

Japanese Business Organizations and Environmental Changes

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I. Some Problems on the Contingency Theory of Organization

The problems of the "Japanese way of management" have been argued in Japan since a few years ago. Japanese business organizations have been confronted with practical problems how to get over the difficulties arising from radical environmental changes. Disputes on the "Japanese way of management" are growing from this actual situation. The main point in these disputes is how Japanese traditional management usages and systems should be dealt with. However, each management usage and system is related to one another, and is one of the elements of the total system of management and organization. And the contents of the management and organization systems in Japanese business organizations are not only the traditional usages and systems, but also highly modernized systems and techniques. The central problems for the contemporary business organization of Japan are how well this total system of management and organization fits in current environmental changes.

Hereby, we think that the standpoint of our study on the "Japanese way of management" is a kind of the contingency approach. We think also our study will be developed by application of the contingency theory. The contingency theory of organization takes the organization to be an open system interacting with its environment, and insists

that the organization structure should be consistent with environmental situation. We will make some inquiries into the contingency theories of organization, in reference to the "Japanese way of management".

First of all, how are these theories taking the contents of the environment of a business organization?

Lawrence and Lorsch take the environment in three sectors, i.e., the market, techno-economic, and scientific.¹⁾ Fiedler thinks about the leadership pattern in conformity with the degrees of structurization of work and character of a work group.²⁾ Woodward takes the organization structure only in response to the technology and production system.³⁾ Among them, the theory of Lawrence-Lorsch is taking the organizational environment most inclusively. However, it places the market sector at the center of the organizational environment. In this theory the criterion for choice of three industries as the objects of research is mainly the degree of the diversity and dynamism of the market. This is obviously one of the most fundamental criteria, because business organizations should try to achieve the economic goals through competition in the market. Every business organization has to respond

1) P. R. Lawrence, J. W. Lorsch: "Organization and Environment", 1967, p. 88.

2) F. E. Fiedler: "A Theory of Leadership Effectiveness", 1967.

3) J. Woodward: "Industrial Organization—Theory and Practice", 1970.

sensitively to the changing conditions of the market. But this environmental sector is not independent, but interdependent with other sectors. Business organizations responding to the changing conditions of the market should not neglect the other environmental situations surrounding themselves. The environment of a business organization consists of very various sectors. These sectors have interdependent relationships with each other, and these interrelationships build up the environment as a total system. The items of these sectors, according to Koontz and O'Donnel, are the economic, the political, the technological, the social, and the ethical.⁴⁾ These are the factors building up the external environment. But besides them, we have to take into consideration the internal environment, i. e., personalities of organization members and their interrelationships.⁵⁾

The pattern of the influence of the market sector (the main factor of the economic environment) on a business organization will vary with the interrelationships with the other sectors of the external environment, and with internal environment. The influence of the market will be similar in every organization in one industry in one country. Each organization in one industry have to respond to the common market conditions. If a business organization fails to do so, it won't be able to continue to exist in that industry. However,

4) H. Koontz, C. O'Donnel: "Management—A Systems and Contingency Analysis of Managerial Functions" (Sixth ed. of "Principles of Management") 1976. pp. 76-92.

5) J. W. Lorsch, J. J. Morse: "Organization and their Members", 1974, p. 13. Lorsch and Morse regard here organization members as systems (personality systems) and the internal environment as individual system's environment. However, we take the internal environment to be a total system of individual personalities and their interrelationships.

we can't think that the pattern of the management and organization system fitting in a market environment is the same in every organization. The management and organization systems will be directly influenced by the internal environment. Therefore, they will vary with the internal environments. The theory of Lorsch-Morse deals with the internal environment. We think, it is important and fundamental to deal with effects of internal environment.

Anyway, the environment of a business organization is a total system consisting of external and internal factors, and the management and organization system have to be consistent with this total system of environment. However, needless to say, the interactions of the environmental sectors vary from time to time. Therefore, the influence of the total environment on a business organization always varies, too. For example, at the time of high economic growth in Japan, every business organization thought about only the rapidly enlarging market. At the time, every business organization was not confronted with other problems. Environment did not pose any problem to business organizations. But, contemporary business organizations are faced a lot of difficult problems arising from the changing environment. Nowadays, they have to make the management and organization systems consistent with this total changing environment.

