

# The japaneses management practice economics essay

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## **Introduction**

Being the first nation experienced industrialization in Asia, Japan is renowned as the largest and most developed economy in Asia which first underwent modern economic development in the second half of the 19th century, roughly one century earlier as compared to Asian Tiger states (Harukiyo and Carlos, 2009). Seizing a superpower economic position in Asia, Japan is well-reputed in automobiles and electric appliances manufacturing (Chatterjee and Nankervis, 2007). Some prominent Japanese manufacturers in these industries are Toyota, Honda, Sony and Canon. Owing to these, Japan often regarded as a role model for emerging economies in Asian Pacific. Harikiyo and Carlos (2009) also suggested that Japan's influence in Asia and world economy development is substantial. In some extent, the determinants of Japanese's success were because of its historical legacies and cultural traditions.

## **Historical Background**

The social-cultural system for the ancient Japanese was characterised as relativistic because they believed in the existence of god and goddesses (Chatterjee and Nankervis, 2007). Before the arrival of Buddhism, the Japanese's animistic beliefs were grouped under the name of Shinto (BBC, 2009). Shintoism was one of the reasons that helped to explain the long independence achieved in ancient Japan. With the presence of indigenous Shinto religion, which regarded the emperor as the direct descendent of the supreme God, strong national social-cultural identity was built within the Japanese society (Chatterjee and Nankervis, 2007). Taika Reform (645 AD)

was an example of political reform grounded on Shinto beliefs (Facts About Japan, 2013). The origin of Japanese was made up of diverse migrants (Diamond, 1998). Among the external influences in the early years, Chinese influences were ample in the Japanese society (Stearns, 2000). Through 'Japanisation' assimilation process, a unique set of Japanese practices which adapted the imported values into the local culture and traditions was created (Chatterjee and Nankervis, 2007). Apart from these, Japanese society was also influenced by the teachings of Confucianism, Buddhism and Taoism (Chatterjee and Nankervis, 2007). As a result, bushido code (the Way of Warriors) which was meant for samurai was developed according to different school of thoughts such as Confucianism, Buddhism and Shintoism (A&E Television Networks, 2013). Feudal era began after the emergence of Bushido concept (Chatterjee and Nankervis, 2007). In this era, imperial court government's power was weak and the state was mainly controlled by military government. The military retainers of Japan (samurai) were highly loyal to their lords in compliance with Bushido code which emphasizes on "ethical absolute" and honouring intellectual activities. Under the ruling of Tokugawa Shogunate (military leaders) and Bakufu (military-based government), the disputes between feudal lords that had lasted over century were resolved. Neo-Confucianism, a major philosophy development in this era which emphasized on morals, education and hierarchical orders in the state and society was also emerged (Japan-guide. com, 2013). Until mid of 19th century, the power of Tokugawa Shogunate was deteriorating, giving chances for a small group of nobles and former samurai, named Emperor Meiji to takeover of the state. Consequently, feudalism system was

abolished, embarking the Meiji restoration era, an important flash point in the Japanese development history (Min Chen, 2004). The remarkable event during Meiji restoration period was the massive modern economic development (Warner, 2003). Upon the ruling power transferred to the Emperor Meiji, the new ruler was determined to industrialize the state rapidly (Min Chen, 2004). To safeguard the state's security and independence after being forced entering into some unfair commercial treaties with Western countries since Tokugawa period, the Meiji Emperor decided to confront by implementing modern economic development plans to catch up with Western's development and achieve economic growth (Min Chen, 2004). The capital of the state was moved from Kyoto to Tokyo (Japan-guide. com, 2013). After modernisation processes took place, Japan underwent drastic revolution in political, economic and social-cultural aspects (Kunio, 1994). One major development during the modernisation process was the construction of new infrastructure systems such as railways (Chatterjee and Nankervis, 2007). Amid these developments, Japanese recognised Western's capabilities in performing modernisation development. Thus, Japanese assimilated Western knowledge into local social-cultural system based on *wakon yosai* (Western capabilities under Japanese spirit) principle (Chatterjee and Nankervis, 2007). Backed with substantial government encouragements, education system was enforced in the society, realizing that human capital of good quality is critical success factor in modernisation process (Tipton, 2007). Confucian ideas and Shinto moral teachings coupled with Bushido codes were included in Japanese's education programme to trim down the western values influences (Chatterjee and Nankervis, 2007).

