JAPANESE MANAGEMENT SYSTEMS

CAN THEY CONQUER JAPAN'S

ECONOMICS WOES?

by

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A THESIS

Presented to the Department of Business
and the Honors College of the University of Oregon
in partial fulfillment of the requirements
for the degree of
Bachelor of Science

June 1999

APPROVED: [redacted]

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An Abstract of Thesis of

Cory Ryan Gill for the degree of Bachelor of Science

in the Department of Business to be taken June 1999

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Approved: [redacted]

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In the 1970's Japan emerged as one of the economically strongest countries in the world. As a nation, Japan redefined the equation for success in business. In the early 1990's the Japanese economy crashed. leaving many asking why. This thesis reassesses Japanese business practices and gives recommendations of how to improve upon the current system to make Japan an economically strong nation once again. I used interviews of Japanese and American businessmen and articles from Japanese as well as U.S. publications to analyze this problem. These sources lead to the conclusion that Japanese businesses must stay true to the values that have made them successful but adapt their current system into one that will be successful in the coming millennium.

ACKNOWLEDGMENTS

The author expresses sincere gratitude to Dr. Dave Dusseau for acting as both advisor and therapist throughout the course of the preparation of this manuscript. In addition, special thanks are due to the Tada family for their insight into Japanese culture as well as unique aspects of the Japanese business world. If it was not for the time spent with each member of the Tada family, this thesis would not have been possible. I also thank Paul Petriquine and Dr. Steven Kohl for the roles they played in advising this thesis.

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INTRODUCTION

We live in a world that has advanced closer to erasing lines that divide us as nations. The emergence and extreme success of multinational corporations have shrunk hundreds of national markets into one geographically large, yet conceptually small market. The increasing use of information technology has enabled communication from nation to nation with the ease of being next door. Conducting conferences via satellite has become almost commonplace in most of the larger international companies. This allows the leaders of a company to have a meeting that enables them to see and hear each other as if in the same room, even if they are spread to opposite ends of the world. All of these factors lead to the conclusion that we are no longer living in a world where a nation can be as naïve as to think that they can isolate themselves from the world economy and be prosperous.

The importance of the international forum shows us that the status of the economy in one nation will impact many other nations because they are so interdependent. To this point, the U.S. has remained relatively secure from the Asian crisis, but we are already beginning to see effects. How long is it before the economic suffering of one of the largest economies in the world has an effect on ours? We must consider the economic woes of Japan a threat to the economic situation in our nation.

The impact that this crisis has had on Japan should also alert us to the fact that we should prevent this from happening to our nation's economy. Some analysts fear that the American Stock Exchange is starting to resemble the inflated Japanese Stock Exchange right before their fall. The truth of these fears will not address in this paper, but the point remains that we must learn from the mistakes of others to prevent us from making the same ones. By analyzing the reasons for their fall, we may take preventative precautions now to safeguard ourselves.

Finally, I believe that it is important to look at this problem so that we may reach a solution. This is a more humanitarian view that some may scoff at, but it is no longer a situation where other countries are viewed as "them" as compared to "us". Not only are there people in Japan that I personally care about, but it is also important that as a nation we consider the welfare of someone other than ourselves. By helping out Japan in any way possible, we will be helping a nation that has become an ally to us in more ways than one. In many cases it has begun to become difficult to actually define a company as American, or Japanese. Our nation is made up of a relatively large portion of people whose families came from foreign nations. We are truly a nation of immigrants ourselves. To frown up another nation in need is to frown upon an individual that now lives in America, but whose family came from that nation. Now, I do not attempt to say that this thesis will change the world, or that it hopes to change the minds of many that read it. However, it is my goal that you, the reader, will approach it with an objective mind, and an attitude that recognizes the relevance of the issue.

In the not too distant past, significant sectors of the U.S. economy were not able to effectively and efficiently compete because Japanese business practices were redefining the nature of success in the market. Equating high quality with low cost changed how companies viewed planning and manufacturing. There was a difference in the relationship between employer and employees that could be seen most clearly in the lifetime employment and seniority-based promotion systems. Management practices also differ greatly, forming a business environment that is quite different than the western counterpart. The nature of the capitalistic model in Japan even differed. The existence of keiretsu and zaibatsu made the economic environment in Japan much different than that of the traditional American model. All of these areas in which Japan differed from the western style of business gave them an edge over the United States. The success of Japanese companies in the 1970's and 1980's had most American companies attempting to restructure their businesses to resemble that of what became known to many as Japan Inc.

It is interesting to examine that those very factors that made them successful are now acknowledged to have contributed to the bursting of the "Bubble Economy" in the early 1990's. In this paper I will reassess the Japanese methods in light of the current economic situation. By looking at these factors we can draw conclusions as to how Japan Inc. can best recover from their economic troubles.

A BRIEF TIMELINE

To examine the late economic troubles that have plagued Japan, it is important to have a very basic understanding of how the nation came to the place where they are today. Starting from the feudal days of the Tokugawa era, we will progress through the Meiji Restoration, World War II, the U.S. occupation, the rise of Japanese business in the international spectrum, and the eventual busting of the bubble economy. The descriptions of these time periods will be done in a very brief and crude manner to merely supply a basic understanding of the period as it leads up to the current situation. The following accounts will not involve every aspect of these time periods, but will highlight some major events and themes as they relate to the outcome that exists today.

From the early 17th century until 1868, the feudal society of the Tokugawa family dominated Japan. In this time, three fourths of the population were farmers that paid taxes to the ruling lords called samurai. These samurai were the only individuals that were allowed to carry weapons. Weapons that they used for protection as well as strict enforcement of the laws of the land. One of these laws was the application of isolationism. No citizens were allowed to leave Japan. Consequently, there was very little exposure to the western world.

In 1868, the Tokugawa family yielded power to the restoration of the Meiji Dynasty. This had significant effects upon the lives and customs of the citizens of Japan. This included opening up the Japanese borders to foreign technology, methods, and trade. Japanese ambassadors traveled all over the world to learn of the technologies of other nations and how they were used. The leadership in this period were set on developing an industrial economy and used what they learned from the foreign expeditions to begin to produce steal, coal, and steam. Proficiency in these areas came very quickly. Japan showed a tremendous ability to copy, or learn from and improve on, technology of other nations. The advanced level that was achieved in coal and steal allowed Japan to effectively prepare for the war by producing ships and other equipment needed to effectively battle in war.[1]

Opinions on the subject of Japan's intentions in World War II greatly differ depending which nation you are speaking to. Many Americans believe that Japan became militarily imperialistic and prepared and executed a war that they lost in the end. In my time spent in Japan this view was not shared by many of the Japanese people whom I spoke to. The view of many of the citizens of Japan is that they were backed into a corner that left them no option but to join the war on the side of Germany. When Germany was taking over such a significant portion of the Europe, they finally reached over and knocked on Japan's door. Japan was left with the choice of joining on the side of what it saw as the largest military power ever known to man, or attempt a feeble attempt to defend itself and be destroyed and occupied by this terrible nation. With these two options, they chose to join Germany in their attack. Determining which side's version has more truth is not the goal of this thesis and will therefore not be addressed. The facts are that Japan did join the war effort on the side of the Germans and were eventually forced to surrender to the allied forces in 1945.

Following this defeat in World War II, there was a time period of about seven years known as the occupation. This time period is when the United Stated occupied Japan and used it as an "ally" in their war against communism in Korea. The state of Japan at the end of the war was absolute devastation. "Japan suffered enormous cost: 2.8

million dead, cities destroyed, and an empire lost"[2]. The emperor was forced to make a public statement declaring that he was not divinity. The country as a whole was culturally, physically, and economically devastated. They were reduced to a living standard that was lower than the level before the First World War. It was at this time that the United States seized Japan's autonomy in an occupation that started without a predetermined end.

In these very bleak times would rise the start of the recovery of the Japanese economy. During the Korean War, the United States used Japan as a very important supply station. They poured an incredible amount of money into Japan to fund the war. The Japanese fixed the vehicles; the American soldiers poured into the nation and slightly stimulated the economy. The war also linked the two nations politically and fortified the view of Japan as an ally of the United States.

The occupation ended in 1952, giving Japan its independence once again. It was not until the mid-1950's that Japan began to show signs of economic recovery. Before this time, an American named Dr. W. Edwards Deming traveled to Japan and introduced the concept of statistics related to production. Dr. Deming was invited to Japan by the Japanese Union of Scientists and Engineers and spoke to 45 of Japan's top managers about using statistical analysis to create quality. These managers took this system and implemented it into their companies' methodologies. Over the next nearly 20 years, Japan perfected statistical quality control and quietly followed behind the western nations, particularly the United States. They copied technology and perfected the new products through total quality management (TQM) and computer-aided design (CAD).

In the early 1970's, Japan emerged as a strong economic nation. They had turned around their quality problems and had achieved a level of quality that was unmatched in the world. Their use of TQM allowed them to use quality as a tool for decreasing cost, the opposite of the American effect, allowing them to have very low priced goods. During the economic crisis that was occurring in the U.S. during the early 70's, Japan seized the opportunity and entered the U.S. market. The market entry strategies of Japan were ingenious. They took a penetration strategy to capture a maximal amount of market share. This means that they basically entered the market with very low prices (allowing easy market penetration) and coupled this with their far superior quality to gain a strong customer base. The American public was astonished with the quality of the new Japanese goods. Furthermore, the prices were actually lower than that of the American counterparts. The strategy was very effective.

A combination of wise entry strategies, good timing and good Japanese management practices allowed Japan to take hold of the U.S. market. Some of the management practices that allowed them to be so successful were the keiretsu ties and Japanese work ethic. The management systems and work ethic of the Japanese "salaryman" gave Japanese companies the ammunition they needed to be successful in the international forum. The keiretsu ties in Japan were also very important to Japan's success. The vertical alliances, for example distributors, manufacturers, and traders, allowed the companies to reduce costs and therefore reduce prices in the market. The horizontal alliances, mainly banks and other lending institutions, were absolutely key to success. The banks went loan-crazy during this time period. Japanese companies had an endless supply of capital because the banks were willing to loan nearly any amount of money to any company, many times on an extreme margin. Consequently, those companies were able to operate on very low profit margins and keep a long-term view that allowed them to penetrate the American market so well.

At the end of the 1980's, Japan' economy was at a dead sprint and the U.S. companies were wondering how they could copy the Japanese methods to be more successful. Then, the combination of many factors caused what has been dubbed the "bubble economy" to burst. It is the reasons for the bursting of this bubble that will be explored in the next section.

