STUDY OF JAPANESE MANAGEMENT DEVELOPMENT PRACTICES

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1. Modifications in Management Organization
   a. The Change in Business Ideology. With the prewar dissolution of the zaibatsu, the extended family, and internal authority, the business ideology was seriously undermined. Moreover, to understand why Japanese management was quick to adopt new principles of human organization it is necessary that we discuss briefly the origins of Japanese management ideology.

   Although the zaibatsu families organized their holding companies to invest their funds, they relied almost exclusively on competent employees to manage their business. The principle of a management independent from the ownership characterized the zaibatsu

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system. While all capital gains were returned to the holding company, the rate of return tended to be fixed. Family members of the zaibatsu were not allowed to work in the enterprises, except to serve as president. The actual managers were employees of the zaibatsu promoted within the firm, and were rather independent of the zaibatsu family as far as management was concerned. As a whole, management at all levels were removed from the zaibatsu families, and thus formed their own group consciousness within the impersonal business organization. One result was the "groupism" which Japanese management has carried over into the postwar as a hallmark of Japanese business ideology.

With the dissolution of the zaibatsu after the war, management tried to build the Japanese firm into a community in which all participants were destined to live together, like the crew on a ship. Colored with a shade of ascetism characteristic of Zen, and surrounded by economic and social confusion, this kind of ideology attracted managers at all levels, and was rapidly diffused to ordinary employees. It was on this base that Japanese management was able legitimate itself in face of the militant social and labour movements.

b. Reforming the Centralized and Functionalized Organization. When the Commercial Law was amended in 1952, the board of directors become the highest body responsible for the business firm. Before the war, the board of directors had been only an informal body, and each individual director had been responsible to the firm. Since the role of directors in the traditional management system had been ambiguous, the amendment raised problems as to how positions and jobs should be allocated to managers. The problem was gradually solved with the understanding that foremen and section chiefs would be lower-management, with department heads and division heads being middle management, and directors and above being top management.

In 1951, The Industrial Rationalization Advisory Council of MITI recommended that a board of managing directors be the top body for internal control. Soon after the recommendation, such boards were set up in almost all large-scale firms. The board of managing directors is not a legal body, but includes top management and is similar to the executive committee in an American firm. Although the organization of top management was thus modified, the traditional emphasis on the centralization of management's authority still remained. Management strongly resisted the introduction of a controller system, contending that a particular department should not be given the privilege of overseeing other departments. Internal control has thus been put off until recently.

c. Functional Classification. With the Occupation's early support for trade unions, a militant labour movement soon appeared under the guise of democratization. Besides requesting a stable income, the movement demanded that management abolish the distinction between midcareer employees and key employees and dispense with the traditional status system, especially the discriminatory status system between blue-collar (kōin) and white-collar (shokuin) employees. The first companies to respond were Oji Paper Manufacturing Company and Hitachi Electric Manufacturing Company, both in April 1947. Many other firms followed in later years. In place of the status system, Japanese management introduced functional classifications. In 1946 an American advisory group had suggested that Japan implement a wage system based on job classifications hereafter
referred to as the job-wage system. While this method was once introduced in Japan during the 1930's, it could not be reconciled with the traditional approach to management. In the postwar years, management's interest in this system was revived only to find the militant labour movement insisting on the living-wage security plan which sought to guarantee the employee's standard of living as his needs rose and then fell through his life-cycle. Japanese management thought the job-wage system was good to counter the union demands. At the same time, however, management feared that the sense of groupism among the employees would be weakened by individuated job evaluations and differentiated wage rates. As a compromise, management established a system of functional classifications in which individual employees belonged to function groups. The major classifications were manual, technical, office, managerial, and special duty (plant guards, hospital and restaurant employees, etc.). Each of these groups was then subdivided. Individuals were thus known, for example, as first, second and third class manual functioners. Assignments, transfers and promotions were based on this system of functional classifications.

In principle, all functional groups except the managerial group and the special duty group were equal in terms of status. However, management in fact differentiated among the other groups by assigning those with the lowest education to the manual group, high school graduates to the lower ranks of the technical or office group, and university graduates to the upper ranks of the technical or office groups where promotion to the managerial group would soon follow.

d. Modification of the Ringi system. The ringi system itself was not altered despite the frequent criticism of the slow and inefficient approach to decision-making in Japanese firms in the various training courses of the Occupation. However, some modifications were made. For instance, with the establishment of the board of managing directors, the ringi memoes gradually came to be classified by their importance, and only the most important were delivered to the president while the others were dealt with by the body of managing directors.

