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Main Features of Japanese Labour Relations

—From the View Point of Organizational Theory—

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PREFACE

This paper aims to clarify the main features of Japanese labour relations, especially the main causes of its relatively stabilized relationship which has been evaluated by many western authors, through an analysis of Japanese business organizations.

Such an evaluation that Japanese labour relations as relatively successful or stabilized is based mainly upon the following two reasons. The first is the fact that the number of disputes are relatively few. Strikes are seldom undertaken. These indexes are usually used to show whether the labour relation is stabilized or not. According to the international comparison of indexes, stabilized labour relations in Japan can be easily seen.

The second reason is based on the guess that good performance of Japanese firms must be closely related to good labour relations. The latter point is often pointed out by many authors who have studied Japanese management. They point out the thinking which places organizational purpose ahead of individual purpose, or identifies individual purpose with collective purpose. These tendencies would seem to be a Japan-specific feature which has been deeply rooted in Japanese culture from the standpoint of western traditional thinking.

These observations, I believe, are clearly appropriate for explaining the features of Japanese business organization, comparing western business organization which was formed on the individualistic basis of western society. These observations, however, cannot be always said to be fully explanatory.

In this paper, I want to analyse the causes of stabilized labour relations from the viewpoint of organizational features of large Japanese firms, relative to the theory of firms. This theory has been developed on the basis of western traditional thinking. When we teach this theory in Japan, students are apt to be perplexed by a large divergence between the abstract, simplified theory and the real enterprise as observed by them. Such a divergence is necessarily accompanied by theory and students would be more or less perplexed by it in every country. In my opinion, however, the divergence is larger among Japanese students than among western students, based on the lack of individualistic thinking. Japanese students are apt to recognize the firm as a personalized entity, especially as represented by the managers. On the other hand, western students can easily understand the nature of the firm as defined within the neo-classical framework. According to the neo-classical theory of the firm, the firm is not a personalized entity but a system or an organization which works to allocate resources as well as the market does.

The theory of firms shows that they were formed as organizations of resource allocation instead of the market. One of the purposes of this paper is to study the Japanese business firm from the viewpoint of organizational theory reflecting the

theory of the firm.

In section 1, I would like to show the generally accepted view concerning Japanese business organization and then I will give the points which I would like to emphasize. In section 2, I will analyse how the business organization is recognized in context of the theory on the firm with a survey of these theories. Moreover, I want to explain the feature of Japanese business organization, analysing it by the western traditional method.

In section 3, I will examine the hierarchical character of Japanese firms and the stability of organizations, taking note of mobility or immobility.

In section 4, I will examine the reasons why an identification of the organizational purpose and individual purpose is seen to be a feature of Japanese business firms for western authors, analysing the problems of conflict between individual purpose and the purpose of the firm or, more precisely, conflicts among purposes of parties which compose business organizations.

Finally, I will examine the relationships between each party and the firm—, relationships among parties in Japanese firms— and show the closely tied relationship between managers and employees which I call "vertical continuity".

1. MAIN FEATURES OF JAPANESE BUSINESS ORGANIZATION

There are many types of business structure in each country. We can classify these into four main types, focusing on the relationship among parties which compose the firm and the method of decision making, namely, the traditional neo-classical type, the labour-participating or common decision-making type, the managerial discretionary type, and the Japanese type. Professor Aoki named it corporative managerialism.¹⁾

Here, I would like to attempt a comparison of the Japanese type to the western type, focusing on the following five points: purpose of the firm's behavior, conflicts between the firm's goal and the individual's goal, characteristics of the decision-making process, structural character of business organizations, and flexibility of the organization by the comparison will be based on the prevailing recognition.

(1) The goal of business behavior

It has usually been pointed out that Japanese firm behavior is characterized as growth oriented while the behavior of U.S. firms is profit-seeking. Growth of the firm as a goal clearly means a long-term goal, whereas profit-seeking is a short-term goal, though the profit motive can be transformed into the long-term one. This recognition is partly appropriate and the tendency can still be found in Japanese firms. However, we should not overlook the fact that a new tendency in Japanese firms which attaches importance to profit rather than growth has gradually appeared since the end of high economic growth.²⁾

Generally speaking, we can agree with the observation that Japanese firms have a tendency to behave so as to achieve long-term purpose, whereas U.S. firms behave in accordance with short-run purpose. Then we can say that the most distinguishing characteristic of the behavior of Japanese firms is the long-run tenet of purpose.

