

- ² C.J. Hamelink, *Cultural autonomy in global communications: Planning national information policy*, Longman, New York, 1983

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Growth Through Competition, Competition Through Growth: Strategic Management and the Economy of Japan, by *Hiroyuki Odagiri* (Oxford University Press, Oxford, 1994), pp xv + 356, A\$120 (hb), A\$44.95 (pb), ISBN 0-19-828655-4

The apparent Western fascination with Japanese management practice has seen a wave of books on the subject published over the past decade. This quite excellent monograph is not just another narrative volume which describes the so-called unique features of the Japanese management system. To the contrary, Hiroyuki Odagiri's analysis is relatively sophisticated and balanced, its argument firmly set within a framework of economic theory and its hypotheses tested utilising quantitative techniques and much empirical data. It is also ambitious in its attempt to not only discuss the motivation, behaviour and organisation of Japanese management but also analyse the consequences of the Japanese system on its industrial organisation and macro economy.

Right from the beginning the author sets out question the popular stereotypes which stress either the cultural peculiarities of the Japanese business and management system or the conspiratorial elements of the so-called model of *Japan Inc.*, with both strands highlighting harmony and consensus over individuation and competition. Odagiri turns the current orthodoxy on Japanese management on its head by arguing that the principle of the invisible hand is just as applicable to the Japanese economy (and possibly more so) as it is to the western economies. The central theme of the book is that the Japanese management system is 'an economically rational system and...a competitive system...and that this competition is enhanced by the preference of Japanese management for growth and competition (which) in turn makes growth feasible.' In particular, the author persuasively argues that growth and competition are hallmarks of the Japanese management system and that Japan's business strength lies specifically in its strong incentive system which links Japanese workers and management and causes them to behave differently to their western counterparts.

The book is divided into three sections, the first containing a core discussion of the behaviour and characteristics of the Japanese management system. The first chapter sets the stage for the book by presenting a number of key concepts and outline of the contents. The emphasis on human resources within the Japanese management system and its relationship to growth and competition within the Japanese firm are introduced, with the author arguing that human resources constitute a more fundamental constraint on the growth of the firm than do physical or financial resources. By doing so the author challenges the traditional orthodoxy and presents the reader with an alternative way of looking at the firm, hitherto overlooked in neo-classical theory.

In a brief taste of what is to come Odagiri then shows how Japanese internal labour market practices, such as lifetime employment and internal promotion work to maximise labour

productivity and to foster internal competition in a rational and economic way. The two keys concepts underlying much of the later analysis, growth preference and competition within Japanese firms are also highlighted in this chapter. As the author explains, it becomes 'easy to understand why a strong preference for growth results.

When a man expects to work with a single firm for his lifetime, the future of the firm - its size and prosperity - is naturally of the greatest concern to him. Moreover where there is internal promotion, expansion will bring increased opportunities for the worker to achieve the higher income, the enhanced social status and the greater psychological satisfaction that promotion brings.' The idea of competition set in the long term and exercised by the use of voice option and rank order tournaments is also explored within the context of the Japanese firm as a mechanism for encouraging effort and correcting bad behaviour.

The second chapter investigates the pattern of ownership and management and makes some interesting observations about Japanese companies to their counterparts in the West. The first is that dispersion of share ownership and resulting separation of ownership from control is certainly as widespread in Japan as in other industrialised countries, if not more so. However, Japanese companies are characterised by a lack of dominant individual shareholders compared to their western counterparts and by a greater incidence of inter-company shareholding and shareholdings by financial institutions. Both forms are generally used to reinforce other forms of inter-company relations but are rarely used as a means of corporate control. As a consequence of the absence of traditional classical corporate owners in Japanese companies, Odagiri also suggests that the control of management by the capital market is weaker in Japan and that this results in both an absence of hostile takeover activity among Japanese companies and a much higher degree of discretionary power among Japanese managers, as compared to their counterparts in the West.

Two important differences between Japanese and Western managers are also suggested. The first is that Japanese company directors and senior managers, because of Japan's internal recruitment and promotion system and dispersed shareholding pattern, tend to be much closer to their employees than to the company's shareholders. As a result, one might infer that Japanese corporations perhaps maximise the utility of their corporate constituents rather than shareholders capital in the short run. This is not to say that this solution is any less efficient in the long run than the usual neo-classical assumptions, but implies a more human rather than financial orientation within the Japanese management system. Related to this important difference in strategy is also the fact that Japanese managers tend strongly to come from production rather than financial backgrounds which directly contrasts to the existent situation in the West, adding further weight to Odagiri's hypothesis that the Japanese manager places more emphasis on the human aspect of the firm than the financial aspect, consistent with a stronger emphasis on manufacturing and technology and a weaker emphasis on acquisition in Japan.

