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# Japanese *Uchi* Society— And its Historical Relationship to Japanese Management

By  
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## Abstract

Japanese management that has led the national economic growth achievements in the short time since the 1960s has been positively and negatively evaluated by critics. Nevertheless, the essence of its success continues. Economic success is based upon the correct combination of technology and social systems that exist in a country. It is the management style that binds these together and differs according to the nature of the surrounding society. The authors define Japan as an, "*Uchi* Society" that is well blended with its evolved management methods. "*Uchi* Society" is based on give-and-take relationships that hold valid among its members like strong family ties.

In this paper the authors show that Japanese corporate management philosophy is deeply related to the concept of "*Uchi* Society" and present illustrative cases from the late *Edo* to *Showa* periods (17<sup>th</sup> to mid-20<sup>th</sup> centuries).

## Key Words

*Uchi* Society, *Uchi* (inside), *Soto* (outside), long-term *Kashi-kari* (give-and-take) relationship, *Iye* (household/family), *On* (obligation), *Giri* (responsibility), relationship of master and follower, employment practice, long-term employment, seniority system, modernisation, Japanisation, *Wakon-Yosai* (Japanese spirit with Western technology), *Iyemoto* (head house) system

## 1. Foreword

Japanese corporate management style attracted international attention as a result of its rapid postwar economic development. The 1936 Fortune Magazine compiled a "Special Issue on Japan" and suggested the concept of "Japan Incorporated" and pointed out that the Japanese industrial system clearly differed from that of Europe and the United States<sup>1</sup>.

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<sup>1</sup>Here, very large-scaled family companies (in other words, the *Zaibatsu* of that time) such as Mitsui and Mitsubishi are discussed, and this is different somewhat from "Japan Incorporated" theory of the postwar, which is the argument that explains Japan's rapid growth resulting from the industrial policy through the unity of bureaucracy and private sectors (Terashima, Jitsuro., *Futatsu no "FORTUNE"* (Double Fortune), Tokyo; Diamond-sha, 1993).

Since 1955 when James C. Abegglen inspected a number of Japanese factories and pointed out the characteristics of Japanese employment practices such as “lifetime commitment”, the recognition of Japanese management as being different from that of the Western countries began and has continued until today. There have been various arguments as to whether this difference is a characteristic of Japan only, or if it could be universal, and as to when the origin of Japanese management begins<sup>2</sup>.

Japanese management methods have been evaluated positively and negatively arguably as a direct reflection of the economic and political status of the unilateral relationship between Japan and the United States. Apart from academic appraisals, Japan was ignored as a competitor before 1970. At that time, the main academic activity was introducing American management methods to Japan. Japanese management style was positively evaluated during the 1980s at the time the United States was troubled by its triple deficits of national budget, international balance of payments and price levels. Japan has again been in a negative light after the economy was troubled by the recent aftermath of the Bubble Economy. The important point is that no matter how Japanese management style is evaluated, its essence appears to remain unchanged. In corporate management, this essence has been continuously and productively employed in many ways.

What role does corporate management style play in industrialisation? Putting an end to the isolation policy of the *Edo* period before 1859, Japan opened the country and carried out modernisation by the introduction of various facilities, technologies, as well as institutions from foreign countries. However, they did not become the same as the West. The value system remained Japanese while industry became Westernised. It is during this period that the motto “*Wakon-Yosai*” (Japanese spirit with Western technology) took form. After World War II, the introduction of a Western style system was attempted widely by sending numerous study groups overseas by the Japan Productivity Center. While some types of introduced Western institutions achieved success, others needed to be adapted to fit with the Japanese environment. In other words, during the first stage of development, Japanese industry was established based on its own society and culture with the addition of transferable Western (hardware) facilities, such as technology and institutional forms. In the process, it can be said that the major role of corporate management was to build the organisational software that allows social and cultural peculiarities (special characteristics of each country) and technology and institutions (which are common to all countries) to fit with each other<sup>3</sup>.

In any country, during the developmental stage, this type of dual process is necessary. There is a theory that just as Japan attempted an introduction of Western social system through “Japanese spirit with Western technology”, the Chinese and Koreans also adopted the same methodology incorporating their own national spirit.

According to Yukichi Fukuzawa<sup>4</sup>, a civilisation consists of both an external form and the spirit inside. The externals are visible items such as technology and the hardware facilities that are related to supporting “a comfortable life”, while the spirit is related to emotional matters “of the heart” or culture. It was Fukuzawa’s belief that

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<sup>2</sup>Relating to the so-called “Japanese style management”, these arguments were discussed by Ryushi Iwata, Masumi Tsuda, Kunio Odaka, Hiroshi Hazama, Kazuo Koike, Tsuneo Iida, Kuniyoshi Urabe and so on.

<sup>3</sup>See Drummond, Damon., “A Model for Comparative Management and its Application to Australia and Japan,” *Keio Business Review*, No-29, 1992, pp.145-156.

<sup>4</sup>Yukichi Fukuzawa was a representative opinion leader of Japanese modernization in the *Meiji* period.

a true civilisation could not exist until both the spirit and the external environmental form were synchronised like two wheels of a vehicle. Therefore, at that time, Fukuzawa stated that Japan had yet to reach civilisation as a nation, the external environment was clearly in place but the spirit of society was yet to be harmonised with it<sup>5</sup>.

Here it is implied that the external factors can be easily transferred between one civilisation to another, but the spirit is indigenous and cannot be readily adapted to fit elsewhere. In order for developing Japan to become a civilised nation, the external form and national spirit of the society needed to be enmeshed together. However there was a serious impediment to this societal change. That was the period doctrine of “*Bunmei Kaika*” (civilisation and enlightenment) which proclaimed that Japan should become fully Westernised both materially and spiritually, however, this was incongruent with the significance and importance placed upon Japanese national identity.

In that period, the term “the East” was often used to refer to Asian countries. This is an antonym the term “the West”. This phrase’s underlying meaning became important to the Japanese. It was realised by both intellectual and political leaders during the *Meiji* period (1868–1912), that if Japan did not assimilate to “the West” within a short period of time, it would possibly also become a colony of a foreign power as many of its regional neighbours had succumbed. There was an acute consciousness that Japan must learn from the West quickly. Opposing this was a strong anti-Western movement called “*Jyoi*” (anti-foreigner). Thus, the modernisation in Japan was achieved by the superficial introduction of Western methods and learning, but, simultaneously, it was an interested learner that below the observable surface maintained anti-Western sentiments.

The popular *Meiji* period saying, “*Wakon-Yosai*” (Japanese spirit with Western technology), is evidence of Japan’s strength of will as a developing country through the introduction of Western technology while maintaining its Japanese identity. This is because the spirit of civilisation from Western countries could not be wholesally accepted, therefore a way had to be found to connect the externals introduced from Western countries to the existing internal Japanese indigenous spirit.

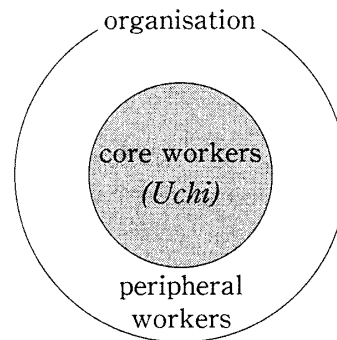
The above signifies that even if technology and systems can be common to all countries, the society and culture are unique and naturally differ. This is also true of corporate management, which adapts the former to the latter through various software applications.

