Meiji government managed to exclude foreign capital, even though Japan's first rail line was built with more than 100 foreign, mainly British, workers (Imashiro, 1997).

After the hierarchical rule of Tokugawa feudalism and the strong modernizing state of the late nineteenth century, justified by the rush for parity with Western countries, the Japanese central government eventually pursued a course of militarization and a search for economic autarky that lasted until the end of World War II. Preparation for war (and its later execution) only emphasized the weight of central power in Japan.

> During those cataclysmic years, the bureaucrats invaded every conceivable area of people's lives, justifying their actions as wartime necessities. The powers nominally vested in the Diet and in political parties evaporated, as the Emperor's bureaucrats assumed virtually dictatorial control (Miyamoto, 1995, p. 10).

The preponderant power of bureaucrats over the Diet in the legislative process and over local affairs apparently endured after the war as well, despite the intention of the American occupation.

The classical postwar example of strong state intervention in the private economy and corporate life is the history of the Ministry of International Trade and Industry (MITI). MITI's formulation and execution of "industrial policy" (as well as the activities of other government agencies, notably the Ministry of Finance) well illustrate that the "developmental state" played an active role in economic planning, regulation, and guidance (Black and Morrison, 2010; Fruin, 1992; Johnson, 1982). Japan's elite bureaucracy (and, it would seem, the business leaders they worked closely with) has "always believed that state capitalism (that is, bureaucratically guided economic policies) was the most effective way for a developing country to catch up. Japan's postwar economic miracle seems to have proven them right" (Miyamoto, 1995, p. 13).

Concerning world trade and international business, the framework today is dictated by Japan's WTO membership, although Japan still has important exemptions and maintains protectionist measures such as duties on certain imports.

After World War II, Japanese state regulation of exports, imports, and international flows of capital was highest during the postwar reconstruction era, when MITI was most active (and most effective) in guiding economic development. With a rising foreign trade lobby and Japan's OECD membership, the liberalization movement unfolded slowly, and foreign investment in Japan was finally allowed in 1980 by the Foreign Exchange Control Law (Hamada, 1991).

The share of foreign capital in Japanese companies increased markedly after the 1990s. Ahmadjian and Robbins (2005) have argued that foreign investors contributed to the cracking of Japan's traditional stakeholder capitalism. Olcott (2009) found several examples where the rules of foreign capital prevailed over Japanese traditions, although he was unable to confirm entirely his hypothesis that firms with Western capital were more likely to abandon time-honored management practices. Thus, we may cautiously conclude that the postwar protectionist Japan found it easier to preserve managerial traditions and business conventions while the more open Japan of today faces stronger pressure to implement global best practices.

In the postwar period, Japan greatly benefited from the liberal trade policies of the Western world, due to her membership in GATT and later the WTO, while still retaining trade barriers to protect certain favored domestic sectors (such as food production). The international pressure to further open Japanese markets has intensified in recent years, as has become apparent with the problems surrounding the WTO Doha Development Agenda and the multilateral trade negotiations on agricultural trade reform. The current Trans-Pacific Partnership negotiations are another striking example of how Japan has struggled to address closed markets at home while supporting free trade abroad.

2.5 The end of continuous growth

The Japanese economy has been profoundly shaped by the remarkable pace of recovery following World War II. From the pre-World War I levels where industrial output was floundering at the time of surrender in 1945, the real national income grew at an average of 10.8 percent from 1946 to 1954. This achievement helped Japan to re-attain its prewar peaks of productivity, national income, and personal consumption within a decade after defeat. For the 15 years after 1955, the rate of growth was maintained at an astonishing level: 9.1 percent for 1955-1960, 9.8 percent for 1960-1965, and 12.1 percent for 1966-1970 (Pyle, 1996).

