Time to Shift Focus and Look at "Japanese" Management in a New Light

Vangelis Dedoussis and Chris J. Czerkawski*

(Received on April 16, 2001)

I Introduction

Focus on what is allegedly "different" and "distinctive" has been a salient feature of the voluminous literature ever since, more than four decades ago, management practices in Japanese companies first received attention as a field of inquiry meriting further exploration. The emphasis on what stands out has fitted smoothly explanations offered by the "dominant perspective" (Johnston, 1995) that stresses the importance of idiosyncratic aspects of Japanese society and culture in producing such distinctiveness in management practices. Surprisingly, this still remains the tendency despite advances in our understanding of Japanese management, for instance the realization that, side by side with what are seen as different and distinctive management practices typically found in large-scale enterprises and in a small, but privileged, minority of the workforce, there exists a far less distinctive and glamorous aspect of Japanese management, that referring to less privileged employees and the country's "secondary" firms or that "Japanese" management practices are found in companies elsewhere (Thanopoulos and Leonard, 1996; Ichniowski and Shaw, 1999; Liker, Fruin and Adler, 1999)

Notwithstanding such advances the inclination to look at Japanese management through a veil of mystery by stressing the "different" and the "distinctive" has stood in the way of gaining a fuller understanding of the subject. There are several reasons for this. In the first place, the less distinctive, but nevertheless important, aspect of Japanese management referring to Japan's numerous "secondary" companies and the vast pool of underprivileged employees is obscured and treated summarily only.

Further, by focusing on Japan's unique socio-cultural heritage, attempts to view management strategies and practices of Japanese firms in a broader, universal context are discouraged. Finally, preoccupation with the "distinctive" and the "different" can easily produce superfi-

* Vagelis Dedoussis in Professor in Management, American University, Beirut, Lebanon: Chris Czerkawski is Professor of International Finance, Hiroshima Shudo University, Hiroshima, Japan

cially substantiated but shallow conclusions regarding current changes and the future development of management practices in Japanese companies. This is the case with several studies (Mroczkowski and Hanaoka, 1998; Hirakubo, 1999; Macharzina, 2000) that, having chosen to adopt a selective focus with respect to Japanese management practices, are led to hastily proclaim its "end".

Within the context of the broader issues raised above, this paper focuses on the two aspects of Japanese management that is, the one related to few large-scale companies and a small segment of the workforce, and the other referring to smaller firms and the majority of the workforce. Further, the paper considers the universal relevance of both aspects of Japanese management. As the adjective "Japanese" is used to refer both to what is seen in the literature as distinctive, albeit partly only representative, of the country's total workforce and companies on the one hand, as well as to what is less distinctive but far more prevalent on the other hand, we propose two distinct terms with reference to "Japanese" management, that is:

1. Japanese management type C. The term refers to human resource management practices found among "core" employees in Japan's large-scale enterprises. Japanese management type C (commonly referred to as "Japanese" management) has received the lion's share of attention in literature that, looking for explanation(s) for the performance of Japanese companies, especially when the Japanese "miracle" was in full swing and the world was thirsty for explanations for Japan's economic ascendancy, has tended to focus on what is perceived as different and distinctive about human resource management practices in that country.

2. Japanese management type P. The term refers to less distinctive human resource management practices among Japan's vast pool of underprivileged, "peripheral" employees. It may be noted that peripheral employees are not only the ones in Japan's numerous "secondary" firms but they often make up the bulk of the workforce in large-scale corporations. Perhaps because of the "normal" nature of the human resource management practices it includes, Japanese management type P has received far less attention in literature compared to the more glamorous type C. This is despite the fact that Japan's "peripheral" sector, including employees in small and medium size firms, is estimated to provide employment to around 75% of the workforce in the private sector (Rodo Hakusho, 1999).

As far as we are aware of, ours is the first distinction between two types of Japanese management, that is type C and type P. To this day, the literature has largely remained content with identifying and dealing with one aspect of "Japanese" management only that is, that referring to large-scale enterprises- largely similar to our own type C- while management practices in secondary firms and among the peripheral workforce have been implicitly viewed as more or less "un-Japanese". We depart from the existing literature in one more way as we introduce the distinction between high cost and low cost human resource management practices. This distinction cuts across both types of Japanese management rather than implicitly associate the management of core employees with high cost practices, and the management of peripheral employees with low cost practices, as is the case in the scant literature that has paid attention to the issue of cost (Dedoussis and Littler, 1994).

The objectives of this paper are set as follows:

One. To assess and describe underlying strategies and practices of type C and type P management, and the forces that shape them.

Two. To discuss the relationship between type C and type P.

Three. To discuss current changes in human resource management practices in Japanese companies in the light of the country's persisting economic problems and draw conclusions regarding the future direction of type C and type P management.

\ The paper is mainly concerned with the current state and likely future development of type C and type P management in the context of continuing aftershocks following the collapse of Japan's "bubble" economy in early 1990. Thus, the literature reviewed covers the period between the early 1990's to the present.

II. Beyond stereotypes

Against the backdrop of continuing, and unwarranted, emphasis on the "distinctiveness" of management practices in Japanese companies and explanations highlighting unique and peculiar aspects of Japan's society and culture (Schmidt, 1996; Damanpour, 1998; Bhappu, 2000), convention requires a review of the literature before proceeding further. However, to do so we run the risk of allowing ourselves to get bogged down in the never ending, and pointless as it will be outlined below, debate on the alleged distinctiveness and cultural specificity of Japanese management type C. Instead, we simply wish to make a few brief comments before presenting what, we believe, is a more credible explanation for the development of type C and type P management.

Starting with the fiction of the "culturist" position, which by linking Japan's unique socio-cultural heritage to the development of distinctive human resource management practices featuring in type C, has exercised such a strong appeal in literature (Whitehill, 1991; Bhappu, 2000), the following four comments may be made.