THE BURSTING OF THE BUBBLE

The quick and for most people unexpected fall of the Japanese economy left many scholars of the business world quite perplexed. For one, many Americans had begun to pattern their recommendations after the Japanese. There were so many Americans in the business world that saw the Japanese business world as a mysterious "Samurai" management system that had given Japan such quick success. So, when the economy fell apart in the early 1990's, many were left asking why. The answer is that many of the reasons for Japan's initial success are the causes of the bursting of what was dubbed the "Bubble Economy".

The largest reason for the bursting of the bubble economy was the banking system. There was an absolute loaning frenzy in Japan. It can pretty safely be said that every company in Japan was borrowing money during the 80's to invest in the expansion of their company. Well, this is great if the institution that is loaning is being wise with who the loans are going to and that there is collateral for the loans. Unfortunately, the banks loaned basically indiscriminately to anybody that asked for it. This populous receiving loan money included many very poor investment choices and therefore resulted in many defaulted loans. To compound the problem the money lending organizations many times "failed to secure sufficient collateral from major corporate borrowers"[3]. So, there were many loans that defaulted, without any collateral to collect in the balance. To make the problem even worse, the Keiretsu system had the effect of basically forcing the banks to loan more to failing companies to keep them alive, making even more bad debt.

One of the additional causes for this lending spree was that the government was encouraging it through policy. "In the late 1980's, the government tried to counter the rising value of the yen by easing the monetary policy. Specifically, it encouraged borrowing to buy real estate"[4]. This borrowing that was encouraged by the government was taken to an extreme and unwise level at the bank level. One of the greatest flaws in the banking decision making is the investment in real estate.

The highly inflating prices of real estate were one of the original causes for the swelling in the first place. The bubble effect is very frequently referred to as relating to the inflated prices, especially real estate and stock market. The stock market will be addressed later, but this issue of real estate inflation turned out to be crucial. The land prices, especially in the prime spots in Tokyo were rising with seemingly no ceiling. So, companies fell over each other to borrow money to buy the land. The flaw was that they "erroneously assumed that land prices would continue rising"[5]. The banks loaned out endless money to buy up land that was incredibly overpriced. The land was so overpriced that "the grounds of the Imperial Palace were calculated to be worth more than all the land in California"[6]. Danger was obviously looming because over inflated prices inevitably fall. The bubble was edging towards bursting.

The inflation of the stock exchange was also a contributing factor to the bubble economy. Somewhat related to the overpriced land assets, the companies were thought to be worth much more than they truly were. Even with over valued property taken into consideration, the stock market value of companies still was very overpriced. This caused people to continually invest in the stock market, many times buying on extreme margin. The bubble grew larger.

One further misuse of the money that was loaned by the banks was the place that this money was going. More specifically, where the Japanese companies were going with the research and development that was being funded by loaned money. Japan has forever found its strength to be improving on foreign technology. The time between World War II and the entry into the American market in the 1970's was a perfect example of how Japan improved on the technology that was developed in the west. The problem lies in the situation "when there is nobody left to follow"[7]. Japanese companies were chasing the European and U.S. companies but caught up in the 1980's. In the 1990's, the leading technology changed. The change shifted to information technology, but Japan did not see it coming and was headed at a dead sprint in the wrong direction.

The needle that popped the bobble may have been the lack of consumption in the domestic market. The Japanese market is very fascinated with European and American fashion. For this among other reasons, the Japanese domestic market did not purchase enough Japanese goods. So, the racing businesses came to a halt when the market stopped consuming at a rate that would keep pace. This continues to be a problem today. "Most of the blame for the country's [current] stagnation lies with the government's failure to boost demand"[8]. This lack of demand caused the speeding Japanese economy to crash.

All of the factors leading to the inflating of the bubble economy came to a violent climax in the early 1990's. The bubble popped. Real estate prices fell, the stock market crashed, and banks were left with an unbearable amount of bad debt. Companies were in a terrible position because they could neither pay of the real estate debt, nor sell their land because they would lose a considerable amount due to the sharp decrease in land prices. One example was a company that owned a large grocer chain called Daie. This company purchased all of their land during the expanding years at the inflated rates and now finds itself too spread out and losing money. They have therefore decided to sell off a considerable number of their stores to try and deal with their debt. The problem with the logic behind this decision is that if you sell stores, you are also decreasing the amount of sales you have. Therefore, the fixed cost is actually spread over shrinking revenue. This death spiral will soon entrap the Daie Supermarket.

The reasons behind this terrible occurrence are as numerous as the number of people making up theories, but some actually attribute it to a shift in culture in the 1980's. Before this time a person's worth was decided by how hard (s)he worked. Discussed further in the culture and business environment sections of this essay, the work ethic is one of the things that drove the success of the Japanese model. In the 1980's, this focus changed. A person's worth was now determined more by wealth. This meant that people were trying to receive the most amount of wealth for the least amount of work. This led to bribery in government circles and much speculation in the purchase of stocks and land. Since the focus was no longer the work ethic, many turned their attention to such "quick fixes" to make wealth, which meant worth.[9]

Another factor that had a significant effect was the education system. The education system, which will be discussed further in a later section, was focused on producing entry level workers that would be able to be quickly trained by a company and turned into cookie cutter workers that would work hard. They were trained to think in the same way that those that came before them did and were very focused on the kaizen principle of constant improvement of products. This constant improvement idea is good except that it many times focuses workers on the current product so intently that they have no creativity to see beyond it. This is one of the reasons that Japanese companies could not foresee the change in technology mentioned earlier.

One final reason that has been given some of the credit for the struggling economy and the bursting of the bubble is the less than pure capitalism that exists in Japan. The ruthlessness of the banks in the U.S., not lending money to organizations unless it is a good deal for the bank to do so, is what keeps companies sharp. Plus, without keiretsu ties, a company is much more sensitive to the effects of demand and supply. This causes them to have to learn to react much quicker. "Companies that can respond quickly will benefit enormously. The interventions of government will merely gum up the works"[10]. The competition of ruthless capitalism makes companies more flexible to the environment and they are able to adapt quicker because of it. The buffer that is provided by government support and other keiretsu ties just makes the Japanese companies a little slower in reacting to the market trends. This is evident in their inability to see the technological change that impacted them so greatly.

This crisis that the Japanese economy is now in is of quite extreme proportions. To better understand the reasons behind the bursting of the bubble economy and the feasibility of a recovery, we will first take a closer look at some of the major business systems.

CULTURAL BACKGROUND

To fully understand the situation that the Japanese economy now finds itself in or to understand the dynamics of the Japanese management systems, it is important to have a basic understanding of Japanese culture. For this purpose I will attempt to generalize about the Japanese culture as it applies to the business world. As is the nature of any generalization of culture, the description will be primarily stereotypes that are not necessarily characteristic of all members of that culture, but describes the majority of Japanese in a general fashion. Furthermore, I will only examine a few areas of Japanese culture. For the purposes of better understanding Japanese business it is not important to understand all aspects of culture, but only those that might apply to the topic of discussion. It is these areas that I will examine in the following.

One generally accepted describer of Japanese culture is that it is very group-oriented. Very contrary to the American pride in independence, independence is not a valued trait in traditional Japanese culture. Conformity is a trait that is encouraged through peer pressures as well as cultural feelings of not wanting to bring shame upon oneself or family. This trait can be vividly seen in the fashion industry. Japan is a country that is fascinated with trends and styles. One of the amazing things about Japan that fashion industry people observe is that trends spread faster than in anywhere else in the world. This is because there is a significant pressure to do as those that are around you. Likewise, when fashion drops out of the social graces of the Japanese fashion world it drops like a rock. This attitude of being very conscious of what others think of you is a strong cultural norm of Japan.

When examining the workplace we see that group orientation is very apparent there as well. Employees most often work in groups on projects that are assigned. There is also still a very strong concern of how those around you view you.

Respect to ones elders is also a pillar of Japanese culture. The individual, who is of a lower position because of social standing, seniority of employment, or age is referred to as the cohai. The elder is called sempai. These titles are not only age, but basically is a form of respect to someone of a higher position. For example, a student that is new to a sporting team calls the veteran sempai, even if (s)he may be a year younger because in that setting the younger is of a higher position. This relationship goes beyond mere teammate interactions. Students are respectful to the teachers, children to their parents. This respect can be seen even in the language itself. The forms that are used are different depending if the person is your superior or equal. There are even a third and forth form, or type of speech, used when one wants to show extreme deference or show their superiority over another. All of these factors show the importance of maintaining respect with those that are your elders.

The action of making a separation between people is done based on a different basis as well: in-group and outsiders. A person's in-group is their family and very close friends. To these individuals one may share true feelings with and speak to in a casual manner. To the outsiders, people that are not part of the in-group, ones true feelings are not revealed very often. There is a fear of offending someone that you might not know very well. This would cause them to lose face and bring great shame upon you.

This notion of saving face becomes very important in interacting with people. This idea is basically that if you offend someone, causing them to lose face, you would cause shame to come upon them. This would not be a good situation for either person. For this reason Japanese are said to have a "front and a back"[11]. This basically means that their front is the façade that they show to all of those that are not in their in-group. This "front" is a very cautious, respectful attitude that serves little risk to confrontation. The "back" is the true person that is only shown to the people that one can trust.

Another important part of ones life in Japanese culture is work. It maybe more accurate to say that a majority of times: work is life. The happiness of a Japanese businessman depends upon his success at work. If he does his best at work and accomplished all that was possible for that day, he is content. If his best is not done, he has not only let himself down, but also his company, family, and country. This seems extreme but the self-inflicted pressure that a Japanese businessman inflicts upon himself is absolutely amazing. For this reason these people many times put work as a higher priority than even their families. Working 12 hours a day to be followed nearly daily by work social events that are mandatory, makes little time to spend with the family. All of these factors will become important as we examine the business culture and environment as well as the business systems of a Japanese company.

SENIORITY-BASED PROMOTION SYSTEM

One of the most important influences of employee performance is the structure of their evaluation system. The two main areas in this evaluation system are the compensation and promotion structure. Traditional evaluation within Japanese companies consists of a seniority-based promotion system with a compensation plan that coincides with seniority and the success of the company. The seniority based-promotion system has both positives and negatives. The overall effect of this system is decreased flexibility, but the benefit is that the employees' effort is focused on the success of the company.