(2) Conflicts of purpose among parties composing the firm and the system which brings equilibrium

In the traditional theory of the firm, the purpose of each party is assumed to be as follows: stockholders behave so as to maximize their wealth, managers behave so as to maximize their utility represented by many factors, and employees their utility which is mainly composed of wages and leisure. According to the most simple neo-classical theory of the firm, managers are regarded as agents of the stockholders, so that the manager may behave so as to maximize the stockholder's utility which is proportionate to profits. In this case, there is no distinction of the producer as an individual apart from the firm as an organization.

In modern theory of the firm, the manager's utility does not necessarily coincide with the stockholder's maximizing of wealth and, needless to say, profits are negatively correlated with wages.

Thus, there are conflicts among these purposes and the organization which can adjust these conflicts and bring equilibrium is the firm which carries out team production. The units of behavior are individuals, namely, the managers, stockholders, and employees, and not the business firm itself.

On the contrary, conflict between the goal of the firm and individual purpose is relatively small in Japan, and it is rather regarded that individual purpose is identified with the goal of the firm. Concerning this point, more precise analysis is required. For example, it is important to analyse such problems as a) What is the goal of the firm or the goal of the organization as a whole? b) Can the goal of the firm be replaced by the purpose of managers? c) Is stockholder sovereignty realized? d) Does the goal of the firm include the purposes of all parties? I will omit a precise analysis.

(3) Features of the decision making process

It is well known that the decision making process is characterized by the bottom up process in Japan, whereas top down is the usual form in other western countries. Moreover, decision making in Japan is well known by the term, "Ringi", which means the process of obtaining the sanction of executives by circulating a draft prepared beforehand by the person in charge of the matter. This characteristic is closely related to the structural feature of the Japanese corporation, which is itself characterized by homogeneity.

(4) Structural character of the organization

Famous English sociologist Dore once published a study on the organizational features in British and Japanese business firms based on the comparison of English Electric to Hitachi. He pointed out some distinguishing features of the Japanese firm. Concerning the hierarchical feature of the organization, the number of grades from top to bottom is larger in Japan (sixteen), than in Britain, which has seven.

The number of subordinates to a superior in Japan are eight, whereas in English Electric the number is thirty-two. This means that the number of superiors in Hitachi is greater than in English Electric. It is a structural characteristic of Japanese business organization, and closely related to the essential feature of Japanese labour relations which I will emphasize later. A large number of grades in the organization may seem to be a highly feudalistic structure, which, if inflexible, will mean a feudal system. The key point as to whether the structure is feudalistic or not depends on flexibility in the organization, and this flexibility depends mainly on vertical mobility of manpower.

(5) Flexibility of the organization

In large Japanese corporations, mobility of individuals who compose the firm is small, and managers are appointed from inside by promotion. It can seldom be found that outside experts are appointed except in the case of so called Amakudari – the appointment of a former governmental official or main bank official.

These five points are the main features of Japanese business firms which are recognized by many authors both in Japan and in western countries. I can agree with these views basically. The main point which I want to emphasize especially relates to (4) and (5); moreover, it relates to the mutual relationship among parties of the firm managers, stockholders, and employees. It is characterized by the word "continuity" from top to bottom, or "homogeneity".

This means that the relationship between managers and employees is closer than the relationship between managers and stockholders. Of course, there are distinctions in many types of stockholders, namely, inside stockholders and outside stockholders, stockholding by corporations and by individuals, and the forms of participation for the firm differ respectively. But detailed analysis is omitted in this paper.

2. RECOGNITION OF BUSINESS ORGANIZATION IN THE THEORY OF THE FIRM

In the neoclassical theory of production, the business organization does not exist explicitly, while there are transactions among factor owners who supply their own factor so as to maximize their purpose through factor markets and managers or entrepreneurs playing the role of coordinator in such transactions. Ronald Coase first showed the bounds of the firm as an organization.³⁾ Jensen and Meckling point out the essence of the definition of the firm by Coase. "He characterized the bounds of the firm as that range of exchanges over which the market system was suppressed and resource allocation accomplished instead by authority and direction."⁴⁾ The reason why the market system is replaced by the firm is dependent on the difference in cost using the market system or the firm. "Whenever the costs of using markets were greater than the cost of using direct authority,"⁵⁾ the latter is chosen as the system of resource allocation. According to Coase, the firm is characterized by the system of resource allocation through direct authority.

Jensen and Meckling say, "Alchian and Demsetz object to the notion that activities within the firm are governed by authority and emphasize the role of contracts as a vehicle for voluntary exchange."⁶⁾ In the arguments by Alchian and Demsetz, it is seen as important whether contracts are correctly fulfilled or not. According to them, joint production or team production is accomplished through contracts among parties that have different interests. They emphasize monitoring in situations in which there is joint input or team production. Those who play the role of monitor are managers, but they in turn are also required to be monitored by stockholders.

