The Historic Roots of Japanese Corporate Culture

By Shichihei Yamamoto

One aspect of Japanese culture that is very often misunderstood is the fact that Japanese are basically individualistic in comparison to other East Asians such as the Chinese and Koreans. Chinese and Koreans are more clan-centered. The clan functions not only as a social unit but also as an economic unit, seeking to provide a livelihood for all of its members. In Japan, the nuclear family has evolved as the family structure most compatible with Japan's greater individualism. Insurance subscription is widespread in Japan precisely because there is no clan there to support the family if the bread-winner dies. This sort of thing is unthinkable in the Arab world or in China and Korea.

Japan's departure from a clan-centered society began as early as the 13th century. In Japan, the philosophy is that people with ability will get ahead. There is a tremendous amount of vertical mobility in Japanese society. A person may begin at the bottom rung of the organization, but if he proves himself capable, he can quickly rise to the top and become a *jitsuryokusha* ("man of influence"). Foreigners have often been misled by the appearance of non-competitive harmony, but meritocracy has been a Japanese tradition for centuries.

Let us take a historical tour of the 13th century, when some of the legal foundations for Japanese individualism were laid down, and then on to the Edo period (1603–1868), the Meiji era (1868–1912), and finally the present day to see how individualism and pragmatism have shaped Japanese corporate culture.

In 1232, the Kamakura shogunate established a new law code entitled *Goseibai Shikimoku* (The Formulary of Adjudications), which became the foundation for a whole system of laws called *Bukeho* (warrior-house law). At first, this applied only to the warrior class, but by the 15th century it applied to the common people as well.

The *Goseibai Shikimoku* included a unique inheritance law in which the order of inheritance could be determined on the basis of the heirs' abilities. To prevent people of little ability from inheriting and subsequently squandering the family assets, the father determined who was best able to manage the family assets and wrote a letter of transfer specifically for that individual. The government recognized only this letter of transfer as proof of the right of inheritance.

Daughters as heirs

This policy remained unchanged until the dawn of the Meiji era. If a father had no sons capable enough to handle the estate, then a daughter would inherit the property with the condition that she marry and her husband be adopted as son and heir. In Japan, it is still true that both sons-in-law and daughters-in-law can be adopted. This is very unlike the European practice, in which only daughters-in-law are adopted into the family. Having the option to adopt either was a natural part of Japanese culture.

When a son-in-law is adopted, he drops his own family name and assumes his wife's family name. Former Prime Ministers Eisaku Sato and Nobusuke Kishi, for example, were blood brothers but their family names are different because Kishi was adopted into his wife's family.

In the Edo period, Osaka was the economic and commercial center of Japan. Among the Osaka business families, it was a tradition that the eldest daugher inherit the company and marry the ablest man in the company to carry on the family business. In this case it was the wife who inherited the property, and the husband inherited only the family name. The wife had the property rights, and the husband had the managerial rights—an early example of the separation of ownership and management.

Many people have said that Japan is a man's country and that husbands have (or traditionally had) absolute authority over their wives and children. But in cases where the husband's only rights are to the family name and his wife owns the property and other assets, his authority is limited indeed. The only clear-cut authority was that of parents over their children.

The popular perception is that women and nylon stockings have gotton much stronger since the end of the war. While this may hold for stockings, women were not such weaklings even in the Edo period. For instance, there was a rule that rich wives who sued for divorce were legally bound to forfeit their wealth. As a result, they found ways to make their husbands so angry that the men filed for divorce, even though this meant losing access to their wives' wealth.

The merchant tradition in which the husband had the right to manage his wife's money but not to own it differs from the samurai tradition in which the wife handles the money. Today, Japanese wage-earners follow the samurai tradition in that their wives manage all of their hard-earned money. This tradition was influenced by Confucianism, which considered rice honorable and valuable but saw money as unclean. Men earn money through their work but are not to handle that unclean money.

In many ways, Japanese capitalism is characterized by these hold-over traditions and relationships, most of which are not immediately apparent from the com-

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pany's organizational structure. Matsushita Electric Industrial is typical.