The history of the system can be traced back to a post-war strike at Toyota. The result of this strike was "an agreement between the company and the union: employees were guaranteed lifetime employment and their pay would be steeply graded by seniority rather than by specific job function and was to be tied to company profitability through bonus payments"[12]. The employees also agreed to be flexible in work assignments and to initiate improvements. This agreement has formed the policies of the Japanese labor practices.

The Japanese evaluation system is one that does not focus on the performance of any one individual but on the performance of the groups that they work in. "Companies have been traditionally reluctant to provide merit pay. Job performance typically has little impact on salary and bonuses for the individual"[13]. For the reason that the American labor system is such a polar opposite of the Japanese system, it may be difficult to understand the structure of a system that is not based on evaluation of individual merit. We will therefor look at a hypothetical.

Two employees enter a company at the same time. Since their promotion is tied to length of service to the company and not strictly the quality of their performance, they are promoted at the same rate. At each level the promotion is done in the same manner, assuming a reasonable level of proficiency, and the bonuses are tied to company performance. Generally, up to the level of middle management, this process is consistent. From this point the superior employees proceed to higher levels in the company while the lesser employees are given authority in their middle management positions according to their performance. At no time is the employee in jeopardy of losing their job, unless (s)he commits a criminal offense.[14] The ways that this is accomplished will be further examined in the section about lifetime employment. This is a very generalized example but gives a picture of how the seniority-based promotion system works.

There are many benefits to a system that does not tie reward in labor practices directly to individual merit. "The Japanese evaluation system, which is based on group rather than individual performance, encourages the formation of a self-organizing team, fosters 'multilearning' among team members, and builds trust and cohesion, and peer pressure"[15]. One of the most evident advantages is that the focus of the employee is on the success of the company instead of the success or failure of the individual. This is a huge benefit because efforts of all of the employees are not directed toward the progression of each of their own careers, but to the best interest of the company.

One area that group efforts are most apparent is in admitting ones own faults and weaknesses. Japanese workers are encouraged to identify their weaknesses and work to better them.[16] Since their pay is not linked to their performance, admitting their weakness does not hurt their income, but actually helps them because it improves not only their performance in the future but helps the overall performance of the company. If this is contrasted to the Western system where weaknesses are not as readily admitted, one can see that the benefits clearly. If one's weaknesses are not identified, than they can never be remedied, and the individual and company as a whole is weaker because of it.

Not focusing on short-term individual performance also has the effect of allowing workers to focus on the long-term goals of the company. This gives the employees the ability to improve themselves through classes and other training programs that may not result in immediate results, but will benefit the employee and company in the long run. In everyday decisions, a manager will also be more willing to make a decision that will have long-term success, yet not short-term performance. If the pay was linked to individual performance, then this decision would be less likely to be made.

The disadvantageous side to the seniority-based promotion system is that it does not allow for flexibility in the speed at which good employees can raise in the company. Since the personal performance has no bearing on the speed at which one is promoted, there is no way to take advantage of those who are very skilled by moving them up the promotion scale at an accelerated rate. This also does not allow a company to rid themselves of poorly performing employees. Once they offer that person employment, they must uphold their responsibility to that person. The main effect is that there is a less of an ability to distinguish between good and bad employees and then follow through and take advantage of such knowledge.

One drawback to the seniority-based system that seems to threaten is the potential for idlers. Since individuals' performance is not reflected in their pay, there is little incentive to perform well on a daily basis. The pay that one receives is identical whether one performs well, or does not, so why should one work hard? Although this has become a little bit more of an issue recently, it is still not as big of a problem as one might think.[17] The tremendous work ethic of the Japanese seems to counterbalance this potential. It would be a dishonor for the worker to not give his/her best effort for the day. This dedication to a person's work is what drives the employees and allows them to take advantage of the system to better the company rather than to loaf.

The benefits and drawbacks of the seniority-based promotion system have significant effects on Japan's potential ability to recover from its current difficulties. The inflexibility created by the system's inability to recognize and take advantage of young talent will hurt them in the future. The rapidly changing business environment brings about the need for management that is changing with the times. The Japanese system does not allow for this change. To make the problem worse, the inability to cut workers forces will severely handicap Japanese companies. Without this ability, the Japanese companies may be stuck with employees that don't contribute very much, in positions that should be taken by the talent with less seniority. The saving grace for Japan in this area of their business systems may be their ability to focus on long-term goals of the company. This has the potential to allow them to recognize the problems that exist and take steps to change even if those changes may be very costly to the short-term performance of the company. This will be crucial to future of Japan's business success.

LIFETIME EMPLOYMENT

The second tier of Japanese labor practices is lifetime employment. This agreement, also finding its roots in the postwar Toyota strike, guarantees workers employment in the firm that they are hired by. This is one of the gems of the Japanese employment system. It makes possible most of the other characteristics of Japanese labor practices. There are once again many benefits and negatives, but the promotion system, training system, corporate environment, and job-rotation may not be possible if it were not for lifetime employment. The security that lifetime employment provides is the basis for the Japanese labor system.

As was explained in the section on promotion structure, Japanese employment is guaranteed for life. There are many ways that Japanese firms are able to accomplish this feat. The top employees are promoted to the highest ranks of the corporation. The problem lies in what to do with those that are not of the quality that would allow them progress to those upper levels. Generally, all employees will advance to the level of middle management. At this point, those that don't have the skills to progress further stay at that level. For those that are very proficient at their management position, they are given responsibility to manage an important part of the company. For those that are not performing as well, they are put in charge of areas where they will not hurt the company with their poor performance.[18]

It would seem that these practices would lead to an extreme overload of middle management. Although there is some truth to these perceived problems, there are ways that companies can deal with their work force to minimize the problem. "Japanese corporations never try to undertake lay-off even though the firms suffer recession. They try to offer jobs and positions in their subsidiaries, which they have outside the parent company"[19]. A combination of hiding employees in insignificant corners of ones own company and transferring them to partnering companies allows Japanese corporations to maintain lifetime employment.

The structure of the Japanese compensation also allows quite a bit of leeway, making the lifetime employment system possible. We can visualize this best by looking at an example. Let's say that the demand for a factory is 100 units and that the output per employee is 10 units. The employer would hire 7 employees. This would allow everyone to be full time and for the possibility for 30 units worth of overtime. When the demand decreases to 70 units, there is no overtime but the company can still survive without layoffs. If the demand drops even farther, say 50 units, then they would revert to adjustment of bonuses.[20] This is the second part of the compensation program. The bonuses are usually twice a year; each one being the equivalency of about 3 months pay. If the company is struggling, then it just decreases its bonuses to balance for the loss of revenue. So, if the company is not doing well, they may decrease the bonus size to the equivalent of two months pay, one month, or maybe even not give bonuses.[21] This would cause employees to suffer, but it is a better alternative to having to lay off employees.

The security that employees and employers have because of this system gives fruit to many advantages. First, in collaboration with the promotion system, the lifetime employment system allows workers to focus on the company's well being, not their own individual performance. Likewise, the company is also willing to invest in their workers because they know that it is a long-term investment and will pay off in the future. "An offer of lifetime employment turns labor into a fixed cost, but it also encourages investment in the workforce. Japanese management emphasizes training to upgrade skills as workers gain seniority"[22]. It is this dedication to the training of employees that makes job rotation successful as well.

When employees are dedicated to the company and the opposite is also true, loyalty is formed. "Steep rises in wages compensate the workers for their increasing value to the organization and helped to build loyalty"[23]. This relationship makes happier, more productive employees. They are also very focused on the success of the company because they know that the company will take care of them in return. Since losing your job is not a threat, there are "high incentives for workers not to resist automation and work redesign"[24]. The change of their job description is not a danger because they are guaranteed a job somewhere in the company. The employees also have a better understanding of the company and its goals because they have been working for the same company their whole life. The overall effect is dedicated employees that are concentrated on the success of their company.

The disadvantages are very similar to those in the analysis of the seniority-based promotion system. Poor employees that hurt a company can not be fired. It is quite inefficient to be employing workers that are not contributing to the success of the company. There is also a possibility for workers to become stale in their position. Laurence C. Jacobs states it well in saying:

> The emphasis is on collective, not individual effort. This leads to team building and project formation. Consensus decision making, however, can lead to corporate group think, which mutes the expression of new ideas and leads to overwork and burnout; this may explain the Japanese inability to pioneer radical discontinuous innovations.[25]

The business environment is changing quickly and a successful company needs to have employees that are flexible and can generate new ideas. The Japanese systems may make that flexibility a little more difficult to achieve.

Some of the effects of the lifetime employment system are disadvantageous, but it is a necessity for the whole of the Japanese system to be effective. Furthermore, the advantages of loyalty and security may outweigh the disadvantages. The problem lies in the fact that this system is most successful in a thriving economy that is composed of companies that are not struggling to make ends meet. When a crisis hits, as it has, and extra costs associated with lifetime employment make analysts rethink its efficiency. This system is successful in the long term, but in times of crisis the short term may become of greater importance.

JOB ROTATION

Out of the postwar strike of Toyota stemmed the third foundational leg of the Japanese labor system: job rotation.[26] The security that lifetime employment provided both the employer and employee allowed companies to invest heavily in their workers. This took the form of moving them frequently to different departments to diversify their training. Although this has been recognized by some as one of the greatest strengths of the Japanese labor system, there are also weaknesses that stem from this system. In practice, one can clearly see that the job rotation system trades off diversity of knowledge for specialty and expertise. If a few small adjustments are made to the traditional system, as many companies have already done, job rotation can continue to be a great tool for many Japanese firms.

The premise of the job rotation system is that workers move around within the company to be trained on a variety of skills so that they will become proficient in all of those skills areas. This will make them more flexible and therefore better for the company. "The Japanese tend to be assigned their jobs as part of a company job rotation plan. Japanese are sent to research, design, development, production, and marketing more frequently than Americans and thus, develop breadth"[27]. By moving to each department of the company, the worker would gain an understanding of all aspects of the company. This enables the employee to be a more effective manager because (s)he has knowledge of all of the different areas of the job. A Japanese businessman named Masayo Tada explained, "management should know all, so they move around a lot".[28] He went on to explain that at the lower levels of employment there is not as much movement because flexibility has little utility. This movement adds the most value at the management level where they will be supervising those that could quite possibly be from different departments (in higher levels of management).

The general path that is taken in job rotation is that when you enter into a management level position, you begin the rotation. This is by design meant to move the worker from department to department every 2 to 3 years.[29] Sometimes one may work a longer or shorter length of time in one department depending on availability. The great of amount of movement that is necessary within companies in this system many times brings about the need for managers to relocate quite frequently.[30] This allows companies to conduct the system without having a great portion of their management staff be inexperienced in the field they are managing. Since they are constantly relocating, they are put in a company that can afford to have an inexperienced manager in that area while they get a foundation of understanding in the new area..