How have Japanese companies been managed until now? This paper proposes that *Uchi* Society has been incorporated skillfully into Japanese corporate management style since the *Edo* period and still exists today. Although the “software” has gradually changed its shape and form with time, Japanese corporations have always made use of the characteristics of *Uchi* Society. The authors endeavour to examine this phenomena, presenting representative examples from the later *Edo* period through to the late *Showa* period<sup>6</sup>.

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<sup>5</sup>Fukuzawa, Yukichi., Tsuchihashi, Shunichi., Eds, *Gakumon no susume* (An Encouragement of Learning), Tokyo; Kodanshabunko, 1972, p.50. Fukuzawa, Yukichi., Matsuzawa, Hiroaki., Eds, *Bunmeiron no gairyaku* (An Outline of a Theory of Civilization), Tokyo; Iwanamibunko, 1995, pp.32–33, Maruyama, Masao., *Bunmeiron no gairyaku wo yomu* (Reading An Outline of a Theory of Civilization), Tokyo; Iwanamishinsho, 1986, Vol.1 pp.126–127.

<sup>6</sup>This paper uses the classification by the name of periods; *Edo* (1603–1867), *Meiji* (1868–1912), *Taisho* (1912–1926), *Showa* (1926–1989).

Figure 1 *Uchi* Society

Notes) Organisations (such as *Iye* (households)) and corporations exist within the outer circle. The shaded portion is the *Uchi* Society. The organisation may consist of both members of the core *Uchi* Society and other peripheral members. The latter are only quasi-members of the *Uchi* Society. Those persons unrelated to the organisation are obviously totally *Soto*.

The *Uchi* Society is a society where long-term, give-and-take relationships exist in equilibrium; *Uchi* (inside) signifies household or family, which is an opposite term to *Soto*(outside) (see Figure 1). Within the *Uchi* Society, the give-and-take relationship, including psychological and extra-monetary matters (long-term give-and-take equality principle), between two persons is maintained equal on a long-term basis. Between the two persons, one person gives what is profitable to the other, but at the same time, tacitly expects something in return at some point in the future. One or both of the two parties to this arrangement can be a group or an organisation. In addition, there is a clear distinction between *Uchi* and *Soto*. Further, the rules of the give-and-take relationship only hold validity within that societal group.

## 2. Management from the *Edo* through to Early *Meiji* Period

### (1) Kizaemon Aruga's Research on the Japanese Family System<sup>7</sup>

In Japan, the *Iye* (household) system<sup>8</sup> has been the main social system since the *Edo* period (17th century). It is thought to have had a significant effect on the evolution of Japanese corporate management<sup>9</sup>. Here the *Edo* period and early *Meiji* period based on Kizaemon Aruga's research will be examined.

There are two major reasons for presenting Aruga's research that examines the Japanese family system from the *Edo* to early *Showa* period, especially in relation to the rural village communities. First, Aruga in his research explains how during the *Edo* period most people were employed in agrarian related work, forming a typical

<sup>7</sup>The research below refers to Aruga, Kizaemon., *Aruga Kizaemon Chosakushu* (A Collection of Masterpieces); I *Nihon kazoku seido to kosaku seido (jyou)* (Family System and Tenancy System in Japan (Vol.1)), 1966, IV *Houken isei to kindaiika* (Heritage of Feudalism and Modernization), 1967, IX *Iye to oyabun kobun* (*Iye* (household/family) and Master-Followers), 1970, Tokyo; Miraisha.

<sup>8</sup>"*Iye*" is not the same as the Western conjugal family, but the institutional concept that *Iye* exists over each individual life in the family.

Japanese societal group in a rural community. Second, he relates the periods how much merchants and craftsmen households both shared in common with agricultural households<sup>10</sup>. It is important to understand that the family system in agrarian villages was at the pivotal center of management in order to enable us to study the evolution of management of commerce and handicrafts manufacturing.

According to Aruga, in the *Edo* period, the individual household was a unit of living within the society that assured the livelihood of its members. This does not simply come from the function of the family itself (assuring the livelihood and autonomy), but arises from the relative structure between the family and politics (the absence of social policy) as well as the economy (a low standard of living) in the overall society. Because of this, the continued existence of the family was an important goal. The *Iye* (household) was essentially a community of livelihood; for the military family (*Buke*) this was in a form called the "*Kachu*", for peasants, the "*Maki-kabuuchi*", and for merchants, "*Noren-uchi*". The characteristic of the *Iye* was that the family members included those who were not related by blood.

The strong desire for the continued existence of the "*Iye*" made a clear distinction in the family members between direct descendants and collateral relatives. The former referred to people who were directly responsible for the continued existence of the *Iye*, not always relevant to the kinship lines. On the other hand, the latter were not only devoted to the continuation of the *Iye* but were subject to the members of the direct line and had low social status, and lined with the possibility of leaving the family in the future. Accordingly, much importance was laid on the male inheritor of the direct line, while the status of women was low. Regarding those not related by blood, the status of those who served through long-term employment with respect to the master was frequently equivalent to collateral relatives. Side (branch) families also existed and they were treated as sub-family members (employees) and eventually had the possibility of becoming full members. The number of family members was limited to a relatively few, but various status relationships were included within it. The *Iye* (household) existed as though it were a small corporate body with the continued existence of the family as the supreme objective. Each of the members, with the family head as the core, held it as the highest ethic to devote his/her entire mind and body to the corporate body.

Furthermore, it was an important characteristic of households that a master-and-servant relationship and its obligatory social code (*Giri*) amongst the members existed. The master-servant relationship in the household meant that the family members constituted a common-interest group where the meek followed the powerful, gaining a certain security of livelihood in return for their whole personal and entire familial

<sup>9</sup>The "*Iye*" and family system of the *Edo* period is said to be the origin of corporate organisation in Japan. For example, according to Kunio Odaka, the form of Japanese management originated in the mid-*Edo* period, with the actual application of the value concept of the collectivism emphasised in the household which has the characteristic of a common destiny (Odaka, Kunio., *Nihon teki keiei* (Japanese Management), Tokyo; Chuokoronsha, 1984, pp.55-56). Tadashi Mito explains Japanese management in contrast with that of overseas, using the "logic of *Iye* (household)" (the logic of the organisation created by the Japanese and the system of organizational rule), which exists at the bottom of the structure of Japanese society and the form of Japanese behaviour. He states that the *Iye* is defined as the long-term economic community which is prevalent as a result of the unity of management and household economy. The *Iye*, prevalent for 300 years during the Tokugawa period (1603-1867), formed the Japanese tradition. (Mito, Tadashi., "*Iye*" *toshiteno nihon shakai* (Japanese Society as the *Iye*), Tokyo; Yuhikaku, 1994, pp.10-11, p.62).