Japan's pattern of economic growth (rapid until 1973, then slower but still stable until 1990) left its mark on firms and management philosophy. But as soon as Japanese labor became more expensive compared to neighboring countries, and trade barriers grew around Japan's main export markets, the impetus for growth was broken. Over the past two decades, the performance of the economy has barely reached the level of 1989 in many areas. Real GDP growth fell from 5-10 percent to 1-2 percent after 1990. Unemployment rose from 2.1 percent to a peak of 5.4 percent in 2002. Both land and stock prices plummeted: the Nikkei 225 index fell from 38,916 in 1989 to 8,579 in 2002, and the index of land prices in the six major cities declined from 100 in 1990 to 30.4 in 2002 (Keizer, 2010). The outstanding GDP growth for the year 1996 was mainly due to substantial government spending, rather than the natural dynamics of the economy itself (Benson, 2006). Thus, it is clear that the environment for Japanese business has changed substantially: growth can no longer be taken for granted and the organization of the economy must adjust to reflect this new reality.

3. The historical evolution of Japanese management

3.1 Industrialization: from feudalism to modern business

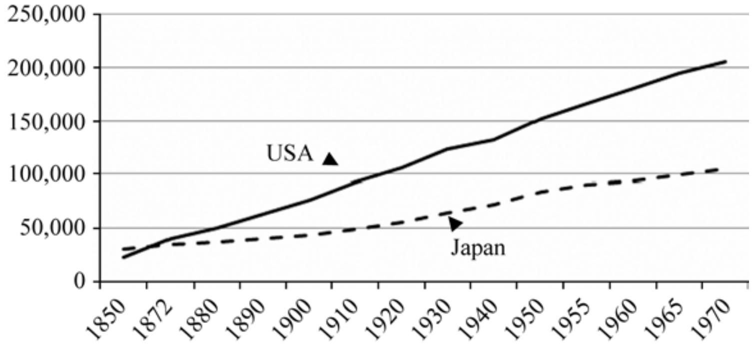
In 1867, Japan was still a feudal country with an archaic government system and an agrarian economy, while the nations of Western Europe and the US were marching towards mass production and the second industrial revolution.

After 1868, the Meiji government, composed of former *samurai,* initiated major reforms, reframing the entire political, business, and social system. The first modern corporations, most affiliated with sprawling conglomerates called *zaibatsu*, appeared from about 1885 with the purchase and integration of government-owned ventures when Finance Minister Matsukata Masayoshi initiated their privatization (Hirschmeier and Yui, 1981). This is certainly late compared to the West, but the new firms grew quickly and matured rapidly (Fruin, 1992). Their early strategies were primarily based on interfirm transactions and economies of scope (through diversification) rather than scale, because the development of large-scale production was still limited at the end of the nineteenth century.

One reason for this lack of scale was technology, which needed to be imported from the already industrialized Western countries. The Meiji government organized numerous study tours abroad to expose the Japanese to advanced Western ways, invited foreign experts to work in Japan, and distributed scholarships to encourage students to pursue education overseas. Manufacturing activities were redesigned and increasingly based on Western technology from the start of the 1900s but curiously, the goods produced continued to be distributed through centuries-old wholesale and retail networks (Fruin, 1992). As a result, production and distribution is often separated even today, this latter often being mediated by specialized trading companies, the *sōgō shōsha*.

Beyond technology, skilled workers were also scarce and in that respect, early Japanese factories were remarkably similar to their pre-Taylorist American counterparts. The owners of the means of production often lacked even basic technical and managerial competencies and so contracted with skilled foremen (*oyakata*) to oversee factory work. As in the US, such elite workers held authority over recruitment, training, and dismissals, and also frequently over the work process and employment conditions (Dore, 1973). In short, production in early Japanese factories depended on the individual skills and abilities of these *oyakata.*

The other obstacle to mass production in Japan was the small size of markets (see Figure 1). The Japanese economy was not large enough to support high production levels when the first industrial firms were created in the late nineteenth century, but demand grew quickly with the wars of the Meiji period and the growth of an overseas empire. In 1894-1895, Japan had a spectacular military victory over China and established a dominant role in Northeast Asia. Then, in 1904-1905, the Japanese defeated Russia, leading to the annexation of Korea in 1910. Japan later acquired important international markets during World War I when the Western powers' attention was distracted by the European conflict (Pyle, 1996). Small-scale "mass production" would only start in the 1910s in Japan, three decades later than in the US. At the dawn of American mass-production in the 1880s, the size of the US population was about 50 million, growing to over 90 million by the 1910s, which was approximately when the scientific management movement began. Japan attained a



Note: Population in thousands of people
Sources: Ministry of Internal Affairs and Communications of Japan (Statistics Bureau); US Department of Commerce (Bureau of Census)

Figure 1.
The demographic development of Japanese markets, compared to the US (population in thousands of people)

population of 50 million in the 1910s, but would not grow to 90 million until the mid-1950s.