There are many benefits to the job rotation system. The most obvious is that managers gain a better developed understanding of the whole company. If they are promoted to a high level of management, then it is very possible that they will be overseeing employees from more than one area of the company. In examining Japanese businesses, Toshihiko Yamagami says, "In short, companies need people who have the experience of working in diverse departments".[31] Having worked in those areas would give the manager a great advantage in managing those individuals. In the rapidly changing business world that we live in today, it is a necessity to have flexibility. This system greatly enhances the flexibility of the Japanese workers.

This system demonstrates well the Japanese conviction for constant learning. Within the workplace, "the constant encouragement to acquire diversified knowledge and skills helps create a versatile team capable of solving a wide array of problems in a relatively short period of time. Learning is institutionalized by the Japanese practice of job rotation".[32] The cultural aspect of constant learning is very compatible to the system of job rotation. The employee benefits because (s)he is better skilled and is happier and the company benefits as well because they have developed a happy, skilled employee that is faithful to their company.

Job rotation is a stimulator of employee morale. It does not seem that something that was the cause of workers having to continually relocate would be a contributor to increasing morale, but it is true. Japanese workers know from the beginning of their employment that they are probably going to have to relocate many times in their career. It is just a fact of life in Japanese corporations. The dedication that the Japanese employees have to their work causes them to not even question this. The job rotation system actually increases morale because it does not allow workers to become stale or restless in their working assignments. They are able to work in a variety of different departments and see a variety of different parts of the organization.

The movement from department to department not only diversifies the knowledge and skills of the workers, but it also has the effect of blurring the lines drawn between departments. This phenomenon will cause there to be more harmony within the workplace. Since harmony in the workplace is a high priority in Japanese companies, this is another advantage to the job rotation system. The teamwork that is necessary within a Japanese business greatly benefits from the lack of barriers between departments within a company. To contrast this to American companies, there are many times strong barriers between people in different areas of work. "The engineers still battle manufacturing. Marketing continues to slug it out with sales. And the financial naysayers fight everybody"[33]. This distinction in not as clear within Japanese businesses because a worker may be in marketing one year and in manufacturing the next. This work atmosphere is beneficial to the corporation as a whole.

Although there are many advantages that this system brings to the table, there is one main drawback as well. Many times, the tradeoff one must give up for diversity of knowledge base is lack of expertise. When workers move around much within the company, they gain a diverse portfolio of knowledge but the depth of that knowledge may be suspect.

> If a company trains all newly recruited employees as generalists, it will be flooded with people with supervisory abilities only. If employees are shifted from one post to another at short intervals, they cannot acquire expert knowledge in any field.[34]

It is intuitively impossible that one can gain the expertise in a few years that someone can gain by spending an entire career in the same area. The implication of this is that Japanese corporations will have extremely flexible workers that are not specialized enough to be experts in any one field.

Although our logic tells us that the drawback to this system seems to have extremely significant situations, it is not as bad as one may think. For the reason that job rotation does not truly take hold until the management levels, the worker gains expertise in the field that they begin in. Whether this expertise has enough time to develop or not depends on many different factors, but the tradeoff of variety of knowledge for expertise is unavoidable. The question is which will become more important in the near future as Japan tries to rescue itself from the hole of this depression. There are two sides to this argument. One is that reform needs those who are experts in their field. It is hard to project the future for a specific field if one is not an expert in that area. The other side of the coin is that if one has a broad understanding of the whole corporation and is not buried within their own area, then they will be better apt to make decisions that will benefit the whole corporation. Like most questions I believe the answer lies somewhere in the middle. A corporation cannot be successful if they do not have forward thinkers that can see the whole picture and devise a plan, as well as the people with the expertise to put those plans into action.

KEIRETSU

There are many views on the effectiveness and the efficiency of the Japanese conglomerate groups that are called keiretsu in Japanese. The majority of traditional capitalists believe that keiretsu are counter to the idea of capitalism by reducing competition, while many believe that competition is still very fierce and that these groups are merely strategic alliances that make business possible in Japan. Before we analyze the structure of keiretsu we will examine the history that is the foundation of the keiretsu system.

Originating from the time of the Meiji Era or earlier, there were families that dominated certain areas of commerce because of the business relationships that they held. Those families, which were called zaibatsu, held relationships with all of the players necessary for successful business. These financial relationships included manufacturers, distributors, trading companies, banks, other financial institutions, as well as government representatives. These family-based groups were absolutely gigantic in the commerce circles. "At the end of World War II the Big Four—Mitsui, Mitsubishi, Sumitomo, and Yasuda—controlled about one-quarter of the incorporated business in Japan".[35] The groups held very strong alliances within their circles that it made it very hard for any competitor to enter the market. This was particularly difficult of foreign competition. The strength of this non-tariff barrier to foreign competition was a major reason for America's attempt to dissolve the zaibatsu during their occupation of Japan.

Following World War II, the United States occupied Japan. During this occupation, America tried to reform the Japanese economic system to make it easier for American companies to enter. One of the largest reforms was to dissolve the zaibatsu families. The main methods in attempting this were to make antimonopoly laws and to sell the zaibatsu groups to the public. The attempt in this was to disrupt the hold that these families had on the business structure in Japan. The effect was that once the occupation was over, the groups slowly rejoined. "Though the ownership changed, critics contend the style of business didn't, in part because occupation-era antimonopoly laws have never really been enforced by the government".[36] Three of the original zaibatsu reemerged into power: Mitsui, Mitsubishi, and Sumitomo. The structure has changed a little, but the idea was the same. For example, Mitsubishi companies that stem from the parent zaibatsu, "are each centered on a core bank, Mitsubishi Bank".[37] In turn, Mitsubishi Bank owns part of 27 of the core Mitsubishi companies.

The modern version of the zaibatsu, named keiretsu, is very similar to their historical foundation. There are actually two different types that make up the keiretsu system. The first is the horizontal or financial keiretsu. This type is most similar to the original zaibatsu. It is characterized by strong relationships between the company and money lending organizations. The second is called a vertical production group. They are "most vividly portrayed by Toyota Motor Corp. and other major Japanese auto-makers. Toyota owns stakes in 30 different group companies that produce auto parts for the giant carmaker".[38] When these two types are put together you have a "conglomerate group that may consist of the auto assembler, a bank, a trading company, an insurance company, material processors, and a host of manufacturing enterprises in other sectors of the economy, all linked through equity holdings".[39] These groups gain strength from each other because they are willing to sacrifice for the success of the other. Owning equity of the others' company enforces this. It is in their best interest to help each other.

Many have characterized this as an extension of the group concept that is seen in Japanese management systems. Hugh Patrick explains the reasoning behind such an argument.

> At a corporate level, the group-oriented values were reflected in the zaibatsu and other enterprise groups, which paternalistically watched over the affiliated companies. Within the organization, such values were evident in the widespread norm of lifetime employment commitments—by both employer and employee—and such management practices which institutionalized information sharing and joint decision making.[40]

The group effort that is so apparent in the everyday activities of Japanese organizations is very similar to the keiretsu systems in the way that they are both groups that depend on each other. The nature and reason for the alliances is what I believe makes it different. Groups are formed in companies because it is believed that this is the best way to preserve harmony and be productive while solving tasks. The relationships that exist in keiretsu are for different reasons. These relationships are countering the fierce competition in the Japanese market. If Mitsubishi did not have these relationships with its suppliers it would have to compete more for their business. Since they own part of the supplier's company and have such a strong relationship, the security is retained and Mitsubishi gains financially because it does not have to compete at this level of production.

The system that results from the keiretsu relationships has many benefits. For the parent company, the absence of the need to constantly compete at the supplier level results in higher profits. The relationship and ownership in the supplier allows them to manipulate the smaller company to increase efficiency and in the end increase profit for the parent company. From the point of view of the supplier, it is still beneficial in the respect that they are guaranteed that business in good times and bad. "Collaborative relations with subcontractors are maintained even in hard times, whereas U.S. firms would typically respond to a contraction of demand by cutting off orders to their suppliers".[41] The result is a benefit for both sides because both are guaranteed that the other will be there even when one is struggling or the economy is struggling as a whole.

The second benefit of the keiretsu system is that it that it protects the current companies from newcomers. The relationships that exist in the system cannot be broken by a competitor offering a slightly lower price so a competitor will find it difficult to enter into a market that is dominated by these systems. It is particularly "hard for foreigners to break into Japan's domestic market. In that sense they act as trade barriers".[42] When American companies attempt to enter the Japanese market, they need to find distributors and suppliers but struggle because most are tied to a domestic competitor and will therefore not do business with the newcomer. This is a strong advantage for the Japanese companies because they do not have to worry as much about new competitors entering the market.

The disadvantages of the keiretsu system are numerous and have become more visible because of the bursting of the bubble economy. Most of the problems stem from the decrease in competition that occurs because of the strong relationships that exist in the keiretsu groups. The strength of the relationship between the banks and those they are lending to cause major problems for the whole of the economy. When a company is struggling, they turn to the bank and the bank, having a longstanding relationship with the firm, loans them more money to attempt to recover from the previous losses. When this does not help more is loaned, and the pattern continues until the company is left with a huge debt it cannot pay and the bank has lost a significant amount of money. "Under ministry guidance, banks kept weak firms in business, they say, in the end undermining the entire economy".[43]

The problem is compounded by the relationships between companies. When the struggling firm is sinking, their partner firms keep them alive by buying their stock and supporting them any way possible. This support coupled with the banks continual loaning of money causes the whole system to be pulled down by one failing company. The long term vision of the parent company strives to patiently wait for the company to rebound, but other problems may make a recovery impossible. The inability of banks to drop dying companies is a major cause of the banking crisis that currently plagues the Japanese economy.

The main problem that exists within this relationship is the imbalance in power. Although the parent company, suppliers, banks, and government officials are all players in the relationship, the parent company is the strongest. An example of the control is that the companies pressure the government officials to convince the banks to loan the money to the company. The banks therefore loan the money even if it is not a good investment. This control that is exercised over the government people is made possible through "yakutoku", the Japanese form of indirect bribery. Yakutoku is describe as "an extra benefit of reward received because of one's position or occupation".[44] This takes the form of gifts or going to a fancy dinner. Although there is no official coercion or deals necessarily made, the official's decisions are affected.