How should we take the interrelationships of each sector of the organizational environment? It is very difficult to answer this question. Koontz and O'Donnel enumerate various kinds of the external environment, as mentioned above. But they don't indicate the existence of the interrelationships of these factors. The pattern of the influence of each factor of environment is different from one

another. We cannot think every factor demands that the management and organization systems should be consistent with itself at the same pattern. Business organizations have to select the pattern of consistency with the total environment through coordinating these contradictory demands of environmental factors. For example, contemporary Japanese business organizations have to make their management and organization system consistent with the changing economic environment, i.e., stoppage of scale enlarging of economy. Therefore, they have to rationalize the traditional system of management and organization. This assertion often insisted on general argument is surely correct. However, the cultural situations of Japan don't accept such a radical change of management and organization systems, because cultural environment doesn't change so radically, even though the economic environment changes radically. The adoption of "meritocracy" principle instead of "seniority" principle indicates it clearly.⁶⁾

We use here the word of "culture" in the sense of the common character of people in a country, a race or a region. And we understand "culture" consists of manners, customs, patterns of thought and behavior, value systems, and so on.⁷⁾ The cultural environment consisting of these factors is the background of all the other sectors of en-

6) S. Uemura: "The 'Japanese Way of Management' and the Executive Behavior", The Research Institute Momoyama Gakuin University, "Changing Contemporary Japanese Society", 1978, p. 75.

7) Hellriegel and Slocum argue that the external environment consists of the cultural, political, and economic systems. (D. Hellriegel, J. W. Slocum: "Management: A Contingency Approach", 1974, p. 17.) Then, they consider the value system in reference to a cultural system. (*ibid.* pp. 22-28.) Our concept of "culture" includes both cultural and value systems.

vironment, because the latter are built up through human activities. Any business organization cannot neglect the influence of this cultural sector. But since it is implicit by nature, business organizations often fail to perceive it, and try to take into consideration only the explicit environmental changes, especially a trend of the market. Japanese business organizations during the period of high economic growth tried to keep in view the enlarging markets and neglect the traditional culture of Japan.

Anyway, business organizations have to develop the economic, political, and social activities through human behaviors determined by the common cultural situations. The theory of Lorsch-Morse takes the members' personality to be one of the variables in the organizational environment and the "attitude toward individualism" to be one dimension of personality.⁸⁾ This "attitude toward individualism" is one of the most fundamental factors of "culture". In Japan, there is a single unique cultural situation. We term it "collectivism" in our own special sense. Then we think that the fundamental point of the "Japanese way of management" is how to fit Japanese business organizations for Japanese cultural environment.

The theories of Lawrence-Lorsch and Woodward inquire mainly into the organization structure in reference to environmental situation. And Chandler examines the organization structure in reference to the market strategy. However, we think that the organization structure is designed for effective performance of management functions. Then, we regard the business management and organization as a total system consisting of "motivation", "decision making" and "organi-

8) Lorsch, Morse: *op. cit.* p. 50.

zation structure".⁹⁾ These three factors are interdependent. Chandler's basic thesis is "that structure follows strategy and that the most complex type of structure is the concatenation of several basic strategies".¹⁰⁾ This thesis is true and actual. But we think that structure following strategy is, at the same time, structure for motivation. The organization structure has to follow strategy and be effective in motivating their members. "Motivation", "decision making" and "organization structure" have such interrelationships, and each of them has to be consistent with the total environment. The organization structure has to be consistent with the total environment, and at the same time, motivation and decision making have to be so. There is not "one best way" both in motivation and in decision making, as well as in organization structure.

From this standpoint, we will examine Japanese business management and organization systems. We will mention later these factors of business management and organization systems of Japan in reference to Japanese organizational environment.

