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Author	藤森, 三男(Fujimori, Mitsuo)
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Abstract	What is the reason behind the success of Japanese corporate management? We need to approach this by separating the capital, facilities and technology as the hardware that could be transferred, and those factors such as socio-cultural factors unique to Japan which are difficult to transfer. The bridge that connects the social-cultural factors and the hardware, we will call the social soft ware. Corporate management is building a social software that matches the hardware, namely the facilities and equipment with the society and culture. Japan's corporate management's software is governed by the uchi society's structural principle which is based on long term thinking. A pseudo family-like long term thinking governs the "uchi" society. The pattern of conduct of "uchi" society is not a short term one, but it is a long term give-and-take, where people return what is given to them in the equivalent amount, such as through money or through psychological form. If the "uchi" society principle is formed within the corporation, the workers and the company would be bound by long term, equal, give-and-take relationship, and the relationship will be stable. The two parties will not be governed by a short term relationship. In post war Japan, the "uchi" society is expanding in the corporate society. The "uchi society principle" has been valid in areas such as development of the workers' capacity, development of technology, and keiretsu.
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THE FORMATION OF "UCHI SOCIETY" IN JAPANESE BUSINESS

by

Mitsuo Fujimori

Abstract

What is the reason behind the success of Japanese corporate management? We need to approach this by separating the capital, facilities and technology as the hardware that could be transferred, and those factors such as socio-cultural factors unique to Japan which are difficult to transfer. The bridge that connects the social-cultural factors and the hardware, we will call the social soft ware.

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Key Words

1. "Uchi" society

2. Fukuzawa Yukichi
3. Modernization
4. Corporate management
5. "Japan's heterogeneity"
6. Industrialization
7. Western culture
8. Meiji Period
9. Social software
10. Give & Take base
11. Keiretsu

I

Whether Japan's business management is unique to Japan or that it has an international, common, and general characteristic is a matter of controversy. When the author began studying management some thirty years ago, it was often understood that "Japanese style management", that is, practices such as life time employment, seniority and company unions, were outdated as well as unreasonable; these were not in the least transferrable internationally. Rather, what emerged as a problem was the reverse—the introduction of mainly American style management to Japan. However, nowadays, there is an on going discussion regarding the transferability of Japanese style management to foreign countries. What is important in this case is the international universality of Japanese style management and the transparent nature of the system. The problem is, the formation of an efficient production system by the hands of the parties concerned based on long term negotiation, is convenient to those members; however we must respond to the indication that the "outsiders" to the system are forced into an unfair position.

What is called "Japan's heterogeneity" proposes that the Japanese system, particularly the system of business management, is administered based on a culture and set of rules that differ from Western countries, and that it can not coexist with the Euro-American system. There are several arguments against this view. The most typical source would be the "Entrepreneurial Force" published by the MITI.

"Theories on Japanese-style management are often analyzed as a peculiarity of Japanese culture and ethnicity. But this type of analysis is one-sided and tends to provoke misunderstandings. This is because it provokes feelings of rejection among Europeans and Americans without securing their understand-

ing : that 'Japanese-style management is a black hole'". This essay is an attempt to explain the dynamism of Japanese enterprises by selecting six aspects which are sources of vitality for the latter. These are top management, how to get through a given task, personnel treatment system, training within the company, capital and labor relations, and the relationship between industries and enterprises. The point is that in the end, economic rationality governs these aspects and that Japanese management is a universal system.

On the other hand, there were six provisions for improvement set forth by the United States with regard to Japan at the U. S.-Japan Structural Impediments Initiatives. (Sept. 1989) These provisions represent the hypothesis of "Japan's heterogeneity" : price mechanism, the distribution system, savings and investment, land policy, Keiretsu formation, and the practice of exclusive transactions. The U. S. government pointed out that the economic friction between Japan and United States is based on the U. S. trade deficit to Japan, and that this friction has its origins in the structural character of Japan. Hence, these provisions were set up as a basis of structural reform. These mostly concern macro-economic structures, and are not directly concerned with entrepreneurial character. However, implicitly, the structure of Japanese enterprises is regarded as the central issue. Although this was a U. S.-Japan Structural Impediments Initiatives, the issue was basically the character of Japanese enterprises.