Apart from these, the modernisation processes also left enormous impacts on Japanese's business management practices.

## **Japanese's management practice**

**Zaibatsu** When the state realized that growing of consumer products through agriculture could not bring sustainable growth and wealthy to the country, the government initiated private capital borrowing and allocated substantial amount for strategic industries development (Min Chen, 2004; Tipton, 2007). Once the state-owned enterprises had grown-up, the government would privatize the enterprises by transferring the ownership to private owners at excessive low value (Min Chen, 2004). Massive privatization of state-owned enterprises triggered formation of zaibatsu which consists of large financial and industrial conglomerates. With government participation in the business developments, both modern industrial firms and the zaibatsu had achieved growth. During the Meiji era, zaibatsu was referring to wealthy family-owned private conglomerates with extensive influence in the society (Shigeyaki, 2002). It was also regarded as a form of finance capital aided in Japanese capitalism that gave supports in many important government policies before the Second World War (Shibagaki, n. d.; Min Chen, 2004). The four biggest zaibatsu in that era were Mitsui, Mitsubishi, Sumitomo and Yasuda.

**Keiretsu** The strong hold relationship between Japanese government and big businesses never faded despite Japan was defeated in the Second World War (Min Chen, 2004). Nevertheless, zaibatsu groups were abolished under the pressure of United States of America (Ouandlous and Philippatos, 1999). As a result, some horizontally-linked conglomerates, known as keiretsu emerged to replace the zaibatsu (Min Chen, 2004). In contrast with the zaibatsu,

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keiretsu groups competed among each other and exhibited oligopolistic attributes in the economy. To survive in the harsh economic conditions after the Second World War, keiretsu groups initiated mutual cross-shareholding approach to primarily absorb the excessive number of stocks in the market that were inherited from the zaibatsu before the war (Tolunay, 1995). In brief, keiretsu groups are clusters of independent-managed firms which are closely tied by a governance mechanism such as cross-holding and interconnecting directorates (Grabowiecki, 2006). Presently, the influences of keiretsu groups in the Japanese economy are still substantial. A recent research carried out by Hoshi, Kashyap and Scharfstein (1991) showed that there were only 83 out of 859 non-financial institutions listed on Tokyo Stock Exchange were absolutely owned by an independent industrial group. Majority firms in Japan are either owned by the keiretsu or some ways associated with the keiretsu groups (Ouandlous and Philippatos, 1999). Members of keiretsu share a mutual ownership interests and uphold a good relationship with the largest city banks. In brief, there are two-sided views addressing the presence of Japanese keiretsu. From the positive side, the cross-shareholding between the keiretsu groups has indirectly enhanced the corporate governance system because it protects the firms against hostile takeovers meanwhile promoting a better monitor system which ensures a sustainable long-term relationship is created among the firms (Tolunay, 1995; Grabowiecki, 2004). Firms' competitiveness can also be improved because the keiretsu relationships also promote trust building among its trading partners (Bagby, n. d.). Being in the keiretsu networks, member firms are also protected from the risks of bankruptcy during economic downturn.