3.2 The development of the production system

Scientific management, also known as Taylorism, after its American founder Frederick Winslow Taylor, exerted a strong influence on the Japanese production system in its formative stages. The development of Taylorism in Japan ran parallel to that in the US but exhibited important differences. Japan, unlike the US, lacked a history of mass immigration, yet like America entered the process of industrialization with a scarcity of skilled workers and a large pool of unskilled but inexpensive labor. The exaggerated power of the skilled foremen in both America and Japan hindered the improvement of production systems and the manufacture of goods of standardized, uniform quality, thus incentivizing managers to find alternative ways of organizing the shop floor. Labor unrest was also a common phenomenon: following the Sino-Japanese War, but especially from the 1910s, an organized labor movement placed pressure on Japan's factory managers to seek a systematic response (Gordon, 1998).

Japan was certainly late with industrialization and mass-production, but as soon as the preconditions were in place (with the Western technologies adopted and the adequate market size reached), the advance of the scientific management paradigm proceeded relatively rapidly. Japanese business leaders and intellectuals were eager students of the latest managerial knowledge to come out of the US and Europe. For example, Taylor's 1911 book *The Principles of Scientific Management* was translated and published in Japanese as early as 1913, and even before this, Taylor's work was widely reported in Japan[2]. The Japanese Taylor Society was founded and promoted by enthusiastic Japanese proponents such as Ueno Yōichi, dubbed "the father of efficiency" or the "Taylor of Japan" (Tsutsui, 2001). During the 1910s and the 1920s, he was perhaps Japan's most insistent advocate of Taylorism, developing the idea into a wide-ranging, structured, and long-lasting movement. Interestingly, there was little direct support from the state behind these private efforts at managerial reform, although government-owned enterprises were among the first to implement scientific management and its practices, such as workstudy, standardization, and systematic planning.

Such early success cannot be explained only by the general openness of Japanese society to Western ideas and technologies. In the run-up to World War I, the general public in Japan sought cutbacks in military and government expenditures and scientific management offered a promising means of suppressing inefficient practices. Similar to what happened in the US, the labor movement and the socialist movement grew quickly after the Russo-Japanese War and encouraged the implementation of a rational wage system and other modern management techniques (Tsutsui, 1998).

After its early success, Taylorism developed further and exerted a lasting influence under different banners and through a variety of managerial reform movements. In 1917, the year of the Russian Revolution, Ikeda Toshiro and his peers launched a new magazine called *Efficiency*, which marked the beginning of the "efficiency movement" (Nakase, 1979, p. 180). In Sumitomo and other companies, the time clock and identification signs, such as a company badg,e were introduced, "in an effort to stipulate employees' pride". This movement sought to bring in and implement Taylor's ideas in a much broader sense than the creator himself had imagined. The Japanese strived to create "the most efficient arrangement for kitchens," "the most efficient golf swing," or the "one-best-way" in pearl diving (Tsutsui, 1998).

The late 1920s in Japan were marked by increasingly severe economic crises, rising nationalism, and an intensifying interest in German solutions to social and industrial ills. Accordingly, scientific management merged into the German *Rationalisierung* movement, introduced in Japan by Imaizumi Kaichiro in 1927 (Nakase, 1979). Rationalization found a receptive audience among Japan's corporate leaders and government bureaucrats, who were particularly fascinated by the use of state-sponsored cartels to restrain competition and encourage cooperation among firms. Trusts and cartels, although later banned by the postwar American occupation, were embraced in Depression-era Japan with the aim of reducing transaction costs and increasing efficiency and productivity. Building on Taylorism, which concentrated on the firm and shopfloor reforms, the rationalization movement used as its basis a whole industry or the entire national economy. As early as 1930, one-third of Japan's major manufacturing companies had already shifted from light to heavy industry, growing to more than half by 1954. The same figure was 63 percent in 1973 (Fruin, 1992).

