Abstract

Ongoing discussions about changes in traditional Japanese approach to management very often overlook its unique features that fit Japanese business environment. The article deals with a brief characteristic of these features.

Key words

Traditional Japanese approach to management, lifetime employment, seniority system of compensation and career management, Ringi system of decision-making, company trade unions.

There are a couple of notes that we should keep in mind when discussing traditional Japanese management practices. Traditional Japanese management means the way how Japanese companies have been managed since the early industrialization of Japan after the Meiji Restoration.

First, students often put a question why they should be interested in traditional Japanese management practices. Traditional Japanese management means the way how Japanese companies have been managed since the early industrialization of Japan after the Meiji Restoration.

Second, innovations that take place in Japanese management practice are always carried out in the framework of the traditional management system. This means that traditional Japanese management was not simply replaced by the modern one. It would be more accurate to say that modern techniques are rather gradually incorporated into the traditional system. This happened shortly after the end of the World War II when U.S. management techniques were brought to Japan, and this happens today when Japanese management faces the challenges of the globalization era.

Third, as we will see later, Japanese management characteristics are connected most of all with human resource management system since people are traditionally the only resource that is abundant in Japan.

As we already know, Japan is a highly developed and modern democratic society. Its capitalist market economy is one of the most powerful economies in the world. Accordingly, there are no formal requirements or regulations that Japanese companies should keep while designing their system of management. However, there are characteristics which are similar or identical for the management system in both big business companies and state organizations. At the same time, it is these features what makes Japanese organizations different from the rest of the developed world. This is also one of the reasons why some authors, including the Japanese, believe that Japanese capitalism is different if compared to the rest of the world.

The notoriously known typical characteristics of Japanese approach to management are as the following:

- Life-time employment practice
- Seniority system of compensation
- Ringi system of decision-making
- Company trade unions

Usually there are some other added as well, such as in-house training of managers, extensive use of quality control methods, emphasis on creating harmonious relations among workers, etc. But in reality, the typical traditional characteristics include just the first four of these mentioned above. The rest was incorporated into Japanese management after the end of the World War II during the era when Japanese companies were enthusiastic about the borrowing of U.S. management techniques.

Lifetime Employment

Famous and probably the most important traditional characteristic of Japanese approach to management is lifetime employment. For proper understanding of this management practice in Japanese organizations it should be remembered that:

- It does not necessarily mean the same as a permanent or a full-time employment contract in the Western countries.
- Not all Japanese organizations offer the lifetime employment contracts to their employees.
- If a company provides lifetime employment contracts, it is not provided to each of its employees but rather to a selected group of employees only.
The lifetime employment practice is used in business organizations as well as state institutions.

A permanent employment contract in the Western countries means a contract according to which an employee is assigned to a specific work position in the organization, with no time limitation for employment duration.

A full-time employment contract means that the employee gets a specific work position in the organization and will hold it the full time extent as specified by law.

What is then the lifetime employment approach in Japan about? It is a full-time employment contract that is provided to the selected employees. Lifetime contracts are offered just to graduates from the universities or students who recently completed their secondary school. The more proper word would be “fresh graduates” because in both cases graduates are not supposed to be full-time employees in any other organization before they applied for the lifetime contract. At the same time, they are not supposed to be university graduates who completed their study a year ago or even earlier. Lifetime employment means that a major, i.e. usually one of the “big” companies or a government bureau hires once a year, in Spring, when young people graduate from junior high/ high schools, and universities. New employees are hired as company members, i.e. they are not offered any specific work position but a company membership instead. As they are aware of this practice, applicants do not ask for any specific position but rather for the company membership. Once hired, the new employee is retained until the mandatory retirement at the age of sixty. The retirement age was fifty-five in the postwar era and lasted till the year 1980. In 1980 the official retirement age was increased to sixty, and expected increase till the year 2013 is sixty-five. Upon reaching the retirement age, all employees except for the top few who are managing directors of the company, must retire. In this context, it should be remembered that the meaning “lifetime” is not an employment till the “end of the employee’s life” but till the age of sixty that is not even the age at which the retired employee can get the state pension.

Naturally, the lifetime employment practice is costly. Because of that, the small and medium-sized companies cannot even think about it. Big companies and state institutions offer lifetime employment contracts to applicants who are supposed to become “the key” employees. All together, there is about 30 to 35 % of work force in Japan that are employed on the lifetime employment basis.

There are some advantages as well as disadvantages that are connected with the traditional lifetime employment practice in Japan. From the company management’s point of view, the most important advantage seems to be the loyal and flexible work force which takes the lifetime contract as its commitment to the company. The work force flexibility comes from the fact that employees have no specified work position written in the contract. By signing the contract, they are aware that they will be asked to change their work position according to the needs of the company. But as already mentioned, the life time practice can be costly for the company, especially if the system produces “unemployed” employees who cannot be fired because of their life-time contract. This seems to be the main disadvantage of the lifetime employment system.