One. The well-known selective application of type C management practices to only a small minority of employees in large-scale corporations and to a fraction of the Japanese workforce (Lincoln and Nakata, 1997; Lux, 1997; Ornatowski, 1998) is not really explained by the culturist position unless one assumes that, perhaps, core employees and primary companies are, in some indeterminable way, more "Japanese" than peripheral employees and secondary firms. Even accepting such an unfounded assumption, there still remains the puzzling question how and why the former (incidentally, the modern sector of Japan's economy) have come about being more "Japanese" than the latter (largely including more traditional industries).

Two. The establishment of meaningful causal linkages between Japan's socio-cultural context and the development of specific, and supposedly unique management practices, is lacking. For example, how are traditional values, such as social harmony, familism, or loyalty, related to relatively recently developed practices defining type C management? Why have these values, which one would reasonably assume are shared by the broader society, been carried over to the primary sector only as evidenced by the absence of "Japanese" practices in the country's peripheral sector?

Three. Managerial rationalizations are conveniently confused with socio-cultural values, which may or may not have played a role in the development of specific practices. For example, is seniority-based reward a product of some Japanese cultural value(s), for instance respect and reward for experience that comes with age, as the culturist position would suggest, or is it a mechanism devised by management to defer wage payments by underpaying younger employees? It would be difficult, in the light of compelling evidence, to deny that the latter rather than the former is indeed the case.

Four. The significance of economic factors in the development of management practices defining type C tends to be downplayed by culturist proponents. For example, offering the prospect of life-time employment and rewards that go with it is known to have been the response of Japanese firms to the problem of hiring and retaining skilled labor during periods of high economic growth and labor shortages.

We believe that a less exotic but more plausible and straightforward explanation better accounts for the nature of management type C. That is, sharing the experience of companies in other industrial economies, large-scale Japanese enterprises operating in relatively strong and stable markets and enjoying certainty of demand, conditions characteristic of monopoly capitalism, have developed internal labor market procedures aiming at controlling the workforce. Internal labor markets feature bureaucratic hierarchies and offer long-term employment prospects largely insulating the workforce from competitive forces; this is especially true for the higher and better-paid jobs. Internal labor markets are characterized by entry only at the bottom of the hierarchy, movement up the job ladder associated with the progressive development of knowledge and skills, well-developed administrative rules and customs governing salaries, benefits, and promotion, and expectations of long job tenure; thus, in the longer-run, employees become unwilling and unable to leave. The development of internal labor markets in Japanese companies is facilitated by the presence of powerful enterprise-based unions whose major concern is to protect employment of their members rather than specific jobs (Dedoussis, 1991).

Turning to the issue of "distinctive" management practices, it may be suggested that type C management is indeed underlined by distinctiveness with two qualifying notes. One, distinctiveness does not refer to the alleged exclusiveness and uniqueness of specific human resource management practices; it is well known, nowadays, that practices defining type C management, significantly including some of its so-called "pillars" exist in companies in other countries as well (Kaplinsky, 1996; Pfeffer, 1998; Liker, Fruin and Adler, 1999). Two, distinctiveness does not refer to the culturist fiction emphasizing the smooth fit between historical conditions and cultural values that is thought to have helped produce type C management practices. Rather, distinctiveness refers to the wider and more systematic application of the defining practices of type C management by large-scale Japanese companies compared to what is often the *ad hoc* and relatively limited use of similar and identical practices by comparable size companies in other advanced economies. This is largely attributable to Japan's entrenched industrial dualism (Dedoussis, 1995).

Although industrial dualism and dual labor markets are by no means unique Japanese phenomena, they have taken place to a wider extent and far more depth in Japan than in other industrial countries. Japan's primary enterprises exhibit a higher degree of elaboration and rationalization of internal labor markets than do equivalent sectors in other countries. Thus, wage differentials and the mobility gap between the primary and the secondary sector are much wider in Japan, subcontracting hierarchies more far-reaching, and interlocking between large and small firms tighter. Compared to other advanced economies, life-time employment carries more normative weight in Japan while wage promotion in Japanese internal labor markets is based on a ranking hierarchy that is more a function of seniority than job content. Further, job descriptions and classification are known to be far less detailed in Japan and job rotation is less rigid (Cheng and Kalleberg, 1996).

III. High cost and low cost management practices

Distinctiveness, as qualified above, of type C management has been associated with a host of human resource management practices, which will be presented shortly. First though, we propose to distinguish between high cost and low cost management practices as we believe that this is important in understanding the nature not only of type C but that of type P as well. A few examples can illustrate this point. Life-time employment, seniority-based remuneration, job rotation, and quality control circles are all practices associated with type C management in literature. Still, to guarantee, even if implicitly, long-term employment and implement seniority-based remuneration, the employer's long-term commitment, financial capability, and willingness to bear high costs are essential. On the other hand, job rotation programs and quality control circles incur significantly lower costs and may be implemented with less than long-term commitment. Thus, life-time employment and the seniority system are typically found in large-scale enterprises which by virtue of their sheer size and, often, strong market position, can afford to make the costly long term commitment of shielding core employees from market forces. By contrast, job rotation programs and quality control circles, two low cost practices, are not restricted to core employees in primary firms but feature among peripheral employees and many secondary companies as well.

The distinction between high cost and low cost management practices allows us to view type C management in a new light. That is, high cost management practices, including guaranteed employment, extensive company welfare benefits, seniority-based advancement, and internal training, reflect the labor market internalization strategy which, by effectively "locking-in" costly but essential company-specific expertise and skills of core employees, aims at the realization of high long term growth and profits. Thus, in return for loyalty and commitment, required for long-term growth and profits, core employees are offered employment security, a well-structured career path, salaries that take care of rising family needs, and generous welfare benefits. At the same time however, a number of low cost management practices such as, job rotation, flexible job descriptions, small group activities, internal promotion, and consultative decision-making, reflecting managerial strategies of labor flexibility and cost containment, are used alongside the high cost practices. Despite their low cost nature these practices can provide substantial benefits to companies, for instance the benefits of small group activities, such as quality control circles and suggestion schemes, may exceed by several times the costs involved.