2. New Personnel Practices

For the first fifteen years after the war, Japanese management had to fight against a militant labour movement which management had never known before the war. The first task of management was the securing of enough funds to operate their business independently. Therefore, with the Korean War Japanese management was able to accumulate enough funds to be able to afford a massive reorganization of personnel practices.

a. The Practice of Career Employment. Career employment lost all meaning immediately after the war since factories and offices had been destroyed and jobs could be offered to anyone. Massive discharges continued for five years until 1950. Key employees who had lost their jobs also joined the militant labour movement. The practice of career employment was reinstated in 1953, and the five years from 1953 to 1958 can be called the period of reconstruction for traditional personnel practices. The postwar approach, however, was quite different from the prewar system. First, all regular employees including medium-term permanent employees belonged to the same union. This change was demanded mainly by the trade unions in which many of the leaders had been medium-term permanent employees. However, union membership was limited to regular employees.

b. The Seniority Wage System. The seniority wage system also was reestablished
during the mid-fifties. Again, strongly influenced by the trade union movement, the emphasis was on maintaining a minimum standard of living in terms of needs spread over the individual's lifecycle. Ideally, wages would be paid according to age, not the length of service. After the seniority wage system was revived, however, seniority was added to age as the major criteria. Given the strong support for this formula among the rank and file who were represented in collective bargaining sessions by the union, the discretion of management in evaluating individual performance was limited considerably, and the wage rates of the employees with the same age and seniority ranking came to be quite similar.

c. *Seniority and Promotion.* The link of seniority with promotion was also resumed in the same period, and rational evaluation practices were explored within the "democratic" framework. A variety of personnel rating methods were introduced from America beginning in 1949. In 1951 an American rating system was adopted in postwar Japan for the first time when the National Personnel Authority implemented its Merit Rating System. Soon afterwards, American systems were quickly introduced in many private firms. Although the system was applied most frequently to affix wage differentials, another important use involved promotion. Even if a promotion test was also used, the major consideration became the individual's work record. However, since the practice of career employment was being revived, a regular employee was expected to stay with the firm for thirty or forty years. Therefore, management was also interested in knowing about developing his potential. Therefore, in the Japanese system it was important to develop measures of both potential and actual performance. This is the reason why Japanese management studied carefully the "outdated" American approach to rational personnel rating systems.

d. *Welfare Facilities and Fringe Benefits.* In the difficult year following the war, basic necessaries were hard to obtain and company stores which sold such items were welcomed by employees. Dormitories and other housing facilities were also welcomed in urban areas where bombing had been heavy. Housing was thus provided by the firms in the basic industries and promoted by the government. Japanese management soon branched out with other kinds of facilities and services. While the line between services rendered voluntarily by the management, those rendered by custom and those rendered as pay per se was not clearly drawn, certain of these items were made subject to collective bargaining. This was especially true of items like accident compensation which were prescribed by the Labour Standards Law enacted in 1947.

According to the Labour Standards Law, health insurance associations should be set up by each enterprise and managed by a board of directors including both management and employees. In the large firms, these associations soon become wealthy and began to construct various welfare facilities such as gymnasiums, resort hotels, swimming-pools, etc. These are the types of activities established by the firms themselves in the prewar period. Cooperatives were also operated on the same basis or wholly transferred to the domain of the union.

Overall, the role of management in providing these kinds of benefits has decreased in the postwar period. The emphasis has been on dormitories, apartments and other forms of housing on the one hand, and cafeterias, recreation facilities at the company on the other. Athletic clubs, groups for flower arranging, and counselling services were also made available.

e. *Enterprise Unionism.* The Trade Union Law of 1946 followed closely the Wagner
Act of 1935, but did not specify which organization would be most appropriate for collective bargaining. While the Wagner Act assumed that the representative bargaining body to trade union could be determined easily on a voluntary basis, in the newly-born Japanese labour movement various organizations proliferated and competed to represent the employees in collective bargaining. Moreover, some unions were organized on an industrial basis (such as the seamen’s union), while others were based on occupation (the teachers’ union) or the geographic area (the federated unions of mixed crafts and mixed industries). The majority, however, were organized around the firm. These are the so-called enterprise unions.2

In rebuilding their personnel management system, management sought to promote the enterprise unions which fostered loyalty to the firm. Supervisors and foremen who were still union members were given the TWI course and transferred to management. Management also came up with the idea of sponsoring the Japan Productivity Center with the assistance of MITI. Advocating a bigger pie for all through cooperation, the Japan Federation of Employer’s Associations led the movement. Management first hammered out a new approach to wage increases based upon individual performance. Although this went against the indiscriminate average wage plan of the trade unions, the Central Labour Relations Board went along with the employers and recommended wage increases based upon personnel rating system to settle a conflict in the private railways in 1954. In the same year the National Personnel Authority also recommended that wage increases for the civil service follow a similar pattern.

Militant trade unionism was weakened by the recovery of the employers. For example, the All-Japan Automobile Manufacturing Workers’ Union was dissolved in 1954. The Electricity Industrial Union was irreparably split in 1952. The number of trade unionists going along with the productivity movement rose rapidly after 1952. Some of them organized a national center, the All-Japan Trade Union Congress, in 1954. Enterprise unionisms was dominant by 1953, and loose national federations of enterprise unions mushroomed on an industrial basis. The All-Japan Union Federation of Electrical Manufacturing Workers appeared in 1953, and of the Federation of Workers in the Automobile Industry was formed in 1954. A few of these national federations joined in a nation-wide movement to demand wage increases in 1954. Later known as Shuntō, the Spring Wage Offensive, this movement has come to include an increasing number of unions and occurs every spring. In 1961, the last militant trade union, the Japan Coalminers’ Union, collapsed after a desperate fight at the Mitsui Miike coal mines.

