Part 1

The End of the Community Firm?

1 Company as Community

Entering a minefield

In writing about companies-as-communities, or 'community firms' in Japan, we are entering a minefield.[1] The term eludes neat definition, and easy quantification. And for some people, it evokes negative reactions. The Japanese equivalent – *kigyo kyodotai* – can conjure up images of oppressive wartime control and 'feudal' communitarian institutions.[2] For some, it epitomizes Japan's 'corporate-centred society' and its associated patriarchal order. Community companies are male-dominated, discriminate against women, encroach on and distort family life (Osawa, 1993; Kumazawa, 2000). Collectively, they have created Japan's 'corporate capitalism', which perverts fundamental capitalist and market principles, breeds corruption and impedes healthy social development (Okumura, 1975, 1984, 1992). For others, they served a purpose during Japan's catch-up phase of development, but those days are over. Without a process of creative destruction, which includes 'Japanese-style management' and community firms, Japan will flounder in the twenty-first century (Tsujimura, 1998). Some of these criticisms, in fact, now find expression in official government publications, and the Japanese government itself has become one of the biggest critics.

On the other hand, community companies have their defenders, including the heads of some of Japan's most successful corporations, although they may not use the expression directly. Canon's president, for instance, declared:

[1] Throughout the book we use 'firm' and 'company' interchangeably. Japanese names appear with the surname first, followed by the given name.

[2] Cf., for instance, Kyochokai jikyoku taisaku iinkai, 1938. Fujita (1982: 230) notes that the material desperation of 1945–55 was lightened by the collapse of Japan's fascist regime. The communitarian elements of this regime were criticized by 'modernist' scholars such as M. Maruyama, H. Otsuka, T. Kawashima, K. Okochi and T. Fukutake.

We have avoided using the expression 'corporate communities' because of possible confusion with groups of companies, or *keiretsu*, or company networks.

The advantage of lifetime employment is that employees absorb the company's culture throughout their careers. As a result, team spirit grows among them – a willingness to protect the corporate brand and stick together to pull through crises. I believe that such an employment practice conforms to Japanese culture and is our core competency to survive global competition.[3]

Mitarai's identification of lifetime employment and associated practices as his company's core competency resonates with growing recognition of the importance of communities for learning and innovation (Lave and Wenger, 1991; Wenger, 1998).

Given such divergent and often charged views, it is difficult to write a dispassionate account about how the community aspects of Japan's large corporations are changing. Our own prejudices and preferences will become clear during the course of this book, and particularly in Part 3, but our interests are not nostalgic. Japan is changing, and the community characteristics of large corporations are changing – must change – too. They must do this in order to remain core competences. To say this, however, is neither to predict, nor to advocate, their demise at the invisible hands of market forces.

As we enter the minefield, we begin with a skeletal definition of company-as-community, and add flesh throughout this chapter. In the community company, employment relations go beyond an economic contract to include what is sometimes called a psychological (or social) contract, which even if implicit, is tangible enough to influence effort and reward. This implicit contract involves an exchange of loyalty and effort for security, and is integrated into management priorities and the ordering of stakeholder claims. This in turn engenders a sense of membership and facilitates the development of shared norms and 'we-consciousness', which may become a source of motivation, but which may also override individual interests, especially in the short term. Various means are used to minimize them–us divisions within the company and foster a sense of membership, for core members at least, within the boundaries of the company.[4]

We use the expression 'community companies' instead of, for instance, 'organization orientation' because we want to draw attention to the norms and informal integrating mechanisms which complement or underpin formal organization structures. In the midst of organization reforms and restructuring, some form of organization structure will remain, but the community aspects may be lost. As with organization orientation, however, we consider the community company in polar opposition to a model

[3] F. Mitarai, *Nikkei Weekly*, 18 March 2002, cited in Jacoby, 2004, p. 168.
[4] There is a long history of writing about the social and ethical dimensions of Japanese companies; cf. Abegglen, 1958; Ouchi, 1981; Pascale and Athos, 1981.

of the firm featuring market-oriented, contractual employment, governance and management, and we are interested in how far large Japanese companies are moving towards this opposite pole in these dimensions.[5] Community *firms* is also used, however, in distinction from occupation or class solidarity, which may produce in-company cleavages.