In the light of the discussion above, our view of type C management extends beyond that of a mere collection of high cost human resource management practices only associated with the internalization of labor markets in large-scale enterprises, as the literature tends to imply. With the exception of no more than a handful of works, notably that of Dedoussis and Littler (1994), the distinction between high cost and low cost management practices has not received adequate attention. Thus, it is unsurprising that, having implicitly equated "Japanese" management (type C) with high cost practices only, several works have proclaimed its "end" (Mroczkowski and Hanaoka, 1998; Hara, 1999; Hirakubo, 1999) in the face of Japan's continuing stagnation as it will be discussed in the next section. Having followed the familiar path of emphasizing the "distinctive", these works tend to consider changes taking place in high cost management practices while largely disregarding low cost practices; hence the hastily drawn, and wrong as shown later, conclusion.

A qualifying note is due on the strategies of labor flexibility, cost containment, and reliance on the external labor market underlying type P management. Although it appears that, sharing the strategies of labor flexibility and cost containment the two types of Japanese management differ only in respect of their other strategy, that is labor market internalization for type C versus reliance on the external labor market for type P, in practice cost containment and labor flexibility are far more important in type P than in type C. This is because, in contrast to large-scale enterprises that due to their size and strong market position can afford to take a degree of immunity from market forces for granted, Japan's secondary sector is characterized by inherent instability, as illustrated by the much higher bankruptcy rates among smaller size companies compared to primary enterprises. It may be therefore expected that, with few buffers for protection and often under strong pressure from primary client firms to keep costs low, smaller companies must be constantly vigilant with respect to cost containment and flexibility, hence the higher importance of labor flexibility and cost containment in type P management.

As secondary companies are far more vulnerable to market forces, than large-scale enterprises, type P is defined entirely by several low cost human resource management practices including mid-career recruitment (thus avoiding costs associated with in-house skill development), job security contingent on the firm's performance, low wages, and few or even non-existent welfare benefits. Additionally, type P includes low cost management practices such as job rotation, internal promotion, consultative decision-making, small group activities, and flexible job descriptions that, as mentioned earlier, define partly type C as well. However, the scope for the application of some of the latter practices, for example job rotation and internal promotion, is restricted by the small size and instability of secondary firms. This is probably the reason that practices such as job rotation, internal promotion, and small group activities have been associated in literature with type C management only although, given favorable conditions, such practices are found in smaller size firms as well with the exception of very small establishments.

We may now present the defining features of the two types of Japanese management.

Type C. Associated with core employees in large-scale enterprises, this type includes a mix of high cost and low cost human resource management practices, points 1–4 and 5–9 respectively.

High cost practices.

1 Direct recruitment of inexperienced young graduates who are offered job security and the implicit guarantee of life-time employment.

2 Extensive induction, socialization, and internal training programs as these employees, expected to spend their whole working life with the company, will form the backbone of the workforce.

3 Seniority based remuneration and promotion. Although starting salaries are not especially high and younger employees may have to wait up to ten years before being promoted to the first managerial level, this practice imposes heavy longer-term costs as employees grow older.

4 Substantial bonuses, as a percentage of basic salaries, and a well-developed welfare system.

Low cost practices.

5 Job rotation facilitating career development especially for white-collar employees.

6 Internal promotion based on the long-term evaluation of employees' abilities, performance, and contribution to company objectives.

7 Consultative decision making drawing upon the collective wisdom of employees with emphasis on consensus and reaching decisions on a "bottom-up" rather than "top-down" fashion.

8 Small group activities including quality control circles and suggestion schemes. Although

typically associated with manufacturing industry, small group activities feature in service organizations as well.

9 Flexible job descriptions serving as guidelines only of employees' function and responsibility.

Type P. This includes less distinctive, compared to type C, low cost human resource management practices found among peripheral employees and in secondary firms. Points 1–4 below refer to practices specific to type P while points 5–9 refer to practices featuring in type C as well.

Low cost practices (specific to type P).

1 Recruitment of experienced mid-career employees with specialist skills whose job security is contingent upon the market performance of the firm.

2 Following from 1, there is little need for the induction and socialization of peripheral employees. Training costs are prohibitive for many smaller size companies forcing them to "buy-in" skills rather than develop them in-house.

3 Given the mid-career recruitment pattern, seniority is unimportant. Instead, rewards are primarily dependent upon short-term contributions.

4 There are few welfare benefits and bonuses.

Low cost practices (common with type C).

5 Job rotation.

6 Internal promotion.

7 Consultative decision making.

8 Small group activities.

9 Flexible job descriptions.

Human resource management strategies and defining practices of the two types of Japanese management are summarized in table 1-1.

Table 1-1. Type C and type P management: HRM strategies and practices

Major HRM strategies (right columns), and practices (Rows below) **Type C.** Internalization, "lock-in" core employees. Cost containment. Labor flexibility. **Type P.** Reliance on external labor markets. Cost containment. Labor flexibility. **A. High-cost HRM practices** Recruiting "right" person rather than skills. Job security. Life-time employment. ✓ NoInduction. Socialization. Internal training. ✓ NoSeniority-based remuneration and promotion. ✓ No Substantial bonuses & company welfare ✓ No **B. Low-cost HRM practices** Recruiting skills rather than person No ✓ Absent or limited: Induction, Socialization, Internal training. No ✓ Seniority unimportant No ✓ Reduced bonuses. Underdeveloped company welfareNo ✓ **C. Low-cost HRM practices defining both types** Job rotation ✓✓ Internal promotion ✓✓ Consultative decision making ✓✓ Small group activities ✓✓ Flexible job descriptions ✓✓

The labor market internalization strategy underlying type C management translates into the high cost practices ticked under A in table 1-1, while for type P the strategy of relying on the external labor market is expressed by the low cost practices ticked under B. A comment is due regarding the low cost management practices defining both types and ticked under C in the table. One or two of the practices, that is internal promotion and consultative decision making, could be possibly considered, as is often the case in literature, components of the internalization strategy as the prospect of long job tenure fits smoothly with promotion from within and involvement in decision making. However, we view these two and the remaining low cost practices that is, flexible job descriptions, job rotation, and small group activities as manifestations of management's drive for the development of a versatile, multi-skilled workforce (which translates into lower costs in the long run), rather than components of the internalization strategy.

