

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".<sup>1</sup>

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."<sup>2</sup> 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*.<sup>3</sup> 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

develop a healthy relationship with his employees, to "create a family-like feeling within the corporation, a feeling that employees and managers share the same fate" (p. 137). Those companies that are most successful in Japan are those that have been able to create just such a feeling, Morita argues. Although this point has been made many times by observers of Japanese industry, it is remarkable how little impact it seems to have made in Western management theory, ruled as it is by de-humanised econometric analysis and computer modelling. Morita cites as an instance of what he describes as the American way of doing business a case where an "outsider" taking over a top executive position in a company laid off thousands of employees and was hailed in the *Wall Street Journal* as a great manager. In Japan, Morita says, "such a performance would be considered a disgrace."

Yet, as Morita points out, Japan's more democratic methods were actually introduced during the American occupation. In an effort to educate the Japanese in democracy, American 'New Deal' economic and social technicians "made it virtually impossible to fire anybody; they enabled - they actually encouraged - labor organizing, which was banished during the war years except for a government sponsored nation-wide company-type union" (p. 140-1). What this quickly led to - widespread strikes and domination of many unions by the Japan Communist Party - is not ignored by Morita. Rather, he maintains, it was an important part of the educational process: following a crackdown by MacArthur and Prime Minister Shigeru Yoshida, a *modus vivendi* between labour and management was able to be established.<sup>4</sup> Morita puts it this way (p. 191):

In Paris not too long ago, someone said rather innocently to me that Japan is a capitalistic country. I said it would appear so, but that actually it would be more accurate to say Japan has a socialistic and egalitarian free economic system. When the laws were changed after the war, it appeared to many Americans as well as Japanese that the swing to the left could be dangerous. The labor laws that made it virtually impossible to fire people seemed a terrible intrusion into the traditional discretionary powers of management, especially to the older managers. But they were forced to accept their laws and they turned them to everyone's advantage...That was the spirit that created what an American first called 'Japan Inc.'

Morita also has much to say to economic ideologues obsessed with the virtues of open markets regardless of the industrial and social disruption this may impose on a country. On the question of America's concern about access to Japanese markets, America's problem, Morita believes, stems from the hollowing out of that country's industrial base. "America's industrial establishment is being reduced to a mere shell", he contends, and although many American economists extol the values of service industries, and that they represent the future of American business, it is "obvious", he maintains, that no nation can give up its manufacturing base and become "a nation of fried chicken restaurant franchisers." Morita says further: "We are soon approaching the point, because of the loss of American manufacturing, where the US may need Japan and her exports as much or more than Japan needs the US market." Part of America's problem, Morita argues (and there is surely material here for Australians to ponder) concerns the relationship of industry and government in that nation: "The idea that seems to linger in the United States is that somehow people in government should be the enemies of business, or least neutral." Morita contrasts this attitude with Japan, where:

To put it bluntly, whether we like it or not, the government is a partner in our business...The Japanese government takes away more than 50 percent of our profits, and that in a sense makes it a majority partner. So from our government's viewpoint, it wants its partner to work hard and make a profit. By doing so, business is able to keep people employed, enabling the company and its employees to pay taxes rather than go on the public dole. This is done with a long - range viewpoint. So while we often have

our disagreements with the government and its bureaucracy, which actually runs the government, and while I often criticise specific government programs or policies, I know the relationship is basically supportive (p. 188).

Interestingly, Morita also contrasts the American mentality with that in Britain. In an account of the opening of SONY's picture tube plant in Bridgend, Wales, in the early 1980s, he explains that the idea had first been suggested to him by Prince Charles when on a visit to Japan, and the plant was actually opened by Princess Diana. "I am not complaining that the Royal Family of Britain is interested in the progress of my company", Morita writes - "far from it. I am extremely pleased and flattered. I cite this experience to make the point that it is natural and healthy for a government to be interested in business and in helping a nation increase its employment situation...I like the sense of involvement of the British" (p. 133).

Morita also has things to say which call into question various other economic orthodoxies. 'Quality' is a word much bandied about today, though it has never had much of a place in economic theory (where price is everything). Yet according to Morita, when he and Ibuka, his wartime co-researcher on submarine detection devices, founded SONY he "knew that we were after quality above all." This was at a time when 'Made in Japan' was synonymous with cheapness and corresponding shoddiness. Morita maintains that his company's success is largely due to his never diverging from this view. Thus, when he was endeavouring to establish a branch of his company in Germany in the 1960s he resisted offers to sell his products through department stores and mass-sales companies, preferring to "promote the SONY image of expensive high quality."

Re-investment of profits into R & D has been part and parcel of this philosophy, Morita explains. In recent years, notwithstanding a flattening of the Japanese economy, this has been running at at least 6 percent of sales, and in some years as high as 10 percent. Against overriding wisdom of the market theories, Morita argues: "Our plan is to lead the public with new products rather than ask them what kind of products they want. The public does not know what is possible, but we do. Instead of doing a lot of market research, we refine our thinking on a product and its use and try to create a market for it by educating and communicating with the public" (p. 83). It follows that intrinsic to the SONY approach has been proactive, long-term product development rather than reactive response to an often fickle and unpredictable market. Such an approach is in fact not unusual in Japan, according to Morita, since "in Japanese companies our shareholders do not clamour for immediate returns; rather they prefer long-term growth and appreciation." Profits are of course important, but they can be spread over a longer time-frame, allowing for the vital investment in R & D.

This book is, as the back-cover commendation says, 'compulsively readable.' It is also, I suggest, required reading for Australian policy makers.

#### NOTES AND REFERENCES

- 1 *Australian Financial Review*, 3 July 1995.
- 2 R. Millward, review of Graeme D. Snooks, *Historical Analysis in Economics*, *Prometheus*, Vol. 13, No.1, 1995, pp. 121-3.
- 3 M. Dodgson, review of H. Odagiri, *Growth through Competition, Competition through Growth*; W. M. Fruin, *The Japanese Enterprise System*; and T. Nishiguchi, *Strategic Industrial Sourcing*, *ibid*; pp. 107-18.
- 4 See also H. Tiltman, 'Red Star over Japan', *John Bull* magazine, 1 October 1949, pp. 7-8.

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