<sup>10</sup>Tominaga, Kennichi., *Nihon no kindai to shakai hendo* (The Modernisation of Japan and Social Change), Tokyo; Kodansha, 1990, p.313.

contribution to the household. During the *Muromachi* (14th-16th century) and mid-*Edo* periods, this master-servant relationship was recognised as a distinct family unit both in the rural and urban communities. It was a commitment by the membership of the entire family that they would serve unselfishly together. In rural communities after the late *Edo* period, the master-servant relationship became a rather personal relationship (unselfish and totally loyalty). This relationship gradually declined during the *Meiji* period through to the end of World War II. In the rural areas the family system was replaced by the agrarian cooperative group. A different type of development was seen in the urban areas, as the large commercial families became the *Zaibatsu* (financial holding companies) of the *Meiji* period and/or developed into large corporations after the Second World War. Here the personal master-servant relationship between the employers and the employees continued to function internally like the protective relationship given in the employees' *Iye* (household), although visibly it changed into a much more personal relationship like that of master-servant relationship that existed previously in the rural areas.

For the continuance of the family, the social code *Giri* (obligation) played an important role as a behavioural principle which governed the social relationships in the household. The *Giri* means fulfilling a specific responsibility in human relationships and it was a norm in the internal family relationship to be maintained on a long-term basis. This *Giri* extended to the various inter-relationships (superiors-subordinates, colleagues, relatives, neighborhood-village relations, etc.). It was the so called *On* (obligation) that co-existed as *Giri* in every *Iye* (household) such as the *Kachu*, *Maki-kabuuchi* and *Noren-uchi* during the *Edo* period. The *On* originally signified that a master of high social status bestowed benevolent favours upon subordinates, and the significance of this was considered so large that no matter how much commitment was given from the subordinates, it could not match the significance of that given by the master.

This *On* (obligation) also was used to refer to the loyalty towards the master (Emperor, *Shogun*, feudal lords, employers and so on) as *Chu* (loyalty) and that towards one's parents as *Ko* (filial piety). The *Iye* (household) system with *Giri* (obligation) relationships lasted beyond the *Meiji* Restoration period. If the *Noren-uchi* (merchant-house) was relatively small in size, it took the form of a family business, and if it was large, it became a family share holding company some developing later into *Zaibatsu* (financial holding houses or cliques), becoming during the prewar *Showa* period the centre of power in the business world. Furthermore, Aruga points out that although the large corporations were able to move away from the family basis after World War I, the salaried employees who were employed there maintained a *Giri* (obligation) mentality. This became the basis of a continued form of *Giri* in the larger corporations.

## **(2) Management in the *Edo* & Early *Meiji* Periods**

As previously highlighted to the researcher Aruga, it was within the *Iye* (household) that evidence of management practices could be found during the *Edo* period and early *Meiji* period ("*Gemeinschaft*" type of management). Within the *Iye*, "*Kashi-kari*" (give-and-take) relationships were established with the direct members as the centre therefore assuring the livelihood of the family members, at the same time committing financially related extended family members. This was based on the expectation of a

long-term relationship and the importance of maintaining the household as an enduring objective<sup>11</sup>. For the continued existence of the household as the common interest group, a master-servant relationship was maintained where the *Giri* (obligation) relationship was the norm within the family. This *Giri*, took a form as mentioned earlier. A person may lack *Giri* towards members outside the family but a servant could not do the same towards his/her own master. From this, it can be said that the *Uchi* Society was managed in the form of *Iye* (household) in these periods.

### 3. Management after the *Meiji* and *Taisho* Periods<sup>12</sup>

#### (1) The Management of *Kanebo* Ltd<sup>13</sup>.

Japan was opened to the outside world during the *Meiji* period and achieved industrialisation objectives by the introduction of modern technology, forms of production and various economic systems. An examination of *Kanebo* Ltd. as an example of this achievement demonstrates the utilisation of post-*Edo* period management styles. *Kanebo* was established in the early stages of the introduction of capitalism to Japan and has prospered as an example of a successful modern day Japanese founded international corporation.

There are three reasons for selecting *Kanebo* as an example. First, the textile industry played a key role in the pioneering light industrialisation of Japan during *Meiji*. Second, a large number of the employees in the textile industry were comprised of young workers and unmarried women from rural areas. The textile industry represented by *Kanebo* formed the original labour relations model that other corporations adopted. Finally, *Kanebo* has successfully continued to grow into a large representative corporation as is today.

Around the turn of this century, every textile company was troubled with the high factory workers' mobility (approximately 70%) as well as recruitment difficulties. Women laborers from rural areas worked on a short-term, migrant basis to assist their rural households. The working conditions, environment and labor management systems were under developed. In these circumstances, Sanji Muto, President of *Kanebo* from 1894, established a unique labor management arrangement. This system was adapted from Western practice. For example, Muto set up a "Suggestion box" system as recommended by an American manufacturer in order to collect the opinions of the workers. He introduced a house newsletter and honour system, which were the first in the country, and introduced a company-wide welfare system, the "*Kanebo* Cooperative Society", which established a health insurance system idea modeled on a German Steel Company. The most important point is that Muto introduced a Taylor's styled scientific management system. *Kanebo*'s "Scientific Method" (measuring work efficiency) was enforced in 1912, the concept of standard motion was introduced. Muto was a management pioneer whose methods became a model for many Japanese corporations

<sup>11</sup>For example, the collateral members make a commitment to the household before splitting from the original household at the age of approximately 40, yet still continue to cooperate with the head family even after the split.

<sup>12</sup>*Meiji* (1868-1912) and *Taisho* (1912-26) Periods

<sup>13</sup>The following research refers to *Kanebo hyakunenshi* (Centennial History of *Kanebo*) edited by *Kanebo*, Ltd. History Editing Room, *Kanebo* Ltd., 1988.



after the middle of the *Taisho* period through to post World War II.

More important is the fact that Muto created a unique labor management style which did not exist in the West. It was a spiritualistic management that was coupled with the scientific management systems which resulted in a very productive result. This method relied on the quality of work and the maintenance of worker spirit. Furthermore, “family-style management” practices were put in place. Corresponding to the positive aspects of the traditional Japanese family system, Muto resolved to make the management structure of the company become a harmonious entity like that of a family. In addition to this, he established “Workers Support Facilities and Utilities” in order to meet the daily needs and expectations of employees. This included policies covering employees’ education, clothing, food, housing and recreation all of which are a part of employees’ compensation packages with the exception of wages.

In evaluating Muto’s management efforts, *Kanebo* itself has said the following<sup>14</sup>:

Sanji Muto’s humanitarian labor management was not only a simple paternalistic matter but a management philosophy that was practised to realise the corporation’s rational goals of how to make more profit.

Muto’s basic management philosophy had been for many years a family style approach as the ‘*Kanebo* family’. Here, the corporation acts as if it were a family, and the employees, both labor and management, are all family members; there was a spirit of fellowship as all interests, hardships and happiness were shared. This spirit has been *Kanebo*’s traditional foundation until today.

The management system that Muto established became the firms guiding management culture encouraged even now under the banners of “family type management, humanitarian love and justice” and “scientific management, scientific rationalism”. Further, Shingo Tsuda, who was President of *Kanebo* from 1930 to 1945 promoted the idea that the corporation exists for the benefit of society and nation. This “service to the society and nation”, together with the previous two points forms *Kanebo*’s three major management principles.

