

Japanese Management from a German Viewpoint

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Japanese Management from a German Viewpoint

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1. Introduction

Japan's rise to the status of an economic superpower has long been a matter of fascination for highly industrialized countries as well as for those countries still on their way to full economic development. Germany — or to be precise: the Western part of it — experienced a similar post-war economic miracle. But in recent years, Germans found out that they were increasingly losing market-share to Japanese firms. This was especially worrisome in those industries, where Germany had long been in a leading or at least in a strong position. Thus, Japan and Japanese management has always been both to my country: highly fascinating and at the same time threatening.

Just at the time when unified Germany entered its most severe post-war recession, the German edition of 'The Machine that

Changed the World' was published. Its authors from the well-respected Massachusetts Institute of Technology pointed to the management system of Toyota, which in their view was superior to all other existing concepts. They called it, right or wrong, the 'Lean Production System'. The study reinforced the interest of German managers, politicians, journalists and union activists in Japanese management techniques.

But is there anything like 'Japanese management'?

In almost every article or book on Japan, you can read about the so-called 'sacred treasures' of Japanese management, e.g. lifetime employment, seniority-based wages and promotions, consensus decision making and enterprise unions. In my lecture, I am going to concentrate on these and a few additional elements of so-called 'Japanese Management'. I will do this from a German viewpoint in the sense of contrasting these elements with German management practices.

It is not my intention to criticize Japanese management or the Toyota production system, the synonym for Lean Production or Lean Management. Instead, I want to point out that different cultural values lead to at least partially different management practices and structures. It is my deep conviction that in a world of global business we must acquire knowledge of these differences between cultures. Cultural knowledge can help to avoid misjudgements; it can help us to distinguish between what we can learn from each other and what should better be regarded as elements of a different historical background that cannot be adopted.

2. Selected Elements of Japanese Management

2.1. Lifetime Employment

Large Japanese companies normally guarantee lifetime employment to their core workers. This way the management shows its deep commitment towards those employees. On the other side, the core workers find themselves in a secure position, which is the basis for a relationship of trust between management and employees. Lifetime employment also makes long-term investments into the qualification of core workers sensible – I will come back to this aspect in the following section.

In Germany, only civil servants have a formal guarantee of lifetime employment. Nevertheless, there are many employees in trade and industry, who stick to the same company for the whole of their working lives. Thus, the actual duration of employment at the same company does not differ much between Japan and Germany. Still, there are quite a few subtle differences.

I think the notion of total versus partial inclusion is useful to give us a first clue of the differences. Employee loyalty and dedication to the company is normally much stronger in Japan than in Germany. Whereas Germans emphasize the contractual basis of their employment, i.e. they work for example exactly 40 hours a week because they are paid for 40 hours a week, many Japanese continue their work long after normal business hours. They do so, because their groupism – a cultural value shared by most Japanese – requires their subordination to the goals and norms of the company, which they consider to be some sort of big family, at

least as seen from a German point of view. The subordination can even lead to a situation, in which a core worker is sent to a subsidiary or subcontractor, just because the employer encounters a cyclical economic downturn. Japanese employees usually also take part in leisure activities organized by their company. Even if there are no such activities, they tend to spend a large part of their leisure time with colleagues and superiors, e.g. when they go out to bars after work in order to share some drinks. This is due to the fact that a strict separation between work and leisure is not meaningful to them. All this contrasts sharply with the more individualistic German attitude, where any connection between the company and one's leisure time would be seen as an intrusion upon privacy.

Apart from the notion of a corporate family, which results in part from the system of lifetime employment, there are further aspects of the Japanese version of lifetime employment, that cannot be accepted in Germany.

First, lifetime employment as practiced in Japan is by no means a real guarantee, because there is no contractually vested right to it. German employees would find it unfair to being forced to commit themselves totally to a company as long as this company still retains the factual right to lay them off. Accordingly, any possible lifetime employment arrangements in Germany would have to be part of the employment contract. (Annotation: Germans prefer to fix all arrangements in writing anyhow.)

Second, in the German perspective, the term 'lifetime employment' is somewhat misleading. As you all know, core workers retire from their position in the company not later than at the age of 60, often already at the age of 55. Although they are given a so-called

'golden handshake', i.e. they receive a severance pay which is often many times the amount of an annual pay, it is not enough to sustain themselves and their families until the state-sponsored pension starts at the age of 65. Therefore these workers are forced to find a new job, which usually is either a low-paid job at the same company (without the privileges of a core worker) or a job at one of the firm's subcontractors, where in most cases working conditions are worse. This unsatisfactory provision for one's old age, which will become even more critical, if we take demographic trends into account, would by no means be accepted by German employees. (But maybe they have to in the near future.)