On the Matsushita organization chart, the chairman is at the top. Below him are the president, the board of directors, a number of special advisers and consultants, and so on. However, one of these advisers is company founder Konosuke Matsushita, and he is so powerful that the president comes to see him and not vice versa. As the eminent English sociologist Herbert Spencer once remarked, Japan is the only nation where a monarch can abdicate yet retain the power to rule while his successor handles all the formalities. When Konosuke Matsushita retired, he said he handed all power over to the team of very capable men he chose as president and board members. Yet Matsushita can replace any of these men any time he wants.

The reason why a person who has abdicated can still hold power is because he can still exercise his parental rights. He has ceased being the day-to-day leader, but has not yielded his parental rights and responsibilities.

In the Japanese tradition, the inheritance took place before the parents died. This enabled them to select the most capable heirs, and it also freed them from their social obligations and enabled them to operate behind the scenes. Before a person retires, he evaluates all his sons to see who is most capable of handling the inheritance. To prevent the other sons from interfering, he can even disinherit them or declare them incompetent. In fact, as parent, he can even disinherit a son after that son has inherited titular leadership. This is a decidedly merit-centered orientation. The most capable person must be put in charge, even if that means disinheriting your own son.

Many Edo-period novels featured old men who withdraw from worldly society to immerse themselves in the study of Buddhist sutras. Yet twice daily they go down to the family shop to make sure things are going well, even looking through the ashes of the furnace to check on how well the business is being managed. In Japanese companies, the president is like a son who has inherited the family wealth.

Deceptively Western

When European methods of forming companies were introduced, Japanese organizations adopted them but at the same time held on to their deep-rooted traditions. This is one of the areas where foreign businessmen working with Japanese companies get confused. On the outside, Japanese organizations seem very Western, but inside they are very Japanese.

The roots for most of these traditions go back at least as far as the 13th-century legal reforms, with their emphasis on the nuclear family rather than the extended family. Since then, the notion of extended family or clan has gradually died out, and any organization above the nuclear-family level had to be made artificially.

The first and still-foremost such artificial organization is called *ikki*, literally, a plan but meaning a contract. But this is very different from the Western concept of contract. It is the establishment of a collective rule, in which the members of the collectivity are like family members.

When *ikki* were formed, one of the procedures involved was to draw a circle at the bottom of the contract and have all the members place their signet-signatures around the circle. This circle was drawn to symbolize the equality among all members of the *ikki* group.

In China, companies are traditionally made up of an extended family or clan headed by the clan leader, who is usually the oldest member of the main family branch. As such, he may not necessarily be the best decision-maker in the clan. In such a case, he simply represents the clan by formally announcing decisions that have already been worked out among the clan's most able members. In Japanese *ikki* organizations, the top managers also often rely upon their subordinates to aid in the actual decision-making. There have been cases where Japanese company heads have in fact assumed greater powers, but it is still a general rule that no one person is dominant in a Japanese organization.

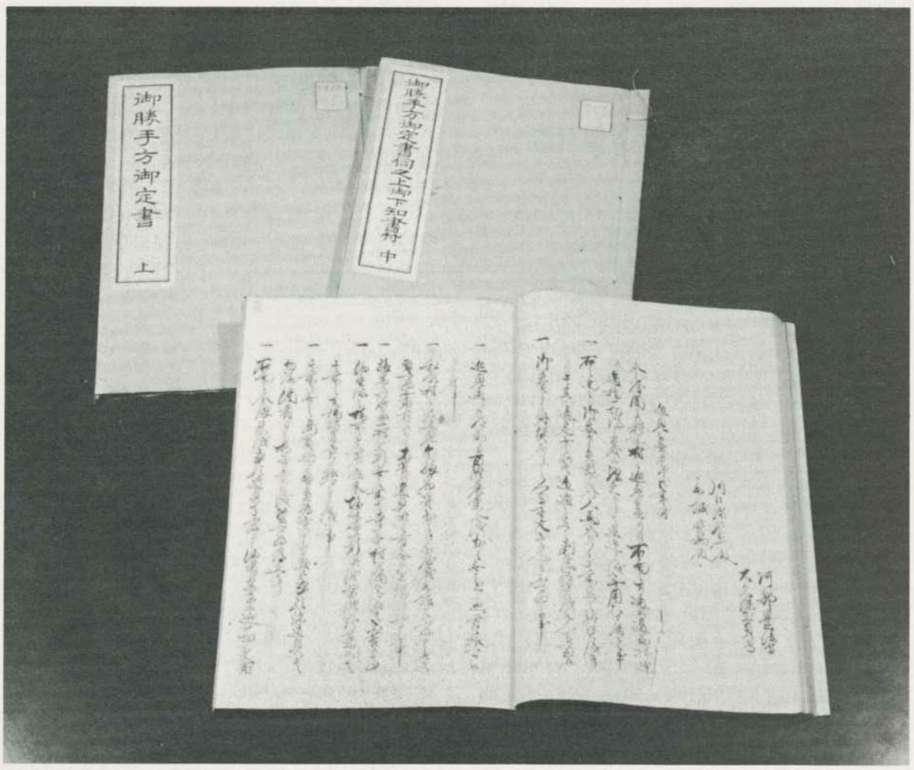
When a Japanese company president participates in negotiations, he usually tells the other side he must take any new proposals back to his company before they can be answered. Westerners have found this rather confusing; they wonder who is in charge at the Japanese company. However, in the *ikki* tradition, the president does not want to make important decisions on his own, for if he were to make a decision and later find that most company employees did not support it, his decision would be worthless.