Jensen and Meckling say that the emphasis which Alchian and Demsetz place on joint input production is too narrow and therefore misleading, although they sympathize with the importance that Alchian–Demsetz attach to monitoring. According to Jensen–Meckling, contractual relations are the essence of the firm, not only with employees but with suppliers, customers, creditors, etc. In their paper analysing the problem of agency costs and monitoring, they emphasize that "the problem of agency

costs and monitoring exists for all of these contracts, independent of whether there is joint production in their sense; i.e., joint production can explain only a small fraction of the behavior of individuals associated with a firm."⁷⁾

They say, moreover, that a private corporation or firm is simply legal fiction⁸⁾ which serves as a nexus for a set of contracting relationships among individuals. Taken to the extreme, it is unimportant to distinguish those that inside the firm from those that are outside of it. "There is in a very real sense only a multitude of complex relationships (i.e. contracts) between the legal fiction (the firm) and the owners of labour, material, and capital input, and between the consumers of output."⁹⁾

The most important point of their assertion is that the firm is not an individual and therefore, the personalization of the firm implied by asking questions such as "What should be the objective function of the firm?," or "Does the firm have a social responsibility?"¹⁰⁾ is seriously misleading.

The firm is not an individual but a legal fiction in which the conflicting objectives of individuals are brought into equilibrium within a framework of contractual relations. In this sense, the firm is like the market which is an organization of resource allocation. They say that we often err by thinking about organizations as if they were persons with motivations and intentions.

The objective of the firm is the outcome of contractual relations among individuals which compose the firm, and the firm as an individual unit does not have an objective function of itself.

FitzRoy and Mueller regard a business organization as a team production characterized by prisoner's dilemma, according to O.E. Williamson. In their paper, they connote the distributional problem among parties which compose the business organization. The distributional conflicts necessarily arise in a hierarchical organization. They show how conflict arises in a contractual economic organization. Production activity by the firm is characterized as cooperative activity or team production. To ensure cooperation, contracts are needed. Social cooperation has been treated as division of labour and market exchange of resources by egoistic individuals in traditional economics. Contrasted to this, non-market cooperation through face-to-face contact, as within the firm, generally takes place in expectation of a share in the gains from joint activity. Therefore, agreement in some sense on the distribution of these benefits is required for cooperation. But the interdependence of cooperative action leads to the familiar prisoner's dilemma. FitzRoy and Mueller say, concerning the nature of the firms shown by Coase, "While the supersession of the price mechanism is a characteristic of the firm, it is not the characteristic that distinguishes it from other cooperative institutions."¹¹⁾ This critique for Coase's definition of the firm is the same as that of Alchian and Demsetz.

Their view is different, however, from that of Alchian-Demsetz. Alchian-Demsetz show that team production creates the need for a cooperative contract to avoid the problem of prisoner's dilemma. According to FitzRoy and Mueller, such a recognition is insufficient and in contrast to Alchian-Demsetz, "it is the power to settle issues by fiat, by authority, or by disciplinary action superior to that available in the conventional market, that is the distinguishing characteristic of the firm."¹²⁾ Thus, FitzRoy and Mueller attach importance to the role of power in the organization. Coase connoted that the firm is an organization which allocates resources and brings them into equilibrium instead of markets. Williamson, Alchian & Demsetz, and FitzRoy & Mueller attach importance to conflicts among parties.

Williamson and FitzRoy & Mueller especially emphasize the hierarchical character of the business organization. Alchian & Demsetz emphasize the authoritative role of managers. Jensen & Meckling attach importance to the role of contract and monitoring.

These definitions or recognition of the firm are theoretical simplifications and abstract. It may be difficult for students who study economics at first to understand the simplified essence of the firm while observing many firms in the real world and it may be a general tendency for ordinary people (except experts of economics) to recognize the firm as if it were a personalized unit. However, the abovementioned explanations of the organization can be easily accepted by people who have been accustomed to western traditional thinking.

In other words, it is relatively understandable to recognize the firm as a system of resource allocation in which the conflicting objectives of individuals are brought into equilibrium, in the tradition of individualistic thinking. The contrast to it, those who have been accustomed to Japanese traditional thinking must understand individualism in a true sense from the beginning in order to recognize neoclassical theory of the firm. In Japanese tradition, people are apt to regard the firm as a personalized entity, not legal fiction.

