

# THE VALUE OF JAPANESE ORGANIZATIONAL INFORMATION IN PROFESSIONAL SCHOOLS

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As recently as twenty years ago, discussions of Japanese business and industrial organisations were primarily carried out by academic researchers for an academic audience. Today, an article on the auto industry in *Business Week* or in the *Harvard Business Review* is as likely to discuss Toyota and Nissan as GM and Ford. The terms *kamban* and *keiretsu* have entered the American business lexicon, as TQC and automation (*o-to-me-shon*) entered Japanese in the 1950s. The study of Japanese business organisations has migrated from economics, sociology, and history departments into America's business schools and its business media.

The analysis of Japan's business organisations and environments therefore has come to address a vastly expanded audience, which is receiving information from a wide array of sources in the business and general press and for whom understanding Japan is a matter of immediate practical concern rather than theoretical interest. The audience includes business school students at a range of levels, from the undergraduate through the MBA to executive education programmes, the managers who hire their graduates and evaluate the quality of business school education, the consultants who draw on professorial expertise and academic research, and business journalists looking for a new slant or a new contribution to the ongoing discussions of Japanese business. All of these audiences demand information that is *relevant* to their immediate concerns, *predictive* (as one businessman said to me, "I don't want to know what the Japanese did yesterday; I want to know what they are going to do tomorrow"), and *consistent with their general assumptions about how the world works*.

In the last two decades, the concerns of these audiences have tended to cluster around four major perspectives on Japan and the Japanese company: as a market or customer, as a competitor, as a collaborator/strategic ally, and as a model. Each issue tends to be addressed in a distinct literature, with distinct approaches, and relatively few of those working on these issues are Japan specialists: while the absolute numbers of Japan specialists working on business-related research have grown in the last decade or so, their proportion of those writing about Japan has steadily dwindled. But ironically, the issue of convergence that was so central to the more specialised social science debates of two and three decades ago remains at the heart of each of these different and often apparently contradictory topics. This paper looks at each of these perspectives and assesses the potential contribution from the Japan specialists to the often contentious discussions of each.

## CHANGING PERSPECTIVES:

The first analysis of Japanese organisations was James Abegglen's *The Japanese Factory*, published in 1958, which drew attention to the many ways in which Japanese factory organisation differed from its Western counterparts, especially in terms of the seniority wage system, lifetime employment, and the enterprise union. This initiated over two decades of social science research focused on the factory in Japan, which became a battleground for competing theories of social change. The convergence theorists asserted that the technological imperatives of modernisation made inevitable the evolution of Japanese organisational patterns towards those of the West.<sup>1</sup> The anti-convergence school argued that differing cultural and social contexts would produce different forms of industrial organisations. And in the early 1970s, the "revisionists", most notably Ronald Dore, put forward the argument that Japanese patterns represented not the survival of embedded cultural and institutional forms but later-developing, rational adaptations to the demands of modern industrial technology. This challenged the basic assumptions of both the convergence theorists that natural evolutionary processes would bring Japanese patterns to resemble Western patterns, and of the anti-convergence theorists that deep-rooted cultural patterns underlay the differences between Japan and the West. Some of the revisionists went so far as to suggest that any convergence would be of Western systems towards the later-developing Japanese patterns, which were proving better adapted to the complex requirements of modern technology.<sup>2</sup> But these debates took place in relative isolation from the world outside social science departments.

The rapid growth of the Japanese economy and the emergence of Japanese competition from the late 1970s, however, drew the attention of businessmen and business students to this first non-western country to join the ranks of the highly industrialised market economies. While interest in labour organisation and the factory remained strong, the level of analysis of much of the research shifted over time the factory to the company<sup>3</sup> and to the Japanese business system as a whole. This shift was in part a response to the broadening demand from business for information about Japan. This broader audience was only mildly interested in the questions that fascinated social scientists: How did the Japanese system evolve? Were the basic dynamics of its evolution similar to those of Western countries, or markedly different? How does the Japanese case affect our general theories of social change? Instead, the business audience asked: How can our companies sell in Japan? How can we compete successfully with the Japanese? Can our companies work effectively with Japanese partners? If so, how? Is there anything to learn from the Japanese, or is their system grounded in such a different context that it is not relevant to us?