With the Manchurian Incident of 1931 and Japan's turn to a more assertive, autonomous foreign policy, government regulation of finance and industry intensified. The Major Industry Control Law of 1931 and the National General Mobilization Law of 1938 reinforced the power of big business and strengthened the position of the central bureaucracy in directing economic activity. As Japan descended into war, first with China and later with the US and the European powers, the government agency for industrial rationalization was reorganized into the Control Bureau and given new authority. Although America became Japan's national enemy, scientific management continued to be held up as a model by Japanese management experts and efforts to bring Taylorite reforms to Japanese factories continued throughout World War II.

The deep-rooted practices of scientific management and the philosophy of efficiency endured across Japan's defeat and into the postwar era. For instance, when the methods of quality control were promoted in Japan in the late 1940s and 1950s by W. Edwards Deming, Joseph Juran, and others (Tsutsui, 1996; Huggins, 1998; Leitner, 1999), they were perceived as consistent with longstanding Taylorite practices in Japanese workshops. In Japan's vibrant postwar economy, production management routines rooted in scientific management became the platform upon which new techniques to improve efficiency and competitiveness (like the innovative Toyota production system) were conceived, tested, and widely adopted.

Despite the fact that there were only a few documented cases of direct labor opposition to Taylorist management, criticism of Taylorism existed in Japan too. Japanese intellectuals, like their Western counterparts, deplored scientific management's alleged tendencies toward the deskilling of labor, increasing individualism[3], and emphasizing production output at the expense of employment. Nakatsumi (1922, p. 130) noted that "wage systems appeal to the profit motive of workers, consequently undermining their moral values as well as their sense of mutual solidarity, and giving rise to antagonisms and jealousy among them".

3.3 Paternalism and the human factor in Japan

In the history of American management, we can find the roots of the Human Relations (HR) paradigm in the industrial welfare movement[4]. By the early 1930s, the Hawthorne studies had demonstrated that group performance can be higher than the sum of individual efforts (contrary to what Taylor thought), and various techniques were developed in companies in order to enhance the interpersonal skills of workers and managers (Pindur *et al.*, 1995; Wren, 2005; Muldoon, 2012).

In Japan, the American occupation introduced HR ideas with the help of some Japanese scholars after World War II (Tsutsui, 1998). The new management philosophy certainly aroused the interest of the general public in Japan, particularly due to its promise of substantial efficiency gains and the calming of labor relations. Moreover, some HR practices such as suggestion systems and attitude surveys were indeed implemented in Japanese firms. The overall impact of HR in Japan, however, was minuscule compared to the revolution it brought in US business, and there are various factors that explain the reluctance of Japanese managers to embrace the HR movement.

First, and most importantly, Japanese firms were quick to embrace corporate welfare practices at the very start of the process of industrialization, recognizing that some of the labor strife experienced abroad could be avoided through enlightened treatment of workers. Tsutsui (1997, p. 561) claimed that, to Western observers, "paternalistic practices – the provision of welfare facilities by employers, the articulation of familial corporate ideologies, the use of personnel policies which emphasize job security and foster worker loyalty – have been seen as the hallmarks of a distinctively Japanese approach to managing industrial labor". Fruin (1992, p. 308) explains that, partly as a consequence of late industrialization, several functions and responsibilities that governments had in the West were instead deployed at private firms in Japan, which became "vehicles of public progress". In addition, several laws ensuring the social security system, old age pensions, unemployment benefits, accident compensation and a minimum wage were passed relatively early in Japan, beginning in the 1920s (Cole, 1971).