The more obvious form of coercion comes in the form of amakudari (descent from the clouds). This is most obvious when a government official lands a very lucrative job in a company that his government position was overseeing. The officials usually have little to no responsibility in their new jobs, but are taken care of very well. This is not a good practice because it clouds the judgement of the officials when they are in office. The amakudari is a form of promised bribe and is an example of the corruption that plagues the Japanese government. This atrocity seems too obvious to be very common but the facts show otherwise. "A survey showed that 101 former senior ministry and agency officials are listed as advisors to 37 large corporations such as major commercial banks, trust banks and life and non-life insurance companies".[45] These figures show how common this practice is in the ranks of the Japanese government.

One of the largest barriers to stopping the corruption that exists in the keiretsu system is the loyalty in Japanese companies. When corruption is discovered in a company, the top managers quickly step down. The effect is that the "efforts to find out what happened and who was responsible end up going nowhere. As a result, the firm survives with little remorse or soul searching".[46] The result is that no improvement can be made.

A further negative implication of the power of the parent company is the abuse of the supplier and distributing companies. Since the parent companies have ties with these subsidiaries that binds them to do business with the parent companies, the parent companies has much power over them. "The 'partnerships' are not always so harmonious. Some keiretsu suppliers say that they get pressured mercilessly to cut costs and that managerial meddling never lets up".[47] The suppliers cannot resist this pressure because the larger company has so much control over them. If they decide they do not want the relationship any longer they really have nowhere else to go. Furthermore, the parent company usually owns a chunk of their company so there are powerless to resist them. This unbalanced relationship is good for the profits of the parent company but is equally bad for the supplier.

The final major disadvantage of the keiretsu is the shift in focus away from the shareholders. In American companies, the interests of the shareholders are of extreme importance. This is not the case for Japanese companies. "Shareholders' meetings are just a formality".[48] Enforcing the mood of unimportance of shareholders' meeting is the fact that 95% of the countries shareholders' meetings are on the same day and last an average of only 32 minutes. Many of these meetings go without any comment from the shareholders at all.[49] The format of these meetings shows how unimportant the shareholders are to the company, and that their loyalties lie in the keiretsu groups.

Alliances within business are very tempting because of the benefits that they present, but basing an entire system on this form of alliance is very dangerous. The Japanese economic model is struggling in part due to the rigidity that is caused by the keiretsu groups. Reform is slowed because corruption and conflicts of interest cloud important decisions that need to be made in government. The keiretsu system gives too much power to parent companies because it extends alliances into the government and banking circles. Vertical alliances can have benefits, but also have disadvantages. The truth though is that these problems are not nearly as serious as those caused by the relationships that involve government and banks. If Japan is going to recover and be successful in the long term then reform must concentrate on the keiretsu.

QUALITY MANAGEMENT

The single strongest strength of Japanese business is their undying dedication to quality. Upon the entry of the Japanese into the United States market, the American consumer was absolutely dumbfounded at the level of quality in the Japanese products. This among other reasons allowed Japan to take the American market by storm. Reasons for this include: amount of planning, tightly controlled manufacturing, culture, and an American named Dr. Deming that introduced statistical analysis to Japan. These reasons caused Japanese products to be viewed at one time as the highest quality products in the world.

The beginning of quality control in Japan started in 1950. This is when Dr. W. Edward Deming was invited to Japan by the Japanese Union of Scientists and Engineers and spoke to 45 of Japan's top managers about using statistical analysis to create quality. At this lecture, "Deming predicted that within five years Japan would be economically competitive and that consumers worldwide would clamor for Japanese goods".[50] Although his timeline was not exactly correct, Japanese businesses saw significant "improvements in their products within 18 months"[51] and in a little less than 20 years they would be taking over the international market with the strongest economy in the world.

The developments of computer aided design (CAD) marked another landmark in the progress of Japanese quality management. This added precision to quality and had a particularly strong effect on the electronics and automobile industry.[52] This allowed exact precision that was not possible through manual human labor. The integration of this into the Japanese manufacturing plants spring-boarded the electronics and automobile industries of Japan.

The quality in Japanese goods is rooted in their desire to satisfy the customer. This brings about the necessity for precision because the Japanese market has no tolerance for defective goods.[53] One of the reasons for this is simply a lack of room for mistakes. Geographically, Japan is a small nation and consequently its citizens are more densely populated. This causes the average house size, yard size, and room size to be smaller than that of the United States. This is the reason that one cannot afford to have extra appliances lying around that have no function. Likewise, in your yard you cannot have a car that does not work. In America, we sometimes see a household that has many cars in their driveway that don't even work. This type of lifestyle would be impossible in Japan. Therefore, to cater to this aspect of Japanese life, companies produce goods that are not only small in size, but are of high quality.

The success of the Japanese quality management can be accounted to many reasons, but starts with a foundation of statistical analysis. These methods allow a corporation to mathematically refine their quality management. The defining factor of the success that Japanese corporations have is the way in which they use statistical analysis. Japanese corporations use quality to decrease cost, but American corporations see cost as a tradeoff for achieving high quality. This difference is crucial. From the American viewpoint, the company puts much funding into the product to make it of high quality. Although it increases the cost, it is an investment in a product that will be of higher quality. The Japanese perspective is that higher quality saves money in the long run. If precision is used from the offset, there is no time and money wasted on fixing the defective goods.[54]

To compliment the theory that doing it right the first time is the cheapest way to make quality, Japanese companies are very concentrated on planning. For the reason that Japanese companies are very focused on consensus decision making, the planning phase of a product is typically longer than the American counterpart.

> Japanese companies spend more time than Americans do in planning (40 percent versus 25 percent), suffer development setbacks in a smaller proportion of products (28 percent versus 49 percent), and waste less of their time debugging finished products (5 percent versus 15 percent) than does the average American company.[55]

The effect this has is that there are fewer errors in the production phase. This is very fitting to their dedication to the preventative quality management idea.

One way that this low level of deficiencies is insured is through tightly controlled manufacturing processes. Methods such as "strict control limits have been established using statistical techniques that handle damage, worker inexperience, and other sources of variability".[56] By tightly controlling the manufacturing process, they can be assured that a high level quality will be produced. This is done through intense and frequent inspections, widely distributing information, and frequently using consultants and coordinators that have "zero defects" strategies.

One influence on quality management is actually something that is outside the control of management itself: Japanese culture. One very important part of Japanese culture is saving face or keeping honor. This principle is used in many different contexts, but within the workplace, a Japanese employee feels that a defect or error is a dishonor to their company. If this error came about because of their performance, this is a disgrace upon them.

> The reason so few defects in Japanese products exist and that breakdowns are so rare is that Japanese companies regard such problems as a matter of shame, reflecting a company honor. Not only top management, but department and section heads as well feel an extremely strong sense of responsibility for the quality of products they turn out.[57]

This individual responsibility for the goods produced reflects in the quality that results. This is not only at management levels though. A Japanese businessman explained that "Japanese businessmen are happy at the end of the day if they did their best at work. If they don't, they have disgraced themselves, their family, their company and their country".[58] He went on to explain that this is true for the most part at all levels of Japanese companies. This dedication is a major factor contributing to superior Japanese quality.

The benefits to the Japanese quality management systems are numerous. From a strictly financial perspective, these methods are beneficial because they improve profitability. While producing higher quality goods, the Japanese methods allow reduction in costs. This reduction in cost while quality is high is very beneficial to profit margins. While increasing profits is important, the acquisition of market share is even more important for Japanese firms strategically. Having goods of high quality greatly helps this acquisition because upon entering new markets, Japanese goods can establish a good reputation from the beginning. When this is coupled with the low prices associated with the penetration strategy commonly used when Japanese companies enter a new market, you have an equation that equals success.

A Greater level of planning is also beneficial because it quickens production once it begins. Since everyone has come to a consensus in the planning stage, there will very little opposition beyond that stage. This will cause a much faster product release rate. Furthermore, the great amount of planning will also minimize the amount of defective goods. Overall, the amount of planning that goes into Japanese goods makes them superior to the western counterpart that plans less and tries to recover afterwards by patching up where incomplete planning left holes.

The final advantage to this system is quite possibly the most admirable trait of the Japanese business system: the work ethic of the Japanese workers. The fact that this quality management is driven by internal motivation is the largest advantage of all. Rafael Aguayo explains that in quality management "the answer is to tap intrinsic motivation. People do a good job because of pride in their work, a sense of professionalism, love for their work, self-respect".[59] Since the motivation is for the most part coming from within the individual employee, there is less need to try to devise ways to motivate workers (a burdensome task for western managers). Likewise, when the job is done well, the satisfaction from a job well done gives contentment that will proliferate the behavior. Since wages are not tied to performance, there has to be another source of motivation. There is no need to search for the motivation externally, it is all internal for Japanese workers.

In relation to the effects Japan's quality management might have on their success or failure in the future, there is no question that this is their largest strength. Japan still maintains the image of goods that are superior in quality in most markets. This image will transfer to other goods beyond just automobile and electronics in markets such as the

United States because of the impression that was left in those industries. This will be a key to Japanese success in the future. Introducing new goods will have the initial image of high quality if entered into the right markets, such as the U.S. This initial image will have to be backed by results but will have the extreme advantage of already having a road that was paved by two decades of success in the 70's and 80's.

NEW PODUCT DEVELOPMENT

One of the greatest strengths of Japanese businesses is their focus on the satisfaction of the customer. This can be seen in their quality management, as was discussed earlier, but it can also be seen in their new product development. There are many cultural reasons that compel companies to have efficient NPD systems. Japanese companies strive to supply for the needs of Japanese citizens domestically as well as others internationally by their excellent NPD systems.

The reasons that Japanese companies must have these systems to survive are numerous, but the most influential is the demands of the Japanese culture. Tokyo has been put alongside Paris, Los Angeles and New York as one of the fashion capitals of the world. For those that have been to Harajuku and Shibuya to see the fashions of the Japanese youth, you know the creativity that exists and the quickness at which the fashions change. In Japan the quickness of the change in fashion may be quicker than anywhere in the world. This means that new fashions can catch fire and be overnight sensations but can extinguish just as quickly. One can see this trend in the Japanese music industry as well. Japanese singers must come out with new tracks four or five times a year to meet the demand. A western entertainer may come out with one a year.

This hunger for quickly changing fashion can be seen in business outside of the apparel and music industries as well. The rate at which a company in Japan must produce new products is unmatched anywhere in the world. "Mitsubishi Research Institute (MRI) estimates that new food products have a life of only a few months, toys three to six months, and electronics several years".[60] These estimations are for the product life of a product, but the life of a model can be even weeks for electronics.