In other words, they were interested in Japan and Japanese firms as market and customer, as competitor, as strategic ally, and a model. The two sets of questions — those of the social scientists and those of the business people — may appear to be so different as to have no complementarity at all. However, although two of these perspectives — Japan as market and

as “strategic partner” — have been dominated by analysis produced by the popular business press and by non-Japan specialists, the other two — Japan as competitor and Japanese firms as models — have drawn considerable attention from the Japan field. And more importantly, the social science questions — the direction of Japan’s organisational evolution and the extent to which Japan presents us with different models of organisations — are central to the different perspectives on each issue.

## **JAPAN AS A MARKET**

The characteristics of Japan’s domestic market have long been seen as distinctive in both consumer and industrial products. To summarise in over-simplified fashion, in consumer goods some of the market characteristics include: a multi-layered distribution system, with tiers of wholesalers serving a large network of small-scale retailers who serve very local markets; apparent consumer preferences for quality and service over low price, and for established brand names; and sales and distribution systems tied to major manufacturers in key industries such as autos and consumer electronics, where the leading producers own their own retail outlets. Industrial markets are characterised by relational contracting, in which a firm will have a relatively small number of suppliers with whom it works very closely over the long term, in order to reduce costs and improve quality; just-in-time delivery systems that require suppliers to pace their production processes to those of their customer in order to minimise inventory; and simultaneous engineering, in which suppliers develop new components and subsystems in parallel with their customers.

The sizeable popular and business literature on Japan on a market tends to be clustered into three basic approaches:

- Japanese distribution systems, customer requirements, and business systems are distinctive and likely to remain so;
- Japanese distribution systems, customer requirements, and business systems are changing and becoming more like the West;
- Japanese distribution systems, customer requirements, and business systems are not a product of national culture but of conscious, “rational” efforts by Japanese companies to restrict competition within the domestic market. They are characterised by strong, self-serving inertia, but are “unfair” in an era of global competition because they protect the Japanese market.

These different positions have very real implications for what Western firms should do. If the Japanese market is very distinctive and likely to remain so, then Western firms trying to enter that market should learn about and try to adapt to that market. They should set up a very locally responsive (and highly autonomous) subsidiary in Japan, or work through a Japanese partner who understands the complexities of the market. If, on the other hand, the Japanese market is evolving toward a more “American-style” approach, Western firms should seize their potential advantage by introducing Western approaches to marketing and

distribution into their operations in Japan, thereby moving slightly ahead of the evolutionary curve. And if Japanese firms have deliberately cultivated certain features of the Japanese market in order to erect “barriers to entry” — which, we should note, is the goal of much of the business strategy taught in management schools today — then the most effective recourse is political: call your local Congressman, or lobby the United States Trade Representative’s office.

Obviously these arguments mirror to a surprising extent the anti-convergence, convergence, and revisionist arguments of the 1970s in the social sciences. They differ fundamentally on basic assumptions about the evolution of social systems and on perceptions of key elements of the Japanese system. The proponents of the first position — Japan as requiring adaptation to local practices — emphasize the importance of relationships and reputation in both consumer and industrial markets, and see these as grounded in cultural and/or institutional differences. The proponents of the second position, in contrast, see the very real elements of “value for money” in both consumer and industrial markets as the central factor explaining Japanese markets, and argue from that assumption that that the combination of the pressure of the strong yen, stagnant growth in Japan, and increased quality and delivery of Western competitors are bringing about a natural evolution in Japanese markets that make customers more open to alternatives that deliver value for money. The proponents of the third position emphasize the role played by Japanese firms in shaping the expectations of customers and building distribution systems in ways that make it difficult for new entrants to succeed; the implications are that the firms can and will blunt the effects of any tendencies to “natural evolution”, at least in the short and medium term which is the time horizon of business.

## **JAPAN AS COMPETITOR**

The underlying assumptions of the anti-convergence, convergence, and revisionist approaches are equally relevant for the analyses of Japanese firms as competitors, which focus on the question of the strategic behaviour of Japanese firms.

