

Changing Japanese-style Management System from a Viewpoint of Business Ethics

Takeo NISHIOKA

Abstract

Japanese-style management system has been changing, influenced by globalization and market fundamentalism. Unfortunately the greatest merit of it has been lost; Japanese business philosophy which puts priority on contribution to society through business. This philosophy is very important in business ethics; in order to cope with environmental pollution and destruction, to eradicate company misdeed, to secure employment, to stop mammonism, to avoid prisoner's dilemma, to strengthen human bond, and not to fall into "fallacy of composition".

In the first half I explain how Japanese-style management system has been changing, mentioning three aspects, that is (a) human side, (b) corporate financing, and (c) business philosophy. Also in that part I suggest what problems are brought by changing Japanese management.

In the last half I comment on fundamental problems which business companies must think of. What is business for? Who has business companies? What is economy for? How do business companies behave in free economy system? In that part I explain essential point and intrinsic problem of free economy system.

Introduction

In recent years Japanese-style management system has been changing very much. Lifetime employment and seniority system has been disappearing. Indirect corporate-financing system has been taken place of by direct corporate-financing system. These changes have been brought by inevitable causes (global competition, market fundamentalism) in some sense, and yet great merits of Japanese system have been lost: good teamwork, employment security, long-term viewpoint etc. Among all, big problem is that the greatest merit of Japanese management has been lost; Japanese business philosophy which lays priority on contribution to society through business. Business is not simply a means for making money. This point is very important with regards to business ethics.

The characteristics of Japanese management and its change

The characteristics of Japanese management can be explained by mentioning three aspects. Those are (a) human side (personnel, organization), (b) corporate financing, and (c) business philosophy. A brief explanation one by one is as follows.

(a) Human side

Lifetime employment and seniority system had been a special feature of Japanese management. It had been based on an idea of community (company as one big family). Employment security, good

teamwork and high loyalty had been possible by it. However, lifetime employment and seniority system along with an idea of company as one big family have faded out in globalization. The causes are ① increase of manpower cost owing to aging employee population, ② more emphasis on performance and competency owing to keener competition in globalized world.

As to ①, In aging society, age structure of employees becomes reverse pyramidal shape. If business companies (BC) retain seniority system, man power cost increases. As to ②, the assumption that the more aged employees are, the more competent they are, is not true any more; because things change very swiftly in modern world.

Since the outset of 1990s, dispatched workers and part time workers have increased; in recent Japan, about 30% of workers is occupied by them. Both wage level and social security condition are not enough; wage level is about two third compared with full time workers. This has been caused by keen competition with cheap labor cost countries.

(b) Corporate financing

Bank loan used to be main source in corporate financing in Japan. Savings in households had flowed into business companies (BC) short of money through bank intermediation. Plant investment from long-term management policy had been made possible by this finance system, since bank loan is a steady and long-term source in corporate finance. However, this indirect finance system has given way to direct finance system (stocks and bonds). The

causes are ① growing need for risk money, ② diversification of finance sources (stocks, bonds, CP etc.) ③ accumulation of financial assets in households ④ merits of issuing stocks at current price, ⑤ merits of M&A by exchanging stocks when stock price is rising, ⑥ merits of using stock option.

As to ①, this need of risk money has been brought by speed of innovation, diversification of consumer demand and whims of consumer behavior. When there is much risk, BC can avoid risks by using risk money (issuing stocks); because BC do not need to repay in time of bankruptcy and also can decrease dividend in time of poor performance. As to ③, when people in society is poor, they cannot afford to invest in stock market, but as Japan has become rich country, people can afford to distribute their money to risk money market other than bank deposit: there is now about 1500 trillion yen (12 trillion euro) of financial assets in Japan. As to ④, when current price of stock rises, BC can raise abundant funds by issuing stocks. As to ⑥, BC can motivate management officers and employees by stock option.

(c) Business philosophy

In Japanese companies, importance had been put on how BC contribute to society through their business. Also, Japanese companies think much of employment security. There has not been so much income difference: the income difference between CEO and new young worker (clerk) in big business used to be about ten times, but difference has been widening these years.