While the prewar labor management system was conducted mainly through welfare and dormitory administration, labor management after World War II was a modernised system, mostly performed by supervising employees in the workplace. For example, there was the active introduction of American management techniques by the industrial sector led by the Japan Productivity Center. However, in many cases those American management techniques were utilised only after some degree of adaptation and ‘Japanisation’. A typical application is the labor unions. After the war, with the establishment of the Three Major Labor Laws, which included the Labor Union Act (1946), labor unions were reorganised in Japan. Unions were created not by industry as in the West but by the company and were made up of all classes of staff and factory workers<sup>15</sup>. In the case of *Kanebo*, it was the managing class, rather than the workers, who actively promoted the organisation of the company union, thus a new style of labor management system began in Japan.

<sup>14</sup>ibid., p.62, p.210.

<sup>15</sup>The joint participation of staff and workers is already seen in the “Dai Nippon Industrial Patriotic Association” (1940) as an opportunity of the establishment of company union involving joint participation by both staff and workers in the postwar. (Yoshikawa, Eiichi., *Nihonteki jinji roumu kanri* (Japanese Personnel Labor Management), Tokyo; Yuhikaku, 1982, p.55).

After the war, the textile industry was troubled by a continual series of recessions. However, *Kanebo* did not lay off its employees keeping in mind one of its management principles, “humanitarian love and justice”, and achieved its recovery under the catch phrase, “the prosperity of the company is the employees’ happiness”. From this, labor and management relations realigned into a spirit of common and shared destiny. One of the concrete forms of this ideology can be seen in the employee stock ownership plan (1970). Another outcome was the management participation plan with labor and management as partners, modeled on a German plan. In regard to labor-management relationships and the establishment of a management participation method, *Kanebo* sees this as being “the epoch-making and leading basis of *Kanebo*’s postwar management”<sup>16</sup>.

At the 1987 Centennial Celebration of *Kanebo*’s foundation, its Chairman, Jyunji Ito outlined three points that kept the company prosperous: (1) the virtues of *Kanebo*’s Three Management Principles (2) the company’s pioneering spirit, and (3) the concept of common destiny, that is, “*Kanebo* is Our Home”—this is reflected in the spirit of family, the solidarity of management and labor, and the prosperity of the company being the prosperity of the employees, and visa versa<sup>17</sup>.

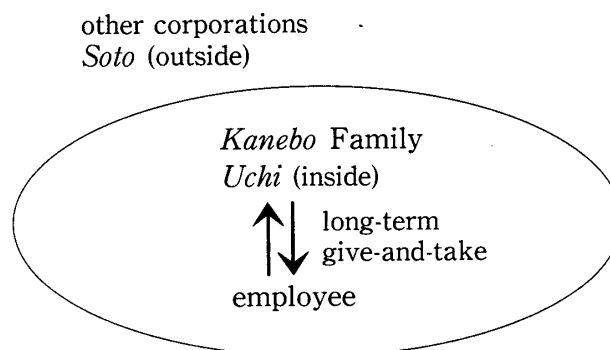
## (2) Management after the *Meiji* and *Taisho* Periods

When examining *Kanebo*’s management, it can be seen that while they had actively adopted various management techniques from Western corporations, they did this by adapting them to fit with Japanese society. What is most important is that *Kanebo*’s management had been using “family-ism” in order to improve its management efficiency. This is totally different from Western management approaches.

As we have seen, the *Uchi* Society was managed in the form of *Iye* (household) in the *Edo* and early *Meiji* periods. It can be also said that management became successful by making use of *Uchi* Society or “*gesellschaft’s gemeinschaft*” type methods (see Figure 2).

In other words, the *Kanebo* management regarded the company as one family (*Uchi*—inside) and distinguished their own employees from those of other companies (*Soto*—outside). Through spiritual management and family-like administration they

Figure 2 Long-term Give-and-take in *Kanebo* Ltd.



<sup>16</sup>*Kanebo hyakunenshi* (Centennial History of *Kanebo*), op. cit, p.790.

<sup>17</sup>*Ibid.*, p.944.

provided employees with facilities and conveniences to support their daily needs beyond just wages. This style of management reduced employee turnover and resulted in high morale and productivity advances. Furthermore, after World War II, by maintaining harmony in labor-management relations and promoting the catch phrase “the prosperity of the company is the happiness of the employees”, labor and management were mutually bound together on a long-term basis. Even if wages were lowered in times of recession, there were no employee lay-offs, which became an important psychological security for the workers. In response, employees worked together in order to enhance the company’s ability to recover quickly. Here again, the long-term, give-and-take relationship is seen at work. The size and extent of the *Uchi* Society here is even larger than that of the *Iye* (household) of the *Edo* and early *Meiji* periods.

## 4. Management after WWII

### (1) Japanese Management based on Abegglen’s Research<sup>18</sup>

With the end of the Second World War, modernisation of corporate management was sought, and democratisation policies such as the dissolution of the *Zaibatsu*, replacement of *Zaibatsu* tainted managers, agricultural land reform, and the Three Major Labor Laws were implemented. Western management methods were again actively introduced into Japan through the Japan Productivity Center and other methods.

What was Japanese management like during this period? James C. Abegglen considered corporate management in postwar Japan by inspecting a total of 19 large factories and 34 small factories over a period of a year and a half around 1955.

Abegglen’s research is useful here because: (1) it comments on the changes in Japanese corporate management and Japanese factories during the *Showa* transition and postwar period, and, (2) it is early research that demonstrated that Japanese employment practices were significantly different from that found in the West.

Abegglen was the first to point out lifetime commitment as a characteristic of Japanese corporate management. He found that the permanent relationship between employee and firm imposed reciprocal obligations and responsibilities on both the company and worker that were of a different nature than personnel practices of the United States. In particular, he pointed out that the company had full ongoing responsibility for the salary of all its employees until retirement. Further, in the interests of the national economy, the company and management had the duty to employ as many people as possible at all times. In addition, the wage compensation system extended to include the daily life needs and necessities of the employees. For example; (1) the wage system itself; (2) extra-monetary benefits (finding a job after retirement, welfare programs, company-paid housing, medical care, family allowance); and (3) a retirement allowance system. Abegglen also points out that Japanese management had a considerable responsibility to the workers extending beyond just the workplace.

This type of exchange of obligation and responsibility is referred to as something of the nature of the further involvement and commitment of worker. The company could

<sup>18</sup>The research refers to Abegglen, J.C., *The Japanese Factory – Aspects of its Social Organization*, The Free Press, 1958.

be appreciated by examining the extent to which the company and its activities and programs penetrate the life of the worker far beyond the work situation itself.

As for the worker in return devotes his full working career to the company. The system of rewards and career varies depending to a large extent on personal and non-economic factors (e.g. age, academic career, number of dependents). Because of this, the attitudes of Japanese employees to employment clearly differ from that of American their counterparts. In Japan, employees perceive that a good manager should be involved in the various personal problems of employees, dealing with his or her employees as a father who looks after his children<sup>19</sup>.