D. The U.S. Managerial System: Accepted and Rejected.

Since the end of the war, Japanese management has been anxious to learn new theories and techniques which could be adapted to the new “democratic” ideology. Many experts and publications were brought to Japan by the US government. It also invited a number of Japanese managers to America. The high educational level of most Japanese managers meant that they learned quickly. A review of some of the major ideas of concern is given below.

1. **Job Classification.** As related above, job classification was not applied directly in most Japanese firms. It had, however, attracted considerable attention. Since many felt that the system impersonalized the organization, the idea was dismissed as being incompatible with the Japanese approach to management which relied completely on the human group and the *ringi* system. For both central and local governments, The U.S. classification system (provided for in the U.S. Classification Act of 1949) was partly introduced after rigid prewar status system had been jettisoned. All the government officials were assigned to their respective job clusters such as administration, taxation, police, maritime, education, research and development, medical treatment and designated top officials. Each job cluster had several grades with detailed salary tables. While the system was supposed to be similar to that in the U.S., actually it was quite different. Education, especially a university education, was a prerequisite for the placement test. Furthermore, university graduates were divided according to the senior and junior tests. The examination for a senior appointment was very hard to pass, but gave one an assignment at the top of a job cluster.

Since the late 1960’s, new job classifications have been introduced in several industries such as steel and electrical machine manufacturing. This step was taken in view of management’s concern with rising dissatisfaction among the younger workers. The younger workers who were working in automated production processes or on assembly lines were critical of the seniority wage system because workers on the same line were paid more or less according to differences in age. Moreover, the labour shortage among the young had become serious for the first time. To soothe the dissatisfaction of the youth, large firms in several industries introduced the job-wage system while retaining a certain part of the seniority wage system. The weight given to the job and that given to age varied by industry. For example, in the steel industry thirty percent of all wage payments was based upon job criteria. More importance was not given to job criteria management felt that the young workers would also realize that seniority would be more welcome as they grew older and remained within the career employment system.3

2. **The Human Relations Approach.** From the viewpoint of Japanese management, the human relations approach did not seem to be based upon a thorough understanding of working people. Many felt that the Japanese approach had more depth. While postwar management ideology focused upon groupism, with a stress on the individual’s whole personality, Japanese management returned to many of the traditional practices described above. Some specific adaptations of the human relations approach were used within the context of traditional practices.

In the 1960’s, the theory and practice of behavioral science began to have its impact on Japanese management, particularly the younger set of managers absorbed in study. While Japan had become fully industrialized by that time, it was also clear that highly advanced technology would have a powerful effect on the worker. Management thus felt an urgent need to look for a new, more humane approach. The approach developed by them was known as “*Nōryoku-shugi Kanri*” (the personnel practices based upon strictly-defined concepts of competence), and stood in marked contrast to older practices emphasizing

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educational career and seniority.

In the beginning of the 'seventies, the concept of competence was thus reviewed, and into the traditional concept emphasizing the whole personality was woven the concept of competence. The present system thus represents a mix of the two.4

3. Industrial Relations System. One of the most heated debates centered on the introduction of the American system of industrial relations. The Occupation authorities rushed through the Trade Union Law in early 1946. The aim was to introduce the American model of collective bargaining. In this connection a number of labour relations study teams were sent to the U.S. by the State Department.

Trade unionists were impressed by the powerful national federations, and they were quite critical of the anti-labour policies of the Japanese Government and management's emphasis on groupism. Management also earnestly studied the American approach to industrial relations, but saw value only in the system of conflict resolution built around the industrial relations boards. Japanese managers refused to recognize the fact that labour and management could not be one within the confines of the firm.

In June 1949, the Trade Union Law was amended and the unions came under the strict control of the Occupation authorities. While the early postwar unions had been quite militant, with collective agreements emphasizing the political freedom of their membership, the amendments threw Japanese industrial relations into a period without contracts. Expecting the rapid rise of a new democratic trade union movement, the Occupation worked to introduce collective agreements based on the principle of business unionism. The representative contract recommended by the Occupation authorities called for collective bargaining, grievance procedures and labour-management consultations.

In May 1950, the Ministry of Labour issued a Vice-Ministerial circular concerning the promotion of collective agreements. In 1952 the Ministry held a large three-month campaign to implement the circular. While management and the enterprise union at the big firms drew up new contracts within one or two years after the campaign, it was soon found that many of the agreements were not workable. While management and the union argued heatedly about the formal contract, they often put the contract aside in discussing working conditions and other problems. What the contract says did not matter to either side. Most important was how they dealt with each other and reached some mutual understanding. Group activity seemed to be the rule of thumb. Since collective bargaining was conducted according to such practices, labour-management consultation schemes seemed quite confusing. It might have been better to say that labour-management consultations occurred under the name of collective bargaining. While the rate of unionization is much lower at the smaller enterprises, it is about ninety percent at the very large firms. Among the large firms with unions, approximately fifteen percent do not have collective agreements. Moreover, the number of firms with joint labour-management consultative arrangements is about the same as those with collective agreements. Furthermore, nearly half at the firm use some form of joint labour-management consultations to do their collective bargaining.5 It is thus apparent that collective bargaining and joint labour-management

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consultative arrangements have frequently been mixed together.