Finally, only about 30% of Japanese employees get the benefit of lifetime employment. The other 70%, which include mainly women, part-time and temporary workers, mid-career recruits, and foreigners, get no share of the numerous benefits that are granted to core workers. The American Japan-expert Whitehill remarks in this connection: „From a Western point of view, these less-favoured members of the organization are the targets of blatant discrimination“. I think, that's the way most Germans would see it, too. Such a dual structure of employment would gain no acceptance in Germany, because it would be in sharp contrast to a predominant sense of justice. Once again, let me stress that my aim is to describe the German viewpoint and that I try to avoid any personal judgement.

2.2. Training and Career Development

In the previous section, I already pointed out that the system of lifetime employment forms the basis of high investments into the human capital of a company. In this section, I would like to

underline a fundamental difference between the training approaches of Japanese and German firms.

Japanese companies pursue a so-called company-man approach, i.e. they train their employees for different tasks and positions within the same company. This process already starts with the selection of potential employees. They are selected, because they have attended certain schools or universities (as you all know well, the prestige of a school or university is very important in Japan). Usually, they are not selected, because they studied certain subjects or chose certain majors. Once hired, the newcomers rotate through different jobs in order to get acquainted with a full range of activities within the company. Besides, quite a large portion of the training is devoted to the careful socialization of the new members of the 'company family'.

In Germany, people are trained for a particular profession. Germany's dual system of vocational training consists of on-the-job training within an instructing company as well as theoretical schooling, which is provided by state-run vocational schools. After successful completion, the trainee holds a skilled worker certificate. University graduates are selected mainly because of the specialized knowledge they acquired during their college days. Both groups, skilled workers and university graduates, are then predominantly employed in jobs which are appropriate for members of the professional group they belong to.

Then what are — from a German perspective — the pros and cons of the respective qualification strategies?

Today's modern technologies and rapidly changing market situations increasingly call for employees with a generalistic perspective

of the business their company is engaged in. The training concept pursued by Japanese companies is undoubtedly more likely to provide a pool of such employees. On the other hand, the German dual system, which enables workers to attain a marketable qualification, i.e. their qualification can be employed in other companies as well as in the training company, leads to a higher degree of individual independence. And independence is a value that is held in high esteem in a more individualistic society like Germany. Japanese employees are more at their company's mercy, because their qualification is company-specific and therefore not of much interest to other firms. This fact is reinforced by the seniority-based wages and promotions, an aspect on which I will not elaborate in this lecture.

To speculate on the different effects of the training systems on the innovativeness of companies can be intriguing but at the same time — because of oversimplification — dangerous. Let me nevertheless indicate some possible tendencies: Because of its holistic approach, the Japanese training system is highly capable of encouraging continuous improvements of products and processes. We will come back to this fascinating feature of Japanese business reality later on. As we have seen, the German system produces specialists instead. These specialists might be sometimes more capable of creating revolutionary innovations. But please do keep in mind that we should always be very cautious with generalizations.

Finally, from a German point of view, the socialization process in Japanese companies may take on a questionable touch. Especially young German trainees would resent any notion of indoctrination, which is a common part of the training process in Japanese firms

during the first few years of company membership. (I have to admit, though, that their Japanese counterparts probably do not feel any 'indoctrination' in the vocational education they pass through.)

2.3. Teamwork

Collectivism, in the sense of strong, even total commitment to a group, is a treasured cultural value in Japan. Therefore, it comes as no surprise that Japanese organizations „are structured in collective units rather than in terms of individual positions“; teamwork is the norm. This very important feature of Japanese work organization fits in well with the high demands of today's increasingly complex problems to be solved by successful companies. As a result, Japanese firms have an obvious lead over their Western competitors in this respect. To me, it could even have been the decisive competitive advantage in the recent past.