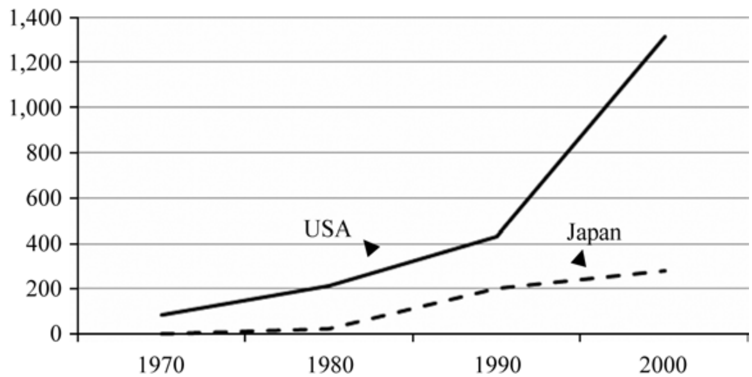
Second, some observers have stressed the importance of Japan's cultural heritage of collectivism, which inclined Japanese corporations from the very start of industrialization toward labor and production management practices that emphasized group performance rather than individual responsibility. After the theories of organizational behavior were developed in the US by Barnard, Likert, McGregor, Argyris, and others, the Japanese easily borrowed and adapted them, and "it appears that the Japanese found their organizations more receptive to this form of participation than have American managers" (Keys and Miller, 1984, p. 343). To Japanese managers, American HR thought may have seemed less a revolutionary innovation than simple common sense: drawing on traditions of collectivism, Japanese firms readily accepted that employees are capable and ready to participate in the organization of work and contribute to a supportive supervisory climate.

To sum up, the mainstream of management thinking affirmed the HR approach as a useful and necessary component of corporate administration but did not consider it as a replacement for scientific management. This explains how the Japan Efficiency Association could release within a single year both a Japanese version of Elton Mayo's *The Human Problems of an Industrial Civilization* and a new translation of Frank Gilbreth's Taylorite classic *Cheaper by the Dozen*.

3.4 The development of organizational structures

In the 1950s American firms became internationalized and, as a consequence, divisionalized (Vaszkun, 2012). M-form companies required a centralized, generalist management in addition to the close supervision of local operations by specialists. Management of the diverse units came to be supported by management control and financial indicators, the weight of which grew significantly in firms after the 1950s. This structural evolution, fueled by the significant outflow of American Foreign Direct Investment to European countries, led to a greater need for management theories and globally competent managers. Consequently, a wide range of MBA programs and sophisticated financial management strategies were developed.

In Japan, until the late-1980s, export from a few trading houses prevailed over deployed production. Then, as shown in Figure 2, a wave of investment abroad came in the 1980s, when the high yen catalyzed the hollowing out of Japanese industry. Thus, three decades later than the US, Japan belatedly confronted diverse markets and international management.



Note: 1970-2010, billion dollars
Source: UNCTAD 2006 Statistical Annex, cited by Shinpo (2008, p. 111)

Figure 2. Outward foreign direct investment in Japan compared to the US (1970-2010, billion dollars)

We shall argue here that internalization and divisionalization[5] emerged late and only partially transformed large Japanese firms, compared to American ones. Among the 200 largest industrial firms in Japan, 77 were diversified (had at least three different major product lines) in 1954 and 80 in 1987. Of the same category of firms, only 40 percent engaged in limited diversification in 1987 and no major Japanese enterprises were highly diversified, that is, had more than three different product lines with at least 20 percent of sales each (Fruin, 1992). Apparently, instead of diversification, Japanese firms benefited mainly from simple scale and scope economies. As Fruin stated, they "stuck" with traditional U-form organizations and instead of divisionalization created "product-focused, functional units within their organizations," so product management could be delegated to factories (Fruin, 1992, p. 177).

But even beyond size, there were several factors hindering the divisionalization of Japanese firms. First, we have already mentioned the separated production and distribution functions. The distribution of products, based on traditional networks, ensured primarily economies of scope by using the same institutions for different products. Therefore, splitting marketing, sales, R&D, production, and logistics and reorganizing them by product types into divisions was completely opposed to the Japanese model. Japanese human resource policies (including centralized recruitment of workers and the rotation of employees through a firm's units) also played their role in keeping the system as centralized as possible. As a consequence, Japanese managers remained focused on specific functions in their work and the global, finance-oriented and generalist approach of management acquired less weight than in the US.