Origins of mutual banks

There were various types of *ikki* groups, many of which also harbored political aims. One early type consisted of Japan's first mutual-finance institutions, called *mujin* or *tanomoshi*, which were mentioned in the *Goseibai Shikimoku* of 1232 as mutual-aid organizations among farmers. Today's mutual banks first appeared from among former *mujin* in 1951.

For example, if you had ten members in the *mujin* and each member paid in one million yen, the *mujin* would initially have ten million yen. Members could take turns drawing money, or they could invest the total and distribute the interest equally among the members. Members were permitted to buy out other members' shares or even to buy out the whole *mujin*. Still today, many small companies maintain their independence by getting into mutual financing in a similar way.

The most important *ikki* were those formed by minor *daimyo* (feudal lords).



Goseibai Shikimoku or the Formulary of Adjudications became the foundation of the warrior-house law.

In the 14th and 15th centuries, Japan was more or less divided up into many autonomous domains. The *daimyo* ruled over a hierarchy of *ikki*, the higher *ikki* being composed of the leaders of the lower *ikki.* Although many rules were adopted by these *ikki* organizations, most shared five basic rules. First, no-one in the *ikki* is to betray the others by making decisions or taking action ahead of them. Second, every decision is to be made only in consultation within the *ikki* group. Third, all *ikki* members must maintain solidarity within the *ikki*. Fourth, any complaints to be made to the *shogun* must first be endorsed by all the *ikki* members. Fifth, even responses to orders from the *shogun* must be approved by the *ikki.* The *ikki* therefore achieved a high degree of political power by preserving its solidarity in group decision-making.

This principle of group decision-making is still alive and well throughout Japan. In the government bureaucracy, a minister may give instructions or orders, but nobody does anything until the directors-general of the various bureaus in the ministry get together and approve it.

Large Japanese companies are also *ikki*-like. The president corresponds to the *shogun*, the board of directors is the *ikki* of the next level down, and so on. Even if the president gives an order, it must be taken up by the board before it is implemented. Managing directors have their own *ikki* just under the board-level *ikki*. Likewise, managing directors discuss any order from the board of directors before responding to it.

This goes all the way down from the board of directors' *ikki* to the lowest *ikki*, the QC circles made up of rank-and-file employees. One reason for the QC circles' success in Japan is that they function like *ikki.* Group decision-making among all these *ikki* invariably takes time, but the results are seldom wrong. Japanese companies resemble European companies as far as their outer manifestations are concerned, but inside they still adhere to a 700-year-old tradition. Rather than to attempt to change the *ikki* system, businessmen both Japanese and foreign find it better simply to understand, adapt, and act accordingly.

These *ikki* are close-knit groups of people, something to make up for the lack of family clans. People embrace the company *ikki* as their most important social group. In fact, many Japanese dislike staying away from their *ikki* or group for two days in a row, and this has been one factor retarding the advent of the five-day workweek in Japan.

In the Edo period, business transactions among *ikki*-style organizations appeared in some very sophisticated forms, although this was not noticed by foreign observers at the time. The largest merchant family in Osaka during the Edo period was the Mitsui family. They owned and operated an organization which was quite advanced for its time. The Mitsui family was actually nine families, each with its own property and assets. In addition, there was a Mitsui-family central company (*omotokata*) which handled the Mitsui joint assets, much like a modern-day holding company. The Mitsui assets were managed under a consultative system where the nine families as well as the general management of the Mitsui group participated in the decision-making. There was already a system of managerial rules which today would be called company rules.