Chapter three examines the internal labour market system beginning with a critical appraisal of the so-called three pillars of the Japanese system, life-term employment, seniority-based promotion and enterprise unionism. Odagiri finds that these institutions are 'neither inflexible or unique' and that they are found in many countries to some extent. Life-term employment in Japan for instance does not guarantee that an employee will never be dismissed or that he will continue to work for a single firm for all his working life. Yet it is also true that life-term employment is regarded as a norm to which management in Japan is expected to conform. Life-term employment and seniority-based promotion, however, do appear to be more pronounced in Japan, especially in the case of blue-collar workers, who like their white-collar colleagues are employed on the basis of life-term employment and seniority wages, in contrast to the West, where the tendency appears to be much weaker or non-existent. This view supports Koike's notion of the *white-collarisation of blue workers*

as an embracing characteristic of Japan's internal labour market system. A similar argument is also applied to Japan's enterprise unions.

The issues of employment adjustment, skill formation and internal competition for promotion are then examined in turn. Odagiri points to a number of ways in which the level of employment within firms is adjusted in such a way as to minimise lay-offs, including the employment of part-time and seasonal workers (who can be easily dismissed during recessionary periods), reduction in annual school and university recruitment programs, reduction in overtime hours, and worker reassignment. A comparison of employment elasticities across countries also suggests that employment is least sensitive to business fluctuations in Japan.

The author then argues that job training and rotation are organised to provide employees with deeper and broader skills which consequently provide the firm with greater flexibility in work organisation, greater acceptance of technological innovation, and because of the existence of a larger pool of multi-skilled workers, an enhanced degree of internal competition for promotion. Odagiri argues that seniority is only one criterion for promotion and dismisses the long held western perception originally expounded by Abegglen, of a lack of competition within Japanese firms and worker motivation based on loyalty and group identification. In its place he puts forward the argument of intense competition between workers for promotion based on a rank order tournament in which workers compete for promotion. He also argues that with promotion, the worker receives not only a higher wage but also increased social status, which is of considerable significance in a society like Japan's which is known for its status consciousness.

Based on the argument of preceding chapters, Odagiri then presents the reader with a dynamic model based on the growth maximisation hypothesis which analyses the firm's growth rate and the implications for its investment behaviour. Although this is a technical chapter and not one for the uninitiated, it is nevertheless possible to follow the thrust of the argument without a detailed understanding of the theory or the econometrics. A number of factors including the higher propensity of Japanese firms to invest and the preference of Japanese firms for internal growth are concluded to result in a lower level of diversification in Japanese firms compared to Western firms and a larger and more efficient level of investment in R&D.

The second part of the book moves to examine a series of organisational aspects of Japanese management. Chapter 5 presents an empirical study of mergers and acquisitions and concludes that as a result of the Japanese preference for internal growth and the pattern of shareholding in Japan, M&A activity is less popular and corporate raiding less likely in Japan than in the West. Where M&A activity does take place, it is much more likely to be in the form of capital acquisition than merger and is more likely to be used as a means of diversification than horizontal expansion with the result that horizontal mergers in Japan are generally restricted to the acquisition of failing firms. Odagiri concludes that the preference of Japanese management for looser forms of combination is further explained by the costs and difficulty of integrating two separate corporate organisations under Japanese internal labour market practices.

Chapter 6 discusses several organisational issues including the lower popularity of the multi-divisional business form in Japan compared to the US and the use of the hive-off as a substitute for the divisional form. It is argued that the lower popularity of the divisional form is due to Japan's human management system which aims at company-wide interaction and utilisation of human resources and the acquisition of broad as well as deep skills. On the other hand, hive-off aims to promote diversification that requires little interaction with the main business of the parent company. Assembler-supplier relationships are also discussed in some depth with an emphasis on the high degree of competition at work in Japan's subcontracting system and its relationship to the so-called *keiretsu* business groups.

In the chapter which follows Odagiri presents an insightful analysis of another form of group in Japan, the so-called enterprise group or *kigyo shudan*. This is quite a valuable chapter for the western reader because not only does it clarify a general confusion about the difference between *keiretsu* and *kigyo shudan*, but it also puts to rest many of the popular misconceptions about such groups generally held in the West. Among these misconceptions is that the *kigyo shudan* are tightly knit coherent conglomerates that are characterised by a central decision-making function. Instead these groups are found to be much looser combinations, often characterised by competitive arms length market relations, whose chief motivation for combination lies maximising opportunities created by information exchange, joint ventures and mutual insurance.

The final section of the book deals with the consequences of Japanese management. In chapter 8 the extent of industrial concentration is compared between Japan and the US, with the perhaps surprising result that ratios appear lower in Japan than in the US. In addition profit rates were found to be lower on average in Japan and inter-firm dispersion less wide-ranging. Odagiri's conclusion, again perhaps surprising to the Western reader is that inter-firm competition is stronger in Japan than in the West. The finding, however, is consistent with his internal growth maximising hypothesis.