Whether seen as a source of injustice or fairness, inefficient inertia or innovation-enabling competence, the community aspects of large Japanese companies matter, even if they are in many ways intangible. More directly tangible are *employment practices, corporate governance and management priorities, or ideologies*. Changes to these are likely to have an impact on the community aspects of such companies, and by entering the minefield, we gain a vantage point from which to observe these changes, their interaction, and their consequences.[6]

Community companies and company man

While our empirical interest is mainly in large Japanese companies, our theoretical interests and questions have been stimulated by developments in other countries. In the 1970s and 1980s 'lifetime employment' and seniority-based wages and promotion were popularized as peculiarly Japanese phenomena. Indeed they were enshrined as two of the three pillars or 'sacred treasures' of Japanese-style management, the third being enterprise-based unions. Yet the practice of recruiting new or recent graduates and employing them until retirement can – or could – be found in the public sector and large companies in many countries, even those with relatively high labour mobility, such as the USA and UK. And wages rising with age and tenure are – were – also common in those countries, at least for white-collar employees (Dore, 1973; Koike, 1983, OECD, 1997).

Even community firms may not be distinctively Japanese. Heckscher's (1995) study of middle managers in eight manufacturing companies in the USA identified long-term employment, internal promotion, a bureaucratic work ethic, company as a source of identity and object of commitment, sense of shared interests, firm-specific skills, paternalism and an implicit contractual exchange of loyalty for job security. He called these 'communities of loyalty'.

Heckscher, in turn, was building on a tradition of corporate studies in the USA. Kanter (1977) graphically depicted the organization and

5 On the 'community model' versus the 'company law' model of the firm, see for instance, Dore, 1987, 2000.
6 We are primarily concerned with large companies in this book. Small firms exhibit different community features; cf. Inagami and Yahata, 1999; Whittaker, 1997.

social world of managers, their wives and clerical workers in 'Indsco' in the 1970s. For managers, this world featured long-term employment and internal advancement, unlimited loyalty towards the company and blurring of work and private life, shared values, company-specific language, and gendered roles.[7] 'Organization man' was indeed a man. Earlier still, Whyte (1956) portrayed the rise of organization man, subjected to new collective social ethics in 'feudal communities', and Riesman (1950) identified 'other-directed' employees who had supplanted 'inner-directed' workers and owners of early capitalism.

Sampson (1995) suggests that company man was born in pre-industrial trading companies, like the British East India Company, and became widely diffused in large corporations by the end of the nineteenth century. Such corporations constructed their own community values and rules, usurping the centrality of the extended family, church and farm estate in society. Their values, rules and practices encompassed long-term (lifetime) employment, internal promotion, hierarchies, bureaucratic organization, loyalty to the company, patriarchy and paternalism.

In a general sense, then, community companies and 'company man' are widespread phenomena. Japan's distinctiveness lies not in their existence, but in their scope and specific features, which we will discuss below.

Observers of large organizations and company man the USA, however, noted a series of fundamental changes which occurred in the 1980s and 1990s. Heckscher's communities of loyalty either disintegrated, or were transformed. And when Kanter revisited Indsco in the early 1990s she found a paradigmatic shift away from 'corporatism'. In the Afterword to the 1993 edition of *Men and Women of the Corporation* (pp. 290–1), she cited six changes to work and career which occurred in the 1980s:

1. From fat to lean: a shift in employment assumptions that 'big is better' to 'smaller is beautiful' – cutting back on employment, relying on outsourcing and external suppliers, making organizations more flexible and cost-efficient, but straining people's endurance while undermining their security.
2. From vertical to horizontal: a change from hierarchical emphasis, vertical chains of command and promotion to cross-functional or cross-department teams, horizontal emphasis and collaboration.