Moreover, the company also accepts responsibility and commitment far exceeding the specific demands as an economic organisation, and the same was expected from its workers. Examples of this include: providing employee housing, intervening in human relationships in the employee housing community (e.g., between employee's wives), supporting children's education, organising company festivals and so on. As stated previously, there were a loyalty to the group and a mutual exchange of responsibilities—a system of shared obligations—in addition to the normally expected Western economic basis of employment of the worker by the firm.

Furthermore, Abegglen explains in detail that it would be accurate to describe the Japanese system as paternalistic or feudalistic, and that the Japanese system was a system in which the exchange of obligation and responsibilities inherent in any group interaction could not be discharged solely by a monetary exchange. These are, for example, food, clothing, housing, medical care and education. This statement does not say that the factory organisation is an extension of the Japanese family organisation rather that both the family organisation and factory organisation are components of a common social structure. Consequently, such a system of social relationships within each organisation has a common structural foundation.

At the time, the development of industrial Japan had taken place with much less change from the kinds of social organisations and social relations of pre-industrial or non-industrial Japan than would be expected from the Western model of the growth of an industrial society. It can be concluded that although the pre-industrial experience of the West may indeed have been the necessary cause of the development of Western industrialisation, the introduction of industry into a society like that of Japan, which did not share these earlier experiences and has a markedly different social system, makes necessary the fitting of the industrial mechanism to the earlier social system.

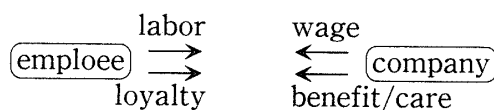
## (2) Japanese Management around 1955

There was a keen interest taken in American rational management thought during

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<sup>19</sup>Abegglen did not survey this quantitatively. However, there is a research about national traits of the image employees have of their bosses, which was conducted every five years from 1953 to 1993 (National Survey by The Institute of Statistical Mathematics). This survey asks which section head A or B would be supported at the workplace: Section head A (he would not demand his employees to perform an unreasonable task by breaking the rule, nor he would take care of the employees on matter other than work) and section head B (at times he would break the rule and demand his employees to perform unreasonable task, but he would also take care of the employees on matters besides work: humane manager). The corporate manager which Abegglen states as "looks after his employees as if a father looks after his children" nearly corresponds to this humane manager. In the survey over 40 years, the support rate of the humane manager has been constantly very high at 77%-89%. This is a contrast to the result of the same survey in the United States, which shows the almost same rate between the two section heads. Based on this survey, Chikio Hayashi considers that this tendency will remain unchanged. (Hayashi, Chikio., *Nihonjin no kokoro wo hakaru* (Survey of the Japanese mind), Tokyo: Asahishinbunsha, 1988, p.140).

Figure 3 Exchange of Obligation/Responsibility



the five years between 1948 and 1952. In the 1950s modified Japanised versions of these concepts were introduced during the postwar process of transplanting various Western systems<sup>20</sup>.

Abegglen inspected Japanese factories around 1955 during the period of introduction of these ideas and found that the Japanese adopted management methods differed significantly from those expected or practiced in the United States at the time.

There are two important aspects to this. First that in Japan there is a division of obligation of loyalty and responsibility between the employees and the company (see Figure 3). The second is that the system of relations within the family organisation and factory organisation share a common structural basis.

These two points demonstrate that even in the postwar the *Uchi* Society structure was still used as a management style. That is, the company (factory) was seen as a household/family, and a long-term relationship was formed between the company and the employees by sharing the obligation of loyalty and responsibility. Despite democratisation and the active attempt at introducing American management style, the traditional management method of the *Uchi* Society structure was indeed still valid at the time. In Abegglen's words, Japanese industrialisation had to be adjusted to the pre-industrial (prewar) social system.

## 5. Postwar Japanese Style Employment Practices

Japan, having begun its modernisation only after the *Meiji* period, achieved rapid economic development always with the objective of "catching up" with the Western countries. In that process, Japanese management style techniques were considered to have played an important role. There have been various widely discussed controversies about this Japanese management style; among others the lifetime employment system, the seniority system and the labor union have been called the three "Sacred Treasures" of Japanese management. In these three, the lifetime employment system and the seniority system were no more than employment practices that were regarded to have been established in the 1950s and 60s. When a company hired a regular employee as a core worker, there was no official contract regarding lifetime employment or seniority. However, both the company and the hired worker tacitly expected these practices as valuable. The authors shall now look more carefully into these two practices as characteristics of postwar management methods. This paper intends to make it clear that the concept of the *Uchi* Society has been continuously used in Japanese employ-

<sup>20</sup>For example, Tsuchiya, Moriaki., "*Kigyō keiei no kindaika—nihonteki keiei kakushin no mosaku* (The Modernisation of Corporate Management—the Search for the Renovation of Japanese Management)", Kobayashi et al., *Nihon keieishi wo manabu III* (Learning Japanese management History Vol.3, Tokyo; Yuhikaku 1976, p.294, Hazama, Hiroshi., *Nihonteki keiei no keifu* (The Genealogy of Japanese Management), Tokyo; Bunshindo, 1989, p.254, Yoshikawa, E., *Nihonteki jinji roumu kanri* (Japanese Personnel Labor Management), p. 62.

ment practices.

### (1) Long-term Employment

Lifetime employment, as we mentioned before, was first recognised by J.C. Abegglen. At the time he pointed this out, the average life expectancy was short and lifetime employment meant literally a “lifetime”. However now that the life span has grown longer, both the company and the employees expect and hold as an ideal that the company will employ the employee *until retirement*. Since there is no clear contract between the employer and employee regarding lifetime employment, it can be said that it is no more than a practice of *long-term* employment where the company hires the employee for a long time<sup>21</sup>.

Since long-term employment is a precondition, the company hires new graduates fresh out of school, educates and trains them within the company throughout their careers. Even when the employee faces dismissal before retirement age due to management reasons, the company would arrange a job at an affiliated company, and in some cases, offer a job after retirement. Because of this, long-term employment determines related management policies (in-house training, retirement system, retirement allowance, seniority wage system, etc.). This long-term employment, however, applies almost only to male regular (core) employees. As a characteristic of this system, there was always paternalism present, as well as economic rationalism where the sufficient merit of long-term employment exists. Further, the seniority system (in wage and promotion) and a pyramid-shaped personnel structure are maintained, and the labor-management relation becomes stable<sup>22</sup>.

### (2) Seniority System

The various systems of labor management which are generalised as the seniority system contain a promotion system based on seniority, a workplace order based on seniority, training of skilled workers, a qualification system that accepts seniority as a system, and furthermore, a seniority salary table that awards seniority or longer service to the company<sup>23</sup>.

The seniority system can exist only with long-term employment as its basis and it can itself stipulate the systems such as the regular raise, retirement and retirement allowance. The preconditions for the system are: the improvement in the working ability according to the length of the service, a pyramid-shaped personnel structure, and the low salary of the young workers at the bottom.

### (3) Origin and Establishment

These practices are applied only to part of the employees in part of the companies. Furthermore, even if these practices do not appear in actual shape as a system, they

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<sup>21</sup>Thus, this interpretation differs from the argument (e.g., Kazuo Koike) that the lifetime employment is not a characteristic of Japanese management since long-term employment is statistically held in US corporations. In American corporation, the employment for a long-term results from seniority applied only at the time of lay-off; consequently neither the corporation nor the employees expect or hold as an ideal employment until retirement.