Chapter 9 and 10 are essentially theory chapters concerned with the influence of different aspects of the Japanese management system on the macro economy. In chapter 9 Odagiri employs a Keynesian-Kaldorian growth model to investigate the macroeconomic consequences of the labour-hoarding carried out by Japanese companies to avoid lay-offs during cyclical downturn. The accompanying empirical evidence reaches the important conclusion that labour-hoarding has a stabilising effect on macro fluctuations. In chapter 10 a macroeconomic model of steady growth is used to show that, given that corporate investment in R&D increases productivity, a management growth preference results in rapid economic growth. This preference in the Japanese case is offered by the author as a major factor in explaining Japan's rapid economic growth. Based on the analysis contained in the previous two chapters, in chapter 11, a convincing but narrow argument is put to counter the often held popular view in the west that Japan's economic growth can be largely attributed to 'well planned government guidance through a succession of industrial policies.' Instead Odagiri cogently argues the reverse position that it is competition and a 'relative lack of coalitions and government control, and not the abundance of them' that has promoted Japan's economic growth.

The final chapter of the book re-summarises the major features underlying Japanese business and management and especially the role of growth and competition in the system and then moves to examine a number of issues related to Japanese management practices abroad. Among the arguments put is a fairly controversial view that the major elements of Japanese management practice are universally applicable. At a very broad level of categorisation, including flexible labour systems and an emphasis on innovation and quality control, this is probably true, but a number of major studies cast doubt on the extent to which Japanese companies offer their local employees the same range of employment benefits offered to core workers in Japan. Finally, Odagiri suggests that foreign acquisitions by Japanese companies is likely to increase as Japanese companies pursue their growth objectives, while foreign acquisitions of Japanese firms is likely to remain low, resulting in a probable continuance of international trade friction between Japan and her major trading partners.

In summary then, this is an excellent book, which demystifies Japan's business and management system as applied to the large scale business sector. If I have any criticism of this book, it is that it is a study which applies to the core Japanese workforce only, which probably comprises only 25 per cent of Japan's total workforce. As a result, the book excludes discussion of the bulk of Japanese workers who do not receive the benefits of life-term

employment, seniority based wages or membership to enterprise unions. These are Japan's so-called peripheral workforce who work in small and medium scale enterprise, many of whom work part-time and the majority of whom are women.

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Made in Japan by Akio Morita with Edwin M. Reinhold and Mitsuko Shimomura (Harper Collins, London, 1994) pp. vii + 342, A\$16.95, ISBN 0-00-638342-4 (paper).

Today, as I sit down to write this review, is the fiftieth anniversary of the second American dropping of an atom bomb on Japan, on Nagasaki. Among the many newspaper items about these horrific events of half a century ago has been a renewed look at Japan's and America's often difficult relationship since World War II, emphasised of late by America's threat of trade sanctions against Japan over claims of restricted access of US car makers to Japanese markets. Concerning the latter, the *Australian Financial Review's* Tokyo correspondent, Peter Hartcher, said last month of former Prime Minister Morohiro Hosokawa's flatly telling President Clinton that Japan could not agree to any numerical target in its trade agreements that it was "the first such direct top-level defiance since MacArthur came ashore in 1945".¹

The unique features of Japan's post-war economic 'miracle' underline the importance of knowing something about the history of any country in any attempt to understand the workings of its economy. It is unfortunately true that, as Robert Millward noted in his review in the last issue of *Prometheus*, economists "as a breed do not know much history."² Happily, books like this one by Akio Morita, co-founder of SONY (originally Tokyo Tsuhin Kogyo) in 1946, make it possible for them to do something about this deficit in a highly readable form. And being written from the 'inside', as it were, Morita's volume complements studies such as those reviewed by Dodgson in the last *Prometheus*.³ Morita is very well aware of his country's unique circumstances and how these have profoundly influenced his own life and business decisions, as in the following account of his and co-founder Masaru Ibuka's early decision to make components for phonographs:

New motors and magnetic pickups were impossible to get during the war, and so it became obvious that there was a market for these items to be used to repair and upgrade ...old wartime and prewar phonographs. The new, popular American swing and jazz music was arriving on records, and people were hungry for it. The Americans had brought their music with them, and a process was started during the Occupation of informing Japan about the United States and how the American people lived. The Occupation authorities had taken over control of the broadcasting stations and the English language could now be taught in the schools again and used on the air after being banned during the war years. Ideas of democracy and individual freedom and egalitarianism were being planted on very fertile soil after so many years of thought control and military dictatorship (p. 53).

Perhaps this 'fertile soil' for the implanting of democratic ideas by autocratic Occupational authorities was something which could only exist in Japan. Whatever the case, there is further irony in what Morita has to say about postwar industrial relations in Japan as contrasted with America. One of the most important tasks of a Japanese manager, he says, is to