Whether one is talking about cell phones or VCR's, improvements are constantly being made. "MRI has found that the majority of new products are improvements. Truly new products, based on totally new ideas are only one to two percent".[61] This shows that the emphasis is placed on the improvement of current products.

Another driving force in the necessity for quick NPD is the market fragmentation in Japan. This applies most specifically to the automobile industry.

> Demand was fragmented: different trucks were needed by farmers and by industry, small cars were appropriate to crowded cities, but officials and industrialists wanted larger models. Furthermore, there were many competitors backed by strong conglomerates so that no one company could count on capturing a majority share of the market.[62]

This market fragmentation caused the need for low volume production. By producing at low volume levels, they were able to produce for the many different preferences of the market.

Low volume production actually turned out to be an incredible advantage for new product development as well. Since the number produced of each model is low, there is not an inventory problem when the switch is made to the new product. Furthermore, since factory had to get used to changing machine settings so often for many different types of products, they became very efficient at it. This helped the efficiency of NPD as well. How accustom the workers and the machinery were to changing so quickly made a new product very little trouble in the manufacturing process.

The efficiency in low volume production was made possible through flexible manufacturing systems (FMS). These systems allowed the quick and efficient changing of the task that the manufacturing team was engaged in. The main way that this is done is that "flexible machinery is merely reprogrammed, not replaced, when a factory switches over to a new product".[63] By opting to buy machinery that is not task specific, but rather can be used for many types of production, Japanese companies reduce the need to buy new machinery. This not only saves money in new machinery costs, but also saves the time it would take to replace the machinery. That time is the difference in the success or failure of a new product.

When the time saving method of flexible manufacturing systems is coupled with the speed that is gained through the investment in planning, Japanese businesses are headed for success. Japanese companies "invest more of their managerial time in new products (40 percent versus 50 percent) than the typical American company".[64] This investment in planning that was discussed in quality management contributes to speeding the manufacturing process because most of the problems are worked out at the initial planning stages. "Lots of up front time spent researching, analyzing, and building consensus leads to an accelerated development and production schedule since almost all potential conflicts have been resolved in advance".[65] The result is a process that is far faster than the American counterpart.

The method that is used to devise the new products, or improvements on already existing ones, is called multiple-track development. Multiple-track development is basically when a company is planning on how to improve a product before it has even hit the market. "The Japanese company deadline for abandoning a new product is the first day it is marketed – the ultimate in creative obsolescence".[66] They use parallel development, developing the updated model along side the original, to keep them always one step ahead of the competition.

There are many benefits to the Japanese new product development systems. One of its great domestic strengths is that it is very fitting to the culture. A company that is constantly producing new models of a product is very suitable to a culture that is constantly searching for the latest product, newest fashion. The low volume production that allows them to be so successful domestically perpetuates their success into the international realm. It is their ability to adapt so quickly to change, or small hang-ups, that allows them to continually beat their western competitors. On the average "the Japanese bring out a product in half the time it takes their American competitors and in one third the time it takes Europeans".[67] This is quite a significant advantage. Low volume manufacturing also has the benefit of not putting so much pressure on the sales of one particular model. If it is successful, production is increased; but if it is not successful, the production batch is so low that it will not seriously hurt the company.

The one drawback of the new product development system is that the focus is dominated by improvement and too little focused on entirely new products. This does not fault the whole NPD system, but for the reason that it is focused so much on altering current products, there is a lack of entirely new products. This deficiency is most damaging in the long run. Companies that are not able to foresee the products of the future soon become obsolete themselves. The long-term effect is that Japanese companies must for the most part improve on the new products of others. Using the strategy of improving products invented by other companies can be successful if it is done as well as Japan does it. For example, Japanese companies did not invent televisions or VCR's. Magnavox, an American company, originally invented both of these[68], but Japanese companies were able to improve them and by doing that they took over the market. The problem arises when technology changes. Japanese companies are left with a dead end and can not see it coming. This is one of many reasons for the bursting of the bubble economy.

For the future of Japan, companies must begin to think creatively by forcing themselves to step outside the box that encloses their NPD systems. This has to be done in correlation with changes in education, but needs changes in the companies of Japan as well. Current systems are very yielding to flexibility, and those aspects must be preserved. A system that is constantly making new products so quickly is also helpful in stimulating the slumping economy, but some changes must be made. Japanese companies need to maintain the flexibility that comes from flexible manufacturing facilities, and low volume manufacturing, and need to continually improve their products as they do now, but must move some of their focus to new products that will substantiate them in the future.

PRICING

The focus of Japanese companies upon the needs of the customer can be further seen in their costing and pricing methods. It is these methods that make other methods, such as their penetration strategy of new market entry, able to be accomplished financially. The two main characteristics of Japanese costing and pricing methods are target price and long-term horizon. These two ways of pricing and costing make Japanese companies successful.

The way in which Japanese companies determine price is based on the target price method. This is the main idea to the concept of target cost: "determine up front the desired price and hence profit, then work backward to calculate the cost the product must have in order to meet the price and profit goals".[69] By working backwards the focus is where it should be – on the customer. This insures to the greatest possible degree that the product will be priced appropriately. When compared to the cost-plus method that is used by most American companies, the target cost is more sensitive to the demands of the consumer because it is "based on the price that is most likely to appeal to buyers".[70]

The important part that makes this process possible is that the extensive planning significantly reduces the cost. The precision that is possible through the planning of Japanese companies allows them to produce at a more efficient and less costly rate. The focus on the planning stage is to "get the cost out of the product"[71] by making quality products that do not need to be fixed some time in the future. Once the product progresses passed the stage of planning, manufacturing also "works on continual cost reduction". Since the goal is to reduce cost at every stage, and each component of the process is responsible to make their part standardized to the necessary cost, everyone works together to accomplish their common goal and is therefore very successful in completing their goal.

The second characteristic of costing and pricing methods is how far goals are set into the future, rather than focusing on short-term profit margins. Pricing products even below cost sometimes to gain market share has proven to be successful for Japanese companies. The "long-term horizon was a key factor in their success".[72] Especially in rapidly growing markets, companies that are willing to go into debt to invest in the market are going to be successful in that market in the long run.

The benefits to this way of pricing and costing are quite significant. These methods allow many other aspects of Japanese business to happen because it reduces cost. Even within the method itself, though, it has many advantages. One is that it allows a company to consider products even if they have little or no apparent profit margin. "It is not the apparent profit an individual product can earn but the profitability of portfolios of products"[73] that is important to Japanese companies. This allows them to better reach a specific market segment without being concerned about the individual profit margins of the products. The higher profit margin products balance out the lower ones. Some products would have never even been discovered had Japanese companies chosen to manufacture only products that looked profitable from the very beginning.

The only possible disadvantages to this plan are the possibility for losses on products that have little or no profit margins. This is a legitimate risk, but is outweighed by the opportunities that are available through the target pricing method. It keeps the focus of the company's pricing and costing on the most important person for the company: the customer. This is the key to success in any market.

HIGHER ECUCATION SYSTEM

One factor that many do not consider when examining Japanese businesses systems is the effect of the education system. The education that one receives before entering into a company influences how compatible they will be with the business culture, as well as dictating how much training will be needed. The Japanese education system is one that is different than that of the United States. The largest weakness of the education system is the lack of creativity in the students that leave the collegiate level. This is actually quite fitting to the culture of Japanese business but will be very damaging to Japan's ability to pull out of economic depression.

The Japanese education system has been praised as much stronger than its American counterpart. The Japanese students graduating from high school undergo a much more strenuous academic process than that of the average American student. The difference lies in the change that occurs between the academic demand between high school and college education. In Japan, the toughest part of college is getting admitted. This is a very significant challenge in Japan, but once this is done, the work between there and graduation is very minimal at the majority of colleges. The leading colleges such as Tokyo University and Kyoto University are comprised of diligent students, but this is definitely the exception to the rule.[74]

The nature of education at the majority of Japanese universities is aimed at very general knowledge. Students may focus their studies on economics, or even American literature, but will look for careers that are characteristic of American business majors.[75] The classes are focused on general knowledge rather than skill development. A student focusing on business will study a lot of general subjects focusing on theory and economics. There is not a focus on skills necessary to get a job because getting a job depends on where you went to school, not on what you did while you were at school. Top companies will only accept people from the best one or two universities in the nation. Recently, major corporations have begun to accept some students from schools other than Tokyo University, but the determination is still based on where they went, rather than what they did there.[76]

The reasons behind the way companies search for employees is that they are searching for employees that will fit well into their business culture. The consequence of this is that companies are looking for employees that they can mold, not necessarily the most talented.

> Much less attention is paid to a recruit's formal academic training. Japanese companies usually do not look for the most intelligent, the most ambitious, or the most energetic employee candidates (these may not fit into the company system); rather, they look for young people who do not have strongly held opinions or ambitions and can be molded.[77]

Searching for "moldable" employees will cause the employees to be blank slates that the company can form into to what the company needs. In a system that plans on spending a large amount of time training the employees, this type of worker may be more beneficial than one that is creative in thinking and may disrupt the harmony of the company.

The benefit of this system is that it is fitting to the needs of the Japanese companies. The companies want employees that they can turn into "company soldiers"[78] and just like soldiers in the military, creative thinking is not rewarded very often. The companies depend upon internal training for the teaching of the skills needed for the job, so they do not expect, and maybe don't want, professional skills beyond a basic minimum. In the fashion of the mass production factories, this system produces employees that are all the same and are very dependable. This system was actually perfect in the 70's and 80's when Japan was so successful because the managers wanted to train people to think just like them because success breeds success. So, if you have successful people training people how to be successful you have new success stories. This is the vision of the system.

The largest problem with the education system of Japan is that it is not suited for times when the status quo is not successful. If a company is struggling and you have the people that are unsuccessful teaching the new employees their ways, you will have future employees that are equally unsuccessful. Furthermore, because the hiring "criterion almost always forgets creativity, originality, and individuality"[79], the new employees will be unable to solve problems in the company. They will not have creative skills and will have been trained by the very unsuccessful people that got the company in trouble to begin with.

In dealing with the current troubles that plague the Japanese economy, these companies need employees that are willing to question the assumptions that are structuring the current system. This may not be possible through the current education system. A balance needs to be struck between the lack of creativity and diversity in thought that exists in the current system, and a system that would not promote teamwork. The Japanese system needs employees that are dedicated to their company, but they need employees that come to the company with opinions of their own. Only then will these employees be able to contribute seriously to the change that is needed in Japanese organizations.