II

It is true that Japanese manufactures are highly efficient. The origin of this high efficiency is at times sought in the Japanese culture itself as well as in the Japanese people's "reversion to the group" consciousness. This notion, that behind Japan's economic growth the culture itself exists, often becomes "Japan's peculiarity", and tends to lead to the conclusion that since Japanese culture is unique, transferring Japanese management overseas would be impossible. This notion that points out differences between the West and Japan and concludes that the difference is due to Japan's high efficiency the author calls "the theory of Japanese management's miso soup". Consumption of miso soup is a unique custom, but it is definitely not the reason for Japanese management's high efficiency.

The development of civilization can be divided into cultural and social progress, and industrial growth. Stating this in Fukuzawa style, it would be "independence and self-respect and a comfortable life, or civilization's intangi-

ble and tangible properties". For example, when discussing the issue of "modernization" there are socio-cultural, as well as the issue of industrialization. According to western style thinking, the socio-cultural model would be the French Revolution, and the hardware (equipment and machinery) model would be the British Industrial Revolution. When one discusses modernization, these two are discussed together but in Japan, they are separated: industrialization did occur but it is said that traditional value system still persist. This method of attempting at industrialization without changing the value system is called "the Japanese spirit and Western technology" or "Chinese spirit with Western learning". It was seen as appropriate to possess Japanese and/or Chinese values and culture on one hand and Western-style industry on the other. It is difficult to change culture. Rather, it is seen as something that must not be altered. Apart from the materialistic and the technical aspects, there is the notion that regarding the spiritual aspects, the Japanese are in a superior position. But the result of civilization and enlightenment of Japan differed significantly depending on which interpretation one followed; the Chinese thought was that culture and society does not change historically; on the other hand, there was the thought that one must change the character of the people into a refined state. Although it would be difficult to transfer culture and society to a foreign country, with the passing of time both of these are changeable. One could even say that the distinctive quality of a country's culture is determined by this ability to change. It is argued that Japanese culture can be changed within the historical process, and the Japanese tended not to believe in the superiority of their culture. Anciently, the Japanese dedicated themselves to the introduction of Chinese culture, then turned to western culture in the Meiji Period; based on this, the Japanese must have possessed relatively little resistance to westernize their own culture. But still, it is not possible to import society and culture the same way one would import an industrial machinery.

When attempting to construct a new industry, it is necessary to design the hardware, such as machine equipment, on top of the society and culture of that country. If society and culture lack transferability—unlike equipment and machinery—it is necessary to build some type of a bridge between the two. We shall call this the "software". Consequently, this software is unique to each country and culture, and the success or failure of business management depends upon this software. Business management is building the software between the hardware, such as machine equipment, and the socio-cultural factors.

Various conditions must be satisfied for the international transfer of capital and equipment. Moreover, conditions such as the transfer of merchandise as well as import and export must also be satisfied. This is why the Theory of Comparative Value exists. However, when comparing the transfer of equipment, capital, and merchandise to that of culture and society, one must say that the former's transferability is higher.

What kind of characteristic does Japanese society possess from business management's point of view? It is often argued that Japanese enterprises possess what is called "long term thinking". This is called the "Uchi society", and is governed by a long term family-like thinking. "Uchi" refers to the home and to the family and confronts the "soto" (outside). When a worker has a strong consciousness as a member of his company, he/she calls the company "uchi no kaisha". (our company)

In the "Uchi society", the form of conduct is based on a long term give-and-take principle. One must return what is given to him in the form of cash or non-cash. Occasionally, there are psychological give-and-take situations. These are what we call "Onn", "Giri", and "Kari". "Onn" refers to the give-and-take relationship which goes beyond that particular generation. "Giri" refers to the long term concept of give-and-take and "Kari" is the short term concept of give-and-take. At any rate, one must avoid by all means an unequal situation of give-and-take. If one does not return "Onn", "Giri" or "Kari" given to him, he would be "Onn-shirazu" (one who is unaware of "Onn") or "Fugiri" (fail in returning a favor).