Finally grievance procedure was not easily adapted to the Japanese situation. Reflecting the campaign of the Ministry of Labour, grievance procedure was provided for in many agreements. However, it was soon clear that any procedure based upon individual dissatisfaction would not work. Individual employees raising grievances were regarded as enemies of the group unless the grievance was felt by everyone. If everyone was concerned, the problem was immediately handled within the joint labour-management consultative scheme at the shop level. The proportion of large firms operating a grievance procedure has been less than twenty percent, although a large number still maintain provisions for some such procedure in the collective agreement.6

4. The Promotion of Higher Productivity. When Japanese management launched its first postwar development plan in the mid-'fifties, the most impressive aspect of American managerial practices was the high level of labour productivity. In early 1949, nineteen business organizations jointly formed a committee to talk with the Foreign Operations Administration (FOA) (a U.S. Government agency) about promoting productivity in Japanese industry. In the latter half of 1949, MITI and the Ministry of Foreign Affairs formally talked with the FOA concerning this subject. Later a Japanese Cabinet meeting decided to press ahead with productivity increases. In April 1955, the Japan Productivity Center (JPC) was organized. It launched a movement to increase productivity, and was assisted by the productivity agreement between the U.S. and Japan. The first study mission sponsored by the Center sent management in the steel industry to the U.S. The mission made a detailed report on U.S. practices in industrial engineering. The lessons were soon implemented in big firms throughout the country. Since then, many study missions, including both management and unionists, have visited the U.S., each time bringing back new techniques to increase productivity.

In 1960, the Liberal Democratic Party won the elections for the House of Representatives on the promise to implement an Incomes Doubling Plan. The promotion of votes obtained by the party was high, and suggested that the overwhelming number of Japanese agreed with the productivity increases by rapid industrialization. A large number of American industrialists contributed to the high growth of the Japanese heavy and chemical industries. Had it not been for those contributions there might not have been such rapid increases in productivity during the 'sixties.

III. The Development of Management in Contemporary Japan

A. The Human Input: Quantitative and Qualitative Change.

1. The Growth of the Industrial Labour Force. In 1955 Japan entered an era of sustained economic growth. As shown in Table III. 1, from 1955 through 1970 Japan's Gross National Product grew annually by 10.0 percent in real terms. Moreover, the rate of growth rose over the fifteen years. While the number of persons employed in primary industry rapidly decreased between 1960 and 1970, those in secondary and tertiary industries increased remarkably (See Table III. 2.).

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6 Ibid.
Since eighty percent of those gainfully employed in non-agricultural industries were employed by businesses, the role of management had become increasingly important during the intervening years.

**Table III. 2. Number of Employed Persons by Industrial Sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Primary Industry</th>
<th>Secondary Industry</th>
<th>Tertiary Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>40.9</td>
<td>15.4</td>
<td>11.9</td>
<td>13.6</td>
</tr>
<tr>
<td>1960</td>
<td>44.4</td>
<td>13.4</td>
<td>14.8</td>
<td>16.2</td>
</tr>
<tr>
<td>1965</td>
<td>47.3</td>
<td>11.1</td>
<td>18.0</td>
<td>18.2</td>
</tr>
<tr>
<td>1970</td>
<td>50.9</td>
<td>8.9</td>
<td>21.4</td>
<td>20.6</td>
</tr>
<tr>
<td>1975</td>
<td>52.1</td>
<td>6.6</td>
<td>22.0</td>
<td>23.5</td>
</tr>
</tbody>
</table>


2. *Increase in the Number of the Highly Educated.* As described above, the formal educational system was completely revamped by the Occupation authorities. The new system was retained even after the Occupation ended, and the following changes have an important influence on Japanese industrialization. First, the extension of compulsory from six to nine years brought about a rise in the quality of the labour force. Second, opening the doors to higher education for more students was strongly supported by management in the postwar period. As management replaced the prewar status system with functional classification systems, it relied largely on the employee’s formal educational career in deciding his function classification. Furthermore, the practice of management concerning the selection of managers showed an even stronger dependence on the individual’s formal education, considering not only the level but also the place of education. Table III. 3 gives the educational background for middle management in 1966. While a number of persons with 9–12 years of education had been able to enter the lower ranks of middle management, only a few are able to rise further. Such practices have stimulated the younger generation to obtain as much education as possible.

3. *The Growth of a Managerial Class.* Along with the expansion of the labour force, the number of business organizations markedly increased since 1955 (Table IV. 4). As the number of undertakings increased, so did the number of managers. In 1965 there were approximately two and half times as many managers as in 1955. While managers accounted for only 1.9 percent of those in the labour force in 1955, they accounted for 3.6
percent in 1965. Managerial development thus became an increasingly important factor sustaining the Japanese drive for industrialization.