[7] Regarding loyalty, one first line manager said of a former company: 'You won't believe this, but upper management expected you to come in on Sundays too – not to work, but just to be seen on the premises – supposed to show how much you loved the damn place . . . I did it a few times, and then said to hell with it – it's not worth it . . . I started to get passed over on promotions, and I finally asked why. My boss said they weren't sure about my attitude, and for me to think about it. Attitude! How does that grab you?' (Kanter, 1977: 65).

3. From homogeneity to diversity: increased access for women and minorities, globalization of professional labour markets, team diversity, managing and even affirming diversity.
4. From status and command rights to expertise and relationships: hierarchy-derived formal authority giving way to professional expertise for building expertise and leadership; increased emphasis on external relationship building.
5. From company to project: weaker attachments to the company, stronger attachments to profession or project team – sense of worth from these rather than bond with a particular company.
6. From organizational capital to reputational capital: shift in career assets from organizational capital derived from climbing internal career ladders to portable career assets of skills and reputation that can be applied anywhere.

Bennett (1990) also depicted the death of organization man, based on interviews of managers affected by restructuring and downsizing in major USA companies in the 1980s. While not fully developed, her image of 'new organization man' – someone who uses his (or her) skills as a weapon to move company as necessary rather than rely on a single company – is basically similar to those of Kanter and Heckscher. All three found community companies, which flourished in postwar USA, crumbling in the 1980s.

Cappelli (1999a, b) argues that these changes came about by the increasing penetration of market forces in employment relations, governance and management.[8] Jacoby (1997, 1999), on the other hand, sees two patterns of employment and industrial relations in large US corporations, a blue-collar internal labour market (job control) pattern, and a white-collar internal labour market pattern. The latter features long-term employment, internal promotion, seniority rights, flexible job contents, enterprise-based industrial relations and company-provided welfare. These features are similar to Japanese companies, but the US companies they are most commonly found in are non-unionized. Jacoby denies that 'welfare capitalism' is dead in the USA, but he acknowledges that both types underwent major changes in the 1980s, when greater risk was thrust on to employees.

Are similar forces – the quickening pace of technological innovation, intensification of global competition, increasing shareholder pressure, and so on – bringing similar changes to Japan? Or will the distinctive features of Japan's community firms forestall such changes, or create a different trajectory for transformation? Will change, if it is happening, be

[8] Cf. also Cappelli et al., 1997.

incremental, or discontinuous? These are questions we examine in this book.

Community firms in Japan: a selective review

Community companies and 'Japanese-style' management

Before we do so, however, we need a better understanding of community companies and their main features in Japan. In this section we will selectively review relevant research, without becoming entangled in debates which have often generated more theoretical heat than empirically grounded light.

We begin with Tsuda, who cited research into white-collar managers in the UK (Pahl and Pahl, 1971) and the USA (Kanter, 1977) to argue that community companies were a universal phenomenon, associated with 'modern management' (Tsuda, 1981: 337–50). All modern companies, he suggested, were communities, and Japanese companies were simply one variant. The decline of local communities in modern cities coincided with the rise of work as the central life interest of white-collar workers, resulting in the 'communitization of modern management'. A precondition for this was long-term, stable employment and living security provided by the company on the one hand, and long-term skill development by employees on the other. This in turn required managers to satisfy both the expectations of employees, and the need for economic efficiency, with inspirational qualities and authority, raising the work ethic to higher levels (Tsuda, 1976, 1977, 1981).