<sup>22</sup>Hazama, Hiroshi., “*Shushin koyou kankou* (Lifetime Employment Practices)”, Chujo, Takeshi., Kikuno, Kazuo., eds. *Nihon roumu kanrishi 1 koyou sei* (Japanese Labor Management History Vol.1 Employment System), Tokyo; Chuokeizaisha, 1988, pp.23-27.

<sup>23</sup>Harada, Minoru., Okubayashi, Koji., eds. *Nihon roumu kanrishi II nenkou sei* (Japanese Labor Management History Vol.2 Seniority System), Tokyo; Chuokeizaisha, 1988, p.1.

may well become fixed as a concept. Therefore, interpretations differ among researchers as to how much in quantity and quality these practices have prevailed. To understand the quantitative and qualitative affects, we shall examine the origin and establishment of the customs of long-term employment and the seniority system.

The origin of lifetime employment can be seen in the merchant households of the *Edo* period<sup>24</sup>. In the latter half of the 19th century when corporate management began, some of the large corporations put into practice the concept of lifetime employment, because the companies were gradually struggling to secure a labor force that could have easily moved from company to company<sup>25</sup>.

Until 1920-30s, direct employment by a company for the core factory workers, long-term employment of staff and seniority wage system in part of the large corporations were gradually formed. The difference in status between staff and workers became to be diminished before and during the Second World War, while long-term (lifetime) employment tended to be increasingly adopted, and the regular raise of once a year was uniformly systematised, reflecting seniority<sup>26</sup>.

After World War II, as the All Japan Electrical Power Union Type Wage System became widespread, there was no longer any distinction between staff and workers, and they all came to be called employees. At the same time, American style management techniques were eagerly introduced. After they were more or less modified in Japanese way, the employment practices of lifetime employment and seniority system were finally established around 1955<sup>27</sup>.

<sup>24</sup>For example, Kunio Odaka, Tadashi Mito, Eiichi Yoshikawa, Hiroshi Hazama et al.

<sup>25</sup>The fact that laborers could easily move from company to company may seem to be inconsistent with the lifetime commitment in practice since the *Edo* period. However, as laborers of those days consisted of *Oyakata* (master) and *Totei* (disciples) as group members, the *Oyakata* generally moved accompanied by his disciples. These *Oyakata* and *Totei* formed the *Uchi* Society groups. Employers were interested in gaining the loyalty of the *Oyakata* and their groups to attain ongoing stability in their workforce.

Moreover in the textile industry of the 1890s, the training system of men began, starting the lifetime employment system applied to the workers (Hazama, Hiroshi., *Nihon roumu kanrishi kenkyuu* (Japanese Labor Management History Research), Ochanomizushobo, 1978 pp.286-287). According to Hazama, lifetime employment practice was already seen in government and municipal offices and in government operated factories (Hazama, Hiroshi., *Nihonteki keiei no keifu* (Genealogy of Japanese Management), Tokyo; Bunshindo, 1963, p.18).

<sup>26</sup>Yoshikawa, E., *Nihonteki jinji roumu kanri* (Japanese Personnel Labor Management), pp.50-57, Okubayashi, Koji., *Nenkou chingin* (Seniority Wage), Harada, Minoru. and Okubayashi, Koji., eds. *Nihon roumu kanrishi II nenkou sei* (Japanese Labor Management Vol.2 Seniority System), Chuokeizaisha, pp.147-156. According to Yoshikawa, regarding retirement system and retirement allowance, these systems were established around 1920 for the staff, and around 1930-40 for the workers.

<sup>27</sup>Yoshikawa and Mori maintain that these were established around 1955 (Yoshikawa, E., *Nihonteki jinji roumu kanri* (Japanese Personnel Labor Management), p.125 and Mori, Goro., *Roumu kanri ron shinban* (Labor Management Theory New Edition), Tokyo; Yuhikaku, 1989, p.249). Ujihara says the system was established in the 1950s (Ujihara, Shoujiro., *Nihon no roushi kankei to roudou seisaku* (Japanese Labor management Relations and Labor Policy), Tokyo; Tokyodaigakushuppan, 1989, p.235). Hazama says that the lifetime employment practice like that of today came into shape after World War II (Hazama, Hiroshi., *Shushin koyou kankou* (Lifetime Employment Practice), p.22). Mito regards Japanese management was formed and systematised before and under the wartime structure during the Second World War (Mito, Tadashi., "*Iye*" *toshiteno nihon shakai* (Japanese Society as the *Iye* (household/family), p.161). Okubayashi considers the seniority system established around 1960 under negotiations between labor union and management (Okubayashi, Kouji., *Nenkou chingin* (Seniority Wage), p.152). Haruo Shimada has a different view in the following way. The origin of lifetime employment practice date from 1920-30s, between the two World Wars. As for the wage practice, before the Second World War, the practice based on the school career and the length of employees' service was applied only to part of employee such as staff and workers of a part of large corporations. Consequently, Japanese employment practice such as the lifetime employment practice and the seniority system became to spread among not only in large corporations but in medium sized companies and part of minor enterprises, and fixed in 1960-70s as a generally accepted idea in Japanese society, making a lever out of rapid economic growth. (Shimada, Haruo., *Nihon no koyou* (Employment in Japan), Tokyo; Chikumashinsho, 1994, pp.48-54).

#### (4) Postwar Management

Despite the above varying arguments about the order of events, it is clear that the employment practices that originated in the *Edo* merchants' houses were modified and generally maintained by later evolving corporations and industries. Corporations and industries also introduced "correct and improved" techniques and systems from outside the companies or overseas, at the same time fostering the developed practices of lifetime (long-term) employment and seniority systems. This was done in order to meet societal expectations that had existed since the *Meiji* period. Various surveys show that in the postwar period, these practices continued to prevail the consciousness of both the managers (or the personnel managers) and the employees<sup>28</sup>.

There are two important facts in the formation of these practices.

First, employment practices are maintained with continuous modification even though they often pose significant problems<sup>29</sup> due to the rapid growth and environmental change of the Japanese economy and companies. Each company has been partially adopting, based on its own judgment, these practices and systems of employment and reward for example, by adding post-allowances and merit systems to the seniority wage. Therefore, these employment practices are not standardised amongst all Japanese companies; although there are differences in application, the reality is that these are applied to the regular employees of the firm, that is, generally to male regular employees of large companies. However, these are practices that have been widely adopted and become, for both the Japanese companies and the workers, an societal ideal and expectation. For this reason, the authors consider that modified versions of these traditional practices have been continued until today.

Second, the extent of the employees to which long-term employment and seniority system were applied has been expanded from a limited number of the male employees in part of the large companies in the beginning, to many of the male "staff" and part of the male "workforce", and eventually, developing into a system without any distinction between the male staff and workers. More recently, due to the enactment of Men and Women's Equal Employment Opportunity Law (1985), these systems are now applied to part of the female employees as well.