If we observe Japanese firms and their behavior based on western traditional thinking, it seems to us that the objective of the firm takes precedence over objectives of the individual. This is partly right although it is not perfect. The problem of social responsibility of the firm is found in every country. By emphasizing the social responsibility of firms, people regard them as personalized entities. But, in the case of pollution due to production, for example, those who are responsible for the pollution are the managers who decide on the activities, and not the firms themselves.

Nevertheless, not only managers but also employees are sensitive about their responsibility for the pollution problem in Japan. This is a good example indicating that people are apt to regard the firm as a personalized entity.

We had a symbolic incident in Japan, involved the president of Mitsukoshi, one of the oldest and most famous department stores in Japan, who lost his position through the scandal accompanied by a breach of trust. Mitsukoshi continued to undersell by fifty percent all goods to instate the customers' trust. Some employees stood in a row on both sides of the entrance and bowed politely to customers from morning till night for at least one month. In spite of such good hospitality, Mitsukoshi could not attract customers compared with other department stores.

The Mitsukoshi incident, however, was not an incident in which the department store did harm to consumers, but it was the president who damaged his stockholders and employees. Nevertheless, the employees of Mitsukoshi behaved as if the incident were a personal shame and supplied good service.

Observing such facts, you may be impressed as to how individuals in Japan are faithful to organizations such as nation, community, and the firm. But the identification of individuals with the organization is apt to obscure the responsibility of the person as an individual, especially that of a manager. Personal responsibility is apt to be reduced in responsibility as a whole.

Identification of individual objective with that of organization, or the priority of the latter over the former may seem to be a distinguishing feature of Japanese organization. But it could better be said that the divergence of individual objectives from objective as a whole is relatively small. Theoretically speaking, some factors which com-

pose individual objective are common with those for the goal of firms.

According to traditional theory of the firm, each party has its own objective function and there are conflicts among individual objectives. It is the role of contract to adjust these conflicts so as to be able to carry out efficient team production. In the case of Mueller & FitzRoy, the role of entrepreneurs as initiators of the contract was placed on such a theoretical basis. According to them, a potential definition of the entrepreneur is the initiator of contracts, which *ex ante* are beneficial to all parties.

In Japan, such a formal or written contract is not generally required, but the implicit contract can work efficiently instead. The reason can be found in common factors of objective function.

U_m , U_s and U_e denote utility functions of managers, stockholders, and employees, respectively.

$$U_m = U_m(X)$$

$$U_s = U_s(Y)$$

$$U_e = U_e(Z)$$

For example, X , Y , Z denote the manager's income, dividend, and wage rate, respectively. Simply stated, in traditional theory, the following relations are assumed:

$$\frac{\partial X}{\partial Y} < 0, \quad \frac{\partial X}{\partial Z} < 0, \quad \frac{\partial Y}{\partial Z} < 0$$

In contrast to this, however, the utility function and their nature in Japan can be shown as follows:

$$U_m = U_m(X_1, X_2, X_3 \dots)$$

$$U_s = U_s(Y_1, Y_2, Y_3 \dots)$$

$$U_e = U_e(Z_1, Z_2, Z_3 \dots)$$

Some of the variables are negatively correlated but others are positively correlated.

$$\text{Say: } \frac{\partial X_1}{\partial Z_1} < 0, \quad \frac{\partial X_2}{\partial Z_2} > 0, \quad \frac{\partial X_3}{\partial Z_3} > 0$$

X_2 may be the manager's prestige and Y_2 may be the social reputation of the firm. Z_2 may be the employee's satisfaction which comes from the reputation of the firm they belong to. In many cases, these factors can be represented by growth rate or size of the firm.

The growth rate is a fairly appropriate proxy of these factors. An important question to ask is why many factors are positively correlated even though some are negatively correlated. I will give reasons later, but I want to point out one of the reasons now. The factors which are positively correlated have long run character.¹³⁾

3. THE STRUCTURAL FEATURE OF BUSINESS ORGANIZATION

In this section, I would like to examine the reasons why the objective function of the individual and the objective function of the firm include many of the same factors, focusing on the organizational structure of the firm. The hierarchy of the organiza-

tional structure is likely to be argued as a defect of bureaucracy, for example, and as a cause for inefficiency in general.

This tendency is fairly appropriate for analysing inefficiency of bureaucratic organizations or large government. However, I dare emphasize the aspect of hierarchical structure which contributes to stabilizing labour relations and to the identification of individual objectives with objectives of the organization as a whole.

Many works have been published concerning the theoretical analysis of bureaucracy. These works have emphasized that the bureaucracy brings on inefficient resource allocations. The most representative among them was published by W. Niskanen. Migué and Bélanger showed the same type model as Niskanen's with but little modification. These models assumed that the goal of bureaucratic behavior was budget maximization and showed that under this assumption bureaucratic output was determined on a level which exceeded the optimum.