The typical advantage from the employees’ point of view is the employment security which comes from the lifetime employment contract. They are sure they cannot be fired except for some special reasons, e.g. if they commit some crime. Another great advantage is the possibility of career development since only the key employees are promoted to managerial positions. In this context it is clear that lifetime employment practice is a way to motivate employees. That is true even if there are some cases of employees breaking down the life time employment contract due dissatisfaction, e.g. with compensation or work conditions. This happens from time to time but it is far from the typical behavior of employees in Japanese companies. Since there is just one single opportunity in the employee’s life to get the lifetime employment contract, they are supposed to be very careful before they decide to break down the contract. Also, they are very careful because otherwise they lose all advantages provided by the lifetime employment system including their salary. A career with one of the big companies offering lifetime employment contracts in Japan is still the dream of many young people. It only comes true just in case of graduates who are selected, and these usually come from the top Japanese universities. Some of former Imperial universities such as Tokyo University are traditionally on the top of this hierarchy beside prestigious private universities such as Waseda, Keio or Joshi University.

Seniority System

Originally, the seniority system as a traditional feature of Japanese approach to management is a compensation system that, together with the lifetime procedure, includes an internal career promotion system. Based on lifetime employment, employee’s professional career in a Japanese company is a career inside a single company. That is true especially in case of managers. Japanese managers are selected almost exclusively from the internal human resources. At the same time, managerial career is offered to
people who have a lifetime employment contract. This is the reason why the term “internal career promotion system” is used. Career progression under the traditional seniority system was highly predictable, regulated, and because of seniority, also automatic.

Most compensation systems in the Western countries were, and still are based on the Taylor’s system that includes the appraisal procedure based on the employee’s performance assessment. In fact, this has never been the case of Japanese traditional firms. Compensation systems were, and in many cases still are based on seniority, i.e. the years spent with the company as an employee. Compensation for new-hired young employees tends to be low. They accept low pay because they are aware that their pay will gradually increase and be quite high by the time they retire. The wage/salary increase is usually done once a year. The salary increase continues till the employee reaches the age of about fifty years. After that, salary is slightly decreased each year till the age of sixty which is till the retirement under the life-time employment system.

As it is believed, the reasons why compensation systems were built this way are in the traditional values of Japanese people such as a family or collectivism. The company was understood not as a business unit but as a society of people – like a family. Besides this, the salary differentiation under the seniority system is based on the company’s real possibilities that are the company’s business results, and the “assumed needs” that relate to the employee’s age and life cycle. Under traditional system, performance at workplace was never included into compensation system. The loyal employees were motivated to do their best for the company according to the belief “what is good for the company it is also good for the employee”. As we will see later, this has been changed in recent two decades.

The “assumed needs” of the employees were specified in relation to their age. Hired immediately after the graduation from the university, they entered the company under the lifetime procedure at the age of about 23. At that time, they were usually single and could undergo the primary rotation procedure in the company. According to that, they started at the lowest salary level in the company. Under the seniority system, they got the salary increase once a year and each year. In reality, the salary increase consisted of two parts. The first part was based on seniority that is the time spent with the company. The second part of the increase was the result of the trade union activities. In order to keep the level of real wages and salaries, trade unions in Japanese companies negotiated with the employers a general salary increase that would be at least as high as the official inflation rate in the previous year. But we should remember that Japanese trade unions could not play this role in the years before the World War II.

Of course, compensation systems in Japanese companies today are different and they have changed in several aspects, but still at least partly are based on seniority. We will discuss this issue later.

Ringi System

The Ringi system is a traditional way of managerial decision-making in Japan. For example, when Japanese executives discuss the subject of decision-making, they use the term ringi seido, i.e. the ringi system. Traditional characteristics of Japanese management come from the early industrialization era during the Meiji Restoration, but the ringi system was used even before the industrialization. This is a good example of the sustainability of traditional characteristics in Japanese approach to management. This sustainability should be taken into consideration when discussing the expected or suggested future changes in Japanese approach to management.

Under traditional ringi system, authority and responsibilities for each level of management are not clearly defined. There is no policy guidelines specified by top management, and each decision must be treated without reference to an overall policy. All but the most routine decisions must be submitted to top management for final approval. The system is based on decision-making by group participation and consensus. The responsibilities for the decision-making are highly diffused and cannot be associated with an individual person. For example, when a project fails, sanctions are not taken against those who proposed and performed it. All the responsibility is on the top management who adopted it. Though rewards go downward, sanctions do not.

There has been a lot of criticism of the ringi system in recent years in both the Western countries, and in Japan. Criticism focuses on the time consumption during the ringi procedure. Some managers even call this procedure as “management by stamps”. This criticism is, at least in some cases, the result of misunderstanding or lack of information. For better understanding we should describe the procedure as it works in a real situation. The procedure has not substantially changed since its earliest years. Because of that, the procedure can be described as an integral part of the modern management system in a large Japanese business company or the Government bureau.