**TABLE III. 3. THE EDUCATIONAL BACKGROUND OF MIDDLE-MANAGEMENT (1966)**

<table>
<thead>
<tr>
<th>Amount of Education</th>
<th>Department Head</th>
<th>Deputy Division Head</th>
<th>Division Head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 8 years</td>
<td>1.8%</td>
<td>—%</td>
<td>1.0%</td>
</tr>
<tr>
<td>9–12 years</td>
<td>31.4</td>
<td>9.6</td>
<td>5.3</td>
</tr>
<tr>
<td>13–17 years</td>
<td>66.8</td>
<td>90.4</td>
<td>93.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

*Source: Japan Productivity Center, *Kigyō-nai Gakureki-kōsei no Bunsei*. (A Survey on the Education of Employees at the Large Enterprises), *Seisansei* (No. 236: July, 1966).*

**TABLE III. 4. NUMBER OF CORPORATIONS**

<table>
<thead>
<tr>
<th>Size of Capital (million Yen)</th>
<th>Number 1960</th>
<th>Percentage</th>
<th>Number 1972</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5</td>
<td>507,932</td>
<td>93.0%</td>
<td>891,991</td>
<td>79.0%</td>
</tr>
<tr>
<td>5—49</td>
<td>34,037</td>
<td>6.2%</td>
<td>217,656</td>
<td>19.3%</td>
</tr>
<tr>
<td>50—999</td>
<td>3,758</td>
<td>0.7%</td>
<td>17,452</td>
<td>1.5%</td>
</tr>
<tr>
<td>1000—</td>
<td>452</td>
<td>0.1%</td>
<td>1,662</td>
<td>0.2%</td>
</tr>
</tbody>
</table>


B. Managerial Roles at All Levels.

In the foregoing chapters we have sketched in some of the general characteristics of the Japanese managerial system and the general impact of the postwar Occupation. In this section we wish to identify the strategic positions in the Japanese system.

1. **Department Head.** Management in Japanese business organization is headed by the president (shachō), followed by the Vice-President (Fuku-shachō), Directors at all levels (torishimariyaku), Division Head (buchō), Deputy Division Head (jichō), Department Head (kachō), Section Chief (kakarichō), and Foreman (shokuchō). Under this line of command are the ordinary employees (shain). In an organization with no manual workers, foremen are not needed. In smaller firms, positions such as deputy division head are often eliminated. In the government, the Vice-Minister is like the managing director in a private firm. Japan organization charts usually show the name of the division or department and not the division head or department head. In other words, the organizational unit is defined by the group and not by the manager. Moreover, the chart usually does not show any of the sections within departments. A separate chart of each division gives the names of the sections, but such charts are only for internal use and are not usually given to the outsider.

The basic unit organization in the Japanese firm is the department. In the department office, the department head sits opposite his subordinates. His desk and chair are larger
and better than those of the other department members. As the lowest member of middle management, he is the only person in the unit does not belong to the union. The authority and accountability of the department head is specified by the firm. In one big firm (Daini Seikō Company) the role of the department head was defined as follows:

1. Managing Activities
   a. The Department Head shall join in the planning of his division's programme and assist and advise his division head.
   b. He shall plan the policies and design the work load for his department, with the approval of the division head.
   c. He shall manage the business of his department according to the established prescriptions and procedures.
   d. He shall advise the division head concerning policy and working procedure within his department.
   e. He shall try to promote the overall policies of the Company and work to improve communications within the Company.
   f. He shall report to the division head concerning all communications on matters outside his department.
   g. He shall negotiate with other departments concerning activities within his own department which have external ramifications.
   h. He shall be responsible for training those in his department.
   i. He shall be responsible for all travel on official business done by members of his department.

2. Organizational Information
   a. He shall report to the division head about any organizational change within his department.
   b. He shall clearly delineate the duties and responsibilities of section chiefs.

3. Personnel Management
   a. He shall report to the division head concerning his personnel requirements, transfers, promotions, discharges, and changes in wage payments.
   b. He shall make personnel ratings for those in his department and submit these to the division head.
   c. He shall have the final say on vacation leave, other leave, overtime, and working hours for those in his department.

4. Financial Matters
   a. He shall make a biannual budget for his department and submit it to the division head.
   b. In seeing to it that the department budget allocations are used appropriately, he shall decide upon all purchases of equipment and materials, the unit price of which is between ¥10,000 and ¥100,000, the total cost of which is between ¥20,000 and ¥500,000.
   c. He shall be able to request additional budget allocations for his department on special occasions.

5. Liaison
   a. He shall report to the division head about all progress in his department.
   b. He shall advise and assist other department heads and actively cooperate with
them as the need may arise.

c. He shall negotiate with those outside the Company as outlined in his responsibilities.

This is the full text concerning the general duties of the department head. Many firms will give a more detailed description. However, this example is fairly representative of Japanese firms. First, it should be noted that the stress is on what the department head "shall" do. The articles do not list the "shall nots". Furthermore, there are no articles about punishment. Punishment is usually referred to in a very roughly stated, short article to the effect that employees violating company rules will be punished. The authority of the department head is thus much greater than is commonly believed. Second, it should be noted that his free hand in things is channelled by the *ringi* system which appears in items 1.f, 1.g, 2.a, and 3.a in the outline above. Item 1.f, for example, calls upon the department head to improve the working process within the department. He can think, plan and even experiment with his own ideas in his own department. However, since he has to present his idea to the president or a director, he has to have some evidence that the plan will succeed. The department head has to submit his idea to the top executives through his division head. The division head finds it difficult to reject his petition because it is based upon the procedures outlined in 1.g and 5.b. If the division head refuses to accept the idea, the department head may further push his point by obtaining the agreement of the other department heads. There are no prescriptions concerning section chiefs, who are under the department heads, in the rules of the Japanese firm except a general description as in 2.b. This means that the department head is actually the key person in the Japanese managerial system.