IV. Type C and type P: A symbiotic relationship

The distinction between high cost and low cost practices and clarification of the strategies underlying type C and type P, has important implications in the way we view management in Japanese firms. The implications are discussed below.

The cost based distinction of practices allows us to view type C management as a combination of high cost **and** low cost management practices rather than a collection of high cost practices only necessitated by the implementation of the internalization strategy, as it is often the case in literature, The former practices stem from the strategy of labor market internalization while the latter relate to the strategies of labor flexibility and cost containment. Drawing on this distinction, we can consider recent changes in type C in a new light beyond the confines of the view equating it with the internalization strategy and high cost practices. Changes triggered by Japan's prolonged economic woes, following the collapse of the "bubble economy" in early 1990, have been largely interpreted as signs of the "end" of type C management (Mroczkowski and Hanaoka, 1998; Hara, 1999; Hirakubo, 1999). Ignoring the low cost aspect of type C and choosing instead to focus exclusively on "distinctive" high cost practices such as life-time employment and the seniority system, the demise of type C is casually proclaimed at even the slightest indication of changes in these practices (Macharzina, 2000).

However, there is little evidence suggesting that the low cost practices of type C are undergoing substantial change or that their importance is diminishing. On the contrary, low cost practices, such as flexible job descriptions, job rotation, and small group activities, are nowadays even more important given management's drive for labor flexibility and cost containment in the face of persistent problems as Japan's economy adjusts from a high growth era to a period of low growth (Hasegawa and Hook, 1998; Katayama, 1999). Therefore, rather than signaling the demise of type C management, recent changes simply suggest a shift in the relative importance of the underlying strategies whereby concern for labor flexibility and cost containment are ahead of labor market internalization in managers' list of priorities at this juncture.

Type P management has been seen in rather simplistic terms in literature that is, as more or less the opposite of what is considered distinctive in type C, in particular life time employment, the seniority system, and company welfare. Thus, type P tends to be associated with contractual employment relationships and an almost "hire and fire" approach towards labor. However, keeping in mind the cost based distinction, the picture for type P is more complicated as it includes several low cost management practices **in common** with type C. Indeed, low cost practices such as job rotation, flexible job descriptions, and small group activities, exemplifying managerial strategies of cost containment and flexibility, are nowadays considered the hallmarks of Japan's manufacturing industry cutting across enterprise size and the core-periphery dichotomy

In the light of the preceding discussion the significance of type P management needs to be reconsidered. Let us elaborate. Most works on industrial restructuring and changes in management practices, triggered by Japan's stalled economy, deal with developments in type C while largely ignoring type P. Lack of interest in type P may be attributed to the erroneous assumption that this type is essentially a stripped down version of type C without the burden of the high cost practices of the latter. Although it appears that there is not much of significance to be said about developments in type P, the dim prospects of Japan's depressed economy (Belson, 2001; Economist, 2001a; Powell, 2001) may nevertheless put the strategies of labor flexibility and cost containment in the spotlight. In the context of a low growth economy, as opposed to the high growth economic environment of the 1980's, type P management may be about to acquire a new importance as, unburdened, on the one hand, of inflexible and high cost practices, while including, on the other hand, low cost practices that enhance labor flexibility, it would appear an attractive alternative for Japanese companies to follow.

Two questions emerge at this point, that is:

One. Given the attractiveness of its "lean" practices, could perhaps type P management become the dominant type of "Japanese" management?

Two. Is the "softening" of the high cost management practices of type C, that has been taking place over recent years, as companies de-emphasize costly aspects of life-time employment and seniority, likely to lead to a "low-cost-practices only" version?

We will tackle the second question first. There is a widely held view in the change literature (Mroczkowski and Hanaoka, 1998; Hirakubo, 1999; Macharzina, 2000) that type C management is destined to oblivion under the strains imposed on companies by the depressed state of Japan's economy and the impact of the forces of globalization that call for "leaner and meaner" organizational structures, more labor flexibility, and tighter cost containment. On the other hand, however, several authors (Fingleton, 1995; Ornatowski, 1998; Dedoussis and Czerkawski, 2000) have argued that type C management is alive and well and certainly far from its "end" as it has become fashionable to claim. The issue of conflicting conclusions regarding the direction changes in management practices of Japanese firms point to has been taken up in a recent article (Dedoussis, 2001) arguing that, evidence to the contrary notwithstanding, the landscape of type C management remains decidedly "Japanese", as what takes place is actually an *ad hoc* reshuffle rather than a substantial restructuring of internal labor markets. Therefore, the rationale behind labor market internalization and the necessity of maintaining a core workforce must be discussed.

Internal labor markets offer several distinct advantages. For example, after developing firm-specific (i.e. non-transferable) skills and expertise, employees become unwilling and unable to leave; this translates into low employee turnover thus reduced hiring and training costs. Further, stable employment relationships enhance employee commitment, reduce resistance to technological and organizational change, and facilitate the implementation of effective on-the-job training for firm-specific skills necessary for advanced technological production. By contrast, the absence of internal labor markets, typically in small and medium sized companies, is associated with little on-the-job training, unstable work, low wages and benefits, and restricted opportunities for career advancement (Cheng and Kalleberg, 1996). However, given the high labor costs that long-term employment stability, a structured career path, substantial internally determined rewards and benefits, and investment in the continuous development of human resources entail, the advantages of internal labor markets are contingent upon the strength and capabilities of companies. Crucially, companies must be prepared to sacrifice short-term profits in order to shield costly but valuable core employees from market adversities expecting, in return, that these employees will contribute to the realization of high, long-term profits.

Notwithstanding advantages the internalization strategy produces rigidities because of the high, and more or less fixed, long-term labor costs. To counter such rigidities, the strategies of cost containment and flexibility with their low-cost practices are implemented. However, while companies may often find it desirable to follow a more flexible approach in sustaining essential high cost practices, there are limits beyond which the cost containment and labor flexibility strategies cannot be implemented without seriously jeopardizing the strategy of labor market internalization. Where the balance will be struck between labor market internalization and necessity for maintaining a core workforce on the one hand, and management's concern with labor flexibility and cost containment on the other hand, in other words between high cost and low cost management practices, depends, crucially, on conditions specific to particular industries and companies rather than on the general economic and business environment.