Since the early 1980s, a number of analyses of the strategy of Japanese firms have been published, so many that a comprehensive discussion of the literature on the strategy of Japanese firms is well beyond the scope of this paper.<sup>4</sup> Some of the key differences between Japanese strategic behaviour that have been highlighted in both the academic and the business literature include:

- “evolutionary” patterns of diversification — gradual extension into new, closely-related businesses through internal expansion rather than acquisition — and strong resistance to exiting a business, even if losses mount;
- less emphasis on profits than their Western counterparts and more on expansion;
- a strong propensity for “oligopolistic matching” — for seeking to compete directly with new products and services introduced by competitors, rather than seeking to find distinctive and profitable “niches” that can be defended against competitors;

- a long-term perspective on strategy and investment.

While there has been considerable agreement on these differences in strategic behaviours between Japanese and Western firms, there has been less agreement on the implications of those differences for the competitive strategies of Western firms or on the prospects for future evolution. The popular business literature includes three perspectives on Japanese competitive strategies and their implications:

- The strategic behaviours of Japanese firms are very different from those of their Western (particularly American) counterparts, and represent a different model of strategy, grounded in a very different corporate structure, that is likely to persist. Western firms should therefore allocate resources to analysing Japanese strategies and should exploit the differences by “playing a different game” — adopting strategies that take maximum advantage from those differences. Alternatively, they could adopt an avoidance strategy: exit from industries where the Japanese system confers a strong competitive advantage. Lester Thurow has, for example, characterised the strategies of General Electric’s Jack Welch as exiting from businesses where the company would have to face strong Japanese competitors.
- The drivers of strategy are changing in Japan, as the business system becomes more integrated with global financial markets and Japanese firms put more of their activities in foreign subsidiaries in response to the strengthening yen, and Japanese firms will increasingly exhibit strategic logics and behaviours similar to those of their Western counterparts. By concentrating on executing their own strategies as effectively as possible, Western firms will develop increasing advantages over their Japanese competitors as the latter learn to play in a strategic arena that makes relatively unfamiliar demands on them.
- The strategic logic of Japanese firms was a rational response to a certain competitive environment in Japan — steady growth, technological followership, domestic markets that were largely shielded from global competition — just as the strategic logic of U. S. firms was shaped by an environment of volatile business cycles and global technological and market leadership. Competition between the two is leading to mutual adjustments and changes in strategic behaviours that will change both systems in ways that are not yet clear. For Western firms, Japanese firms are important elements of the changing competitive environment to which they must constantly adjust.

Each perspective therefore has different implications for how many resources Western firms should devote to understanding their Japanese competitors and to what end. In the first and third perspectives, it is important for Western firms to analyse Japanese competitors; in the second, much less so. The perspectives also differ in their implicit models of strategy: the first perspective emphasizes the internal drivers of strategies (the structures and capabilities of the firm), whereas the other two emphasize the environment or business context. Finally, each has a different answer to the “convergence” issue: the first sees continuing divergence based on fundamental differences in logics and capabilities; the second expects convergence toward the Western model; and the third sees a complex combination of mutual adjustment and continuing adaptation.

## JAPANESE FIRMS AS STRATEGIC ALLIES

The literature on strategic alliances with Japanese firms builds directly on the assumptions about strategies discussed above. "Strategic alliance" is a relatively new term for a long-established business form: cooperation between two separate companies in the pursuit of some strategic objective. Traditional forms of strategic alliances include joint ventures, joint marketing agreements, OEM arrangements (in which one company manufactures a product for sale under another's brand), and cross-licensing of patents. More recent forms include partnerships to develop new technologies (R & D alliances) and shared new product development (for example, the recent alliance between Ford and Nissan to develop and manufacture a mini-van, in which Nissan took the responsibility for the design and Ford for the manufacturing).

In this literature, which has been dominated by business specialists, there are two major perspectives on Western firms undertaking alliances with Japanese partners:

- Different strategies and strategic logics make alliances perilous, because the Japanese partner's greater resources for learning (including the imbalance in language capabilities and greater control of the careers of individuals involved in partnerships) tend to give them greater advantages. Where alliances cannot be avoided, they should be regarded as a necessary evil: the Western partner should monitor closely and maintain exit options.<sup>5</sup>
- Different strategies produce complementary capabilities that make alliances potentially fruitful on both sides, if both partners adopt an attitude of learning. Western partners need to seek out Japanese partners and dedicate resources to understanding and learning from them.