The word ringi in reality consists of two parts. Rin means submitting a proposal to the superior or boss and receiving his or her approval. In earlier times the word “his” would be more
appropriate. The second part, gi, means deliberations and decisions. The procedure itself could be described the following way:

It usually starts at the lower level of management. Even if the initiator is a higher-level manager, however, in almost every case he or she will give the idea to his or her subordinate(s) and let him (them) propose it. There are at least three good reasons for that. First, the first-line managers, as it is believed, are closer to the problem, and because of that, they have more information about it. Second, it has to start at the managerial level because decision-making is a typical managerial activity. Third, this is the way how the lower level managers can demonstrate their managerial skills to their superiors. This is important from each manager’s internal career ambitions point of view. Even if it sometimes doesn’t look so, Japanese managers in general are very competitive. The image of a brilliant young manager is the best “ticket” to get a top management position faster.

In their day-to-day managerial work, lower-level managers in a large Japanese company are confronted with a number of problems that should be resolved in order to run the business activities effectively and efficiently. But from the managerial point of view the process of problem-solving is in reality the decision-making process. Since their authority and responsibilities are not clearly specified, and they receive no policy guidelines from their superiors, these lower-level managers must refer all but a few routine decisions to top management. In doing so, however, the lower-level managers are asked to follow a certain procedure. He or she must draft a document that is known in Japan as a ringisho. This is usually a printed form in which managers fill in their ideas. They must describe the matter to be decided and their recommendation as what is suggested to be done. For proper understanding of the ringi procedure we should remember that it is not a suggestion as to what decision is to be made or what alternatives are to be considered. The ringisho is presented in such a way as to seek top management’s approval on a specific recommendation of a subordinate.

When the formal ringisho is ready, it must be circulated among various sections and departments that will be affected by the decision. The organizational units whose cooperation will be necessary in the decision implementation are involved as well. Manager of each involved unit evaluates the ringisho proposal, and if acceptable, indicates his or her approval. The indication of the approval is done by a manager’s personal seal - not by a signature. This is the reason why some managers call the procedure as “management by stamps”. In case the proposal is not acceptable, it doesn’t get the approval, and after that it is postponed or cancelled. This sometimes happens as a result of the habatsu informal group activities that will be described later in the text.

If approved step-by-step, the ringisho proposal slowly works its way up to top management, and eventually reaches the president. When the president approves the ringisho by affixing his or her seal, the decision is final. The ringi document is then returned to the original drafter for implementation.

For example, in case of a business company practice, the procedure usually starts at the section level. It is important to know that the ringi procedure as described starts as an informal procedure. In a section of a department a middle-level manager presents a good idea, let say about the company’s product promotion. The idea is then presented to the section head. After that, the section head calls a meeting of his or her section. The purpose of the meeting is to discuss the idea. If considered as a good idea in the end of discussion, the group judges that they will need the overall support of the company. The section head reports this to the department head and they discuss the idea together. If the department head takes it as a good idea, a local consensus in the particular section has been reached. Remember please, consensus in the section. To get the agreement and consensus in the department is the next step. This is done through the meetings with the heads of other sections. When successfully done, the department head initiates meetings with the other department heads to get the overall consensus. The participants in such a meeting are the heads of departments, section heads, and sometimes also the subsection heads. If they need an opinion of specialists from the specific field, they are involved as well.

At the same time, the initiator and his or her colleagues, under the leadership of the section head are involved in what would be called an “organizational politics” in the West. They run about formally and informally from section to section and from department to department to prepare the necessary documentation. The procedure is still informal up to the moment when the department head has got an informal agreement and support from the other departments. After that the formal document ringisho that is mentioned on the above is prepared and starts its circulation.

As it is clear from the description, to get an approval requires the peers’ support as well. This is another side of a Japanese collectivism in management. Japanese managers are known as hard-working people who leave their home early morning and come back home late in the evening. That is true, however, they usually do not come from the office but from informal meetings where they discuss and seek the support for their proposal.
That is true especially in case of the higher importance decisions. There are a number of prior consultations that will take place with those who are supposed to be affected by the decision. People who are in a position to influence the process are present as well. In formal meetings and by informal means the participants exchange their views. Sometimes bargaining will take place as well.

It is only after a consensus is reached that the ringisho is prepared and circulated among executives for their formal approval. Even in these cases, however, the initiative of coordination and consultation usually rests with lower levels of management. The role of the president in the decision-making procedure is also interesting. His or her approval is, of course, necessary but the president’s decision is usually based on the approval of the rest of executives. In practice, if the proposal reaches the president’s office, there is a really high probability that it will be approved.

Bibliography: