

**The History and Future of  
Japanese Management**

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**Occasional Paper No. 26**

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This paper was presented as part of  
the Distinguished Business Leaders Lecture Series  
Columbia Business School  
September 30, 1996

**Occasional Paper Series  
Center on Japanese Economy and Business  
Columbia Business School  
January, 1997**

## **THE HISTORY AND FUTURE OF JAPANESE MANAGEMENT**

I am honored to be invited here to take part in the Distinguished Business Leaders Lecture Series, and to be given the opportunity to speak to you.

In October 1945, only a couple of months after the end of World War II, I joined what was then the Mitsubishi Mining Company, which later became today's Mitsubishi Materials Corporation. That means I have been with the same company for more than half a century, which amazes me as well. During the latter part of this half-century, I have been a member of the management.

For the four years that ended in May last year, I served as the chairman of the Japan Federation of Employers' Associations, better known by its Japanese name, Nikkeiren. That experience gave me an excellent opportunity to think seriously about, and act on behalf of, the Japanese nation as a whole, over and beyond the management of a single corporate entity.

Based on my personal background, my talk today will focus both on my experience at the manufacturing company bearing the name of Mitsubishi, and also on my activities at Nikkeiren. The theme of my remarks is the history and future of Japanese management. I hope you will bear with me if I at times become whimsical and stray from the subject of management as such.

### 1. The Japanese Corporation Is a Communal Society

The first thought that came to my mind when I was named president of Mitsubishi Materials was what I could do to transform this company so that I may hand it over to the next generation as an entity ready for further growth and development.

This sentiment has its roots in the very origin of our company. What is today Mitsubishi Materials was a government-owned mining company in the early Meiji era and was subsequently sold to private investors.

One way of looking at it is to see the company as being entrusted to us by our nation's government. A more contemporary way of viewing it would be to say it was privatized. This historical background has left a deep imprint on my mind.

I believe this sentiment will become clearer to you as I address the question, "What is a corporation?"

To begin with, a joint stock corporation by definition is owned by its stockholders, and corporate managers are their proxies entrusted to run the company. The primary responsibilities of these proxies are to maximize profits and return those profits to the stockholders. This is true in Japan just as anywhere else. In reality, however, there are ideas pertaining to corporations, in addition to this principle. One that has been traditionally and universally accepted throughout Japan can, at the risk of oversimplification, be expressed in the following manner: "A corporation constitutes a communal society for all those who work there, including the management, and the corporation provides the basis for their livelihood."

In other words, a Japanese corporation plays two roles -- it is a functional group pursuing profits as well as a perpetual organic communal society adjusting itself constantly to the changing requirements of the times. And this is the reason why self-restraint is demanded of the chief executive and other members of the management team. Looking at the corporation as a tool for maximizing profit, laying off or firing employees in times of unprofitability is not as easy as in other countries, though not completely impossible. Rather, a Japanese corporation tends to

adapt to meet the needs of society while seeking to ensure the livelihood of its employees.

A good and impressive example of such change can be found in our company. When I joined the firm, it was in the mining business. Today, however, it does not own a single coal or nonferrous metal mine -- a clear indication of the major changes the company has undergone in the past 50 years. During these 50 years, it has changed its name five times. Mitsubishi Materials today is active in such diverse fields as copper smelting, cement production, and indeed all materials other than steel. We have been criticized for overly diversifying like an amoeba, and we have experienced such hardships as not being able to pay dividends.

It is because of these communal features that Japanese corporations have long adopted what are now commonly regarded as standard characteristics of Japanese corporate management -- things like lifetime employment, in-house labor unions, and the seniority system.

These features of the Japanese management system are today well known and are considered by experts to be typical of Japan.

I would like to point out, however, that lifetime employment was not at all common in Japan when the modern joint stock corporation was introduced in the early Meiji period.

The other example is in the Meiji era, when the Zaibatsu inherited the government-owned enterprises. Lifetime employment was first introduced in the Edo era by merchants who shared their goodwill by helping their employees open new businesses. For white-collar workers, the Yokosuka shipyard of the Navy is said to be the first to adopt lifetime employment patterned after the British bureaucracy. Late in the Meiji era, Mitsubishi's Nagasaki shipyard took the lead in adopting lifetime employment for blue-collar workers. The Japanese seniority system is essentially a refinement of a similar system that prevailed in European bureaucracies around that

time.

Corporate managers during the early Meiji era, meanwhile, were true, no-nonsense entrepreneurs. Shibusawa Eiichi, reputedly the father of capitalism in Japan, once lamented of Iwasaki Yataro, the founder of Mitsubishi, that “Iwasaki seems to believe that the only way to succeed in business is to be your own boss and not to listen to others.”