This point is well illustrated by the contrast between two car manufacturers, Nissan and Toyota. Faced with a serious financial situation Nissan has announced the closure of plants, job cuts, and a hiring freeze effectively scrapping life-time employment for part of its workforce. On the other hand, being in a healthy financial position, Toyota can afford to maintain its human resource management practices maintaining the existing balance between internalization and cost containment strategies (Taylor, 2000). Similar examples are found across the whole spectrum of Japanese industry (Nakamoto, 1999; Nusbaum and Price, 1999). However, it is notable that troubled companies are not altogether discarding the high cost practices of type C management; rather, responding to their own unfavorable conditions, they take steps to reduce the size of the core workforce with the minimum impact, on remaining employees, possible (Dentzer, 1995; Lincoln, 1999; Kraar, 2000). Thus, it appears that the prospect of realizing profits in the longer run is strong enough to warrant continuation of the internalization strategy and type C management, even if that, in the short term, means a leaner core workforce.

One might be inclined to provide an affirmative answer to the first question asked earlier, that is whether type P management could become the dominant type of "Japanese" management given the attractiveness of its "lean' practices, especially in the context of Japan's recessionary environment. After all, practiced among the vast pool of peripheral employees and in the numerous secondary firms, type P is, in a sense, the dominant type of "Japanese" management notwithstanding the literature's fascination with the "distinctive" practices of type C. However, despite the advantage of low cost labor flexibility, crucial as this is considering the unstable nature of many secondary firms, type P management, underlined by the strategy of relying on the external labor market, lacks the advantages of internalization. For example, as illustrated by higher turnover rates for peripheral labor than for core employees, commitment of the former is lower. This is due to the unstable work, limited opportunities for advancement, low salaries, and limited benefits characterizing secondary firms. Further, by stressing specific job skills and expertise, type P management may engender resistance to technological change thus making employees, whose skills are no longer needed in their present employment but still transferable, likely to leave.

Therefore, while an attractive option for secondary firms (under constant pressure from primary companies for lower costs and more flexibility), and for managing the peripheral workforce, type P cannot become a viable alternative for managing core employees as in this case the advantages of internal labor markets would disappear. However, type P management will continue to co-exist with type C in large-scale enterprises as it helps offset rigidities of the latter. Over recent years, a number of large-scale Japanese companies were forced to reduce the size of the core workforce; this has led to speculation that a further proliferation of low cost practices specific to type P among the remaining part of core employees is imminent. However, as long as large-scale companies can insulate even part of the core workforce from market forces in order to reap the advantages of internalization, type P is not likely to substitute type C in Japan's large-scale enterprises.

IV. Forces for continuity and forces for change

Many forces are typically discussed when considering developments and the direction of management practices in Japanese firms (Ornatowski, 1998). In our opinion however, four of the multitude of forces at work have the greatest impact on Japanese companies. Two of the forces, keiretsu affiliations and the interests of core employees, are specific to Japan's economy and the country's large-scale enterprises while the remaining two, the drive for leaner organizational structures and labor flexibility, are universal. The four forces are discussed below.

Identified as one of the most distinctive aspects of Japanese capitalism (Gerlach, 1992; Dore, 1994; Fruin, 1998; Ming-Ho Lai, 1999), keiretsu affiliations that is, the intricate web of inter-enterprise links and cross-shareholdings between major companies, subsidiaries, subcontractors, and affiliates, are instrumental in insulating large-scale enterprises from market forces thus ensuring the stability of internal labor markets and protection of core employees from business downturns (Dedoussis, 1995). Indeed, protection of core employees is considered as important as protection of shareholders' interests (Minard, 1998). As it has been argued (Aoki, 1990; Johnston, 1995), corporate management decisions of Japanese firms are subject not only to the control of ownership, but crucially, to employees' interests as well. Therefore, the examination of the current state of the keiretsu system of industrial organization will help us put into perspective developments in firms controlled by ownership and employees, impact on type C management, and ramifications for type P.

Following a decade of persistent economic problems amid Japan's on-again off-again recession, strains in the keiretsu system have become apparent as long-established inter-firm ties are broken and many companies have begun selecting partners on the basis of strict business criteria rather than, as it used to be the case, keep on maintaining cozy relationships (Economist, 1995) and come to the rescue of troubled fellow keiretsu members. The tendency to break free from keiretsu shackles is reflected in industry-wide surveys indicating a newly found, by keiretsu norms, willingness to break traditional ties (JETRO, 1996) and establish new alliances in their place (Mori, 1994). A plethora of articles in influential business publications detailing crumbling keiretsu ties projects a picture of far reaching changes in Japan's industrial "dinosaurs" (Hulme, 1996; Business Week, 1999). Thus, one may be led to conclude that the era of Japan's "outdated" keiretsu is well and truly approaching its end.

However, two facts become clear upon closer scrutiny of research findings and sensational headlines proclaiming the imminent collapse of keiretsu. One, changes in keiretsu affiliations are rather slow and desultory and made on a case by case basis in a reactive rather than proactive fashion with scant only evidence of a concerted effort towards a thorough overhaul of the keiretsu system (Abrahams, 1998a; Abrahams, 1998b). Undoubtedly, changes do take place as the wisdom of maintaining ties that are no longer viable in the context of Japan's stagnant economy is questioned; at the same time though, there is a marked, and understandable, reluctance to indiscriminately dismantle affiliations that are still deemed beneficial (Benson, 1998). The second fact is the increase in ties with new partners and suppliers underlined by the establishment of new cross-shareholdings and keiretsu partnerships (JETRO, 1996) and even more inter-firm dependence (Lincoln, Ahmadjian and Mason, 1998). In this connection it may be noted that, the hype regarding the collapse of the keiretsu system notwithstanding, cross-shareholdings, often indicative of keiretsu affiliations, account for approximately 65% of the market capitalization of big companies (Abrahams, Harney, Nusbaum and Tett, 1999). The tendency of Japanese companies to develop inter-firm alliances rather than engage in purely market-driven transactions would therefore suggest that the keiretsu system is likely to remain a distinctive feature of Japanese capitalism for the foreseeable future (Economist, 2000).