2. *The Department Head as the Key Man.* To know about the department head is to know about Japanese management.

First, the department head is the manager of the basic managing unit (*ka*) of the organization. Representing the department in all relations with those outside of the department as manager and leader of the basic working unit, he plays the pivotal role in the group. As mentioned above the Japanese organization does not use detailed job descriptions. Japanese businesses do not employ new graduates for a particular trade or profession. In the first place, there are no job classifications. There are, of course, a few exceptions such as truck drivers, medical doctors, trainers, cooks and some other special occupations. However, the majority of these persons do not enter the firm directly upon graduation. Moreover, the Japanese educational system gives no professional education except in the technical fields. Consequently, the new employee who enters upon graduation has no idea as to which department he will enter. A university graduate majoring in law may be assigned to the accounting department. Finally, since very few organizations use a systematic rotation scheme, the employees are transferred about from one department to another without consideration being given to their experience. Accordingly, any given department will be composed of employees with various experiences, competences and personalities. Aptitude to the particular job is not important.

The department head does not have the authority to reject personnel assigned to his department. Rather it is his task to integrate all the employees in his department in order to achieve the objectives assigned to him. Therefore, above all else he must be competent in interpersonal relations. Table III. 5 indicates the size of departments at one hundred large firms, suggesting that there is considerable variation from one department to another.
The department head is management's direct line with the employee. It means not only that he is the most managed of management, but also that he is the leader of a work group. He is even a member of the work group. One survey conducted among large firms in 1966 suggests that the department heads spend sixty percent of their working hours doing the work of the department and only forty percent managing department members.\(^7\) Although the department heads are tied to the upper realms of management, they share a kind of lateral relationship with the others in their department. In other words, the department head is formally a part of middle management but at the same time is a supervisor or leadmen in the work group. His position represents the managerial wedge which is driven into the work group. Consequently, he represents for management the man who must embody the values of groupism.

The department head is a position admired not only by the employees of the business organization, but also by all people in Japanese society. For employees without university education, promotion to department head generally represents the best they can do. For employees with a university education, the position of department head is the starting point for working one's way up to top management. Minato Moriatsu, President of Nikko Shoken Security Corporation, once said that one's management potential is determined during his period as department head.\(^8\)

In Japanese society as a whole, the position of the department head also has the following meanings. It is the lowest position at which an employee can formally deal with other firms. The department head is thus deemed the point at which one can take official responsibility. Moreover, graduates from the same schools who enter different organizations of the firm at the same year are usually promoted to senior positions at a similar pace. In the large enterprises, graduates of the best universities can expect promotion to department head in their middle thirties. Finally, one of the major checkpoints in choosing a husband for upper middle class girls is whether the prospective fellow will be promoted to the position of department head in a first-class firm.

3. The Deputy Division Head as a Middle Middleman. The deputy division head

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2. Ohno and Wakita, ibid., p. 53. According to a 1973 survey by the Ministry of Labour, there are 426,000 department heads, and 150,000 division heads in Japanese business firms, excluding those in the service industry.
(jichō) is the middleman among middle management in the Japanese firm. In many cases he also heads one of the departments in the division. Thus, the deputy division head in the division of general affairs frequently may also be the head of the department of general affairs. Although the use of such a position may not seem to be justified to the outsider, it plays an important role in the Japanese managerial system. The position provides top management with a means of further screening department heads to determine whether they should be promoted to higher positions. Since the Japanese managerial system is based upon the concept of career employment, department heads, especially those who are university graduates and become department heads in their middle thirties, expect to be promoted to this position. An ambiguous position like deputy division head presents one solution to the problem. A deputy division head who is not competent enough to hold a higher position may be retained in that position up to retirement or be transferred to a subsidiary or sub-contracting company. In some large firms the deputy division head may assume greater managerial responsibilities. For example, a couple of departments within the division may be put under his leadership. However, in the last analysis, the deputy division head still is in the final stage of testing.

4. The Division Head at the Top of Middle Management. The responsibilities of the division head are also laid out by the firm. Again using the Daini Seiko Company as an example, the responsibilities are as follows:

1. Managerial Activities
   a. He shall participate in the planning of the overall policies of the Company.
   b. He shall make policy for his division, and shall see to it that such policies are implemented.
   c. He shall approve the activity plans in each of the departments in his division.
   d. He shall decide upon procedural matters in his division.
   e. He shall see that all activities in each of the departments in his division progresses smoothly.
   f. He shall be responsible for educational and training programmes in his division.
   g. He shall be responsible for the business trips of department heads.

2. Organizational Information
   a. He shall report to the top management concerning any organizational change within his division.
   b. He shall clearly delineate the duties and responsibilities of department heads.

3. Personnel Management
   a. He shall submit all ringisho (policy memos) to the top management concerning personnel requirements, transfers, promotions, discharges and changes in wage payments.
   b. He shall decide how to evaluate department heads, section chiefs and other in the departments of his division.
   c. He shall have the final say on vacation and other leave of department heads.