Konosuke Matsushita, founder of Matsushita Electric Industrial Co., Ltd.

Employee participation

The Mitsui Bank was established in 1876, eight years into the Meiji era. It was capitalized at two million yen, of which one million came from the Mitsui family assets, half a million from the nine Mitsui families themselves, and half a million from the Mitsui Bank employees. Thus the tradition of Japanese employees holding shares in their companies began in the Meiji era and is a tradition attuned to the close-knit *ikki* concept.

Employee shareholding, and the spirit of employee shareholding, are one of the reasons why there are relatively few conflicts between employees and management in Japanese companies. Among family businesses during the Edo period, there was a term *noren-uchi, noren* being the curtain that hangs in the doorway and *uchi* meaning inside, so that whoever is inside the company *noren* is considered part of the family. That family spirit, still present in Japanese companies, helps to prevent industrial disputes and labor-management confrontations.

One major feature of the Edo-period economy was the rice exchange set up in the Dojima section of Osaka, which dealt in rice-related monetary exchange and shipping arrangements, warehouse rice, harvested rice, and even rice futures. This rice exchange continued well into the Meiji era, and its sophisticated futures dealing attracted observers from, for example, Chicago. Rice notes were issued for futures transactions, not unlike the New York Stock exchange, complete with puts and calls. According to late Edo-period records, there were 1,360 officially authorized rice brokers at the Dojima exchange. There were also 50 exchange banks.

The quantity and quality of the rice on the market at any given time was one of the factors that caused sharp fluctuations in futures prices. In response to this, an elaborate system of communication was established including the use of signal flags to transmit information on the size and quality of rice cargoes.

Osaka also had futures markets for kerosene, cotton, and salt. People sent abroad by the government in the early Meiji era to study Western commercial practices found foreign stock exchange markets very easy to understand. They were already familiar with futures markets at home.

Many Edo-period novels featured tragic heroes made penniless by bad investments in the commodities market. Even then, Japanese society had in many ways become capitalist.

If one person stands out as the father of the modern Japanese capitalist society, it is Ei'ichi Shibusawa (1840–1931), a young Edo-period entrepreneur who played a key role in industry during the Meiji and Taisho eras. Foreign authors who have written about Shibusawa have simply called him a figure of the Meiji and Taisho eras. However, Shibusawa was already 29 years old when the new Meiji government was established, having spent his formative years in Edo-period society. In fact, he held a post in the Tokugawa shogunate as an economics expert.

In 1867, Shibusawa went to Europe as a member of the delegation headed by Akitake Tokugawa, the *shogun*'s younger brother. One of the places the delegation visited was the Paris International Exhibition. In general, Shibusawa was surprised not so much by the newness of things as by their scale.

In Europe, Shibusawa made 20,000 *ryo* (about ¥20 million; $83,000) in railway stock on the Paris bourse. This wise investment suggests Shibusawa had aquired much experience and confidence at Japanese exchanges such as Dojima. Upon returning to Japan in 1868, he found the shogunate replaced by the new Meiji government. Nevertheless, Shibusawa knew where to start—in banking and insurance.

One of Japan's leading banks today is the Dai'ichi Kangyo Bank, a bank formed in a merger between the Dai'ichi Bank begun by Shibusawa and the Kangyo Bank. At the old Dai'ichi Bank, there was a department for insurance, from which grew Japan's first insurance company, the still-strong Tokio Marine and Fire Insurance Co. These enterprises were begun based on ideas Shibusawa had brought back from Paris.

Shibusawa also established the first Japanese joint-stock company, Shoho Kaisha, a trading company started in 1870. Interestingly enough, the *ikki* concept is an integral part of Shoho Kaisha's charter of incorporation. Shoho Kaisha was clothed in European attire, but inside was the same old *ikki.* In many ways a traditionalist, Shibusawa did not hesitate, for example, to disinherit his eldest son when he decided he was not the most capable of handling the family fortune.

Throughout this period of Westernization, Japanese companies showed, in spite of their traditionalism, a remarkable ability to readily adopt foreign technology while making some additional modifications of their own. For example, when the demand for oil rose as a result of the introduction of kerosene lamps, Japan—in spite of its total lack of technology for digging oil wells—went ahead and established its first oil company in 1871, the Nagano Coal Oil company.