Many other works on bureaucratic behavior, such as Miller, Orzechowski, and Miller and Moe, have more or less the same character. They showed that under the assumption of asymmetric information, in other words, informational monopoly by bureaucrats, the government could not help but become large, although some modification was possible by changing the assumption.¹⁴⁾ Breton and Wintrobe, opposing this tendency, showed that the bureaucracy can bring on efficient resource allocation.¹⁵⁾ Their theory of bureaucracy is called the exchange oriented theory of bureaucracy. They analyse bureaucratic behavior by analogy of the exchange system through markets and conclude that the ideal type of bureaucracy (in the sense that the system efficiently works) can be found in Japanese firms.¹⁶⁾ I have already introduced in another paper¹⁷⁾ the main content of their arguments. But I will show again as simply as possible in order to assist the reader's understanding.

Breton and Wintrobe introduce three notions to assist them in their task: trust, selective behaviour, and bureaucratic competition.

Output which is produced by officials consists of two parts: one is a fraction of the output which is supplied by carrying out legal duty associated with their position, and the other is a fraction of the output which is supplied by their informal behavior, irrespective of position.

Informal behavior may be efficient or inefficient. The "selective behavior" which they introduce means that bureaucrats are selective whether they behave efficiently or inefficiently concerning informal behavior.

Whether they select efficient behavior or inefficient behavior, depends on the distribution of trust. They use the notion of trust, which plays the role of substitution for property rights in internal exchange. In usual exchange economy, exchange requires the existence of property rights which are supported by law and legal enforcement. The relationship between superiors and subordinates in an organization can be regarded as a kind of exchange concerning the informal work, but the internal exchange cannot be supported by legal institutions. Instead, it is supported by trust.

They divide the notion of trust into two parts. The one is vertical trust, T_V , and the other is horizontal trust, T_H , T_V means trust between superiors and subordinates and T_H means the trust among subordinates. According to this theory, the amount of T_V determines capacity for efficient behavior and T_H determines capacity for inefficient behavior. Productivity is denoted as Q .

$$\frac{\partial Q}{\partial T_V} > 0, \quad \frac{\partial Q}{\partial T_H} < 0, \quad \partial Q / \partial \left(\frac{T_V}{T_H} \right) > 0.$$

Five factors influencing the increase/decrease of T_V/T_H were listed and analysed. Those factors are:

Frequency of:	Promotion	P
	Perks or Perquisites	E
	Turnover of Superiors	X_A
	Turnover of Subordinates	X_B
	Numerical Ratio of Superiors to Subordinates	N

The manner in which X_A and X_B influence T_V/T_H changes according to the initial situation. Generally speaking, the nature of $\partial T_V/\partial X_A < 0$ can be easily found.

Concerning other factors, the following are shown:

$$\partial T_V/\partial P > 0, \quad \partial T_V/\partial E > 0, \quad \partial T_V/\partial N > 0,$$

Japanese firms show a tendency to increase T_V among these variables. P and N relate to organizational structure. As mentioned, Dore compared the structural characteristics in a Japanese factory (Hitachi) with those in a British factory (English Electric). In the British firm, opportunities for promotion are very limited, while in Hitachi, there are 16 grades of personnel, ranging from managerial workers at the top level to three different kinds of specially titled workers — three classes of foremen, eight grades of skilled workers, and administration workers. Hitachi's employees can look forward to a continuous series of promotions, if they stay with the firm. Concerning the ratio of superiors to subordinates, there is one supervisor for every 16 workers in Hitachi, whereas at English Electric, the ratio is 1 to 35.¹⁸⁾

These two results are related to each other. If the size of the firm measured by the total sum of employees remains constant, the greater increase in the number of grades, the fewer the number of workers included in the same grade. However, the number of grades are nothing but a possibility for increasing the frequency of promotion, and it cannot be at once concluded that the large number of grades increases T_V .

Why can it be concluded in Japan and why can it be associated with the stability of labour relation. The organizational feature which I want to emphasize in this paper is continuity or homogeneity. If the relationship among workers who are placed in each grade is not continuous, the large number of grades will rather mean a rigid and feudalistically hierarchical structure.¹⁹⁾

If we take the manufacturing industry as an example, we can divide workers into three groups. The first is a group which consists of workers who are expected to be executives of the company in future. The second is a group composed of clerical workers who are not necessarily expected to become leaders. The third is a group of factory workers.