Shibusawa had an entirely different management philosophy, which in modern terminology may be called “bottom up.” This is quite similar to the ideas of Matsushita Konosuke, popularly referred to as the “great expert of management,” who said: “The essence of corporate management in the West is for the executive to do the thinking and let the subordinates implement it, while the essence of Japanese corporate management lies in the ability of the people on top to gather and organize ideas from the entire work force.”

Let me change the subject slightly. Would it be possible to alter the traditional Japanese belief that for both management and labor a corporation is a communal society in which each is equally comfortable saying “my company”?

I personally believe that the way the Japanese are attached to the companies they work for would remain unchanged even if lifetime employment and seniority were to be replaced by something new. This affinity is deeply rooted in the Japanese attitude toward work. Both the management and workers regard the company as “theirs.” And that is my next subject.

## 2. The Japanese Attitude Toward Work

Diligence is often cited as a major driving force behind Japan’s economic development. Indeed, diligence has long been at the core of Japanese morals. Nothing hurts more than the

accusation that one wastes time and doesn't work. It is not merely to avoid the leveling of such an accusation, however, that Japanese people work diligently. Rather, the Japanese feel happy that they have the chance to work.

Some philosophers relate this "spirit to work" to a religious element, among them Yamamoto Shichihei who died five years ago. As you know, he is the author of *The Spirit of Japanese Capitalism: Why Do They Work So Hard?* In that book, Yamamoto writes about the philosophies of Suzuki Shosan and Ishida Baigan.

Suzuki Shosan was a Zen Buddhist monk and a samurai warrior who lived from the late stages of the Civil War period into the early Tokugawa era. He said, "Secular work is religious training. If you perform it diligently, you can attain Buddhahood." He tried to disseminate this thought to each of the four social classes -- namely, samurai, farmers, artisans, and merchants. In so doing, he sought to achieve religious satisfaction as well as to establish a moral order for the nation.

Ishida Baigan, an early 18th century philosopher, well known for founding a school of practical ethics, is said to have taken issue with the tendency to look down on the profit-motivated activities of merchants, arguing that their pursuit of profit was as justifiable and reasonable as samurai receiving stipends. At the same time, Baigan accused those who made excessive profits by wrongful means of being selfish. He pointed to honesty, frugality, and diligence as the principles that merchants must follow. By promoting frugality, he was not advocating frugality as merely economizing, but, rather, was warning against being too greedy. Ethical self-restraint was the basis of his frugality.

I have long asserted that all cultures and civilizations converge in Japan. Everything

flows into Japan either from the West or from the South, but there is nowhere to go from here because to the east of Japan is the Pacific Ocean and only few live to the north.

In short, I believe Japanese people's attitude toward work is a product of the religious atmosphere of traditional Japan. The people's sense of regarding work is things to be willingly accepted.

So far, I have talked about the nature of Japanese corporations and the perception of work held by those who work in them.

Next, I would like to take up an extremely difficult subject relating to the future of Japanese corporate management and overall trends in Japanese society.

### 3. Japanese Society in the Future

The first question I would like to address is how Japanese society will change in the future.

Are we going to overcome the present situation -- which has resulted from the bursting of the economic "bubble" -- and enter into a new age of prosperity as we move into the 21st century? Or, are we going to descend serenely, landing softly in a beautiful doldrum? Or, instead, are we going to do nothing to resolve the problems we face only to suffer a sudden catastrophe?

While I am by no means a pessimist, I do think that Japan is at a crucially important crossroads. As if to proclaim an official end to the postwar period we have known for 50 years, one after another of the myths that have supposedly characterized the Japanese economy is being shattered. On the verge of collapse is the myth that land and stock prices rise constantly, the

myth that the economy grows forever, and the myth that unemployment never occurs unless one becomes too choosy. These are the myths upon which the Japanese economy is thought to have based.

Politicians have become less sensitive. Bureaucrats, once hailed for their competence, have lost the public's trust. Business executives have been carried away by the economic "bubble." And bankers have become profit-seeking usurers. Peter Drucker once attributed Japan's postwar success not to guidance by bureaucrats but rather to consensus among businessmen who gave serious thought to what would be good for the Japanese economy. I fear that Japanese businessmen may be losing those virtues that were once praised by Drucker.

And yet, nobody seems to be facing hardship. Despite uncertainties about the future, Japan appears, on the whole, to be an affluent country, where the wages are the highest in the world, ordinary citizens live safely and peacefully, and almost anything seems within reach.

A gradual economic downturn started in the United States when its wage levels became the world's highest. Today, Americans are endeavoring to revitalize their economy by lowering their real wages to the level of the early 1960s. It is true that several million new jobs have been created through technological innovations, especially in the information-related industries, and through market-oriented employment systems. As a result, the unemployment rate has dwindled to less than six percent. Yet, it seems that the uneven distribution of wealth has not been corrected, that people in the low-income brackets have not been given a chance to adjust to an advanced information-oriented society, and that the poor have not been able to improve their lot.