MANAGEMENT SYSTEMS VS. MACRO ECONOMIC BARRIERS

As Japan Inc. comes to a crossroad in the path of economic progress, there are many obstacles that stand in their way to achieving success. There are many benefits and disadvantages to the Japanese way of doing business. In examining these pluses and minuses in the Japanese systems, it is apparent that although reform is absolutely needed, the system is successful on the whole. The main question is if the benefits that outweigh the drawbacks of the Japanese system are strong enough to conquer the macroeconomic factors that stand in the way of Japan's economic prosperity? If not, what must be done to make this possible? These questions must be answered by first summarizing the benefits of the factors examined in detail in the previous sections.

One of the most loudly proclaimed strengths of Japanese businesses is quality control. The high quality of Japanese goods is truly one of their biggest strengths. Even today, American goods struggle to match the quality that exists in the Japanese products across all industries. This quality is not only in the lack of deficiencies in the product lines but also in the ability of Japanese companies to focus on the needs of the consumer in the domestic market in Japan. The speed at which improved products reach the Japanese market can be matched by no nation. This focus on the consumer can further be seen in their pricing methods. By focusing on the market price to determine selling price instead of using the cost-plus method of the west, Japanese products are more in tune with what the customer is willing to pay. Lower cost is also a favorable byproduct of this form of costing and pricing. Finally, Japanese companies have been able to portray the strengths of their products very well in foreign markets so as to create a favorable reputation and image. This reputation will play a major role in their success in the future.

One strength that is caused mainly by the systems that make up Japanese management is the security that both the employer and employee possess. This security is caused in no small part by the lifetime employment and seniority-based promotion systems. These two systems are conducive in the creation of an atmosphere that assures job security for the employee and as well as assuring that a company's employees will stay for the long term. This security allows the company to invest a significant amount of time and money into the training of its employees. Furthermore, the employees are much more willing to work on improving their skills by identifying their weaknesses because they do not fear poor evaluations. This makes employees better trained and happier with their jobs.

The largest strength of Japanese business is the dedication of the employees. Japanese culture, as well as other factors, plays major roles in the dedication of Japanese employees. This dedication and loyalty manifests itself in many forms. One of the largest is the willingness to sacrifice for the company in the form of hours worked or even relocating where one lives. The employees focus their efforts on the long-term success of the company so they are willing to do just about anything to see that it succeeds. The priority work plays in the life of a Japanese businessperson is an extreme advantage for the company.

The final major strength is the flexibility within certain areas of Japanese business systems. Flexible manufacturing systems allows factories to have an extremely efficient production rate as well as be flexible to changes in order and new product development. This flexibility also exists at the worker level because of job rotation. The job rotation system cross-trains employees so that they have a wide range of knowledge and would be able to work in any of the divisions that the company needed them to work in. These areas of flexibility have played a major role in Japan's success in the past.

The major problems in the Japanese management systems stem from Japan's inability to adapt to economic strife. The Japanese management and education systems work incredibly efficiently if the current economy is prospering and the companies are doing well. It has a propensity to create consistency in success, but it crumbles when it must recover from failure. The education system is the perfect example of this. The collegiate education in Japan is basically aimed at producing human resource assets for companies. It is best for the companies if these new employees are not opinionated, creative, or independent so that they can be trained in the ways of the company. Since this is what companies are looking for, this is what colleges produce: average "cooky cutter" employees to be placed into companies. This continues the stream of thought of the company and if the company is doing well, continues the success.

The problem lies in a company that does not want to continue its current course. If the new employees are not able to be creative and think for themselves, are trained by the very employees that brought the company to its current difficulties, there is no chance for change. The effect is the drawbacks we saw in the new product development. We see very few completely new products come out of Japanese R&D. The more seriously grave consequence is the apparent inability of employees to formulate creative ways to solve the problems that the companies face.

Even if creativity of the employees is improved through educational reform there are still structural barriers that make change difficult. Strict seniority-based promotion and compensation makes it difficult for bright young minds to rise to a place in the company where these new ideas can be taken advantage. The effect of the system is to greatly slow the progression of new ideas. Consensus decision making compounds the problem by making it difficult to institute radically new ideas.

Although the lack of creativity seems to be a disadvantage that must be solved for recovery to be possible, examination of the success of Japanese business up to this point reveals that true creativity was never really a strength. Japan made their success by watching what others did and improving on those ideas. Quality management is a perfect example of a case of Japan taking American systems and greatly improving on them. Many people are amazed to find out that the "mysterious" quality management success of Japan actually stemmed from and American concept of statistical quality control. Japan was just able to take this system and use it to their advantage better than the American companies were. This is true for most products as well. Japan is a very quick second mover. They wait for a new invention to come, and then figure out how to do it better. This is where Japan has been successful is the past. So, maybe it is OK to keep this strategy for product development. The fact that still remains though, that creativity must be increased in general to think of new ways to recover from the current economic problems.

One further problem is the ability of companies to maintain lifetime employment in tough economic conditions. Lifetime employment is not tough when the economy is flourishing because companies are all expanding, but when the economy is shrinking is it possible to guarantee lifetime employment? Hitachi's announcement to cut 6,500 jobs next year suggests that it is not possible.[80] The danger in this is that the lifetime employment system is thought by many to be the foundation of many of the Japanese strengths that stem from employee job security. I believe that although the inevitable rush of layoffs that are right around the corner will shake the confidence of those still employed, the loyalty between companies and employee will still be maintained for the most part. The loyalty and dedication is not only rooted in the lifetime employment system but also the internal drive that is the culture of the Japanese businessperson. This will be shaken a little by what companies will have to do to survive in the near future, but I believe that as a whole the work ethic will remain intact.

The Japanese management systems have been shown to be in need of reform, yet still very strong and poised well to recover from the current crisis. There still remain a few factors of a macroeconomic nature that have yet to be examined that will stand in the way to Japan's recovery. Some of these include: lack of consumption of the Japanese market, the system's support of dying companies, the corruption existing within keiretsu groups, a banking system that is in serious debt, and the Japanese people's inability to control their government. We will examine each of these separately.

One of the major problems adding to the problematic debts of most companies is the lack of consumption of the Japanese market. If the debt was the only problem then the banks could try and be patient until companies could slowly pay them back, but since Japan is in a recession, companies cannot find the money to pay back the debts. The problem of consumption basically makes all other efforts mute because if the market is not consuming, then companies will not recover regardless of what reform measures are taken.

Another problem that is outside of the control of any one company is the practice of the system supporting companies that are headed for demise. These struggling companies receive help from every direction. Companies within their same group help them financially or by buying stock in their company. Banks help them by loaning more money. The end result is that a company that is not profitable is being kept alive when it should fail. That company's shortcomings bring down the companies trying to help it as well as hurting the bank that must deal with defaulted loans. The banks of Japan are currently in shambles because of these poor loaning practices. This system is very much rooted in the Japanese keiretsu system, but is undermining the economy.

The keiretsu system is also the root of further problems. The corruption that exists in the keiretsu ties has existed for a long time. These ties cause much corruption in government and banking circles and cause inefficiencies in the economic system. Even if a company is not a good investment for a bank, the government officials that are controlled by the company will pressure the bank to make the deal. This corruption is a major factor that led to poor lending practices that busted the bubble economy.

The final factor that is of a large-scale nature is the Japanese people's inability to control its government. Although Japan is a democracy, they do not choose their Prime Minister. Furthermore, the LDP (Liberal Democratic Party) has been in power in Japan for a long time making it difficult to put new ideas of reform through the government. The nature of the Japanese government is that the officials are not held accountable directly for their actions. Consequently, there is little control over the actions of the government officials. Up to the beginning of the 90's, the LDP were responsible for prosperity in Japan. Their inability to change when it was necessary is what has caused so many problems in Japan. There are so many government careers that benefit greatly from the traditional way of doing business, that the government is very slow to change the system. Since the people can elect only the party and not the Prime Minister and really have little control over the actions of their officials, there is truly little that they can do.

These factors are such large problem that they are truly insurmountable by any one company or even group of companies. The Japanese government is the only one that can hope to have an impact on these large-scale problems. Until the time when the government takes action that will have any true effect, the corporations in Japan must do their best to prepare themselves to react to government action.

Meanwhile, the Japanese people must take action to take control of their government. This has already begun to happen. The election in the fall of 1998 demonstrated a significant showing of non-majority parties and the LDP lost considerable ground. Although the LDP is still the majority party, the Japanese citizens sent a very clear message to get their act together. They must be persistent with this action and not forget that they are in charge of their government.

In this last section we will explore the best course of action for the Japanese government as far as reform and what companies can do in the meantime.

CONCLUSION AND RECOMMENDATIONS

In addressing the issues that stand between Japan and recovery from the Asian Crisis, we must examine both the actions that must be taken by the government and the action that companies must take to prepare themselves for the opportunity that the governmental action provides. The government has three main objectives to address in starting to recover. These areas are weak demand, enormous debt of banks, and governmental corruption. If they first attack these areas, which are really only surmountable for the government, then the companies can work on the flaws that exist in Japanese management and structural areas.

One of the three big causes for the recession or depression, depending on the source, is the lack of domestic demand in the Japanese market. As much as companies may improve the internal flaws within organizations, if there is no demand for the products, they will not sell. "Japan's structural defects have worsened its problems, but most of the blame for the country's stagnation lies with the government's failure to boost demand"[81]. The other problems that are present in the system are serious problems, but solving them cannot pull Japan out of recession if demand does not increase.

The lack of demand finds the roots of many of its causes within the fiscal policies of the government. There have been many errors made in fiscal policy that started the crisis, and then more recently smothered an attempt to recover. "They were too reluctant to raise public borrowing and cut interest rates in the early 1990's, after Japan's financial bubble burst, and then much too quick to tighten fiscal policy again last year [1997]".[82] In the first case when the government didn't raise public borrowing, they basically nudged the economy towards a recession. Some would call that nudge a shove. Banks were failing, and the government wasn't encouraging lending by fiscal policy, so nobody would logically borrow money to consume products and services. Hence, consumption decrease and a recession ensued. Then, in 1997 the government instituted one of its packages to help spur consumption and it actually started to have positive effects. "But then the government was too eager to contain borrowing: it tightened policy prematurely in 1997 and the economy slowed".[83] In both of these cases the federal government made key mistakes in fiscal policy that resulted in a slowing of the market.

