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holds 51% of company A's stock, this 51% would certainly seem to be a controlling interest. But in this kind of situation, it is not. Should company A attempt to influence company B's management policies, company B will naturally do the same to company A. The controlling interests of the two companies cancel each other out. Moreover, even when the equity positions are smaller, their very existence blocks anyone else from exercising control.

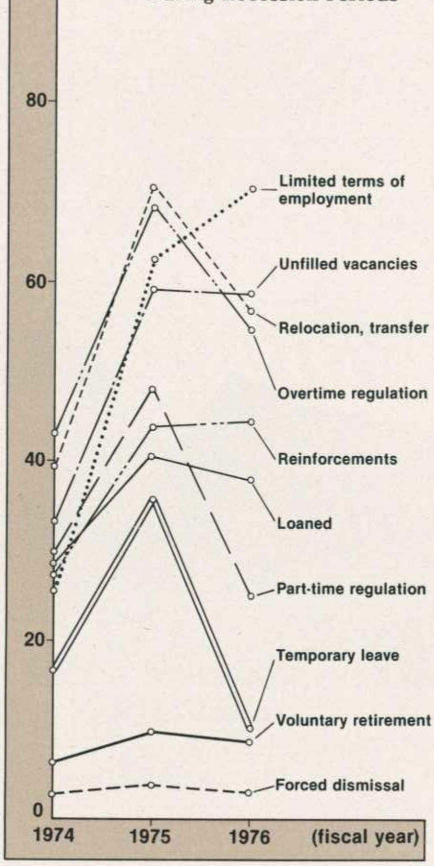
When the dividend rates in the principal developed nations are compared, Japan consistantly has the lowest rate, reflecting, in general, the low esteem for the shareholder in this country. The shareholder's right to speak on matters of corporate management is unusually small for an ostensibly capitalistic nation.

Even if there is a clear separation between ownership and management, there are still various means available the shareholders in most nations for controlling a corporation. These include the general shareholders meeting, pressure on the board of directors, and the use of certified public accountants and auditors. Through these systems, the shareholder is able to supervise the corporate management, stop a manager whose actions may be detremental to the shareholder's interests, and ensure that the shareholder's opinons are accurately reflected in the corporate management policies. But in Japan, none of these systems functions the way it is supposed to.

It is quite common in the United States for a general shareholders meeting to last around three hours. In these meetings, a wide variety of questions are raised concerning management policies. The manager's very reputation can be called into question in a shareholders meeting. In contrast, 95% of the general shareholders meetings in Japan end within a half hour. The meeting usually consists of little more than a simple explanation by management of corporate policy, and there are absolutely no questions raised by the shareholders in about 90% of such meetings.

The phenomenon of the *"sokaiya"* is another feature peculiar to Japan. According to judicial precedent, a *sokaiya* is a person who holds a small number of shares in a number of companies, who acts to expedite the proceedings of the general shareholders meetings of these

Fig. 4. Employee Adjustments Made During Recession Periods



Source: *Survey Report on Labor Mobility*, commissioned by MITI in FY 1976.

companies at the request of the companies' managements, and who receives payment for such services in the form of transportation expenses. There are said to be about 6,000 *sokaiya* throughout Japan. The *sokaiya* sits in the front row of seats at the general shareholders meeting and expedites the proceedings by expressing enthusiastic support for every measure proposed by the company management. In the rare event that a shareholder should propose an opposing motion, the *sokaiya* will block this by heckling and by calling for "point of order" to get on with the proceedings. The meeting thus ends "tranquilly" as the corporate management intended. Although the shareholders' position is so weak that the *sokaiya* do not really do much, the fact that they are condoned and sometimes even encouraged is another manifestation of the low regard in which the company holds its shareholders.

In approximately 80% of American corporations, there are more directors who have been brought into the company by the institutional investors than there are directors who have come up through the ranks within the company. This means that the outside directors—who represent the interests of the shareholders—are able to control the board of directors, the supreme decision-making organ of the corporation. This is why, in the United States, the board of directors frequently fires a company president who has failed to improve the corporation's business record.

