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## *Changing Japanese Capitalism*

Economic crisis tends to spur change in the “rules of the game” – the “institutions” – that govern the economic activity of firms and employees. But after more than a decade of economic pain following the burst of the Japanese Bubble Economy of the 1980s, the core institutions of Japanese capitalism have changed remarkably little. In this systematic and holistic assessment of continuity and change in the central components of Japanese capitalism, Michael A. Witt links this relatively slow rate of institutional change to a confluence of two factors: high levels of societal coordination in the Japanese political economy, and low levels of deviant behavior at the level of individuals, firms, and organizations. He identifies social networks permeating Japanese business as a key enabler of societal coordination and an obstacle to deviancy, and he sheds light on a pervasive but previously underexplored type of business networks, intra-industry loops.

MICHAEL WITT is Assistant Professor of Asian Business and Comparative Management in the Economics and Political Science Area of INSEAD.

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MICHAEL A. WITT



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*Foreword to Michael Witt,  
Changing Japanese Capitalism*

In the years after the Second World War, we have witnessed a succession of waves of societal development, in different parts of the world, some of which have been labelled “miracles”. There was the German miracle in the 1960s and 1970s, the East Asian miracle of the 1980s – the age of the little dragons, and more recently the miracle of China’s emergence as the ‘workshop of the world’. But none of these took the world of business by storm as did the great Japanese miracle of the 1970s and 1980s. This was due to the growth of the Japanese economy to immense size, second in the world after the US, still a very long way ahead of any other rivals, and still four times greater than that of China. A related feature was that its starting point was one of almost complete devastation.

Adding to the sense of intrigued respect that gradually accumulated among the observers and competitors of the Japanese as they rose to control massive industrial power, was a sense that there was a mystique in how they did things. Not only were their firms managed in ways foreign to Western managers, but the relations among the major components of the society – government, owners, banks, workforces – were quite distinct. The political system itself seemed not to follow that of other democracies, and the complex web at the top of the structure became an object of fascination to outsiders.

Such was their success in penetrating markets, that Japanese management systems led a widespread revolution in global production efficiency. The current global concerns with quality, with customer needs, with the re-engineering of processes, with worker engagement, with constant product improvement – even though not always initiated in Japan – seemed to reach their earliest full flowering there. Japanese management came to be seen as the standard in many industries, especially where production was involved. Here was a beautiful machine running smoothly in top gear.

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Then suddenly it went off the rails. Japan entered a crisis in the 1990s, suffering severely from an assets inflation of such proportions that its effects carry forward still. But more particularly it entered a crisis of purpose and of will, as the elaborate system of balanced power bases appeared to absorb pressure without yielding when reforms were proposed. These pressures came from inside its own structure, as well as outside. The most common themes were transparency, efficiency, the ending of collusion, flexibility. To many Japanese it seemed as if the West wanted them to behave against their own traditions, to adopt “international best practice”. Whether they would is closely bound up with whether they could, and in the event they have chosen in the main to do it their own way, and slowly.

The story of how Japanese capitalism has been changing is significant in two senses. In the first place, this is a major phenomenon in global terms, and the shaping and evolving of its future has big ramifications in many economies and markets. But secondly, it illustrates how societies vary in the trajectories they follow for their progress. If societies behave so differently, then nostrums thought to be universal may not be as widely relevant as much current policy and practice suggests.

This book contains a fine-grained analysis of a complex social system, and it illustrates especially the highly coordinated nature of the Japanese economy. Vested interests, and elaborate connections across a range of exchanges, obligations, and flows of information, need to be understood if Japan’s progress is to be mapped fully. In this account, we find a more complete picture than average, as the author has deliberately taken on board the need to depict society holistically. He has also delved into the detailed workings of the social networks that hold the system in balance, revealing that they are also capable of holding the system in check. Social capital can be an obstacle to adaptation, a downside not often acknowledged in accounts of its workings.

Japan is far more significant than its coverage in the press these days suggests. It is also likely to be capable of that permanent challenge to all societies as they grow – to adapt while remaining true to themselves. If its slowly returning confidence rises to earlier levels across more of its industries than its continually spectacular automotive sector, then the lessons of this book will be needed by those again facing the mystique.

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