In contrast to the previous two arenas (market and strategy), the literature on strategic alliances tends to hold implicitly to a "divergence" perspective: the two systems are fundamentally different. One viewpoint sees this as a source of peril to the Western partner in an alliance, the other as a potential advantage. Perhaps the implicit "divergence" perspective is attributable to the fact that alliances almost by definition tend to be short-term in orientation, and therefore analyses of alliances are concerned with a much more immediate time frame than discussions of market entry or strategy. But for the social scientist interested in Japan, alliances are potentially fascinating areas of inquiry, although the perspective is much less the "who wins, who loses" orientation of the businessman than the issue of whether the interactions between firms that are fostered by alliances result in mutual learning, and if so, what implication that learning has for the future evolution of the firm and the business system. This is particularly important in those industries where alliances have become pervasive, such as autos and electronics. And even for the business perspective, the social science perspective is a useful one. The concept of "learning" in the alliance literature is often treated as self-evident: one partner has an advantage in quality, for example, and therefore the other partner through an alliance can acquire this capability. The extent to which developing a "capability" involves organisational changes that affect other parts of the organisation, and ultimately the evolution of the organisation and the system in which it is



embedded, is an issue of interest to the social scientist and the business person alike-although it is the social scientist who is more likely to recognise it as an issue and articulate a research agenda to build insights into those processes.

## **JAPANESE FIRMS AS MODELS:**

By the late 1980s, students in U. S. business schools were complaining that they were being given too much material on Japan, and that they wanted less on Japanese successes and more on American successes. This reaction to the over-idealisation of Japan was irritating to many in the Japan field, but was all too understandable. Throughout the 1980s, the outstanding competitive success of Japanese firms led many business people and academics to flock to Japan to try to understand the key competitive success factors, in order to help U. S. companies learn from that “global best practice” (a phrase commonly encountered in business circles over the last decade). Different management specialities tended to find that Japanese practice exemplified what they had been trying to tell U. S. managers all along: operations management researchers published articles entitled “Japan: Where operations really are Strategic”<sup>6</sup>, marketing experts wrote books on the Japanese edge in marketing,<sup>7</sup> human resource management experts identified the key to Japanese success as human resource management. Often this work, particularly in the early 1980s, presented a highly idealised pattern of Japanese practice, and seemed to be identifying Japanese practice with that of the most successful Japanese companies. A backlash was inevitable, and there was a short boom in books unmasking “the Japanese myth” — revealing that Japanese companies did not all succeed, that Japanese actual practice often failed to measure up to the ideal types presented in the literature, and that Japanese employees complained about their companies. With the collapse of Japan’s so-called “Bubble economy” in the early 1990s and its tilt into extended recession, many began to argue that Japan no longer had anything to teach the United States.

Even those who granted that leading Japanese companies had developed a number of superior ways of doing things (in quality control, for example, or linking product development and manufacturing) did not agree on the implications. To over-simplify somewhat, the debate took place among three major assumptions:

- “Best practice” is adaptable to all business contexts in an era of global competition. Therefore U. S. companies should strive to learn from the Japanese in those arenas in which they set the standards of global best practice.
- “Best practice” is best only in a certain context; it does not transfer easily across different business and social systems. Cross-societal learning is extremely difficult, if not dangerous, because it involves system-level changes. U. S. companies should seek out models of best practice at home.
- “Best practice” requires adaptation to fit different contexts, and this demands creativity and innovation. But cross-border learning is inevitable in an era of global competition, and therefore U. S. companies should strive to do it creatively. The result will be patterns that are

different both from past U. S. practice and from the Japanese model.

It is in the context of this debate over learning from Japan that the continuities in theme and concepts with the social science studies of Japanese organisation over the decades most resonate, and where Japan specialists have made contributions that have the greatest immediate relevance for managers.<sup>8</sup> But the fundamental question of the direction of the evolution of Japanese business organisations and the business system is one that underlies both the business and the social science literature.