The director of an organization wants the members to refer to their organization as "Uchi no kaisha" (our company), "Uchi no gakko" (our school) or "Uchi no team" (our team). For this, the director must give fully to the members in the form of cash and/or non-cash. If not, it is impossible to take from them fully. When recruiting employees for voluntary retirement as a strategy during times of recession, more employees applied than needed. This is because they feel they are not given enough and so they abandon the company. Women employees who are not part of the promotion track are often the source of complaint for their bosses due to their frequent irresponsible behavior. This is because they are not given enough salary as well as the opportunity for promotion. It is likely that the stability of post war Japanese society is due to the strong emergence of "Uchi society" in mainly the large enterprises. The importance lies in "the equal opportunity for staff and workers" (kōshokuitchi): besides the prewar college graduate employees, other factory workers entered the "Uchi society". Employees who were paid

by daily wages were now paid by the month. Because of this, there was a basis from which employees could say that the company they worked for was "our company".

If we suppose that the emergence of "Uchi society" in this enterprise coincides with the "densen style wage system of the equal opportunity for staff and workers", that would be 1946, only forty-seven years ago. Later on, there was a rapid rise in wages during the period of economic growth, and along with the growth of the entrepreneurial system, promotion opportunity were also offered. In 1985, women began to be accepted as members of the "Uchi society". The "Uchi society" is now on the road to expansion.

As argued previously, this "Uchi society" has as its basis the long term give-and-take relationship. This relationship can not be achieved if one is not given sufficient benefits. This is the reason why the "Uchi society" is limited to large enterprises. Medium and small-sized enterprises can not expect their employees' loyalty since they did not give them sufficient benefits. On the contrary, large enterprises could, in the high growth period of the 1950s and 60s, offer their employees wages with higher increase rates than the GNP growth rate, as well as promotions.

Why was the "Uchi society" formed mainly in large enterprises? First of all there is the fact that the Japanese prefer long term, rather than short term relationships. A long term relationship would mean that the mutual profit of give-and-take would be extended for a long time. The majority of the banks not only look at the balance and the asset value as the criteria for personal loans but also look at the number of years the party concerned has been a customer of that bank. The term "otokui-sama" signifies a good, long term customer. The term "one person on one business" means spending one's entire life in building a single industry; these terms imply that such a deed is fine and wonderful.

The second reason is that long term employment has brought about profit for both capital and labor. During the Taisho Era's so-called the period of the revolution of Secondary Industry, a skilled worker became a transit workman and went from factory to factory. This is not desirable on the part of the employer. At this point, life time employment, a system whereby the skilled worker was trained and employed for a long time was established. The same occurred after World War II. Because the education/training program outside the company could not catch up with the latter's technical innovations, the program was enforced within the company. Since it was a loss on the part of the company for the trained, skilled worker to leave the job, a wage

system where it was advantageous to be employed for a long term was eventually created. In this way the "Uchi society" based on give-and-take's mutual dependence, was established.

The high growth rate of the 60s not only brought about a lack of engineers but also a lack in other types of workers. The companies equipped themselves with a system for almost all workers who were employed for long term, a system where long term employment became advantageous to those workers. Life time employment, seniority, and company unions became firmly established at this time. The author feels that the "Uchi" society of the enterprise was established at this time as well. In contrast to the "Uchi" society before World War II, which was an exclusive organization of college graduate staff and skilled workers, that of the postwar period became an organization composed of all male employees who were regular workers. Based on life-time wages, the monthly salary, the twice-a-year bonus, retirement grant, and the pension — the amount of all of these becomes a central issue for the employee. Hence he is made to opt for the long term give-and-take relationship with the company. Even though the monthly salary of the current year may be low, if it is higher the following year, or if it could be compensated by the year-end bonus, the retirement grant, or the pension, the employee would be satisfied. This is because he will be employed at the present company until retirement.

III

The "Uchi" of the entrepreneurial society has various characteristics. We shall look at the internal structure of the enterprise. The top managers of an enterprise often state that the future of the company depends on the existence or non-existence of competent individuals. "The enterprise is the people themselves" means just that, and it signifies that individual capability is more highly rated than the composition of the formal organization. Thus, the development of the workers' capacity becomes the most important issue for the enterprise.