II. Cultural Factors in Japanese Society

In an article previously published, we grasped the "modernization" in two phases, "rationalization" and "individualism", and characterized Japan's modernization process

as a radical development of "rationalization" without the foundation of established individuals.¹⁾ This feature of Japan's modernization process has continued to exist since the Meiji era, and exists even now. A fact that Japanese society does not have the foundation of established individuals indicates a cultural characteristic of Japanese society. As we mentioned above, the contents of "culture" are manners, customs, patterns of thought and behavior, value systems, and so on. The cultural characteristic of Japanese society is appearing most clearly in the people's everyday behavior. The value systems or a code of behavior of every Japanese is not set in the rightfulness of behavior itself but in the external factors of individual person. If the established individuals will be clear, individual person will have got a clear internal value code, and a judgement about rightfulness of his behavior itself will be the one and only code of his behavior. The behaviors of Americans and Europeans show such a pattern. Ruth Benedict characterized American and European societies as "a society that inculcates absolute standards of morality and relies on men's developing a conscience", and named it "a guilt culture".²⁾ On the other hand, in the cases of Japanese society, a code of behavior of every person is whether his behavior is permitted by society. The permission by society means directly the acceptance of personal behavior by a group he belongs to. And the behavior of that group itself have to be accepted by an upper group. Therefore, ultimately it means permissions by a total society. This permission by total society is the most fundamental code by which any personal behavior is directed. If behavior of a person

9) We built up this thought by arranging the theory of C. I. Barnard on executive functions. Barnard views "the essential executive functions" are three functions, i. e., to provide the system of communication, to promote the securing of essential efforts, and to formulate and define purpose. (C. I. Barnard: "The Functions of the Executive", 1938, p. 217.) We take these functions as organization structure, motivation, and decision making, respectively.

10) A. D. Chandler: "Strategy and Structure", 1962, p. 14.

1) S. Uemura: op. cit. p. 66.

2) R. Benedict: "The Chrysanthemum and the Sword", 1946, p. 222.

deviates from this code the primary group which he belongs directly blames and attacks him in background of the tacit demand by total society. Benedict names this cultural character the "shame culture"³⁾.

This cultural characteristic of Japanese society indicates the totalitarian thought that the individuals are submerged by a group, and ultimately by a total society. Individuals are submerged by small and large groups, from a primary group to a total society. Their behaviors are regulated one-sidedly by the value code of each group. This is quite opposite to the thought that the individual is a base and organizations or groups are made up of individuals. It is not a thought that the individuals make an organization or a group, but that an organization or a group exists first of all and absorbs the individuals within itself. The so-called "collectivism" means such a way of thought. We use here the word "collectivism" in the sense of a group-oriented code of behavior of every Japanese. It means the group cohesion based on sacrifice or denial of individuals⁴⁾.

"Collectivism" in this sense is a common value system of the Japanese, and the most fundamental cultural factor of Japanese society. In this case, the groups in which individuals are submerged are not always one kind. An individual is absorbed and submerged into every group he belongs to. Main units of the groups are nation, villages, regional communities, families, and so on. The nation means a total society as a group, and is quite different from the concept of "society". It was called "nationalism". Collectivism in nation is the largest collectivism having the direct absorption to the nation, the largest group.

3) *Ibid.*, p. 223.

4) S. Uemura: op., cit. p. 68.

Then, collectivism in villages is a prototype of Japanese collectivism, because it has continued to exist for a very long time. Japanese agricultural production is by way of irrigation. Peasants don't have mobility, but settle down in their particular places. These situations are different from that of nomadic tribes who always have mobility. Out of this situation, the "Gemeinschaft" relationships among peasants living in the same area are developed, while the individualistic thought is assumed in a nomadic tribe. This is the most fundamental background of Japanese collectivism.