To sum up, large Japanese corporations were relatively small and simple compared to Americans, and most of them operated typically with a centralized, functional structure. When, during the American occupation between 1945 and 1952, the zaibatsu conglomerates were split up into small companies, it was logical that those entities form interfirm and supplier networks, cooperate in research and development, marketing, and selling to export markets – thus creating the *keiretsu* groups (Johnston and McAlevey, 1999; Subrahmanya, 2008).

3.5 The bubble and emerging global strategies

Internationalization and the hollowing out of Japanese industry in the 1980s began the process of transforming corporate practices in Japan but did not bring the multidivisionalization of large firms. Therefore, in contrast to the US, the managerial context did not change drastically either. Yet the consequences of the high yen period went much further than the process of divisionalization.

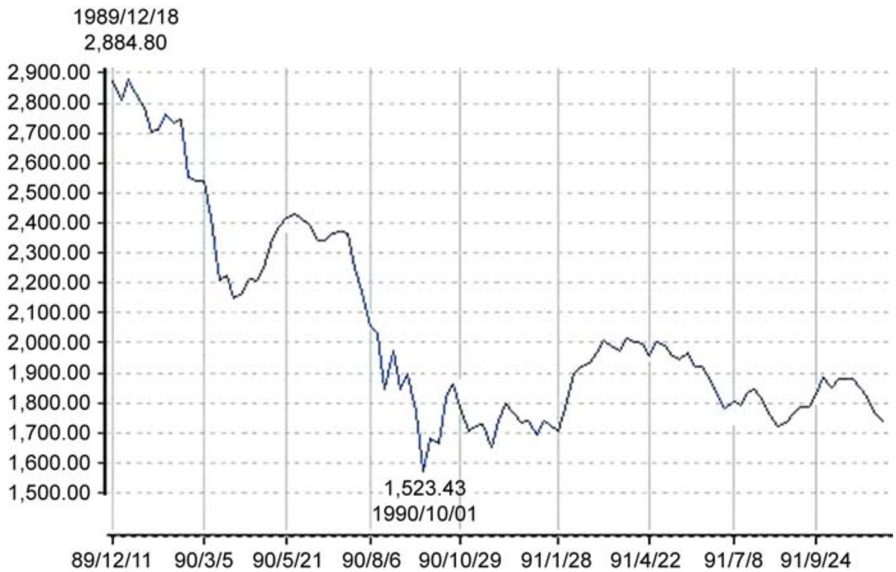
When the value of the dollar dropped from over ¥240 to ¥160 after the Plaza Accord, the American objective was to counterbalance the artificial competitiveness of Japanese exports, supposedly caused by the under-valued yen, and so to attenuate Japan's extreme trade surpluses (Ohtsu, 2002). The fall of the dollar did indeed damage Japanese exports and contributed to a strengthening US trade balance (Miles, 1994). As a remedy, the Japanese government loosened its monetary policy and lowered the discount rate to the historically low level of 2.5 percent (Graham, 2004; Abegglen, 2006). Credit became cheap and easy to obtain, leading to a new corporate fashion in Japanese firms called *zaitech*, where managers could often make more money from investing and speculating in land and equities than from their traditional businesses. They certainly accumulated significant capital and acquired numerous foreign firms, especially in the US and in Europe. Consequently, by the end of the 1980s, real industrial activity in Japan had deteriorated compared to financial speculation. Companies moved a significant part of their production offshore to other Asian countries offering cheap labor, which helped to palliate the negative effects of *endaka* (the high yen period). The overall result was Japan's financial bubble: at its height, the Tokyo stock market was worth more than 40 percent of the total capitalization of the world's stock markets (Graham, 2004).