From the above, a long-term relationship is maintained between the company and regular employees, which results in the balance at the time of their retirement. Their

<sup>28</sup>Examples of recent survey about personnel practices include:—Japan Association of Corporate Executives (J.A.C.E.), *Atarashii nihon no keizai shisutemu keiei shisutemu no kouchiku ankeeto chousa* (The Building of New Japanese Economic and Management Systems Survey by Questionnaire), 1993; The Institute of Labor Administration, *Kongo no jinji kanri shoseido tou no doukou* (The Prospective Trends of Personnel Management Systems), 1994; Japan Federation of Employers' Associations, *Shin nihon teki keiei shisutemu tou kenkyuu purojekuto* (New edition, The Research Project of Management System in Japanese Style), 1994; Japan Productivity Center for Socio-Economic Development, *Sangyou kouzou henka eno taiou shisaku to roushi kankei no arikata nikansuru chousa* (The Survey on Countermeasures for Structural Changes of Industry and Labor-Management Relations), 1994.

As for the future of lifetime employment, there are some differences in opinions depending on respondents (executives, the persons in charge of personnel division, labor union, etc.). However those surveys show at least many people take it for granted that lifetime employment has been practiced so far. For example, the survey of J.A.C.E. inquires about lifetime employment towards presidents of listed companies and members of J.A.C.E.. The result is (1) lifetime employment has no other way than to be altered in the future 41.3%, (2) lifetime employment should be maintained basically 41.0%. This result, on the contrary, turns out that 82.3% of respondents regard lifetime employment to be effectively working up to the present.

<sup>29</sup>For example, according to Hiroshi Hazama, although the lifetime employment system was put into operation before World War II, problems of the system came out after the war (Hazama, Hiroshi., *Nihonteki keiei no keifu* (Genealogy of Japanese Management), Tokyo: Bunshindo, 1963, p.18). That is, it is regarded that lifetime employment had already some issues around 1955, when the system was said to be established.



mutual interest-relationship includes psychological and non-monetary matters such as the ideology that the company will take care of the employees as much as possible until retirement, or the employee will work with a feeling of loyalty towards the company. In that sense, it could be said that there exists a *Uchi* societal structure where a long-term, give-and-take relationship is maintained between the company and the regular employees. This *Uchi* Society structure has been maintained until today since after the war. The strata which are covered by the *Uchi* Society have been expanded to all male regular employees and part of their female regular counterparts, so that the *Uchi* Society practice has expanded more than it ever did in the past.

## 6. The Modernisation of Japan and the “*Iyemoto* (Head House)” System<sup>30</sup>

As we have already discussed, employment practices, which originated in the merchants' households of the *Edo* period, have prevailed and been maintained through the backdrop of economic growth and the stability of employment, although never taking identically the same form externally. On this basis, there lies one consistent ideology or value standard: a long-term relationship that continues between the company and its employee. The relationship between the two is expected to become equivalent after a long-term, including psychological and non-monetary matters. These practices have been institutionalised into the wage system and the retirement allowances, as well as various personnel and labor management policies such as setting the retirement age, hiring new college graduates and training within the corporation.

From the above, it could be said that Japanese managers have had several opportunities to undergo fundamental changes in their techniques coinciding with the modernisation, but they have continued to utilise the concept of the traditional society, sharing much in common with the idea of the *Iye* (household). It is true that people will easily accept social changes if the changes are undertaken by making the most of the concept already deeply rooted among the people until that time. This is because it is those who lived in the traditional society that create the new systems and use the newly created systems, and so long as those people create the new systems, their ideology and values would exert an important influence upon the systems. A typical example of this is Japanese modernisation in the *Meiji* period. One of the systems in which the traditional concept penetrated into the society is the *Iyemoto* (head house) system that has been in existence since the *Edo* period.

### (1) Modernisation in Japan

In corporate management style, as we have seen, Japan has taken in various facilities, technologies and systems from overseas ever since the *Meiji* Restoration, but it never forgot to modify them to fit into the social system of the time. This method is not limited to corporate management, but has been widely practiced, as is shown by Yukichi Fukuzawa and Masao Maruyama. During the *Meiji* Restoration period, Shozan Sakuma's “Eastern ethics and Western art (here, meaning technical skill)” was dominant. This was the theory of adopting strong points and supplementing weak

<sup>30</sup> *Iyemoto* is a term used in the world of traditional Japanese arts such as music, dance, flower arrangement, *Noh* (Stately Dance), and *Kabuki* (Drama) in order to refer to either the founder of a school or the current (successive) head of the school, usually a direct descendant of the founder.

points represented by so-called Japanese spirit with Western technology. Concerning this, Yukichi Fukuzawa<sup>31</sup> who contributed greatly to the introduction of foreign civilisation during the opening time of the country in the *Meiji* period, distinguishes the visible exterior and the inner spirit of the civilisation. The former (the externals of civilisation, that is, clothing, food and shelter, life style and customs) can be rather easily adapted at any time and any way, adopting strong points and supplementing the weak points, while the latter (the spirit of the civilisation) is vague and the most difficult to be assimilated into the sense of culture. What Fukuzawa tries to state here is that civilisation has both aspects in it: the externals, which can easily be connected to comfortable life, and the spirit, which has something to do with the grace of the people. The spirit of civilisation, according to Fukuzawa, is the “spirit of the people”, and is an intangible entity or societal norm that cannot be bought or sold, nor lent or borrowed. Fukuzawa states that it is “the national spirit” and the “imbalance of power” which distinguishes Japan from the West.

According to Fukuzawa,<sup>32</sup> the imbalance of power is immanent in various social relationships such as politics, business, academics, fine arts, society groups and men-women associations. First, the imbalance of power in relationships signifies the relative “structure” of all human relationships. For example, the political power is founded on the imbalance of power of human structure. Second, the imbalance of power does not simply show a matter of fact, but also describes a judgment of value. For example, concerning the existence of size (e.g. large versus small), a value judgment can be that the larger the size, the more valuable it is to society. It is universally taken for granted that there are upper and lower levels in the bureaucratic ladder. Here the imbalance of power exists, as Fukuzawa points out, where the upper bureaucrats are not only defined as being divisionally different, but also “more highly” evaluated than the lower levels. In the *Meiji* period the imbalance of power between groups was seen as ubiquitously<sup>33</sup>: in households (men-women, parents-children, or older-younger siblings), in the society (master-apprentice, the rich - the poor or the noble - the humble, the veterans - the new comers, main-branch families) and in the larger social groups (large-small domains, Buddhist headquarters-branch temples, national-local Shinto shrines).

Fukuzawa criticizes the interpretation that cultural enlightenment involves solely taking in the externals of civilisation; the externals of civilisation can involve adopting strong points and supplementing weak points, but the same cannot be done for the spirit of civilisation, therefore, it was necessary to learn the spirit of civilisation from Western countries. This shows on the contrary just how difficult it is to change the spirit of civilisation those days, that is, the conventional society, therefore showing that “*Wakon-Yosai*” (Japanese spirit with Western technology) was being practiced.

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<sup>31</sup>Below, Fukuzawa, Yukichi., *Bunmeiron no gairyaku* (An Outline of a Theory of Civilization), pp.29-36, Maruyama, Masao., *Bunmeiron no gairyaku wo yomu (Jyou)* (Reading An Outline of a Theory of Civilization, Vol.1) pp. 119-136.