Shoveling for oil

At first, the Japanese began digging oil wells in Kurokawa (Akita Prefecture) the same way they had dug water wells. The men who dug them first cut a one-meter square hole, then got in the hole with a shovel and kept digging, all the while putting up wooden frames for support, until they reached oil. The crude oil that was finally reached and retrieved, about 7.5 million barrels in all, helped to preserve the wooden frames, and as a result they still support the holes today. Europeans found it hard to believe that a person could dig so far down into the earth with just a shovel, but by 1890, Japanese oil explorers had dug practically everywhere in search of oil.

Then a man by the name of Nanto Hisakida decided to try digging the ocean bed. To do this, he had an artificial island built offshore and hired men to dig holes. Naturally, the seawater kept seeping into the holes and made things rather difficult. But somehow they kept on digging, and finally struck oil on this artificial island. This made Japan the first country to successfully remove oil from the ocean bed.

Although they succeeded in extracting the crude oil even without Western drilling technology, the Japanese also lacked the Western technology for refining crude into kerosene. So someone decided to modify the refining methods used in making *shochu* from *sake* dregs. The modified method involved placing a wooden bucket over the mouth of a kettle filled with crude oil. When the kettle was heated, the oil gave off a vapor that condensed in the bucket as a highly flammable liquid. This liquid dripped out of the bucket and was collected.

It was a very dangerous method, but it worked. However, the collected fluid contained gasoline and was too explosive to transport in barrels or to use in lamps. But the Japanese oil companies found a way of evaporating the gasoline from the refined oil: they put a hole in the top of the wooden barrel used to carry the oil while it was being shipped to Yokohama, and by the time these barrels reached port, 25% of their contents—mostly gasoline—had evaporated out through the holes. At Yokohama, these 75%-full barrels were sold for ¥5 each instead of the standard full-barrel price of ¥7.

The Standard Oil Company soon afterwards decided to withdraw from Japan. This was the only time Standard Oil voluntarily pulled out from any country, and I suspect it was because they didn't know how to compete with this crazy pack of Japanese.

When they are convinced that a foreign technology is more functional, the Japanese have no second thoughts about adopting it and/or making modifications. Using this same modus operandi, the Japanese have managed to adapt and gain a competitive edge in many industries based on imported technology.

Ei'ichi Shibusawa (1840-1931)

There is great emphasis on effectiveness, even in personnel. Seniority-based rewards are one oft-cited characteristic of Japanese companies, and it is true that seniority does play an important role. However, seniority and ability are not mutually exclusive. In a Japanese company, seniority generally means ability because there is no job description and no manual. (Or if there is a manual, it most likely is ignored.) Experience is the only teacher. Ability must be complemented by experience, and so the most experienced people are usually the most able. This is one reason why the traditional Japanese father looked to his eldest son first in considering who should receive the family inheritance. In Japanese companies, promotions are in this sense similar to inheritances within a family.

Preparing the ground

Nemawashi, i.e., doing the necessary groundwork when proposing a deal to a Japanese company, is another famous characteristic of the Japanese business world. The ground which is being worked, however, is the hierarchy of *ikki* which forms the decision-making apparatus for any particular proposal. Talking not only with the president, but with the appropriate board member, division chief *(bucho),* and section chief *(kacho)* is essential—the person who skips someone in the hierarchy is in trouble. It is important to touch base at every level.

However, it is not unusual for the president to have these other people with him when he concludes a deal with another businessman. They work as a team, a task force *ikki* if you will.

Sometimes *ikki* are not very clearly defined. In some ministries, say the Finance Ministry, things get done faster if the most powerful director-general can be pinpointed and buttonholed. But there are also the "regent" power relationships to consider, and these can become very complicated. The best thing to do is to find a *jitsuryokusha* within the organization. He may not be at the top of the hierarchy, but he is always there somewhere, one of the most influential people in the organization. The higher echelons can say yes to something, but if the lower echelons say no and are powerful enough, things reach a stalemate and nothing happens.

This emphasis on ability is another reason why very often the bottom rungs will make suggestions and the top will listen. Japanese managers are considered to be good administrators to the degree they are able to listen to even the lowest people in their organizations. It is all the *ikki* of individuals with shared interests working together for their common good. ●