The situation is even more serious in Germany, where the increasing costs of employment are placing an additional burden on corporations. The country's competitive spirit has declined,

and unemployment is rising as corporations struggle to survive in the face of the “hollowing out” of the manufacturing sector. A growing portion of corporate profits has to be allocated for medical care and pensions. The industrial circles are demanding greater flexibility in the labor market. It seems to me that, while the high costs of employment discourage management from hiring, excessively generous unemployment benefits encourage workers to remain unemployed rather than seek new jobs.

Europe and North America have long been our models, and even today we subconsciously yearn to catch up with them. Whenever we identify a particular difference between Japan and the West, we automatically lament the difference and jump to the conclusion that what we have is either inferior or wrong. This has to change. We must give ourselves credit for things like being able to avoid bankruptcies with minimal unemployment and for having world-class manufacturing industries. And we must capitalize on these achievements as the basis for our future move.

What type of society should Japan seek to achieve? Before the bursting of the “bubble” economy, Japan was blessed with high economic growth which in turn enabled it to create a stable society where communalism and capitalism coexisted without contradicting one another. Following the bursting of the “bubble,” however, contradictions between these two realities have become apparent the longer the economy has remained stagnant. In addition, Japan has had to face some major changes as it enters into the information age and the post-industrial age. If Japan were to follow capitalism in the same way the United States has done, uneasiness would overtake those people who cannot change from traditional ways of thinking and acting, and the distribution of income would become unequitable. Inevitably, this would lead to an increase in

unemployment while corporations strove to become more competitive. If, on the other hand, communalism were pursued, job security would receive top priority, which would weaken corporate competitiveness. Thus, a major dilemma would arise.

I believe that the only way to overcome this dilemma is to achieve high technological standards and secure high-quality human resources to support them. In order for Japan to maintain its worthy traditions, which I described earlier, and to sustain its economic vitality, it is imperative that it develop technology-intensive industries with high value added, which is an area in which Japan has excelled. This would require not only the removal of regulations that hinder such efforts, but also the promotion of policies aimed at research and development assistance for existing enterprises. Also it requires direct investment in the domestic market, incentives for promoting venture businesses, and subsidies to new entrants, including those from abroad.

I am afraid, however, that even by cultivating high technological standards and securing high-quality human resources, it will not be possible to sustain the high level of economic growth that we experienced in the past. Technological innovation requires both time and money, but labor costs in Japan are high. The more competent the labor, the higher the labor costs. We can no longer expect our new products to spread throughout the world and return quick profits. Japan must face up to these realities as it enters into a new era.

In my view, it is private corporations that are best equipped to provide people with employment opportunities in an age of low economic growth. Thus, I believe the private sector must play a role in fostering social stability.

#### 4. Japanese Industries and Corporate Management

According to Professor Daniel Bell, for whom I have great respect and with whom I meet at every possible opportunity, “structural changes” portend future events. Recently he said *“It is the awareness of such changes that makes a society flexible and responsive -- when there is a political will to make such changes. The transformation of Japan from 1950 to 1990 is a relevant case in point. Japan began its recovery concentrating on textiles and cheap manufactured products based on a low-wage labor force. When Japan became undercut by Hong Kong and other countries, it moved to heavy industry -- shipbuilding and automobiles -- and then to optics and instruments, and then, because of the oil shock and the rising costs of energy, Japan moved to electronics, computers, and knowledge-based products. There is nothing ‘automatic’ about such progressions, but if a society wishes to make such changes, then a number of ‘functional requirements’ come in their wake.”*

Perhaps because I have long been personally involved in corporate management in the manufacturing industry, I believe that Japanese industry will have to emphasize “highly information-intensive manufacturing.” I think the post-industrial society described by Professor Bell is one in which information, software, and services will play important roles, as already seen to some extent in the United States.

Even such a society, however, will continue to consume automobiles, telecommunications equipment, computers, and office automation implements. Japan, perhaps more than any other country, is adept at developing and putting to practical use such “hardware” and necessary materials because manufacturing is still an essential part of Japan’s economic landscape. And I see this as the only way to maintain and elevate the living standards of the 120-

plus million Japanese.

I agree with Professor Lester C. Thurow of the Massachusetts Institute of Technology, who said quality of labor is the key to maintaining a competitive edge. Hence the importance is to secure good human resources. As industry undergoes structural changes, we must take a fresh look at the lifetime employment and seniority systems, which have played such a key role in guaranteeing technological continuity in Japan's industrial society, but at the same time could have the adverse impact of making workers complacent and stagnant.