If anything was distinctively Japanese about lifetime employment for Tsuda, it was that it remained an implicit guarantee. What was distinctive about seniority-based wages was their application to blue-collar workers in the postwar period. Similarly, co-operative industrial and workplace relations were distinctive only in their particular manifestations, such as the *ringi* system.[9]

Tsuda's 'modern management' is dated from today's perspective, but it is worth noting his view of community companies as a universal phenomenon, and that lifetime employment and seniority-based wages were not distinctively Japanese. Here he drew on Koike's (1977) USA–Japan comparative studies. Subsequently, however, Tsuda's views underwent a metamorphosis. He downplayed the association of community companies with modern management, and came to see Japanese management

[9] *Ringi* is the 'bottom-up' circulation of a document to collect the signatures of relevant parties before a formal decision is made.

and community companies as developing in stages, from prewar familistic communities through 'Japanese-style' management (1945–85) to (legal) community companies (1985–), with each stage rooted in Japan's distinctive culture and differing fundamentally from the 'West'.

In contrast to Tsuda, Mito's (1976, 1991a, b) view of Japanese management and community companies was particularistic from the beginning, and linked to the 'logic of the *ie* (family or household)'.[10] Management based on this logic was quite different from that in the 'West', and for this reason, Western 'universal' theories failed to capture the distinctive reality of Japan. For Mito the logic of the *ie* had become the logic of the Japanese company, whose employees were *ie* members (1991a: 310).[11] Mito's premise of historical continuity also contrasts with Tsuda, for whom there was significant discontinuity between prewar and postwar Japanese management.

Iwata, too, stressed continuity. He argued that Japanese management should be understood in the context of workplace and company-based communities (1977: 57), rooted in a distinctive – and continuous – Japanese psychology, necessitating an 'indigenous management theory' (1978). Japanese people sought stable affiliation with a group, for instance, and based on this psychology, organization relations stressing stability gave rise to lifetime employment (1977: 11).[12] In contrast to Mito's 'logic of the *ie*', however, Iwata saw Japanese management as growing out of Japanese villages or *mura*.[13] The key features were: long-term, continuous employment and trading relations; emphasis on harmony; respect for status/position; emotional stability of group membership; avoidance of sudden change; coexistence of stability preference and stagnation avoidance; and unlimited responsibility of organization members.

[10] The 'logic of the *ie*' was: *ie* as community; *ie* as management unit, managed to transcend generations; kin and non-kin members; family members indentured for the sake of the *ie*; family trade or business, managed with the head's family and assets; head and family relations as parent–child relations, characterized by patriarchal benevolence and absolutism; stratification and ability-ism; discipline of members; household norms and rules; main and branch lines, characterized by parent–child relations, also found in relations with powerful families, forming extended units; and insider–outsider distinctions (Mito, 1991a: 309–10).

[11] The *ie* was elevated even further in the work of Murakami, Kumon and Sato (1979) as the key to understanding Japanese 'civilization', in contrast with that of the West. Different usage of concepts such as *ie* both complicated and intensified debates on Japanese management.

[12] This is an exemplary *Nihonjinron*, or theory of Japanese distinctiveness. Other Nihonjinron theorists in management include Odaka (discussed below), Hamaguchi and Kumon (cf. Hamaguchi, 1977; Hamaguchi and Kumon, 1982).

[13] 'If members took the *ie* as their fundamental collective unit, they would almost certainly face ostracism' (Iwata, 1977: 30).

Despite his emphasis on continuity, Iwata saw a number of serious challenges to Japanese management in the 1970s; problems arising from low growth and lack of opportunities for expansion, changing consciousness of youth, environmental challenges such as pollution, and relations with other 'cultures' (1977: 247–9).

Odaka (1981, 1984, 1995) incorporated the views of Mito and Iwata, though somewhat ambiguously. He saw Japanese management – including lifetime employment, seniority, harmony emphasis, bottom-up management and paternalism – as based on groupism, under which members perceived their group as a 'community of fate' which they dedicated themselves to. Their involvement was holistic, their status rose with seniority, and their interests became fused with the group, whose policies were decided by consensus, with regard for the welfare of members.

Groupism for Odaka, too, had long historical roots, dating back at least to the agricultural village communities of the Tokugawa period. Nonetheless, he thought that the merits of Japanese-style management's distinctive features could at the same time become demerits. Response to the demerits brought modification, while at the same time underlying principles were slowly becoming diluted by individualism.

