

## Who Runs Japanese Business?

*Edited by Tachibanaki Toshiaki*

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It is unusual to find a book written by economists on questions of human resources, corporate governance and company management, such as:

- Who is promoted in Japanese firms, and why?
- What is the rationale for the seniority system (which commonly determines wages, for example)?
- Are broader or narrower careers preferred for white-collar workers?
- Is there a difference between professional (specialized) and managerial careers?
- What are the "management principles" of top management and what do these imply for corporate governance?
- Why do "prestige universities" have a special role in determining promotion prospects for employees?
- How can the level of job satisfaction for "non-promoted" employees be increased? What role can trade unions play in this?

Though Tachibanaki and his colleagues basically adopt the approach of economists in relation to these questions, the fact that they undertook the book at all is a mark of the difference between economists in Japan and economists in Europe and the United States. No Western economist in my experience would even raise the last question (above), let alone discuss it seriously.

The book has a much more discriminating and fine-grained approach than earlier research. For example, it distinguishes for the first time between the remuneration levels and the promotion and success-criteria of top management (Chairmen and Presidents) versus other Board members (executive/ managing directors); and distinguishes between such matters for larger as distinct from smaller firms.

The authors use a control group (promoted versus non-promoted employees) for white-collar employees, but confine their research method to self-reporting in the case of top executives: they asked people who had been promoted why they thought they

had been promoted, rather than asking superiors why they had chosen people for promotion, or asking non-promoted employees what factors they thought had influenced or decided promotions for others. Comparisons of such findings may be particularly useful in revealing something like the truth in the case of cultures, such as Japan's, which draw a sharp contrast between true feelings and diplomatic public behavior (*honno and tatemae*).

The book is based on two surveys undertaken in 1993, one for white-collar employees (1,816 respondents; response rate 86.5%) and one for board members (2,246 respondents; response rate 28.1%) — making these probably the largest such surveys ever undertaken in Japan.

Some of the interesting findings are:

1. Firms tended, at least on the surface, not to differentiate in promotion prospects for candidates joining in a particular year, for ten years in the case of section heads, and another three to four years in the case of department heads.
2. By contrast, employees began to recognize who is outstanding, and therefore likely to be promoted, during the first few years; this perception may have been helped, though the authors do not make this connection, by the fact that top executives experienced a relatively larger number of business sections, departments and directorates — and they usually had more favorable assignments, worked under better managers, found that more was expected of them and that more attention was paid to them;
3. Early experience in sales, production and general administration led to a higher probability of being promoted to a top position;
4. Those who did not make it to the top had a much smaller number of different job experiences than is commonly supposed;
5. The most important consideration for top executives was safeguarding employees' jobs. Company growth (however measured) was second in



importance, while enjoying the confidence of shareholders and financial institutions was only third in importance; 6. Salaries vary considerably, from a Japanese point of view, between the president, vice-presidents, managing executives, ordinary executives, and others. The priorities of these levels also vary: lower-level executives are given growth-related objectives, whereas higher-level executives have incentives that foster equitable distribution of the fruit of that growth. Top executives value belief in and loyalty to the firm, whereas the next level values interpersonal skills, and the yet-lower level focuses more on results.

7. Science and technology graduates have a lower probability of being promoted to top positions than those who have studied humanities and social sciences.

8. Employees who have worked abroad are even now less likely to have made it to the top.

Of course, much has changed in the last six years in Japan and the results of the research have probably begun to pass into history more rapidly than in the past.

But who runs Japanese business? Surprise, surprise: Japanese firms are still run largely by long-standing employees mainly for the benefit of employees rather than shareholders.

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