The first group may become members of middle management in future and some of them may attain to top management, though the possibility is slight. The second group will attain positions in lower management and a small part may rise to middle management. In many cases, a large part of this group can be promoted to assistant section chief but cannot easily get positions above section chief.

If there are many hierarchical grades, the possibility of the second or third groups attaining to positions of management—whether middle or lower— will be higher.

In this sense, Japanese business organization can be said to be continuous. In Japanese

firms, workers are not only concerned about their own interests but also about the performance of the firm to which they belong. They often think of and talk about the management of their firms from the managerial viewpoint.

A large number of grades may indicate at a glance that the structure is a feudalistic hierarchy. But it produces the reverse effect, namely, a homogeneous or continuous relationship between superiors and subordinates. If the grades were only two, workers would be perfectly divided into two classes; namely, the elite and non-elite. These two types of workers seldom fraternize. On the contrary, if there are many grades, employees can anticipate promotion to a higher level. However, I must add another factor to explain the fact that the large number of grades increases the opportunity for promotion and ultimately increases T_V . This is vertical mobility and it relates to intrafirm mobility.

As another feature of Japanese business organization, immobility — more precisely, interfirm labour immobility — is usually remarkable. Labour immobility used to be regarded as an evidence that the labour market was imperfect. In Japan the interfirm labour mobility is certainly low but the intrafirm mobility is fairly high, at least in large companies. The higher the intrafirm mobility, the easier it becomes to undertake innovation and organizational change. When a firm undertakes a policy to expand desired branches and contract idle ones, it can be easily carried out if the intrafirm labour mobility is high.

It is required that workers be general types and adaptable to new skills so as to be able to increase intrafirm mobility. Such is the character of Japanese business firms. In Japan, school education aims to bring up general type young people and not specialist types or experts.

Workers acquire the skills and knowledge required of their specialized work by on-the-job training. Another reason why intrafirm mobility can be realized is to be found in the character of labour unions. They are not crafts unions but unions within the firm.

Generally speaking, it is usually understood that a worker ascends one higher grade when he shifts from one sector to another; in other words, intrafirm mobility is accompanied by promotion. Large companies in Japan have many sub-branches all over the country, and workers often transfer from one branch to another, accompanied by promotion.

Now, the question arises as to why interfirm mobility is low. In the recent theory of the firm, immobility is explained by the existence of a firm-specific technique. Workers get this technique through OJT and learning by doing. A portion of residual (in other words, organizational) benefits is distributed to workers as a result of contributions by the firm-specific technique. Needless to say, it is distinct from wages as reward for labour. However, if one should exit the firm and transfer to another, the firm-specific technique is then reduced to zero. Therefore, workers will not move easily even if they can find opportunities to get higher wages. This is the usual explanation, but it is insufficient for explaining why Japanese workers are immobile compared with those in other countries, except for the fact that the degree of the firm-specific technique through OJT is higher among Japanese workers than that found in other countries.

The main point that I would like to emphasize is the future oriented tension of workers in Japan. The word "future oriented" can be expressed also as "upwards oriented." This tension is realized in the seniority system. The longer they remain with the same firm, the higher their wages accompanied by promotion. Rewards for their contribution by the firm-specific technique are included in their wages through the system based on seniority.

Another point I would like to emphasize is that the objective function of workers includes many factors besides wages. Among others are the reputation or social evaluation of the firm they belong to, the image or popularity of the firm, growth possibility of the firm, and so on. These factors are fulfilled in large companies; thus labour mobility is found to be small, but in

medium or small firms mobility is higher even if compared with that of other western countries.

The points I have emphasized relate to the issue to be raised in the next section.

4. CONFLICTS AMONG INDIVIDUAL OBJECTIVES AND THEIR ADJUSTMENT

There are many works which indicate the main feature of Japanese business organization to be the identification of individual objectives with the firm's goal. Douglas Booth argued that declining U.S. competitiveness and productivity in manufacturing industry has resulted from inherent limitations in the corporate-bureaucratic form of business organization.²⁰⁾ According to his argument, bureaucratic control failed to motivate the employee's work effort.

"Today," he says, "individual workers are seldom responsible for the organization of production, the rate of production, or the level of product quality, and are instead assigned tasks that are relatively limited in scope."²¹⁾ This is a defect under bureaucratic control.

After he showed that bureaucratic control had been sufficiently effective as a means of control in an organization with large scale production, he says that it fails to take into account other human motivations for engaging in work and putting forth effort. It is, important to "put forth work effort to satisfy workers' desire for social involvement by activity participating in a group effort to achieve some common end. The satisfaction of this desire is generally based on a strong sense of identification with the group members and the goals of the group."²²⁾

Following this analysis, Douglas quotes from W. Ouch, "One of the key ingredients of Japanese economic success is a cultural commitment to group harmony and the placing of groups above individual interests."²³⁾ However, it is difficult to introduce such motivations for the work effort to western business organization which has been influenced by western traditional thinking. He proposes Mondragon cooperatives as a desired organization.