On balance these authors stressed continuity rather than change in Japanese management, in the form of livelihood communities (Tsuda), the *ie* logic (Mito), national psychology (Iwata) and cultural roots of groupism (Odaka). And with the exception of Tsuda, they assigned these features a central role and contrasted them with the 'West'. Exceptionalism is one thing, but when it is linked to unchanging cultural features it runs the danger of becoming cultural reductionism.[14]

Our position, as suggested in the previous section, is closer to Tsuda's early view; community companies are not restricted to Japan, and can – or could – be found in other countries, even though there are distinctive Japanese features, which we will sketch at the end of this chapter. And while there may be continuities, we see Japanese management and

[14] All countries are exceptional in some respects. For British exceptionalism, see for instance Rubinstein, 1977; and Cain and Hopkins, 1993. For American exceptionalism, see Lipset, 1996. The issue is how these exceptional features are construed – within a framework allowing for comparison of variables and their combinations, or within an overarching cultural framework posited as unique. (Cf. Maruyama, 1984: 125–30.) To the debates about Japanese management we could add the 'structure of domination' views of Nishiyama and Okumura. Nishiyama characterized Japanese management as a structure of domination by employee-managers, which freed the companies from the imperatives of capital. He saw this 'post-capitalist' system as a new stage in evolutionary development, beyond American management, which in turn had succeeded European management (Nishiyama, 1980, 1983). Okumura's (1975, 1984) 'corporate capitalism' theory was highly critical of Nishiyama (and Japanese capitalism), but neither saw Japanese management as deriving from a distinctive Japanese culture.

community companies as historical and evolving. To some extent Iwata recognized this and Odaka began to elaborate on it.

Managerial familism

Another strand of research drew attention to continuities and discontinuities with prewar managerial ideology, notably managerial familism, which also likened the company to an *ie*, backed by Confucian familism, and employer–employee relations to parent–child relations. The head exercises wide-ranging authority over his wards in a patronage–loyalty relationship, and once the ward becomes a full member, the relationship is not easily broken (lifetime employment). Even under adverse conditions, living wages are paid, with consideration for age and family composition (seniority- or *nenko*-based wages). Welfare measures are an expression of paternalism, and there is a predilection towards minimizing or disguising conflicts of interest (co-operative industrial relations).

According to Hazama (1964, 1979), managerial familism fitted late development, the need to train workers internally, and then to retain them. It also served as a restraint against the burgeoning labour movement in the early interwar years. The Confucian ethics on which it was based, however, impeded the development of modern, contractual employment opportunities, and parity in labour–management relations.[15]

Hazama traced this ideology backwards to the merchant houses of Tokugawa Japan,[16] and forwards to its postwar transformation into 'managerial welfarism'. The latter shared such features as lifetime employment and seniority-based wages, but it was based on industrial democracy rather than Confucian familistic ideology, creating employment stability, 'fair' wages and labour–management understanding.[17] While the ideology underpinning community *companies* had changed, however, community *workplaces* had been destroyed during Japan's postwar high growth, exposing individual employees directly to the influence of centralized managerial authority.[18] This unhealthy development, he argued, needed

[15] Morishima (1982), by contrast, saw Confucian ethics – based on loyalty and piety rather than virtue – as instrumental in Japan's economic success.
[16] Cf. Nakano's (1968) classic study of merchant house management.
[17] Ujihara (1989 [1980]: 232–8), too, contrasted patriarchal familistic ideology of the prewar period with 'shared labour–management norms of productivity improvement and a fair distribution of the results' of the postwar period. Noting the importance of an integrating management ideology, he suggested – over twenty years ago – that the institutional features of these norms and the derived stability-emphasizing ideology formed during Japan's high growth period would need to be replaced by a new ideology.
[18] Hazama did not elaborate on this 'destruction', but no doubt he had in mind the spread of centralized personnel management and 'efficiency wages' in the steel industry, for instance, and centralization of the authority to call strikes; cf. Tekkororen and Rodo Chosa Kyogikai, 1980.