4. Financial Matters
   a. He shall make a biannual budget for his division and submit it to the top management.
   b. In seeing to it that the division budget allocations are used appropriately, he shall decide upon all purchases of equipment and materials, the unit price of which
is over ¥100,000 or the total cost of which is more than ¥500,000 but less than ¥1,000,000.

c. He shall submit all *ringisho* to the top management concerning unexpected expenses in his division.

5. Liaison
   a. He shall report to the top management concerning all progress in his departments.
   b. Representing the top management, he shall carry out the fundamental policies of the company.
   c. When other division heads are affected by activities in his own division, he shall advise, assist and actively cooperate with them.
   d. He shall bargain with those outside the firm as may be necessary to carry out his responsibilities.

As the senior member of middle management, the division head is usually responsible for one major organizational function such as production, sales, personnel, finances and so on. However, as can easily be understood by reading the above-cited guidelines, it is physically impossible for him to do all that is required. He should not only attend to the activities within his own division, but must also be present at meetings with the top management and committees on various projects, often going out to coordinate projects with other companies. Therefore, several different personality traits may characterize the division head. Some division heads become absorbed in the problems of control within their divisions, and try to limit their activities outside the division. Others concentrate on activities outside the division and rely completely on their department heads for getting things done within the division. A few are able to successfully integrate both aspects. The behavior of the division head will thus depend upon his competence and personality.

With very few exceptions, Japanese division heads rely heavily on their department heads. Although he is responsible for the *ringisho* coming out of his division, and confers about such matters with his department heads individually or by holding regular committee meetings, his success will depend by and large upon his ability to acquire competent department heads. Consequently, there is among division heads a fierce competition for qualified personnel to fill the positions of department head.

Like the position of deputy division head, the position of division head also involves a screening process. The position is at the top of middle management, some division heads will be selected to join top management while others will not be selected. Given the retirement age of fifty-five for employees, which has recently been extended up to sixty in some firms, those who are appointed division heads in their late forties have a good chance of becoming top management. Those who are not promoted until their early fifties do not have much promise. Division head is usually the upper limit to promotion for employees with a university graduation. At retirement they are transferred to a subsidiary or subcontracting company.

5. *Top Management as Representative of Middle Management.* Top management is usually a mixture of several layers of directors as shown in Figure III. 1. The important position is held by the president. In some of firms vice presidents report to the president, and the president and vice-presidents form a top management committee. Immediately below the vice-presidents are a couple of senior managing directors. Below them are the managing directors. An executive committee composed of the senior managing directors,
the vice-president and president meets at least once a week. This committee discusses key decisions, formulates major policies, and deals broadly with the administration. Although this committee is not a large corporate organ, its importance surpasses that of the board of directors. At the bottom of top management is the ordinary director. The board of directors is legally the top decision making body, and is supposed to be independent of other members of top management.

**Figure III.1. Board of Directors of Japanese Firms**

![Diagram of Board of Directors]

However, as will be explained below, the board of directors has not functioned according to design in most firms.

Several unique features of Japanese top management are seen in the example of the Toyota Automobile Manufacturing Company in Table III. 6. First, unlike the large American corporation, the vice-president does not have any division head reporting to him.⁹

Even among the managing directors, no such direct reporting system is found. Accordingly, the organization of top management is extremely complicated and is composed of many layers. For example, both Senior Managing Director B and Managing Director D are in charge of personnel management whereas Director M is the division head of the Personnel Division. The reason for Senior Managing Director D be involved in those operations lies in the fact that he is a specialist in sales, purchasing and accounting operations, and there is some need for management to combine personnel management with an operations specialist since wage payments have risen sharply over the past two or three years. Managing Director D is a kind of specialist in the operation of personnel management and he is practically in direct charge of this function. Director M reports to Managing Director D.

A second characteristic of Japanese management is seen in the fact that majority of managing directors have their own office. Managing Director B is the Head of the Tokyo Office, Managing Director C is the head of Auditing Improvement Office, Managing Director

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⁹ Since April 1975, Senior Managing Directors A and B have been promoted to vice-presidents.
E heads of the Second Research and Development Office and Products Planning Office. These offices are strategically important. The Tokyo Office coordinates the firm's economic and political activities with MITI and the Diet. The Auditing Improvement Office is the key to implementing a recent amendment to the Commercial Law pertaining to the audit system. The Second Research and Development Office must move ahead on the engine exhaust cleansing project, and the Products Planning Office must develop the firm's new products.