In Japan, however, the directors are the subordinates of the president and are "insiders." Directorships are actually under the control of the president. It is not possible for a board of directors made up of such people to fire their president. A director who should even dare to propose such a step is much more likely to be fired himself. (It is not altogether impossible for a company president whose position has been weakened by intra-company factional trouble to find his downfall certified by the board of directors. But this is regarded only as a "family strife" and is restricted to within the company. It is this factor which distinguishes the Japanese system from its American counterpart.)

It is also a general practice in Japanese corporations to appoint someone within the company as the company auditor. In effect then, the auditor is subordinate to the company president. In such a system where the party to be audited selects its own auditor, it is only natural that the role of auditor becomes a meaningless charade.

There are very few cases in which the results of an audit made by a certified public accountant are deemed inadequate, but this, too, is because the accountant is actually employed by the management of the company. As this clearly indicates, one of the primary characteristics of the Japanese corporation is the extremely limited right of the shareholder to have a voice in company operations. It is also evident that the shareholder is quite satisfied to

simply receive his dividend payment without making any attempt to meddle in corporate management policies.

Of course, it would be an extreme to state flatly that shareholders have absolutely no say in the management policies of Japan's larger corporations. Most of the major shareholders—though major, they virtually never hold more than a 5% share of a corporation's stock—in the primary Japanese corporations are banks and other corporations with which the companies do business. It is clear that these banks and corporations have a certain influence upon the management policies of the corporations in which they hold stock. However, much of this influence is cancelled out by the crossholding system described above. Any influence they do exert, therefore, is based more on their role as a financial institution or the stability of their business relationship with the corporation in question.

Employees as the Heart of the Corporation

The situation of the company employee ("company member") is exactly opposite that of the shareholder who is so little respected and who has so little say in corporate management. The employees in a major Japanese corporation are the heart of that corporation in much the same manner that the shareholders are the nexus of a European or American corporation.

First of all, consider the treatment of the employee: the lifelong employment system guarantees employment security. The essence of the lifelong employment system is that no employee is ever fired or dismissed except in the most dire circumstance, such as bankruptcy. Both employees and management strive to maintain this system, and no basic change in the present system is foreseen for the near future.

In the period of recession that followed the second oil crisis, a number of corporations did force some of their employees, primarily those middle-aged and older, to leave. There was much debate about this forced dismissal. The employment adjustment was carried out more often through cutting back on new hiring, relocations, transfers, and natural attrition.

In European and American corporations, management's primary goal is to guarantee high dividends for the shareholder, as has already been noted. Management's main responsibility is thus to the shareholder. Because of this, employee dismissals and layoffs are considered normal measures to be taken in order for a corporation to survive an economic recession or slump. It is also not surprising for employees to be fired simply to maintain high dividend rates.

In Japan, however, management's responsibility is much more to the employee than to the shareholder. Should a choice ever have to be made between no dividends or forced dismissals, most Japanese managers would choose the former. Indeed, they would have no choice but to

Toyo Kogyo's experimental model to satisfy consumer demand for a safe yet stylish family car getting good fuel mileage with minimum environmental pollution.

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Foreign magazines featuring Japan's economy

choose not to pay dividends.

In this kind of situation, there is a basic convergence of interests between the corporate management and employees. From the management point of view, employees, unlike other factors of production such as equipment, land, and raw materials, are irreplaceable. It is therefore important that employee potential and morale remain high. From the employee's point of view, there are certain economic and social advantages accruing from the development of the corporation, such as increased wages, promotions, and the shared status of an upgraded corporate image.