The Bank of Japan realized that this bubble economy had gotten out of control and doubled the discount rate from 1989 to 1990, once again with dramatic effects. In January of 1990, the Tokyo Stock Exchange plummeted drastically and, within less than a year, Japan lost 30-60 percent of its "business value." The losses of companies (shares, real estate), families (land, houses), and banks and other financial institutions (with liabilities greater than assets) became greater and greater until the lowest point was reached in October (see Figure 3).

Japan's competitiveness in global trade and industrial production suddenly appeared vulnerable with the emergence of new challengers – South Korea, Taiwan, Hong Kong, and then China – that boasted inexpensive labor and high-quality products. When this had happened to the US in the 1970s, its answer was rapid and massive deregulation, and strategic paradigm change in the business world.

In retrospect, a curious fact about the bursting of Japan's bubble is the lack of immediate reaction. In the leading American business journal *Harvard Business Review*, for instance, there were no articles on the end of the bubble economy until 1993. The first article on the failure of Japanese banks dates back to July, 1994[6].

How can we explain this slow pace of international reaction? On the one hand, experts who advocated the supremacy of the Japanese model until the 1990s wanted to



Source: Tokyo Stock Exchange

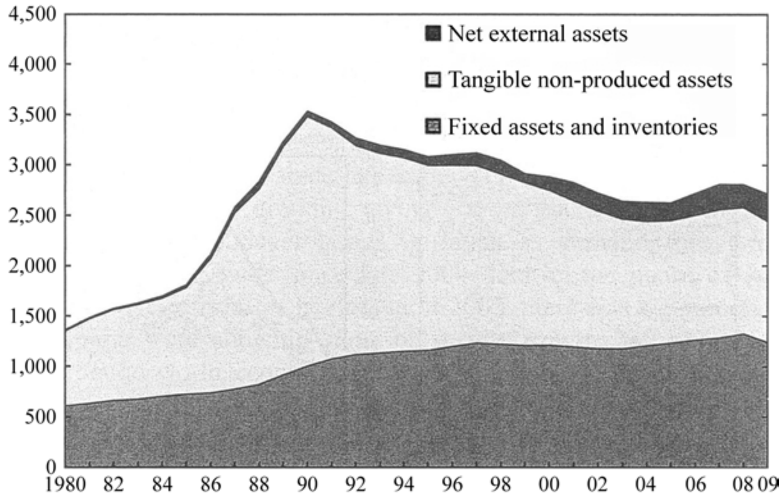
Figure 3.
Stock Price Index from December 1, 1989 to December 1, 1991

believe that they were right. On the other hand, Japan's previous industrial and trade dominance was so spectacular that some economic indicators suggesting Japan's strength still prevailed in the first half of the 1990s.

In 1995 for instance, $22 billion of foreign direct investment went from Japan to the US (with $7 billion of that in manufacturing). As explained by Liker *et al.* (1999), this figure represented accumulated investment in opening or expanding about 1,700 manufacturing plants across the country. With such widespread activity and aggressive overseas investment within one year, it was hard for many (both inside and outside Japan) to accept that Japan's economy was in deep crisis. As shown in Figure 4, and considering how severely economic activity got out of control between 1985 and 1990, the situation clearly did not seem so dire to many observers at the time.

Thus, the bursting of the bubble dulled the enthusiastic international acclaim of Japan's economic successes but it did not immediately generate a general sense of crisis either within or outside the country. This fact made reactions and also corrective actions slower, and the usual post-crisis process of recognizing bad loans, writing down capital, and recapitalization by private investors or the government only started effectively in the late 1990s and early 2000s.

Since 1990, Japan has witnessed the same sort of economic challenges, and the same apparent loss of competitiveness as the US experienced in the 1970s. The economic environment has become more global and newly industrialized countries have successfully captured market share from Japanese manufacturers around the world. Thus, Japan must now seriously address the need for paradigm change in its business culture and managerial practices (Black and Morrison, 2010; Allen *et al.*, 2008). The same calls for deregulation that drove change in the US in the 1970s are now common in Japan as well (Imai, 2011).