Although profit is required, it is not everything. Pride of

businessmen and harmony within both society and company had been brought by above business philosophy. However, nowadays this idea has been declining. Business has become only means for making profit. The main cause of this is market fundamentalism.

The problems in above change and the desirable direction in the future

(a) Human side

The problem of change in human side is vanishment of good teamwork, collaboration mind and loyalty. In spite that Japanese companies cannot maintain lifetime employment and seniority system any more, they have to keep good teamwork and collaboration mind by satisfying full time core employees and narrowing the treatment differences (especially pay difference) between full time and part time employees.

Loss of employment security is also big problem. Last fall (in 2008), Toyota and Canon which are typical Japanese companies, taking Japanese style management, decided personnel cut due to sales decrease owing to subprime economic crisis. Their decision was a surprise to me, since they have been companies which put importance on employment security. I think sales downturn does not last long. Since automobile market is saturated, there should be plenty of re-buying demand, namely durable years of automobiles will past before long.

Employment security is very important. Even in depression days, business companies (BC) cannot discard employees just like

tools and equipments. It is most desirable to find new ways to make a living; creating new job or new industry. When it is not possible, it is unavoidable to share difficulty and adversity; for example, work sharing, spending internal reserve stocked during business boom. I think reserve fund for stabilizing employment is necessary. In order to put work sharing into practice, it is required to realize equal pay for equal value work which has been carried out already in Holland. Anyway it is an emergent problem to provide safety net for workers (social support, social insurance, work sharing etc.). And also fair distribution of income is important.

(b) Corporate financing

The problems of change in corporate financing are loss of long-term vision and loss of stability. In household everyday life, stability will be lost when money is invested in risky security market. There is a limit in taking risk in everyday household economy and people cannot leave themselves to gamble. In business, stability will decrease by risk of takeover by rival companies and investment banks. Also, there may be strong pressure and request from stockholders which are pursuing profit short-sightedly. Moreover, BC may be enchanted to give their executives extraordinary remuneration by manipulating stock market. There must be a limit to raising risk money; because not all business is venture business. There are surely steady business which do not need to depend on risk money.

Most of stockholders (mainly institution investors) are interested only in income gain (dividend) and capital gain (stock-price rising).

They do not think of not only meaning of business itself, but also fostering business. SRI (socially responsible investment) is an exception. In traditional Japan there had been main bank system in which main bank had been responsible for supporting and rearing industries. BC used to depend on main banks for long term funds and support in time of bad days.

Finance (monetary economy) is originally only a means of real economy, but nowadays the cart (monetary economy) is put before the horse (real economy). Speculation reaches some hundreds times of real demand. Both BC and individuals are pursuing profit by speculation rather than working steadily in real economy. Though, it seems natural that affluent developed countries has stepped into economic stage in which people make living by financial investment as progress-stage theory of international balance of payment insists. Also, financial investment may be better than fixed assets investment, because it may be more adaptive and agile to environmental change these days when everything changes so rapidly. Moreover, speculation, securitization and derivative have big role anyway when they are properly used; risk diversification, risk hedge, price stabilization and enticing financial products.

However, it is the fact that there were excessive speculation and miscalculation in current economic crisis triggered by subprime loan. Worldwide depression was caused by misuse of securitization. For now it is necessary to prepare proper regulation and taxation system. Also it is important to control money supply and government expenditure.

From a viewpoint of business ethics, the most problematic

thing is exorbitant profit brought by gamble-like speculation. We should evaluate steady and straight job and business more justly, compared with speculation. Financial business is required to manage more steadily and honestly in order to serve for real economy. Investment banks in Wall Street were blamed for greedy behavior last year.

(c) Business philosophy

Main problem of change in business philosophy is mammonism. In Japan, company misdeed has not been eradicated yet. To our regret, company misdeed follows one after another. This makes us lose pride in business. We must think again what business is for, what business people work for, who owns business companies (BC), what legitimate profit is, and what economy is for. These are fundamental questions which we should answer. I have proposed CHISOKU and KYOUSEI as a business philosophy. CHISOKU means that we should know how much is enough and we will be unhappy if we are greedy. KYOUSEI means that we should cooperate and share each other and we will be unhappy if we always contend and compete. I think we should retain good and beautiful points of Japanese management system.