In the Euro-American style organization, the job specifications are defined by the job prescription. Then, the person who fits that duty is recruited from outside the enterprise. This type of organization is extremely efficient when the circumstances both inside and outside the organization is stable. This is because the responsibilities are clearly defined and the organization is in good shape. However, it would be impossible for one's superior to interfere be-

tween job A and job B based on the rule of exception if the circumstance is stable and the gap between the two jobs is too wide. It is necessary to restructure the organization. As opposed to this, in the Japanese type, the capacity of the employee is regarded as important. When a worker is given a job and if it is beyond his capacity, it is expected that the worker next to him might help him. Thus there emerges a psychological give-and-take between the two. The first worker would feel indebted and must express his feeling of thankfulness to the second worker. If not, the worker next to him would no longer help him. As seen, in the Japanese system, the individual capacity has priority over job specification and the latter becomes secondary. In cases where the employee has the capability, the system can better operate if the duties are not fixed. This is why Japanese enterprises are enthusiastic about the long term development of the workers' capacity. This would enlarge the so-called labor market within the enterprise.

If the "Uchi" society exists within the enterprise, and the long term give-and-take relationship between the company and the employees is formed, then employee training and development of the workers' capacity would be effective. The psychological give-and-take can only be done by a competent worker who can help the worker next to him; it is not possible for an incompetent worker to do the same. The strong point of this type of Japanese organization is that even if the environment of the enterprise changed, the system within does not need to be changed; it can adapt to the environmental changes. If continual improvement is successful, the enterprise would develop successfully.

Secondly, the Japanese entrepreneurial strategy can adapt to environmental changes more quickly than the western style enterprise. The environment outside the enterprise is subject to change, but the corporate culture and the system which should agree with it are fixed. Moreover, there exists a weakness in that the reorganization of the system takes time. The strategy is to solve the mismatch and the time lag problem of these two factors (the outside environment and the system within). If it is easy to restructure the system, then the strategy could be more easily set up.

Seiko was a mechanical watch manufacturer, but now it is a manufacturer of personal computers of the Epson brand. Mechanics must be electronic engineers, or else they would be unnecessary. Long term employment continues due to the workers' gladly or reluctantly altering the job itself. The "Uchi" society is by no means a competitive society. The mutual relationship between the workers is characterized by advice and help and once this relation-

ship is formed, the senpai (the senior) would help their kōhai (the junior) with no charge. This is because the kōhai is not the former's rival. The only thing that is expected is the kōhai's psychological dealing with respect to his senpai. The senpai must be treated as a senpai by his kōhai.

When planning new products and new production methods, the teamwork would go well if engineers, technicians and workers were all members of the "Uchi" society. In Japan, the skilled worker of a factory would often give suggestions to the headquarter's design team regarding the design of a new product. Kawasaki Steel received an order for a steel (iron) plate from Nissan. The steel plate must be light but strong and malleable. Iron is hard, and it is strong when it is heavy, so this request was completely contradictory. The two companies, by working together, developed a soft steel plate by pressing, and succeeded in using the heat from the color painting process for aging and hardening the material. The kind of joint process is only possible through a long term relationship between the two companies.

The workers were easily able to form a team due to the formation and the expansion of the "Uchi" society, but we must give credit to the fact that Japanese society itself has become more stable. One of the factors of Japan's economic growth is the formation of this "Uchi" society within the enterprise, especially large enterprises. On the other hand, when its expansion is insufficient and does not become international, a serious problem of friction results. There will be serious issues such as whether workers in overseas branches could be treated as members of "Uchi" society or not, and whether or not those workers would act based on a principle which would equalize the long term give-and-take relationship. If this is successful, Japanese style management would be a successful case of "Uchi" society's international expansion; if not, it would be an object of psychological rejection as a society with a different set of rules. Whether Japanese society will expand or be rejected, that will be the issue. The international transfer of Japanese style management depends on first, whether or not the enterprise can give enough to its workers, that is, whether or not foreign workers would be accepted as members of the "Uchi" society and secondly, whether or not they will accept the long term give-and-take relationship, in other words, the present may not be suitable for "taking", but it will be done in the future, that is, whether or not one is prepared to "pay back" what he was given. Finally, the international transfer depends on whether or not a "software" can be developed, a software that fits the society and culture of the receiving country, which is different from Japan.