Enduring keiretsu affiliations help shield core employees from market forces. This happens as core employees are protected not only by peripheral employees in large-scale companies but also by layers of peripheral labor in dependent subcontractors and vertically integrated smaller firms which function as shock absorbers during business downturns when large-scale companies "pass the bucket" of labor adjustments downwards. This is illustrated by the widespread practice of employee "loaning" (Kamada, 1994) whereby excess labor of large-scale companies, often under the guise of "temporary" transfers, is effectively dumped upon affiliated firms and subsidiaries (Schmidt, 1996; Mroczkowski and Hanaoka, 1998). Shifting excess labor to dependent smaller firms within the keiretsu production network in conjunction with hiring cutbacks help protect employment for core employees in primary companies. Therefore, it is not accidental that, despite alarmist predictions about imminent massive layoffs by Japan's large-scale companies amid the longest recession in almost half a century, retrenchments of core employees have been, by far, the exception rather than the rule (Dedoussis, 2001).

Protection of the interests of core employees is further enhanced by the well-known tendency of Japanese firms to focus on long-term growth and market share (Minard, 1998) rather than short-term profitability. Emphasis on market share and growth, largely the outcome of pressure by keiretsu banks, that by being major shareholders in primary companies (Johnston, 1995; Jones and Tsuru, 1997) pressure them to expand production so that they take on more loans increasing the profitability of banks (Zielenzinger, 1999), generates opportunities for skill development, promotion, and benefits for the core workforce. Thus, rather than viewed as the failure of Japanese managers to realize the structural nature of the current severe downturn (Abrahams, 1998b) and unjustifiable confidence in the tenacity of their companies (Lincoln and Nakata, 1997), emphasis on long-term growth and market share demonstrates the importance of overlapping interests in companies controlled by ownership, that is banks, and core employees.

While forces underlying keiretsu affiliations and internal labor markets push for continuity in Japan's industrial dualism and for protecting core employees there is pressure for change exerted by the forces of globalization, specifically the drive for leaner organizational structures and labor flexibility. However, the response of Japanese companies to the forces of globalization is worth noting. Thus, following the "big bang" reforms, aimed at de-regulating and liberalizing the economy, Japanese companies, taking advantage of recent amendments to the Commercial Code that have made the reorganization of corporate structures more smooth and flexible (Yamashita and Kamiyama, 2000), have exhibited a preference for hiving-off activities in the form of subsidiaries (Harney, 1999; Financial Times, 1999), and for relying even more on subcontracting (Benson, 1998). The search for leaner organizations in Japan has not been accompanied by the U.S.-style slash-and-burn "reengineering" (Lincoln and Nakata, 1997) or extensive "re-structuring" and "de-layering". Achieving a leaner organization by spinning-off subsidiaries, and in doing so re-locate rather than retrench surplus employees and managers (Dentzer, 1995; Mroczowski and Hanaoka, 1998), is facilitated by keiretsu ties and helps to reduce pain and dislocation present in Western-style re-structuring and re-engineering (Woodworth, 1994).

Labor flexibility, in type C management, is achieved by disassociating the implicit guarantee of continued employment from specific employment conditions such as type of job, location, rank, or even income level. After legal barriers to employee transfers were removed in the mid-1980's, inter-firm employee "loaning", either of a temporary or a more permanent nature, has become widespread during business downturns (Mroczkowski and Hanaoka, 1998). While such "loaned" employees, typically transferred to subcontractors and smaller affiliates, receive lower salaries and fewer benefits, they can, on the other hand, expect, at least some, continuation of employment. This is possible, because from the viewpoint of the receiving secondary company, the skills and expertise of "loaned" employees, acquired at the sender, typically a big and technologically advanced primary company, make them more valuable to retain than many of the receiving company's current employees. Thus, by de-linking employment from specific conditions, labor flexibility is enhanced while labor costs are reduced, as surplus employees are "loaned" that is, effectively re-assigned to subsidiaries and smaller affiliated firms. The implementation of early retirement schemes, whereby core employees are re-hired almost on the spot but on lower salaries and fewer benefits (Lincoln and Nonaka, 1997) is an additional way of achieving labor flexibility in a Japanese fashion.

The implications that the major forces pushing for continuity and for change have for strategies and practices of type C and type P management will be discussed in the next section.

V. Conclusions

Taking a fresh approach on management practices in Japanese companies, this paper has introduced the distinction between high cost and low cost human resource management practices which cuts across management type C and management type P. Thus, the paper has gone a step further than the existing literature, which tends to assume that the management of core employees and peripheral employees is underlined by high cost and low cost human resource management practices respectively. The distinction between the two types of Japanese management and between high cost and low cost practices can help us draw several conclusions.

In the context of resilient keiretsu networks and entrenched internal labor markets that shield the core workforce from market forces and create conditions for the managerial dominance of Japan's large-scale enterprises, type C management may be expected to remain defined by the strategy of labor market internalization. However, this does not suggest, as influential business publications like to claim, that Japanese managers are, in some inexplicable way, oblivious to the need for labor flexibility and cost containment. On the contrary, conditions prevailing in a specific industry and/or a particular enterprise often necessitate re-arrangement in the balance of managerial strategies of labor market internalization, cost containment, and labor flexibility. Thus, as far as two "distinctive" high cost practices are concerned, "softening" in life-time employment and the seniority system, is bound to take place given the search for leaner organizations and greater flexibility.

In practice this means that employees' long-term career prospects will become even more dependent upon performance and merit at the expense of seniority and length of service. The change will be reflected in promotion patterns, salaries, and associated benefits. Thus, although it is possible that, following the egalitarian tradition of large-scale companies, starting salaries may remain identical for all employees of the same age cohort hired in the same year, discrepancies in advancement, salaries, bonus, and company provided welfare benefits between top performers and laggards will become even more pronounced in future. Depending on the intensity and duration of strains they may experience, companies will be forced to restrict high cost practices to a smaller segment of the core workforce while continuing to make use of the skills and expertise of other permanent but less promising employees by disassociating the implicit guarantee of continuous employment from employment conditions reaching in this way a workable balance in their managerial strategies of human resources.