Source: Cabinet Office (Facts and Figures of Japan, 2004 published by Foreign Press Center/Japan)

Figure 4.
Japan's national wealth (trillion yen)

4. Conclusion and implications for research and practice

What is the future of Japanese management thought, which evolved in a developing nation and primarily in the manufacturing sector, in an economy that is increasingly moving toward service and knowledge-intensive industries? Globalization has spread Japanese management techniques around the world, but ironically may have undermined the foundations of these traditional approaches in Japan itself.

In this paper we have attempted to show that revolutionary changes in Japanese management have been relatively rare in Japan, at least compared to the US. Scientific management spread relatively early in Japan, more or less in parallel with the US, although Japan, at the time, did not share America's potential for large-scale production. Taylorism provided the tools for growth badly needed in Japan's nascent industries, and Japanese managers subsequently developed (and some would argue perfected) the imported practices of scientific management. Even though the label changed over the decades, the same fundamental approaches to production management prevailed in Japan through the twentieth century: from Taylorism, the efficiency movement, rationalization, and the wartime expansion of production capacity to quality control, lean management, and the Toyota production system, all focused on cutting waste and increasing efficiency. As a consequence, scientific management became embedded in Japanese society, and the Japanese eventually accepted its premises and its methods as something intuitive and natural, rather than imported and artificial. By the 1930s, scientific management had established firm roots in Japan and remained the dominant basis for management henceforth. Japanese adjustments to the original Taylorist ideas fulfilled the same needs as did the American HR movement and, instead of radical transformation, only structural adaptation resulted when Japanese firms grew larger and increasingly internationalized. Traditional management practices and longstanding strategies have received more intense criticism since the 1990s, with the fading global competitiveness of Japanese industry, but the old ways seem to have endured without radical transformation (Jacoby, 2007; Olcott, 2009; Abegglen, 2006; Keizer, 2010).

We understand that the Japanese management system was designed and developed in an era where "catching up," "protecting domestic markets," and "high productivity" were the keywords in economic policymaking. Yet circumstances have changed, and Japan is now struggling to remain a leader in a global economy based on ever-freer flows of capital, labor, and information, intense competition between nations, and rapidly changing business practices. Many of the time-honored mindsets and methods that have served Japanese managers so well, for so long, may now be obsolete. Today in Japan, there is a profusion of flexible contracts, performance-based evaluation schemes, corporate law reforms, and fading keiretsu networks, as well as weakening unions and corporate HR departments, shareholders with strengthened power, and a resurgent individualism, especially among the younger generations. All these represent new trends compared to practices in the early 1990s. The key questions are where these trends are leading Japanese firms and how traditional management practices will adapt in a time of sweeping change. As noted in the introduction of the HBR list in the 2010 January-February issue of *Harvard Business Review*, "when a business community supports an idea, change can happen fast". Even in Japan, where fundamental approaches to management – from the fixation on efficiency to a commitment to lifetime employment – have been so resilient over the decades, new economic realities and shifting attitudes can lead to rapid transformation.

The question today is whether people in Japan would rather live in a more protected economy, where employment is stable, group members can look out for each other, and relatively weak employees and economic sectors can be carried by more competitive ones, or whether they would prefer a more liberal, market-oriented economy, which, due to harsh global competition, may lead to unprecedented instability, insecurity, and social polarization. For sure, this question is very complex and there are no clear-cut answers, although it seems clear that, within this new context, solutions are unlikely to come (as they so often have in the past in Japan) from the central authorities and the elites of government and business. In the end, the only good answers will be given by society itself. Thus, following on the historical overview presented here, an attitude survey on managerial practices[7] could be the logical next step in seeking to understand how Japanese management may change (and how it may stay much the same) in the years ahead.

Notes

1. For more details on these paradigms and their distinctive logic, see Vaszkun (2012).
2. See Nakase (1979).
3. On individual versus community values, see Sun and Jiang (2000).
4. See the work of R. Owen or M.P. Follett.
5. By divisionalization we mean the transformation from a U-form to an M-form organizational structure.
6. In contrast, the first article triggered by the so-called "Lehman Shock" was published in January 2009, four months after the beginning of the American financial crisis.
7. For an example of such a survey, see Duignan and Yoshida (2007).

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