Many analysts state that the Japanese government is powerless to stimulate the economy, but this reasoning is flawed. The argument is that many times the government has tried to help the economy by putting money into the economy. Although this is true, the impacts may be minimal because the amount put into the economy is minimal.

> If the impact appeared modest, so was the stimulus. Ministers overstated the scale of their packages by including measures without a direct impact on growth (such as lending by government agencies and the front-loading of previously planned public works). The actual amount injected into the economy over the past five years—through increased public works or tax cuts—was only one-third of all the measures announced by the government.[84]

If the overstated stimulus is combined with fiscal policy that slows it down and makes in ineffective, the process is bound for failure.

The second tier of the foundation of economic crisis is the state of the banking system. The debt of the banks has been discovered to reach into the multiple trillion American dollars. This is not only a danger because of the sheer magnitude of the debt but also because the problems that caused the debt to begin with have not been remedied. Improvements have been made. Recently, one of the large financial institutions collapsed in the last year. "The Long-Term Credit Bank's demise as an independent institution is a sure sign that the authorities no longer will prop up every sick bank, however big".[85] This is a step in the right direction towards the government sending a message to banks that they will not keep them alive forever.

Although some improvements have been made, there still has been little done to reform the major problems within the banking system. The largest problem may be the banks' practice of keeping secret what goes on in the bank. Until recently, the Japanese government didn't truly know how bad the bank situation was because it could not get the banks to admit to how much trouble they were actually in. Money is being sent to banks to help them out of their troubles but no one knows what the money is being used for. "Since the banks aren't being required to reveal the true state of their finances, they can use the public money to plaster over holes in their balance sheets instead of restructuring".[86] The key is that the reform needs to focus on making the banking system more transparent. By allowing banks to hide their problems, they are allowing the problem to persist.

There are many different theories of what the best action would be to help the banking problem. One theory that is gaining strength is that the banks should just "acknowledge the debts in all their awfulness and write them off".[87] This solution is, not too surprisingly, mostly supported by Americans or other non-Japanese analysts. The impacts of the Japanese economy having so many companies and banks fall all at once are not known. So, I would not recommend this drastic of action all at once. I think that acknowledging the debt is a must, but writing off everyone in an immediate blanket action is a little premature in my opinion. Another possible solution that has started to take place already is the banks writing off the companies to whom they are loaning money that are in the worst shape. This would improve practice in the future because it would send a message that banks are not going to keep ailing companies alive forever.

One of the further causes of the banking crisis is the third major problem that they government must address: corruption in government. One factor that continues to hold back reform in the banking sector is the shady relationships between banks and government officials. The government is hesitant to stop assisting banks that are in trouble because they rely on many of them for political support. Likewise, many of the companies that borrow from the financial institutions support the government politically. So, if the ruling party wants to stay in power, then they will continue to support banks and companies that will back them politically. This is done without regard to the welfare of the whole economy. "Ruthless action by banks would probably be preferential, but that would mean cutting lifelines to ailing construction companies, which support the ruling Liberal Democratic Party".[88] This corruption that exists because of the relationships between government, bank and company officials is one of the factors that must be addressed to improve Japan's situation. The difficulty in this is that a government is rarely to going to criticize itself for corruption so that it can kick itself out of power. This action will have to be done by the voting public of Japan.

Much of the focus in regards to reform in Japan has focused more on management and company structure than the more large problems. Some of areas that are most frequently examined are the foundations of Japanese management systems. Seniority-based compensation and promotion, job rotation, education and job training, keiretsu, and company environment are all being reexamined to rethink how things are done in Japanese companies. One of the faults that I find in the way that this is happening is that companies are searching for the answers for the ailing economy within the systems of their company. They have found faults in certain management systems and have become willing to get rid of these traditional ways and go for completely new methods. This does not account for the benefits that come out of the traditional methods. Therefore, Japanese companies must adjust their current methods within the cultural structure to keep the benefits that those methods provide as much as possible while addressing the problems that do exist.

In the same way that the American companies failed when they tried to copy Japanese methods. They improved only when they learned that they had to translate the benefits that Japanese companies gained from their way of doing business into useful ways to change their own methods. This took the form of adapting JIT methods into methods that would work in an American structured system. In the same way, Japanese companies must now examine American companies and translate those benefits into useful ways to improve their system. These changes must be done within the current system so that the benefits that the traditional system provides can be preserved as best as possible. Let's look at a few areas that should be improved in the future.

The seniority-based promotion system is one of the management systems that have come under the most criticism by Japanese and foreigners alike. Recently, there have been many companies that have begun to promote employees based more on merit than seniority. "The big advantage to appointing a young president is that such a person is more capable of implementing radical reforms from a long-term perspective".[89] Many companies are promoting people into all levels faster than those with higher seniority because they are beginning to see the benefits to consider hiring younger employees if they are the best for the job. By opening the opportunity for younger employees the creativity in the company would probably increase.

There are also disadvantages to the changes in the promotion system. The harmony that exists within Japanese companies could be harmed by the introduction of merit-based promotions. A high-ranking Mitsubishi official says, "If we chose a young president from among his seniors, morale will suffer, and the chosen person will feel bad. Overall, such a promotion would be disadvantageous".[90] There is a possibility that the harmonious office atmosphere that currently exists would be disrupted by these changes. What this means is that change has to be made, but must be done slowly and in a way that the individuals involved in change are able to save face.

Merit-based systems are being explored for compensation as well. Some companies have started to aim compensation toward increased productivity. This basically is correlating performance with pay. In this system the goal is not to reduce wages, but to merely change the way that employees view their paycheck. The problem with this system is that the Japanese structure of group work and job-rotation makes it difficult to evaluate individuals effectively. "Among surveyed companies that said they had no plans to adopt the annual wage system, 76.2% cited difficulty in assessing work performance as a primary reason".[91] If there is no standard for performance evaluation, then the evaluations are done in a haphazard manner that further decreases the company morale.

Overall, the switch from seniority-based to merit-based compensation and promotion must not be an overnight change that is a complete change over. If companies keep a base pay with making bonuses reflect personal performance, then they will still maintain the majority of the security that originally existed in the system. They will also benefit from the increased productivity caused by the merit-based bonuses. Promotions must be done in a tactful manner, but it is a necessity for the younger employees to have an opportunity to be promoted quickly if they will benefit the company.

The education and on-the-job training has also been an area of examination in the recent past. One criticism is that the job rotation system produces many employees with very general skills but does not train experts. "If employees are shifted from one post to another at short intervals, they cannot acquire expert knowledge in any field".[92] Many have suggested completely scrapping the program, but this would run the risk of losing many of the benefits that the current system provides. The flexibility that job rotation provides is worth preserving. The system produces managers that are much better managers because of their breadth of experience. The problem lies in the possibility that the time spent in each division might be too short to effectively learn the division. Well, then the problem lies in the time period, not the entire system. If the time period of each rotation is lengthened to ensure that the workers knowledge in each is sufficient, then the benefit of each side should be able to be attained.

Hiring practices in Japanese companies have actually been found to be one of the causes to many of the management problems. In most companies, the most important criteria for whether to hire someone is the university they attended. Although this is not unique to Japan, it is still a fact that companies miss out on very good opportunities because they do not consider candidates from other schools. Plus, students from the top schools are automatically given a sign of approval before that person's other attributes are examined.

> Companies think that the most inexpensive way to appraise the potential abilities of employees as generalists is on the basis of what university they graduated from. The evil of attaching excessive importance to 'the best schools' will not die out and the race for admission to prestigious universities will continue to be intense.[93]

For the reason that there is not emphasis on anything that is learned at school, the students do not study at all. The system finds itself in quite a catch-22. The students are not going to study if they don't have to, but if no students are gaining skills at college, then there is nothing to judge them on besides their high school performance. This means judging based on what college they were able to attend because that is determined by high school performance. There is an obvious problem within the system. The best way to solve it is for companies to start looking at candidates from universities other than the top one or two. At the same time, students should try to better themselves and test the stereotypes that currently exist. This has very recently been changing in a very selected few companies,[94] but must become the norm for students to rely on it and see the benefits to putting work into college education

The final foundation of the traditional Japanese way is the keiretsu conglomerate groups. Recently, the ties that hold those groups together have been becoming weaker. Increasing numbers of lawsuits from shareholders have compelled companies to focus their attention more on the demands of the shareholders, and less on those of the keiretsu group. Costs have also made it impossible for subsidiaries to completely depend on the parent company. These subsidiaries have diversified their accounts to include other sources of business. This will strengthen them in the long run. As time passes, this will slowly increase because companies will no longer be profitable with their ties to parent companies. The destruction of the binding ties between companies is a very healthy thing economically. Furthermore, those companies will still maintain those relationships to a certain extent that will help facilitate business. This seems to be the best case scenario for the situation with the keiretsu.

The final area that has been changing is corporate environment. Hitachi announced April 17,1999 that they are planning changes to their environment to increase creativity. The changes include canceling of company calisthenics, the changing of business wear away from formal suits, and getting rid of formal titles used for names in the office setting.[95] All of this is in the name of increasing individuality. I believe that the company is overestimating the effects of their actions. First of all, the employees will struggle to use non-formal title in the workplace because it is a sign of respect. Secondly, not doing exercises together and wearing polo shirts instead of ties is not going to be able to overcome a culture that has pushed the workers away from individuality their whole lives. I feel it is naïve to assume that will have that effect.

Reformists must use caution in how they approach the changes of the above mentioned management systems. Many of the foundations of Japanese business lie within those systems. If there is too much disruption to this foundation, the largest strengths of Japanese business may be lost. In a survey that asked companies about what they liked and disliked about Japanese companies, "72% complained about the traditional Japanese system".[96] On the other side of the coin, 79% said the strongest merits were security and 74% said on-the-job-training. Looking at these numbers basically says that although the negatives of the system are jeered by the workers, the merits of the traditional system are still very much treasured by Japanese employees. So, there must be a conscious effort to preserve those benefits if possible.

I believe that there is actually a ray of hope for the Japanese economy that just has recently developed. An article in the May 3rd issue of Business Week there was an article about the slight rebound by the Asian economies. It is not nearly the end of the hard times, but it is a great opportunity to reform. The improvement in the economy will help the companies overcome the problems they are facing, but reform is still needed. If the government and companies do not take this opportunity to reform the problems, they will find it much more difficult to do it when their government has to start addressing the issues with the baby boomers retiring, just like the United States will. If Japanese companies reform while maintaining an adjusted form of the traditional Japanese management system, they will recover from the crisis. Their work ethic and trust that exists within company circles will pull Japan through and make it the economic power that it was just a short time ago.

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