Douglas focuses the problem of bureaucratic control under capitalist ownership and control. He does not treat such problems as the separation of control from ownership and the principal-agency problem, which are usually argued by many economists concerned with the theory of the firm. He seems to assume a type of firm where the owner-manager, who has been a simple producer from the early nineteenth century and who has become larger during these hundred years, as controlling the firm. He recognizes bureaucratic control as the control method by the owner-manager or capitalist-manager in large firms. His analysis may be partly right, but insufficient.

I will agree with such an aspect in which he explained the Japanese economic success through organizational and cultural features which are distinct from western individualistic tradition. In my view, the individualistic tradition of western advanced countries was appropriate for the simple producer model as an ideal type of capitalism which would seem to correspond to early capitalism from the late eighteenth century to the early nineteenth century, but such an ideal type disappeared under the large corporation. It may be said that the Japanese traditional way of thinking and behavioristic features, rather, are more suitable for large organizations.

It is an essential characteristic of Japanese workers not to be individualistic, but the explanation of economic success on the basis of cultural features prevents scientific analysis. I would like to focus on the rational aspects of the identification of individual objectives and the firm's goal, noting that identification is rational for each individual.

Gibney²⁴⁾, Morishima²⁵⁾, and Hanami²⁶⁾ attach importance to life-time employment.

"Large scale Japanese enterprises have built upon this group commitment with life-time employment and an emphasis on long-term growth and productivity improvement rather than short-term profit." (Gibney, Chapt. 4, 5). Workers know that they gain benefits from produc-

tivity improvement through experience.

Given life-time employment and an implicit commitment to share productivity gains, workers will be likely to identify with the objectives of the firm to which they belong.

It is necessary, however, to analyse more precisely why life-time employment was adopted, why workers can expect to gain from productivity improvement, why implicit agreement was attained, and why the tendency to pursue long-term performance rather than short-term profit is found not only among managers but also among workers.

Life-Time Employment

This is settled as an institution. We must think of it as associated with labour immobility. As mentioned in the previous section, labour immobility is explained by the accumulation of the firm-specific feature in Japan though it is a fairly remarkable feature. The firms employ workers who have general ability. The technique which is directly useful for the purpose of the firm's activities is gradually acquired by workers through OJT or learning by doing. The technique or skill embodied in workers increases in accordance with their accumulation of experiences so that the seniority system of wages results.

In determining wages, the skill which is acquired through OJT or learning by doing is considered, rather than the ability they already have when they compete for the labour market. Therefore, experiences which are substituted by age are included in the factors of wage determination. The seniority wage system can explain labour immobility and it is natural that the system is associated with life-time employment. Individual productivity will decline year by year after the worker arrives at the most workable age, of course, say, forty or forty-five. The age limit of factory workers is lower than office workers whose age limit is sixty on the average.

Workers arrive at the maximum wage level in each occupation category before they reach the age limit. Life-time employment is not necessarily contradictory to efficient productive activity.

Rewards Corresponding to Performance

Workers expectation for rewards corresponding to productivity improvement is formed through the experience of wage bargaining which is repeated every year. I call it "experienced expectations." In the period of high economic growth the expectation has seldom been betrayed.

Long-term Character of Objectives

This is the key concept that I would like to emphasize. It can explain the identification of individual objectives. As already explained, some factors included in the objective function of parties or individuals have common characteristics. These factors which are either the same or positively correlated with each other have long-term characteristics in many cases. These factors are the social evaluation or reputation for the firm, growth of the firm, trade position of the firm in industry, and so on. These are long-term variables and are to be included in the objective function of each party. Thus the conflict among objectives is reduced.

The long-term character of objectives is closely related to cultural tradition in Japan. The most typical example is found in the high saving ratio. The reason for this, as many economists have pointed out, is the insufficient social security or social insurance system. They assert that the people themselves must prepare for their life after the retirement because of

insufficient social insurance. In my opinion, however, such an assertion is incorrect. The economic life of the senior citizen mainly depends on four sources. The first is pension. The second is savings in various forms (bonds, stocks, and other property). The third is retirement annuity or retirement pension which separates from the usual public pension. The fourth is a retirement lump-sum grant. Of course, this should be included in the second category but it is convenient to separate the retirement lump-sum grant from savings as a result of accumulated annual savings.