I will explain fundamental problems in detail next.

Fundamental problems

(a) What is business for?

It is often said especially in market fundamentalism that

purpose of business companies (BC) is profit maximization, but it is not necessarily profit-making. Since it is free for each BC to decide its purpose so far as it does not inflict damage to others, each BC can select profit-making as its purpose. However it is also possible for any BC to select any other thing as its purpose; for instance contribution to society through their business.

Contribution to society through each business is function (role) of BC under social division of labor system. Accordingly BC can select its social function as its purpose. Indeed purpose of school is education and purpose of hospital is medical care. They stipulate that their social function is their purposes. Therefore it is natural that BC selects its function as its purpose.

"Social enterprises" have been rising these days. Even if they adopt "stock company" as company form, their purpose is not profit-seeking, but contributing to society by solving such problems as environmental pollution, caring aged people etc.. While their business should pay, profit-making is not priority thing.

When top management decides company purpose or goal in real world, they must take into account interests, values, hopes etc. of various stakeholders. Interest of stockholder is merely one thing among many things that top management must consider and adjust.

It is said particularly in USA that BC are what stockholders own and purpose of BC is profit-maximization. Recently Japanese companies have been greatly influenced by USA. However BC are what various stakeholders sustain. BC are places where various stakeholders collaborate; directors, managers, employees, stockholders, banks, suppliers, local society (community) and sometimes

customers; even rival companies sometimes cooperate like in strategic alliances.

Therefore BC are not merely owned by stockholders. BC are where various stakeholders collaborate; there sometimes occurs conflict of interests, but it is modulated in order to attain common goal. Purpose or goal of BC is decided after adjustment of various interests of various stakeholders, thinking of social function of BC, namely contribution to society through business (providing goods and services).

(b) What is economy for?

Under free economy system (FES), business companies (BC) are allowed to own necessary equipments privately and develop economic activities freely without any interference. Free economic activities are automatically modulated by price mechanism. Demand of each product is balanced with supply of it. Resources distribution is optimized, since any sort of resources flows into market where demand exceeds supply. People are motivated owing to freedom of economic activities, which brings economic growth.

Although FES is superior system as mentioned above, it is not omnipotent; business cycle (depression or inflation), monopoly, the social weak (the unemployed, the handicapped, the aged etc.), external economy, public goods, dissymmetry of information and so on. To these problems, countermeasures have been considerably taken by government; fiscal and monetary policy to economic cycle, anti-trust policy to monopoly, social policy to the social weak (welfare state), provision of public goods and services, environmental policy

to external economy, disclosure policy to dissymmetry of information.

Nevertheless we have another important problem which is very fundamental in FES and much more significant to our everyday life, but is often overlooked by many of us. Under FES everyone must take responsibility for the result, in return for freedom of economic activities. Accordingly BC try to sell as much products as possible and try to survive by all means in keen competition. IF their products do not sell well and they lose selling game, they cannot survive. As a result, a top priority for BC is to win selling game in monopolistic competition.

FES is not a quiet and stable system of perfect competition. It is not true that BC simply respond to social needs each other in social division of labor system. BC are not price takers. They do not passively comply with price mechanism, but actively make use of it and sometimes manipulate it. They do not want economic equilibrium. "Unequilibrium" is rather chance to them. Accordingly they wait for unequilibrium and change, and if possible they actively create "unequilibrium and change". They are not equal economic players, but players with different "power". They try to make "organizations and networks" in order to amplify their competitive power. Thus BC are under monopolistic competition, making advantageous use of price mechanism.

The following are some of business behaviors which have significant meaning to us all.

① BC create demand. They often stir up throw-away (intentional obsolescence, model change, fashion creation). They promote sales by

massive advertising and giving credit. Excessive consumption in USA had been sustained not only by house bubble but also by excessive loan; this loan is ultimately from Asian and Middle East countries. Excessive demand creation and excessive consumption make economy only swell without true growth and make environment problem serious; this make people unhappy.