Mr. Isao Nakauchi, chairman of Daiei, Japan's largest supermarket chain, once made a sensational statement: "All our company needs to have are the chief executive, computers, and part-time women workers." This was a shocking blow to the white-collar work force in his company. Indeed, in a television interview he told Daiei's middle management, "You may not be needed a year from now." It is interesting to note, however, that Mr. Nakauchi did admit he "would need more than computers and part-time women workers to start a new business."

Having come from Mr. Nakauchi, with his reputed preference for not laying off his employees, these words are symbolic, I believe, in many senses.

I interpret Mr. Nakauchi's words to mean that at a time when we are entering into an age of borderless economies, Japanese corporations cannot expect to live through the crisis facing the economy if they continue to adhere to the seniority or lifetime employment systems as cardinal principles. In order for a corporation to survive and grow, it is essential to build a new system in which those employees who create new businesses on their own while working within the organizational structure are properly rewarded with high positions and monetary remuneration. This is perfectly in line with the theory of capitalism, which defines a corporation as a group

primarily pursuing profits.

Recently, a friend of mine told me an interesting anecdote about the automobile plant that Toyota had built in Kentucky in the United States. At first, local blue-collar workers hired at the plant did not believe that Japanese corporations, unlike their American counterparts, would not lay off their workers. After a few years, however, they began to realize that what they had heard was true -- Toyota would not lay people off. As a result, many workers at the Toyota plant began buying homes and starting families. This is a good example of how a reasonable degree of job security not only changes people's behavior, it also brightens prospects for the future. What is important is not to persuade workers without changing the system, but rather to adopt new systems that enable the workers to change their thinking and behavior.

I believe that the seniority and lifetime employment systems are commensurate with, but not necessarily the inevitable result of, Japan's culture and way of life. For example, in the early Meiji period, when the entire nation was striving to boost domestic production and build wealth, labor turnover was relatively high. Corporations adopted various measures to encourage their workers to stay at their jobs, so that indigenous corporate technologies could be handed down from one generation to the next and would not fall into the hands of competitors. Adoption of this system was particularly timely, as it came when the economy was growing rapidly, enlarging the benefits accruing to the work force.

Following the end of the Cold War, however, the bursting of the bubble started a protracted recession in Japan, just as the newly rising nations in Asia were working fast to catch up with us. The myth of economic growth has been shattered, shaking the very foundation of the Japanese employment system. I agree with Mr. Nakauchi that we may have to look at the

Japanese employment system not as something infallible but rather as a fad, to put it bluntly.

Nevertheless, I regard both seniority and lifetime employment as good systems, and am not about to write them off as inappropriate. They should form the core of corporate management in Japan in the future. Specific forms of employment must be worked out by individual corporations to meet their specific needs, as is already being done by them in a pragmatic way. I even believe today's stereotypes that label management systems as being "American", "European", or "Japanese" will soon disappear. These will be replaced by management systems unique to individual corporations, such as Daiei-style management, Toyota-style management, and Hewlett-Packard-style management.

We at Mitsubishi Materials are diverting our resources to those segments where future growth is expected. We are not alone in seeking to recruit capable people from outside the company if we find that internal resources are not sufficient to expand into new fields.

I believe it is incumbent upon corporate managers, who are the proxies of stockholders, to adopt management methods that are easily understood by outsiders. At the outset of this speech, I said that a Japanese corporation "constitutes a communal society for all those who work there, including the management." When viewed from the outside, a communal society lacks transparency. From the inside, on the other hand, even though there are clear job descriptions, mutual trust among its members tends to obscure the division of responsibilities, making individual accountability unclear.

It is an urgent task, therefore, to rectify these shortcomings in a communal society, to disclose information, and to achieve a high degree of transparency. This is all the more true for large corporations, who willy-nilly become involved in borderless economies as they expand

their activities globally. In addition to disclosing information, it may become necessary for a large corporation to name outside directors to its board or to establish an international advisory board consisting of representatives from various regions of the world.

There have recently been a number of cases in which the lack of transparency within Japanese corporations was revealed to the surprise of the entire world. The problem is not just the huge \$1 billion loss that resulted from loose internal control, but the fact that the corporation remained undaunted by such a loss. Large latent profits led corporate managers to take things too easily, and that led to their bewilderment when the loss was uncovered.

Before closing, I would like to call your attention to the drastic changes the world is undergoing today, encompassing such social problems as the aging population, gender discrimination, the resurgence of religion in the wake of the Cold War, and the changing view of the family, traditionally an important component of the community.

At the same time, certain things will remain unchanged such as the use of GNP figures as the yardstick of economic activities. And we cannot afford any weakening of industrial structures, no matters what. But, having said all that, allow me to conclude my talk today by emphasizing that our immediate challenge in Japan is to work toward building a better society by filling those spiritual voids, or lacunae, symbolized by the various social problems I have dealt with, lacunae not quantified in terms of gross national product alone. It is a tall order, but we must face it.

Thank you very much for your kind attention.