For the last 20 years at least, Germans, too, have tried to find new ways of effective work organization. Particularly teamwork has been a very popular topic of discussion, and it is still right now. But the German idea of teamwork is quite different from the kind of teamwork practiced in Japanese companies, where you still find highly standardized, repetitive activities. With a few exceptions, the assembly line remains at the core of Japanese work organization. Germans, when they think of teamwork, usually have in mind to give up the concept of assembly line production altogether and to create varied and holistic tasks for the work groups instead. The second very important element of the German ideal of work group organization is the extensive autonomy of those groups. The group as a whole should be allowed to decide for example, which member takes on a

particular job, it should be responsible for the total work outcome, and the group members should be the ones to choose their group leader. In Japan, by contrast, the group leader, who is chosen by the company's management, determines the division of tasks among group members, the sequences of job rotation, the time and length of breaks and so on. At this point, I feel obliged to at least mention that much could be said about differences in leadership style between German and Japanese superiors. Please understand that because of time restrictions, I am unfortunately not able to elaborate on this subject.

Concerning teamwork, we can summarize: Teamwork is increasingly important for the modern world of business. Japanese companies have a marked experience with this type of work organization, which helps them to prevail successfully in today's competitive environment. Because of important cultural and institutional differences, teamwork has to take on a totally different character in order to be employed successfully in Germany.

2.4. Continuous Improvement

The Japanese strive for continuous improvement of products and processes is something that demands great admiration. Driving a Nissan automobile, owning a Sony TV and a Matsushita VCR, taking photographs with Olympus and Nikon cameras and, finally, trusting my Seiko watch, I know what I am talking about. All these Japanese goods are fine products, products of continuous improvement. On the company level, it means that Japanese firms have repeatedly been able to increase their competitiveness by motivating their entire work-force to participate in activities of continuous

improvement. Although quite a few of the improvement concepts, such as quality circles for example, originate in the U.S. or other Western countries, Japanese managers have been very successful in adapting and thereby perfecting those instruments.

That is why German companies look up to the shining Japanese example of Kaizen, when they try to introduce new systems of continuous improvement in their factories. A lot of efforts have been made in this respect in the German industry during the last few years: Quality circles, Continuous Improvement Processes and the like are starting up everywhere. Of course, this field is not totally new to German management. German companies have a long-standing tradition of using so-called suggestion systems to encourage product and process improvements by employees. In the past, results were rather poor, and there is much that can be learned from the Japanese approach. I am going to confine myself to just mentioning two important aspects. First, collective elements again play an important role, i.e. improvement activities are encouraged and mainly take place in groups. Second, Japanese managers appreciate and even emphasize the importance of minor improvements. Therefore, smaller improvements are more an everyday occurrence; they are closely intertwined with the 'normal' job or, to be more precise, they are an essential element of every worker's job.

But again, when German companies wish to adopt Japanese ideas, they have to take certain cultural and institutional differences into consideration. As we have seen in the previous section, the more individualistic orientation of German workers implies that successful cooperation in work groups cannot be taken for granted. Huge training efforts are necessary in order to prepare and qualify German

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employees for productive teamwork. Thus, if a German manager wants to introduce more collectivistic forms of improvement activities, he has to bear in mind that certain difficulties may arise because of specific German cultural orientations.

On the institutional side, the implications of the German system of co-determination and worker participation have to be taken into account. I will go a little further into this subject in the following section. In this context it will do to point out that any system of continuous improvement can only be successfully introduced in German companies, if works councils and trade unions approve of it. And, with regard to specific proposals, no workers' representative will agree to those forms of continuous improvement, which only lead to an intensification of working pressures.

2.5. Enterprise Unions

The organization of labor unions and their functions at various levels differ extremely between Japan and Germany. I will try to briefly characterize the main elements of both systems in order to have a basis for a short discussion of respective advantages and disadvantages from a German viewpoint.

Union structure in Japan fits into the basic orientation towards corporate community. The basic units are the enterprise unions, which owe their name to the fact that they organize the regular employees of a single establishment, regardless of whether they are white-collar or blue-collar workers. Japanese unions are primarily concerned with lifetime employment security and a relatively high wage level for their members, the core workers. As a British author puts it: „It makes sense for enterprise unions to cooperate

with management in enlarging the 'pie' rather than fighting over how to divide it up." As in other countries, in Japan, too, enterprise unions may be affiliated with industrial federations, which, in turn, may be integrated in national union centres. But those units above the enterprise level play no active role in contract negotiations.