② As new frontier of economy and business, money economy and symbol economy have become flourishing. "Money economy" means speculation in which various kinds of financial products are invented and anything are possible to be targeted for speculation. "Symbol economy" means that people put more value on symbol than on function; for example, function of automobiles is transportation while symbolic aspect of it is that automobiles have such symbolic value as status, taste etc.. If BC succeed in symbol and brand management, they can obtain enormous profit. Both money economy and symbol economy are likely not only to be far from steady business, but also to make income distribution unfair. They are just like gambles.

③ Although economy grows by demand creation and new frontier, such growth may be merely "swollen growth". When everyone behaves the same way, namely creates demand mutually, economy grows by interdependence; economic equilibrium is attained by "mutual demand creation". But, if mutual demand creation contains needless and valueless products, it may be just "swollen equilibrium" and bring too much load to environment.

④ Economic competition is easily escalated. When rival companies spend much money for CM on TV, BC are compelled to

spend more to match their rival. When rival companies introduce new products in markets, BC are forced to produce more attractive products. People (consumers) buy products, comparing with other people and their relative status (demonstration effect).

⑤ BC are often involved in “prisoner’s dilemma” in competition process, which leads BC to fall together. Moreover BC are not so thoughtful to select only due means; BC are likely to select any means (sometimes even cunning and nasty means) in order to win the game.

⑥ Keen competition has brought earning differentials which has been widening these days. There has been a tendency that winners take all. This “winners-take-all” tendency has been spurred by globalization and information technology.

⑦ Competition is based on individualism. There is no problem in competition and individualism by themselves. However when they go to extremity, egoism (meism) spreads, which brings loss of human bond and togetherness feeling; collaboration mind and trust relation are damaged. Also excessive competition makes our society brutal and dreary, where people are forced to be “workaholic” and our everyday life becomes too busy and stressful.

⑧ Above mentioned economic behavior of BC is indeed “ordinary and everyday” behavior. It is neither abnormal nor irrational. It is rational as “economic man” and it is sometimes even praised; ex. sales contest winner, successful speculator, company ranking by profit, the current of might-is-right and so on.

Nevertheless as a whole it is possible to be “a fallacy of composition”. Global warming is typical one of such problems. Even if

each BC behave rationally, there is a possibility that they fall together.

Conclusion

I think BC must take into account above fundamental problems. BC along with government must cope with environmental problem, excessive money game, mammonism, competition escalation, prisoner's dilemma, unfair income distribution, social bond destruction, workaholic syndrome which have been brought by "ordinary and rational" business activities. We must avoid "fallacy of composition"

In traditional Japanese management above fundamental problems had been wisely coped with by business philosophy which laid priority on contribution to society through business. This Japanese business philosophy coincides with my proposal, namely CHISOKU and KYOUSEI; it is thought in CHISOKU that contentment leads to happiness and greed is undesirable. On the other hand it is thought in KYOSEI that collaboration and togetherness are important and excessive competition should be evaded.

I wrote CHISOKU-KYOSEI and business companies in detail in my book (listed in references). It seems to me that we should regain good and beautiful points of Japanese management system.

References

- (1) Ronald Dore, *Stock Market Capitalism, Welfare Capitalism*, Oxford Univ. Press, 2000

- (2) Michel Albert, *Capitalisme Contre Capitalisme*, Editions du Seuil, 1991
- (3) Charles Handy, *The Hungry Spirit (Beyond Capitalism)*, Hutchinson, 1997
- (4) Amitai Ethioni, *The Moral Dimension*, The Free Press, 1988
- (5) Paul Hawken, *The Ecology of Commerce*, Harper Business, 1993
- (6) Alan T. Durning, *How Much Is Enough?*, W. W. Norton & Co., 1992
- (7) Robert. H. Frank=Philip. J. Cook, *The Winner Take All Society*, The Free Press, 1995
- (8) D. B. Arnet=S. D. Hunt, Competitive Irrationality, *Business Ethics Quarterly*, Vol. 21, Issue3
- (9) K. E. Goodpaster=J. B. Matthews, Can a Corporation Have a Conscience?, *Harvard Business Review*, Jan-Feb, 1982
- (10) Chester I. Barnard, *The Functions Of the Executive*, Harvard Univ. Press, 1938
- (11) Takeo Nishioka, *Business Management in Mature and Affluent Society*, Bunshindo, 2003