The total sum of these funds is fairly large. Nevertheless, the propensity toward saving in Japan is high. The reason for this is to be found in Japanese tension which I would like to call "future orientation." This future-oriented tension is almost the same as the concept of upward-oriented tension, which is found to be a basis for the seniority system.

Concerning the features of Japanese organization, there are two key concepts that I would like to emphasize. They are "identification" and "future-oriented tension."

NOTES

1) M. Aoki; *Gendai no Kigyo — Geimu no Riron kara mita Hoh to Keizai* — (in Japanese). (Modern Corporation — Law and Economy from the Viewpoint of the Theory of Games), 1984.

Aoki, M. and Itami, T.; *Kigyo no Keizaigaku* ... (in Japanese). (*The Economics of the Firm*), 1985.

2) Especially, this tendency can be found in the behavior of banks. Many Japanese banks have attached importance to increasing the amount of deposits. To collect a large amount of deposits has been given priority over other goals of the bank, and the ranking of the amounts on deposit was regarded as the ranking of status among banks.

Recently, some banks are changing their policy. They have come to attach importance to profit seeking rather than to the amounts on deposit. This reflects a recent situation that demand for money has decreased and excess liquidity has prevailed.

3) Ronald Coase, "The Nature of the Firm", *Economica*, Feb. 1937

4) M.C. Jensen and W.H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure" *Journal of Financial Economics*, 3, 1976.

5) Ibid, p.310.

6) Ibid, p.310, See A.A. Alchian and H. Demsetz, "Production information costs, and economic organization", *American Economic Review*, LXII, No.5, pp.777-795, 1972.

7) Ibid, p.310.

8) By legal fiction is meant the artificial construct under the law which allows certain organizations to be treated as individuals.

9) Jensen and Meckling, p.311.

10) Ibid, p.311.

11) F.R. FitzRoy and D. Mueller, "Cooperation and Conflicts in Contractual Organizations," in D. Mueller. p.65. *Modern Corporation*, Harvester Press., 1986.

12) Ibid, p.66.

13) We can apply this relationship to that of husband and wife. The divorce rate is increasing in Japan but many people believe that the rate will not increase so high as in Western society, because Japanese are accustomed to consider the long term perspective. Factors which are included in the wife's utility function are common with the husband's. Even if a husband should forget his marriage anniversary and go drinking

with his colleagues, his wife may endure because she knows that to go drinking with his colleagues is important for her husband's success for getting high status in his company. Of course, her utility function includes her husband's income earning, status, and a good reputation in the company. She accepts her husband's behavior at the expense of one night's happiness.

14) W. Niskanen, *Bureaucracy and Representative Government*, Aldine, 1971.

J. Migué and G. Bélanger, "Toward a General Theory of Managerial Discretion," *Public Choice*, XVII, pp.27-43.

W. Orzechowski, "Economic Models of Bureaucracy: Survey, Extensions and Evidence, in T. Borchering, ed. *Budgets and Bureaucrats*. Duke University Press, 1977.

G., Miller, "Bureaucratic Compliance as a Game on the Unit Square," *Public Choice*, XXIX.

G., Miller and T. Moe, "Bureaucrats, Legislators, and the Size of Government" *American Political Science Review* 77.

15) Breton and Wintrobe, *The Logic of Bureaucratic Conduct*.

16) *Ibid.*, chapter 7.

17) Yoshihiro Kobayashi, "An Economic Analysis of Japanese Bureaucracy, *Hokudai Economic Papers*, Vol.XVI, 1986-87.

18) Donald. P. Dore, *British Factory — Japanese Factory, The Origins of National Diversity in Industrial Relation*, 1973.

19) The word, "continuity" I used in another paper included two meanings. The one is vertical continuity and the other is continuity over-time. The former means continuity from top management to the bottom level of workers, and it may be better to use the word homogeneous. The latter relates to the character of immobility.

I will treat the former, which is identical with that emphasized by Breton and Wintrobe.

20) Douglas. E. Booth, "The Problems of Corporative Bureaucracy and Producer Cooperative as an Alternative." *Review of Social Economy*. December 1985, 43(3).

21) *Ibid.*, p.299.

22) *Ibid.*, p.303.

23) W. G. Ouch, *Theory Z: How American Business can meet the Japanese, The Japanese Challenge*, New York, 1981.

24) F. Gibney, *Miracle by Design: The Real Reasons Behind Japan's Economic Success*, New York, 1982.

25) M. Morishima, *Why Has Japan Succeeded?: Western Technology and the Japanese Ethos*, New York, 1982.

26) T. Hanamis, *Labour Relations in Japan Today*, New York, 1981.