This collectivism developing from relationships in villages have been reinforced by the "family" of Japan. The family is the most fundamental unit of daily life, and is the smallest primary group. In Japan, the cohesion of a large scale non-cooperative group have been insisted by fictionalizing the patriarchal relationships. "Patriarchism", or "paternalism" in business organizations, during the pre- and post-war periods, had also accelerated the submergence of individuals into organizations by fictionalizing the patriarchal relationships. These fictionalizations have brought about the irrational and personal relationships between one particular person and others.⁵⁾

We regard the collectivism in villages and patriarchism as the basic sources of collectivism in business organizations. Such collectivism in Japanese business organizations determines the feature of the management and organization systems fundamentally.

III. Collectivism and Japanese Business Organizations

Collectivism in the unique sense is a most fundamental factor of the cultural environ-

5) *Ibid.*, p. 69.

ment of Japanese business organizations. Everyone in business organizations is acting through taking collectivism for a code of behavior. Therefore, the total system of management and organization cannot be run without taking into consideration this feature of members' behaviors. We take the feature of these systems of management and organization to be the "group-oriented management". This "group-oriented management" is the most fundamental characteristic of the "Japanese way of management". It is quite different from the group thought in behavioral sciences, because the latter is the individual-oriented thought. It insists the group cohesion through submergence or denial of individuals by the group.

By this way of the group cohesion, Japanese business organizations have made more effective its management activities. The highly modernized management systems introduced into Japanese business organizations also have been influenced by this group-oriented thought. Their functions and contents are different from that of American original systems, because these modernized systems are tied up with the group-oriented thought and are utilized in the background of this thought. Therefore, they can be called the "Japanese way of management", too. We will indicate the practical situation of these "group-oriented management" in each phase of management and organization systems, i. e., motivation, decision making, and organization structure.

Japanese traditional management usages and systems, such as "permanent employment", "systems of seniority", and so on, have been very effective as motivation systems until quite recently. These are related to one another, and build up the very effective motivation system as a whole. Originally these

systems were means to motivate each employee through securing the stability of employment and income under the general instable situation of them. The collectivistic thought of Japanese was the foundation of these systems. Loyalty of every employee to his business organization was induced very effectively through these systems with the background of collectivism.

However, these systems have begun gradually to perform new functions, during the post-war periods. After the World War II, in particular, through the high economic growth process, Japanese business organizations have enlarged their scale very rapidly. Under this situation, the stability of employment and income were secured socially. It was no longer necessary for business organizations to pursue the security of employment and income stability. But these systems did not vanish. They were intensified instead. The enlarged business organizations were forced to think about inducing loyalty of a lot of employees at every rank of hierarchy. For this purpose, these traditional systems with the background of collectivistic thought were utilized in a new context. Employees could satisfy their desire to get status stability in hierarchy with the "seniority" principle, because it secured promotion of everyone in the hierarchy, in definite term after his getting job, regardless of his ability or performance. Under this situation, every person was motivated and began to orient his concern to an almost lifelong identification to his organization.

These traditional systems are still one of the main components of Japanese management systems. However, on the other hand, a lot of modern management systems and techniques were introduced into Japanese business organizations, especially after the time of high economic growth. These mod-

ern systems and techniques were also tied up with collectivistic thought of the Japanese and had the unique contents and functions different from that of American original systems and techniques. The contents and functions also indicate its "group-oriented" character.

This "group-oriented" character appears most clearly in the features of the organization structure. By enlargement of organization scale, the functional organization structure grew rapidly in Japanese business organizations. But this functional structure was only superficial. It was not built up by "specialization of function" and making clear interrelationships of functions. It was based on rather irrational philosophy. In Japanese business organizations, "functionalization" or "specialization" has not developed fully. Therefore, the boundary between one job and another is still very vague. In other words, in Japanese business organizations, the ideas of "function" and "job" are not established yet. Characterization by C. Nakane, that is "the ready tendency of the Japanese to stress situational position in a particular frame, rather than universal attribute¹⁾", describes this situation. Nakane says that "in group identification, a frame such as a 'company' or 'association' is of primary importance; the attribute of the individual is a secondary matter²⁾". Any employee's concern is not the content of his job, but the character of the group he belongs to. Actually, after deciding a group a person belongs to, his job is decided. But the job may not be proper to him. It is only one part of the whole work performed by the group. Anyone taking upon a particular job himself is expected to do other job from time to time. His job is very flexible and group members help one another. If a

man denies to help other members he will be taken as a heretic and become a focus of criticism. This is the implicit intragroup discipline indicating the feature of "group-oriented management".