<table>
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<tr>
<td>Chairman &amp; Director</td>
<td>General top management committee</td>
</tr>
<tr>
<td>President &amp; Director</td>
<td>General top management committee</td>
</tr>
<tr>
<td>Vice-President &amp; Director</td>
<td>General top management committee</td>
</tr>
<tr>
<td>Senior Managing Director A</td>
<td>In charge of production and production preparation</td>
</tr>
<tr>
<td>Senior Managing Director B</td>
<td>In charge of sales, purchasing, accounting, personnel and the offices in New York and Brussels</td>
</tr>
<tr>
<td>Senior Managing Director C</td>
<td>In charge of technology</td>
</tr>
<tr>
<td>Senior Managing Director D</td>
<td>In charge of Tokyo Liaison Office</td>
</tr>
<tr>
<td>Managing Director A</td>
<td>In charge of the General Planning Office, Computer Division and Purchasing Division</td>
</tr>
<tr>
<td>Managing Director B</td>
<td>Head of the Tokyo Office</td>
</tr>
<tr>
<td>Managing Director C</td>
<td>In charge of Quality Control Div., Equipment Technology Div., Production Technology Div., and Production Technology Control Office, also head of the Auditing Improvement Office</td>
</tr>
<tr>
<td>Managing Director D</td>
<td>In charge of Secretary Office, Div. of General Affairs, Legislation Div., P. R. Div., Personnel Div., Education Div., Toyota Hospital and Toyota Gakuen Technical High School</td>
</tr>
<tr>
<td>Managing Director E</td>
<td>In charge of Design Div., the 3rd Technology Div., and the 8th Technology Div. Also heads the 2nd R. &amp; D. Office and the Product Planning Office</td>
</tr>
<tr>
<td>Director A</td>
<td>Head of the Higashi-Fuji Institute; in charge of Technology Computer Div., Technology Control Div., and the Patent Administration Div.</td>
</tr>
<tr>
<td>Director B</td>
<td>Superintendent of the Main-Office Plant, the Kamigō Plant and the Myōchi Plant. Deputy Head of the Auditing Improvement Office</td>
</tr>
<tr>
<td>Director C</td>
<td>Superintendent of the Takaoka Plant and Tsutsumi Plant</td>
</tr>
<tr>
<td>Director D</td>
<td>Superintendent of the Motomachi Plant and the Miyoshi Plant</td>
</tr>
<tr>
<td>Director E</td>
<td>Head of the Overseas Business Office. In charge of the Overseas Div., and Business Activities Div.</td>
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However, the more important these operations become, the more managing directors become absorbed in the operations. As a result, their other responsibilities are cut down.

A third characteristic is that all the ordinary directors serve as heads of divisions, plants or offices. They thus have two positions, one as top management and the other as middle management. They serve as a joint binding the Japanese managerial system together.

A fourth and final characteristic is that among ordinary directors there is a particular relationship between senior and junior directors. For an example, Director A is the head of Higashi-Fuji Institute. Director G serves under his as the deputy head of the Institute. Director E is head of the Overseas Business Office and Director I reports to him as the deputy head. This is one reason why the board of directors does not operate according to the legal document of incorporation. Moreover, while the power to select directors relies legally with the general assembly of stockholders, the *de-facto* power is vested in the president who discusses the selection with the vice-president and senior managing directors. At the large firms, directors come from two sources. One group is made up of retired high officials from the ministries. The other group comes from the employees who have made the company their career.

The organization of Japanese top management has become more complicated since the executive committee was introduced in 1955. Those introducing the executive committees insisted that this new body was to allow the top management to operate more effectively. The argument was rather persuasive because in the prewar era boards of directors at the large firms included a substantial number of outside directors who represented large stockholders or holding companies. These directors served without having any day-to-day managerial responsibilities. Postwar reforms suggested that firms ought to be operated by themselves. Therefore this kind of standing committees was established. The functions or role of the executive committee are not provided for by the Commercial Law. 

| Director F | Head of the Purchase Administration Div., and 1st Purchasing Div. In charge of the 2nd Purchasing Div., and the Osaka Office |
| Director G | Head of the 1st R. & D. Office and Deputy Head of the Higashi-Fuji Institute. In charge of the 4th Technology Div. |
| Director H | Deputy Head of the 1st R. & D. Office. In charge of the Safety and Pollution Control Office, the Patent Parts Production Office and the Production Control Div. |
| Director I | Heads of the General Planning Office and the Overseas Technology Div. Deputy Head of the Overseas Office |
| Director J | Deputy Head of the Auditing Improvement Office and the Products Planning Office. Head of the Body Design Div., and the 1st Technology Div. |
| Director K | Deputy Head of the Auditing Improvement Office. In charge of the 2nd Technology Div., and the 3rd Technology Div. |
| Director L | Head of the Allied Business Research Office and the Accounting Div. In charge of the Research Div., and the Nagoya Office |
| Director M | Head of the Personnel Div. |
It is common practice, however, to appoint fulltime directors to the executive committee. However, many firms enlarged their activities, and beginning in the mid-fifties new directors were quickly created out of the ranks of middle management. Consequently, there are two top managements. One is the organization and the other is the informal executive committee as shown in Table III. 6.

The foregoing discussion suggests that Japanese management really is made up of representatives from middle management. First, almost all of them have had a long experience in the middle management ranks of their firm. They got to the top position in their mid-'fifties. Second, the division head is a very part of top management, with some division heads being managing directors. Since major decisions are made through the *ringi* system, each ordinary director submits *ringisho* as the head of his office to the “top management”. He confers with his senior director or directors about his *ringisho* before submitting them to the executive committee or board of directors. It is often said that the majority of top management is actually middle management. In other words, the Japanese management system is operated from below.

(cont’d)