The search for labor flexibility, leaner organizations, and cost containment is likely to have far less dramatic effects on other high cost management practices such as, direct recruitment from university, continuous internal training, induction, and socialization. This is because large-scale companies, under the managerial dominance of core employees, need to keep open the prospect of incorporating newly hired young employees into the core workforce. Were these employees to be outright excluded from such high cost practices the prospect of developing future firm-specific human capital and utilize its expertise and skills for the realization of market share and long-term profits would be severely curtailed. This would jeopardize the continuation of internal labor markets and threaten the interests of major shareholders controlling Japan's primary enterprises.

The dark cloud hovering over Japan's faltering economy for most part of the past decade (Economist, 2001b; Powell, 2001) has one silver lining as it presents us with an excellent opportunity to shift focus and view Japanese management In a new light. For far too long "Japanese" management has been associated with several "distinctive" practices that, assumed to be of high, and prohibitive for smaller firms costs to implement, were considered exclusively reserved for the elite minority of core employees in the country's powerful primary companies only. Equating "Japanese" management with high cost practices only it was almost natural that the longer Japan's economic woes showed no signs of abating the more persistent, and superficially correct, grew the view that "Japanese" management is declining as it can no longer be sustained. Implicit to this reasoning is the belief that "Japanese" management is essentially a costly way for managing and pampering human resources well suited to Japan's "bicycle" economy.

However, largely missing from the picture was that crucial part of "Japanese" management that includes a host of low cost practices including flexible job demarcations, job rotation, internal promotion, and small group activities, that are found among companies of different size, as well as core and peripheral employees alike. Ironically, while foreign companies, especially those in the manufacturing industry, have been successfully introducing "Japanese" practices such as flexible job demarcations, job rotation, quality control circles and other small group activities (not to mention a host of minor low cost practices, for example common canteens for employees and managers, morning assemblies, and undivided work space) into their operations, discussion on changes and developments in "Japanese" management remained stubbornly focused on high cost practices.

Considering Japan's limping economy and the slowdown in the U.S. economy, which is likely to have repercussions for the world economy at large, we believe that it is precisely low cost practices partly defining type C and type P management that our attention should shift to rather than keep on beating around the bush on the future of life-time employment or the seniority system. There is little doubt that the competitiveness of Japanese industry owes much to low cost management practices. Perhaps, these practices will prove that "Japanese" management is as efficient in a low growth environment as it has been during the heydays of the Japanese "miracle".

* The research of the peper we geuerously supported by a Grant from for Sogo Kenkyu-sho (Institute of Advanced Studies), Hiroshima Shudo University in 2000.

REFERENCES

Abrahams, P. (1998a), "Sad legacy of a lost decade", *Financial Times*, 8 December, p. 7.

Abrahams, P. (1998b), "Management failing to bite the bullet", *Financial Times*, 8 December, p. 11.

Abrahams, P., Harney, A., Nusbaum, A. and Tett, G. (1999), "Making tracks for Japan", *Financial Times*, 4 February, p. 11.

Aoki, M. (1990), "Toward an economic model of the Japanese firm", *Journal of Economic Literature*, Vol. XXVIII, March, pp. 1–27.

Belson, K. (2001), "This time it could get nasty", *Business Week*, 15 January, pp. 24–25.

Benson, J. (1998), "Labour management during recessions: Japanese manufacturing enterprises in the 1990's", *Industrial Relations Journal*, Vol. 29 No. 3, pp. 207–221.

Bhappu, A. (2000), "The Japanese family: An institutional logic for Japanese corporate networks and Japanese management", *Academy of Management Review*, Vol. 25 No. 2, April, pp. 409–415.

Business Week (1999), "Time to overhaul Japan's keiretsu model" 15 March, p. 114.

Cheng, M. and Kalleberg, A. (1996), 'Labor market structures in Japan: an analysis of organizational and occupational mobility patterns", *Social Forces*, Vol. 74 No. 4, June, pp. 1235–1261.

Damanpour, F. (1998), "The impact of culture on management: A comparison of Japanese versus U.S. management", *Advances in Competitiveness Research*, Vol. 6 No. 1, pp. 39–57.

Dedoussis, V. (1995), "Simply a question of cultural barriers? The search for new perspectives in the transfer of Japanese management practices", *Journal of Management Studies*, Vol. 32 No. 6, pp. 731–745.

Dedoussis, V. (1991), *Human resource management practices in Japanese manufacturing firms in Australia*, Ph. D. thesis, Griffith University, Queensland, Australia.

Dedoussis, V. (2001), "Keiretsu and management practices in Japan-resilience amid change", *Journal of Managerial Psychology*, Vol. 16, No. 2, pp. 173–188.

Dedoussis, V. and Czerkawski, C. (2000), "Japanese management practices after the Big Bubble", *Keizai Kagaku Kenkyu (Journal of Economic Sciences*, (Japan), Vol. 4 No. 1, pp. 1–26.

Dedoussis, V. and Littler, C. (1994), "Understanding the transfer of Japanese management practices: The Australian case", in Elger, T. and Smith, C. (Eds.) *Global Japanization. The transnational transformation of the labour process*, Routledge, London and New York.

Dentzer, S. (1995), "Downsizing: will East meet West?", *U.S. News & World Report*, Vol. 119 No. 23, 11 December, pp. 72–73.

Dore, R. (1994), "Japanese capitalism, Anglo-Saxon capitalism: how will the Darwinian contest turn out?" in Campbell, N. and Burton, F. (eds.), *Japanese Multinationals: Strategies and management in the global kaisha*, Routledge, London.

Economist (US) (1995), "Fade to black", Vol. 336 No. 7934, 30 September, pp. 79–81.

Economist (2000), "Japan's Keiretsu: Regrouping", 25 November, p/ 98.

Economist (2001a), "Japan's economy: Stalled or worse", 3 March, p. 75.

Economist (2001b), "Another false dawn?", 24 March, pp. 91–95.

Financial Times, (1999), "Daiwa may spin off its trust bank business", News Digest, 9 March, p. 20.