Such an organization structure as this is neither functional nor bureaucratic substantially. In this type of organization structure, the status is not based on a function or job. In other words, it is not the "position". It has a character of a social standing having no relation to a function or job. The superior-subordinate relationships in hierarchy are not communication channels based on rational distribution of functions, but personal combinations beyond rational functional relationships. These are the "vertical" relationships in the words of Nakane³⁾. People in these relationships usually extend these personal combinations to the non-official or private life. Making use of these situations, executives can intensify the group cohesion practically.

Japanese business organizations also don't have a clear authority and responsibility relationships. This is the feature of Japanese organization structure arising from the fact that the function or job is not defined clearly.

According to the organization principle, authority has to be taken on the premise of function or job. But in Japanese business organizations, it is viewed as an attribute of

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- 1) C. Nakane: "Japanese Society", 1970, p. 2.
In this book, Nakane uses the concept of "frame" "as a technical term with particular significance as opposed to the criterion of 'attribute'". (*Ibid.*, p. 1.) According to Nakane, it "may be a locality, an institution or a particular relationship which binds a set of individuals into one group". (*Ibid.* p. 1.)
 - 2) *Ibid.* p. 3.
 - 3) The word "vertical" is the English translation of the Japanese "tate" used by Nakane. It means irrational and personal relationships between superiors and subordinates.

a status or a person occupying it.

It is the same with responsibility relationships. When a function or job is vague and authority is not established clearly responsibility also is not clear either. When the job of a man is flexible, personal responsibility cannot be determined. The principle of "parity of authority and responsibility" don't have the clearcut foundation in Japanese business organizations. Personal responsibility is involved into the group cohesion, and diffuses throughout the total group.

The fact that they don't place responsibility on one particular person is intensified through the informal coordination process called "*ne-marwashi*". This process is for coordination of the gap between one opinion and another before making decision of a group or organization. It is a process of persuading those who have different opinions from a majority opinion. Through this process, every official decision takes a form of unanimity. This is meant to prevent dissenting opinions from appearing. These dissenting opinions are not open, but are stored in the heart of men. By maintaining unanimity in this way everyone is motivated and group cohesion is more intensified. It is one aspect of "group-oriented management", too.

Groups in an organization structure build up intimate cohesion as mentioned above. And each of these groups has a closed character. Some groups in one hierarchical rank stand in mutually competitive relationships. Generally in Japan, it is taken for "*Uchi to Soto*" ("*Inside and Outside*") relationships. A group is opposed to "*Soto*" groups, forming its own "*Uchi*" circle. This competitive relationship between one and other groups intensifies the cohesiveness of each group all the more, and promotes effectiveness of activities. In this case, the "differentiation" (in

the sense of the word using by Lawrence-Lorsch) is viewed very clearly. This competitive relationship, however, is transformed into cooperative relationship in upper rank of hierarchy, because a group of an upper rank consists of the competitive smaller groups. Competitive relationships are brought into an upper group. Hierarchy of such a competition and cooperation makes the "inside" relationships of total organization. And a business organization in itself is opposed to "outside" organizations, through these "inside" relationships of a total organization. The "integration" (in the word of Lawrence-Lorsch) also appears clearly through this situation. In this case the competitive relationship among smaller groups is the foundations of cooperation in an upper group. The source of vitality of Japanese business organizations lies in this hierarchy of competition and cooperation. In other words, the controlling power of group over the members weighted by this hierarchy, and as a result of it, contribution of each member to the organization becomes more intensive. Business organizations in U. S. A. and European countries have been recently confronted with the problems of high absence and turnover. But in Japanese business organizations, these problems have not been materialized through the high economic growth process. The main reason of it is this hierarchy of close cohesion.