The seniority system plays a major role here. In a system dependent exclusively upon individual ability, the capable person has little to fear since he is likely to be promoted whether the corporation's fortunes improve or decline. Those less endowed, however, will fear they will be left behind if a company should prosper. Corporate progress and individual progress and individual progress can hardly be regarded as one and the same. The seniority system, on the other hand, ties the fate of the corporation directly to the fate of the individual by maintaining equal treatment for all employees.

With this system, a certain bond develops between the corporation management and its employees. The employee has a personal, subjective interest in the fate of the corporation, and this is the foundation upon which the Japanese corporation seeks to encourage employee participation in the many different aspects of management.

First of all, the managers themselves are likely to have once been regular company employees. In the United States, it is rare for a person who joins a company as a regular employee to work his way up to become company president. In most instances, corporation management consists of people who have demonstrated their abilities outside of the corporation and have been recruited specifically to fill management positions. In family-owned businesses it is not uncommon for a relative to be appointed as president even though he lacks experience within the company. (Although perhaps not really comparable, the Chinese factory manager, equivalent to the company president, is in most cases a Party member appointed by the Communist Party.)

A country such as Japan, where it is common to have individuals work their way up the corporate ladder over a period of years to eventually become company president, is quite a novelty in the world.

Working within this kind of framework, the Japanese manager does not experience the kind of basic dichotomy or distance from his employees that is common elsewhere, either in the developing countries' corporations where management and ownership are generally one and the same or in the United States where management is constantly concerned with the shareholder. Of course, differences of opinion do crop up between the management responsible for a corporation's overall management and the employees at the other extreme in the corporate organization. But all told, and especially in comparison with other countries, the managers of Japanese corporations are definitely regarded as selected from among the employees. In fact, a recent survey of companies listed on the First and Second Sections of the Tokyo Stock Exchange showed that nearly half had no outside directors. Only 13.5% of all firms drew one-fourth or more of their directors from outside of the company.

The second aspect of Japanese management-employee relationships is that the management leadership is dispersed broadly throughout the union of employees within a corporation. The American manager has been placed inside the corporation as a representative of the interests of the shareholder. He is therefore forced, at times, by the need to maintain high and stable dividend rates for the corporate shareholder, to oppose radical demands for wage increases from employee unions. Within such a management structure, it is necessary for all authority to rest solely with the management in a top-down system of decision-making.

In the Japanese corporation, however, the employee's interests are closely tied to the corporation's interests. The employee has a personal stake in management policies. Employee initiative in making policy decisions is therefore not regarded as a problem. This does not mean that all Japanese corporations are operated on a bottom-up management system. The initiative for management decisions often comes from the top. Whether a decision is made at the top or bottom of the corporate ladder depends on the type of decision to be made and whether it is best resolved by the employee or management.

Employee participation in management decision-making has recently expanded to cover not only the office but the factory as well. As will be described below, many factory workers are participating directly in the planning of factory management and production control, a situation rarely to be seen in other countries.

The third aspect of Japanese management-employee relationship is the widespread system of joint labor-management conferences. In this system, problems of all sizes common to both employee and management are worked out by means of consultation between the employees and management. Such problems include: rearrangement of production lines, new factory installations, moves into overseas markets, work environments, safety measures, and welfare policies. Today, more than 90% of Japan's major corporations have some sort of labor-management consultation.

The trend is even for matters such as wage increases and working hours, which were once subjects of collective bargaining, to be gradually taken up in such labor-management conference. These, too, are gradually becoming incorporated into the Japanese management participation system.

In Europe, management participation is a legally established concept, as in West Germany. Because of this, it incites management opposition and rigidity, and cannot be said to be functioning smoothly as a rule. Management in Japan, in contrast, absorbs the opinions of the workers and actually supports employee participation in corporation management as a means of ensuring that these opinions are reflected in management policies.

In Japan, the shareholder's "management participation" as a "company member," despite its legal support, is little more than a mere parody of the real thing. On the other hand, the employee's management participation as a "company member" has naturally developed without any external force. Rather, it has been made possible by the cohesive nature of the employees within the Japanese corporation. ●