Fingleton, E. (1995), "Jobs for life: Why Japan won't give them up", *Fortune*, Vol. 131 No. 5, 20 March, pp. 119–122.

Fruin, M. (1998), "Governance, Managed Competition, and Network Organization at a Toshiba Factory", in Fruin, M. (ed.), *Networks, Markets, and the Pacific Rim*, Oxford University Press, New York.

Gerlach, M. (1992), *Alliance capitalism. The social organization of Japanese business*, University of California Press, USA.

Hara, Y. (1999), "Japan says sayonara to lifetime employment", *Electronic Engineering Times*, 27 September, pp. 168–170.

Harney, A. (1999), "Japanese carmakers show capacity to change", Financial Times, 19 May, p. 17.

Hasegawa, H. and Hook, G. (Eds.), (1998), *Japanese business management: Restructuring for low growth and globalization*, Routledge, London and New York.

Hirakubo, N. (1999), "The end of lifetime employment in Japan", *Business Horizons*, Vol. 42 No. 6, November/December, pp. 41–46.

Hulme, D. (1996), "Corporate dinosaurs feel the chill", *Japan Quarterly*, Vol. 43 No. 2, pp. 153–162.

Ichniowski, C. and Shaw, K. (1999), "The effects of human resource management systems on economic performance: An international comparison of U.S. and Japanese plants", *Management Science*, Vol. 45 No. 5, May, pp. 704–721.

JETRO, (1996), "Keiretsu Supplier System Changing", INFO/FOCUSJAPAN. *http://www.jetro.go.jp.*

Johnston, S. (1995), "Managerial dominance of Japan's major corporations", *Journal of Management*, Vol. 21 No. 2, Summer, pp. 191–210.

Jones, R. and Tsuru, K. (1997), "Japan corporate governance: a system in evolution", *OECD Observer*, No. 204, February-March, pp. 40–42.

Kamada, T. (1994), "Japanese management and the 'loaning' of labour" in Elger, T. and Smith, C. (eds.), *Global japanization? The transnational transformation of the labour process*, Routledge, London.

Kaplinsky, (1996), *Easternisation: The spread of Japanese management techniques in developing countries*, Frank Cass & Company, UK.

Katayama, H. (1999), "Agility, adaptability and leanness: A comparison of concepts and a study of practice", *International Journal of Production Economics*, Vol. 60–61, 20 April, pp. 43–51.

Kraar, L. (2000), "Car troubles: Ford, once again, tries to fix Mazda", *Fortune*, 13 November, pp. 28–30.

Liker, J., Fruin, M. and Adler, P. (1999), *Remade in America: Transplanting and transforming Japanese management systems*, Oxford University Press, New York.

Lincoln, E. (1999), "Job security in Japan. Is lifetime employment on the way out?", *Brookings Review*, Vol. 17 No. 4, Fall, pp. 44–45.

Lincoln, J. and Nakata, Y. (1997), "The transformation of the Japanese employment system: Nature, depth, and origins", *Work and Occupations*, Vol. 24, No. 1, February, pp. 33–55.

Lincoln, J., Ahmadjian, C and Mason, E. (1998), "Organizational learning and purchase-supply relations in Japan: Hitachi, Matsushita, and Toyota compared", *California Management Review*, Vol. 40 No. 3, 241–265.

Lux, W. (1997), "Japanese management evolves again", *Management Review*, Vol. 86 No. 6, June, pp. 36–40.

Macharzina, C. (2000), "The Japanese model-out of date?", *Management International Review*, Vol. 40 No. 2, second quarter, pp. 103–106.

Minard, L. (1998), "Will Europe and Japan reform their corporate governance?", *Forbes*, Vol. 162 No. 5, 7 September, pp. 114–118, (interview with Peter Drucker).

Ming-Ho Lai, G. (1999), "Knowing who are you doing business with in Japan: A managerial view of keiretsu and keiretsu business groups", *Journal of World Business*, Vol. 34 No. 4, pp. 423–435.

Mori, K. (1994), "Industrial sea change; how changes in Keiretsu are opening up the Japanese market", *Brookings Review*, Vol. 12, No. 4, Fall, pp. 20–24.

Mroczkowski, T. and Hanaoka, M. (1998), "The end of Japanese management: How soon?", *Human Resource Planning*, Vol. 231 No. 3, pp. 20–30.

Nakamoto, M. (1999a), "Kanematsu to cut nearly half workforce", *Financial Times*, 19 May, p. 16.

Nusbaum, A. and Price, C. (1999), "NEC to shed 15,000 jobs after biggest loss", *Financial Times*, 20–21 February, p. 18.

Ornatowski, G. (1998), "The end of Japanese-style human resource management?", *Sloan Management Review*, Vol. 39 No. 3, pp. 73–84.

Pfeffer, J. (1998), "Seven practices of successful organizations", *California Management Review*, Vol. 40, No. 2, Winter, pp. 96–124.

Powell, B. (2001), "Monster problems", *Fortune*, Vol. 143 No. 7, 2 April, pp. 58–60.

Rodo Hakusho (White Paper on Labor), (1999), Rodosho (Ministry of Labor), Tokyo, Japan.

Schmidt, R. (1996), "Japanese management, recession style", *Business Horizons*, Vol. 39 No. 2, March-April, pp. 70–77

Taylor, A. (2000), "Bumpy roads for global automakers", *Fortune*, 18 December, pp. 123–128.

Thanopoulos, J. and Leonard, J. (1996), "Nourishing American business with Japanese recipes", *Review of Business*, Vol. 18 No. 1, Fall, pp. 7–11.

Whitehill, A. (1991), *Japanese Management: Tradition and Transition,* Routledge, London.

Woodworth, J. (1994), "Restructuring of the Japanese automakers", *Business Economics*, Vol. 29 No. 4, October, pp. 11–17.

Yamashita, A. and Kamiyama, T. (2000), "Energetic M&A in Japan", *Corporate Finance*, November,

pp. 39–40.
Zielenziger, M. (1999), "Japan Inc. for sale? Not really", *Fortune*, 26 April, pp. 19–20.