Then, the business organization which has a close cohesion as a total organization through the hierarchy of cohesion of each group regulates every member's behavior towards the "outside". In this case, the logic of "shame culture" activates itself. As mentioned above, personal responsibility for job performance is not determined in Japanese business organizations. But on the personal

behavior outside his job (non-official or private behavior), an organization places personal responsibility by logic of "shame culture" appearing in the shape of "honor or dignity of the company". If a member of an organization behaves himself dishonorably, the organization punishes him before the society impeaches him. The criterion of such an organization activity is whether the society permits his behavior. If the society doesn't permit, the organization has to punish him and maintain its dignity thereby. It is not the absolute rightfulness of his behavior, but whether the society criticizes him. It is different from the social or public point of view, because it is not the viewpoint taking into consideration the social or public interest. It is the organization-centered or company-centered thought. The concept of "society" or "public" does not exist in Japan.

IV. Executive Decision Making and Future Perspectives

The "group-oriented management" as the fundamental feature of the "Japanese way of management" is based on "collectivism". This is a value system, pattern of thought and behavior of every Japanese. This is also the cultural environment of Japanese business organizations. This has not changed until today, and continues to exist even now, though its semblance changed radically by a lot of social changes during postwar period.

However, contemporary business organizations can no longer pursue the unlimited enlargement of the economic scale nor economic effectiveness. By this situation, the "group-oriented management" is becoming less effective than ever. For example, owing to the principle of "permanent employment", business organizations cannot fire easily the surplus employee caused by the curtailment of

organization scale. Based on this fact, they say the traditional management systems have to be abolished at once. Certainly, this is a demand of current economic environment to business organizations, and business organizations should respond to it. But this demand is not always consistent with demands of the other environmental sectors, in particular, of cultural environment. Really, the demands of economic and cultural environments are contradictory each other in contemporary Japanese business organizations, because collectivism of a Japanese doesn't easily accept the demand to abolish the traditional management systems radically and completely. If executives enforce it, a confusion will occur in human relationships in business organizations. It is because management systems are changeable revolutionally, while human thought and behavior are changeable only evolutionally. We described it in the above-mentioned article, taking the problems of "meritocracy" principle versus "seniority" principle as an example¹⁾

Therefore, the fundamental problems of management practice in current Japanese business organizations are not to abolish Japanese unique systems or usages, but to search the way to make use of them. How should business organizations find out that way? It is impossible to give a general answer to this question. The way used in business organizations will be variable. It is the problem of practical decision making of executives, particular of top management. In other words, it is how to coordinate the contradictory demands of economic and cultural environment, and to fit in them. We can find a clear answer to this question in behaviors of "founder" type executives.

1) S. Uemura: op. cit., pp. 74-75.

In the article, we classified Japanese executives into two types, "founder" and "employee manager", and compared their characters.²⁾ We said there that the "employee manager" type of executives have decided and executed the stereotyped policies. They have adopted the policies to promote modernization and to eliminate Japanese traditional factors, during the postwar period. They have tried to deny consciously Japanese traditional factors. In other words, they have pursued "one best way" named "modernization". But in spite of their efforts traditional factors continue to exist. Nevertheless, they are still insisting on and pursuing only their object to promote the "rationalization" and eliminate traditional factors,

On the other hand, the "founder" type of executives, such as Matsushita, Idemitsu

2) *Ibid.*, pp. 69-72.

Honda, and so on, are pursuing their own unique ways. They are usually pursuing the new directions of business activities, and at the same time, trying to make use of Japanese traditional factors. We gave practical examples of their activities, in the article³⁾. They are quite unique policies fitting both in economic and cultural environments. They are not "one best way". In their business organizations, both modern systems and Japanese traditional systems are functioning quite effectively, and are building up the unique "Japanese way of management" as a total system.

Based on these facts, we can conclude that every business organization should search its own way to coordinate the demands of economic and cultural environments, and to fit in them.

3) *Ibid.*, pp. 70-72.