In Germany, union structure is based on branch or occupation. The resulting trade unions are normally quite powerful, and they are the ones to negotiate contracts with the respective employers' association, which then enclose all companies of a certain branch in a certain region. Those contracts may deal with questions of wage, work hours, working conditions and many more. As trade unions are not dependent on any particular company, they are able to take macroeconomic variables such as overall unemployment or inflation rates into account, when they decide over their bargaining goals. Moreover, on the company level, German trade unions have in some cases a rather direct influence on company policy. Within the scope of the German co-determination laws, trade union representatives are members of the supervisory boards of large companies and in this way are able to influence management activities to a certain degree.

What would be a possible German perspective of Japan's labor union system? For my fellow countrymen it is hard to accept that Japanese enterprise unions only represent a fraction of all employees — the core workers. From a German viewpoint, it does not seem fair that exactly those employees, whose situation is the most insecure (especially part-time and temporary workers), have no union representation at all. Second, it seems rather obvious that enterprise unions have no true independence, because their existence and success is directly related to that of their companies. German union

activists would doubt in particular that Japanese enterprise unions are self-assertive enough to prevail in a potential conflict with the management. Because of the resulting pressure to behave in a cooperative way, it should be expected that the Japanese system leads to relatively harmonious industrial relations, which then could be assessed as a great advantage. Surprisingly, strike figures show that, in spite of a drastic decline of the days lost in labor disputes during the last decades in Japan, the respective figures still remain higher than those of Germany.

2.6. Subcontracting and Keiretsu

A remarkable difference between Japan and Germany is the extent of subcontracting: It is much higher in Japan. Japanese manufacturers usually only do the final assembly of their products themselves and leave the other steps of production to their suppliers. The production of whole components is being outsourced to so-called systems-components manufacturers. These first-tier subcontractors then employ second-tier subcontractors and so forth. This way, a pyramid-shaped system of suppliers emerges. This kind of subcontracting system minimizes complexity of production while maximizing the flexibility of the manufacturer at the same time. It allows primary producers to focus their resources on strategic activities such as product development and process innovation. And Japanese manufacturers have been very successful in producing a great variety of goods with breathtaking speed and quality indeed.

Such an arrangement functions smoothly, as long as contractual relations are fairly stable over time. One way of stabilizing relations is to sign a general purchasing agreement as an expression of

long-term commitment. Another would be to exchange equity and personnel. In this way vertical 'keiretsu' emerge, as far as I understand it. They are an exclusively Japanese invention and it is a pity that I have to omit remarks on the very interesting subject of horizontal keiretsu in this lecture.

How do Germans view those vertical keiretsu? First of all, German managers are surely a bit envious, because the Japanese contractual relations work so successfully. On the other hand, few German suppliers would be willing to give up a large extent of their independence in return for a keiretsu-like membership. Besides, any such structure as the one of keiretsu would be viewed as not being compatible with a free market economy, especially with respect to unhampered competition, an argument that applies even more to horizontal than to vertical keiretsu.

Another aspect concerns the access of foreign companies to the Japanese market. German companies, in line with other foreign firms, regard the keiretsu-structure of Japanese industry, right or wrong, as an indirect barrier to market access.

The final remarks concern the consequences of the suppliers' dependence on their customers, the primary producers. Subcontractors can be used as buffer agents against fluctuations in demand. This fits perfectly into the keiretsu-structure and the mentality behind it. Maybe German Big Business has strong feelings of envy that this does not work in my country in a similar way. But it is also known that wages as well as work hours and working conditions for the staff of subcontractors are usually not as good as those in primary companies. At the bottom of the supplier pyramid, poor conditions seem to be the norm.

3. Concluding Remark

At the end of my lecture, I would like to point to something completely different. Yet I think it fits into the subject of 'Japanese Management from a German Viewpoint' I was talking about. My concluding remarks concern the Japanese consumer.

Maybe it is well-known to you: Where, do you think, can you buy the finest Japanese consumer goods cheapest? Not in Osaka, and certainly not in Tokyo! Instead, you have to travel abroad, to Europe or, still better, to the United States. Especially New York is famous for best bargains on Japanese electronics and the like. For Germans it would be a very strange experience, if German goods were much cheaper in Osaka than in Berlin or Frankfurt.

To cut a long story short: Is, in the end, the Japanese consumer paying for the tremendous success of Japanese Big Business? Please understand that I do not intend to answer this question. For myself, I would be very pleased if you could accept it as a 'friendly' question.