## CONCLUSION

One of the contributions that Japan social scientists can make to the discussions of Japanese business organisations and how Western companies should interact with them is to clarify the underlying assumptions of the various positions in those discussions. Another is to continue to produce solidly grounded empirical research on Japanese organisations.

The underlying assumptions about organisational evolution that have emerged in the course of the long discussions of Japanese business take three forms:

- *unilinear*: business systems in modern industrial societies compete with each other in a Darwinian world of “selection and retention of the fittest”, in which cross-border learning produces convergence to “global best practice”;
- *multilinear*: institutional systems persist over time, and therefore diverse forms of business organisation can and will continue to exist even in a world of increasingly international competition, with some cross-border learning that is restricted to relatively minor adaptations to the forms dominant in each particular context;
- *dynamic multilinear*: cross-border learning is accelerating in pace and scope, but will produce ongoing distinctive innovations adapted to specific contexts (tomorrow’s Japanese firms will differ both from Japanese firms today and U. S. firms today and tomorrow).

These positions are analogous to the convergence debates of the late 1960s and early 1970s, and parallel the three positions in that debate: the convergence approach (which assumes that there is one best way of doing things towards which social systems will converge); the anti-convergence approach; and the revisionist approach that shares with the anti-convergence perspective the belief that social patterns evolve in response to specific social and institutional contexts and with the convergence approach the assumption that in systems that interact with each other there will be mutual emulation and learning.

These positions are as fundamental to the arguments over business interactions between Japan and the United States and Europe (and the rest of Asia) as they were to the more academic modernisation debates over the evolution of industrial society in the 1960s. And like those earlier debates, they can best be addressed not by professions of faith in one or another of the basic positions but in empirical research on business organisation. Here is where the interests of the Japan social scientists and the business community converge. Both want to have answers to similar kinds of questions: what are the critical indicators of



organisational change? do our existing frameworks provide an adequate basis for identifying these indicators, or do we need to rethink our frameworks to accomodate Japanese patterns? and would such accomodation help develop better theories that would in turn improve our understanding of the evolution of organisations in general? In answering these questions, the research of the Japan social science community will address the key questions of the brad constitutencies of the management schools, and will raise the level of the debates over the interaction between the Japanese and U. S. business systems.

### Notes

- 1 The dominant research paradigm was that of the Aston school, including the early work of Koya Azumi.
- 2 Ronald Dore, *British Factory Japanese Factoru* (University of California Press, 1973), and *Taking Japan Seriously* (Stanford University Press, 1984).
- 3 One of the early works in this shift was Michael Yoshino, *Japan's Managerial System: Tradition and Innovation* (Cambridge, MA: MIT Press, 1968); most of the works focusing on the company level of analysis were published in the 1980s, led by Rodney Clark's *The Japanese Company* (New Haven: Yale University Press, 1979).
- 4 See for example Toyohiro Kono, *Strategy and Structure of Japanese Enterprises* (London: Macmillian, 1984); James C. Abegglen and George Stalk, *The Japanese Corporation* (New York: Basic Books, 1985); T. Kagono, I. Nonaka, K. Sakakibara, and A. Okumura, *Strategic vs. Evolutionary Management: A U. S.-Japan Comparison* (Amsterdam: Elsevier North-Holland, 1985); W. Mark Fruin, *The Japanese Enterprise System: Competitive Strategies and Cooperative Structures* (Oxford: Clarendon Press, 1992).
- 5 See for example Gary Hamel, C. K. Prahalad, and Yves Doz, "Collaborate with your competitors — and win", *Harvard Business Review* (1989).
- 6 Steven Wheelright in the *Harvard Business Review* 1981 (Vol. 59-4), pp, 67-76.
- 7 William Kotler, Liam Fahey, and S. Jarusripitak, *The New Competition: What Theory Z Didn't Tell you About — Marketing* (Englewood Cliffs, NJ: Prentice Hall, 1983).
- 8 In addition to Dore's work cited above, see also Robert E. Cole, *Strategies for Learning: Small-group activities in American, Japanese, and Swedish Industry* (Berkeley, CA: University of California Press, 1989).