This enables the firms to become more flexible and reactive to the market changes. Lobo (2012) summarized that the presence of keiretsu networks can also promote learning among the associated firms. Nonetheless, Bagby (n. d.) argued that keiretsu system is ineffective because many trade restrictions are imposed among the member firms in the distribution chain. This is contradicting with the anti-monopolization and anti-trade-restraints under U. S. and E. C. laws. Human Resource Management Lobo (2012) and Bagby (n. d.) suggested that the presence of keiretsu did not only transform the affiliation between buyers and suppliers, but it also caused a revolution in Japanese management practices, particularly the human resource management (HRM) practices. Over the years, much attention regarding the Japanese management has been allocated to its HRM practices which consist of lifetime employment, seniority based wage and enterprise based unionism (Min Chen, 2004). Meanwhile, western scholars and firms have also been attracted to the Japanese-style management because it makes use of social and spiritual forces to create Japanese's organizational integration and competitiveness. Typically, Japanese management practices are also renowned as effective compared to the west (Bloom and Reenen, 2010). In the study of Bloom and Reenen (2010) which examine best management practices across different countries, Japan attained the fourth highest management practice scores among the 19 countries. Min Chen (2004) suggested that the unique Japanese-style management is very much influenced by its cultural traditions. According to Chatterjee and Nankervis (2007), the implementation of a paternalistic model and long-term approaches in Japanese-style management existed since the beginning of

industrialisation in seventeen centuries. Accordingly, the principles of the 'Three Sacred Treasures' which discussed about the concept of lifetime employment, seniority based wage and enterprise based unionism were incorporated into the Japanese's social-cultural managerial system (Chatterjee and Nankervis, 2007; Warner, 2003). After the incidents of major labour disputes in 1950's, Japanese's management philosophy had been shifted towards an altruistic Confucian-based approach. Subsequently, the principle of 'kyozon kyoei' was added into Japanese social-cultural system to establish cooperative relations and cross-sectoral relations between management and stakeholders (Chatterjee and Nankervis, 2007). Generally, this principle promotes co-existence and co-prosperity relationship. Under the lifetime employment system, Japanese firms are more inclined to hire inexperienced fresh graduates from schools or colleges instead of the open labour market (Min Chen, 2004). Once an employee is hired, he is expected to commit with the same employer for his whole working life. When making hiring decision, Japanese firms generally assess on the common characteristics and abilities of the candidates instead of their technical skills. Apart from these, Japanese firms also initiate mentor system (sempai-kohai) for new employees training. The mentor system does not only provide on-the-job training to the new employees, but it also creates an attachment between superiors and subordinates (Min Chen, 2004). For employees who committed lifetime employment with a firm, promotion will be offered to the employees during their term of service (Min Chen, 2004). Thus, seniority is used to measure compensation. Besides, enterprise trade unions are present in the Japanese society to protect employees of the company from the all



level of positions (Min Chen, 2004). Albeit Japanese HRM practices are widely praised in the business world, these practices are also subjected to many criticisms (Min Chen, 2004). Since Japanese society practices lifetime employment, firms should be more considerate when making hiring decision because the costs associate with wrong hiring are relatively high (Min Chen, 2004). From employee's perspectives, attachment with a wrong firm can leave life-long effects in the employee's career. Lifetime employment is also widely criticised as inflexible especially during financial crisis time because firms are obligated to take care of the employees' entire career (Min Chen, 2004). By committing lifetime employment, job opportunities have been sacrificed for job securities (Min Chen, 2004). Following the economic conditions change, security-risk-trade-off has no longer held among Japan's workforce, particularly the younger employees. When the life expectancy increases, resulting retirement age to extend, the financial burdens for Japanese firms that practice seniority-based compensation scheme will become heavy (Min Chen, 2004). From positive side, Japanese HRM practices are still effective in enhancing product quality. Schuler and Jackson (1987) identified that one of the factors which enabled Honda to achieve high quality production strategy was because of its effective HRM practices.

## **Conclusion**

Japan is a country which possesses rich historical background and cultural practices. As a result, the influences of historical legacies and cultural traditions are extensive in the Japanese society. Particularly, Japan's economic structures and management practices are greatly impacted.

Despite Japanese-style management is widely praised in the west, these

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practices are not flawless in nature. Japanese firms must be able to identify the strengths and weaknesses of their management practices that inherited in their historical legacies in order to compete in today's dynamic business environment.