<sup>32</sup> Below, Fukuzawa, Yukichi, *Bunmeiron no gairyaku* (An Outline of a Theory of Civilization), pp.207-212, Maruyama, Masao, *Bunmeiron no gairyaku wo yomu (ge)* (Reading An Outline of a Theory of Civilization Vol. 3), pp.72-84.

<sup>33</sup>This imbalance of power can still be seen today. For example, within the family, man-woman relationship; in the public, the relationship between the boss and his subordinates in the corporation; and between mutual social groups, the relationship between large and small corporations as seen in *Keiretsu* corporations.

Masao Maruyama<sup>34</sup> regards Fukuzawa's "imbalance of power" as the phenomenon of maintaining spiritual balance due to the transfer of suppression, and as one of the greatest "legacies" modern Japan inherited from the feudal society. Further, the imbalance of power was neatly organised with the combination of authority and power, and internationally extended to the controversies about the colonising Korea, dispatching troops to Taiwan, waging the Sino-Japanese and Russo-Japanese Wars and even World War II. Furthermore, Japan is said to have succeeded in modernisation by skillfully separating material civilisation from ideological and political principles. This was made possible with adoption of European civilisation limited to so-called "material civilisation" like industry, technology and armament, while protecting itself from the influx of spiritual thoughts represented by Christianity, individualism, liberalism and democracy. Japanese modernisation can be understood in the way that the nation at its top always competes for the world's forefront and on the bottom ever follows the traditional style; this sort of structural imbalance of Japanese society has been alive consistently in its ideology of nationalism.

In this manner, Japanese modernisation has taken place but not by changing its conventional society and traditional way of thinking such as invoking its imbalance of power, keeping these aspects instead in its foundation, forming a striking difference from the modernisation of Western countries. It never failed to modify any new material civilisation (technology and facilities) from overseas to assimilate into its own culture.

## (2) *Iyemoto* (Head House) System

The *Iyemoto* system, governed by the school founder's family, has been continued from the *Edo* period until the present time, representing Japanese conventional society with traditional spirit. The system means<sup>35</sup> a "hierarchic faction-group, which is made up of the head (master) of Japanese traditional art or entertainment and his/her disciples' (followers') chains". The *Iyemoto* system is led by the head or paternal master power and is often modeled after the paternal master's family group.

The head gives their disciples instruction in the arts or entertainment. The disciples constitute the so-called *Natori* (inheriting a master's professional name) system, that is composed of many layers of upper to lower ranks relationships such as the master's direct disciples, the direct disciple's disciples and his/her grandchild disciples. The inter-relationship between master and *Natori* disciples is connected by *On* (obligation), where the master gives instruction to his/her disciple to whom the status of *Natori* is conferred after a certain amount of time and accomplishments. With *On* being the mediator, there are successive and fixed master-follower relationships established between the master and disciples. The master is responsible for the protecting duty of the follower, the *Natori* disciple, in accordance with his/her duty of serving loyally.

Takeyoshi Kawashima describes these two obligations in the following way<sup>36</sup>: these two obligations symbolise a master-follower relationship as the status, each symbolic status relates to the two-way exchange from each other. Both the loyal service from followers and the protection from the master are expressed as a voluntary offer to the

<sup>34</sup>Maruyama, Masao., *Zouhoban gendai seiji no shiso to koudou* (Thought and Conduct of Modern Politics, Additional Version), Miraisha, 1964, pp.25-28, pp.157-161.

<sup>35</sup>Kawashima, Takeyoshi., "*Iyemoto seido (Iyemoto System)*", Kawashima Takeyoshi, *Chosakushuu dai 10 kan* (Takeyoshi Kawashima Collection Vol.10), Tokyo: Iwanamishoten, 1983, pp.46-47.

other, and this offer is recognised as mutually obligatory in return for the offer from the other. Here, the relationship is expressed in non-monetary and obligatory give-and-take terms. The spiritual reward is not balanced even if the obligation is fulfilled; now that *On* (obligation) is accepted as an infinite benefit, it is never settled on the accounting sheet, so long as the obligation, what the recipient owes, is recognised as limitless as well. Loyal service from followers and the protection from the master are both non-quantitative, and their objective mechanism is unclear beyond the intention and feeling of the two persons (the master and follower).

Further, according to Kawashima, the *Iyemoto* system can be an illustration of the household or family system. It is a simple or primitive means of justifying the governing relationship in the *Iyemoto* system; it takes a method to "identify" some similar phenomenon which is already broadly understood and accepted<sup>37</sup>. In the case of the *Iyemoto* system, people adopted the master-follower relationship and accepted the benevolent and paternalistic governing form that they were already familiar with from their own household or family system.

As to when did the *Iyemoto* system originate? Matsunosuke Nishiyama writes that the *Iyemoto* system was substantially recognised, with only the head master existing, as early as in the 11th to 15th Centuries amongst the aristocrats, the military house holds and the Buddhist temples but this did not include the *Natori* (conferring a master's professional name) system<sup>38</sup>.

It was not until the latter part of the *Edo* period that the mediating organisation came into being through the *Natori* system and composed a specific social system as *Iyemoto*, with the expanded reproduction system of the master's power developing its own cultural function. With the *Natori* systems establishment, the *Iyemoto* system was adopted much more widely amongst the people than ever before. Since then the structure of the *Iyemoto* system has remained basically unchanged with the vertical organisational order of head master - *Natori* instructors - disciples<sup>39</sup>.

As seen above, the *Iyemoto* system has been widely accepted since the middle of the *Edo* period. The master-follower relationship is supposed to be fair and equal on a long-term basis. This includes both psychological and non-monetary matters, where *On* (obligation) exists between the two parties, that is, protection of the follower by the master and loyal service returned by the follower which maintains an infinite balance. In addition to this, the *Iyemoto* system contains a series of professions, such as *Natori* instructors who can make a respectable living by having disciples<sup>40</sup>. The *Iyemoto* system, thus, has a characteristic of a corporation. In other words, it is a sort of business, with the familial master-follower relationship and the paternalistic governing structure, established in the mid-*Edo* period and continued even today. The idea of the system can be said to maintain the equal, fair and long-term relationships, including psychological and non-monetary matters, between the master and the followers<sup>41</sup>.

<sup>36</sup>Ibid., pp.55-56.

<sup>37</sup>Ibid., p.76.

<sup>38</sup>*Natori* (conferring a master's professional name) system is where the person who is conferred the master's name can instruct the followers in place of the master himself.

<sup>39</sup>Nishiyama, Matsunosuke., *Iyemoto no kenkyuu* (Research on the *Iyemoto*), Tokyo; Yoshikawakoubunkan, 1982, p.106, p.474, p.483, pp.533-544.

<sup>40</sup>Although *Natori* instructors were mainly men until that time, after the middle of the *Meiji* period, women became dominant. Even now, the *Natori* instructors play a role in women's professions.

<sup>41</sup>Besides this, the *Yakuza* whose family business is gambling or being stall keepers, can be recognized as a management body that copies the family system like the *Iyemoto* system.

## 7. Conclusion

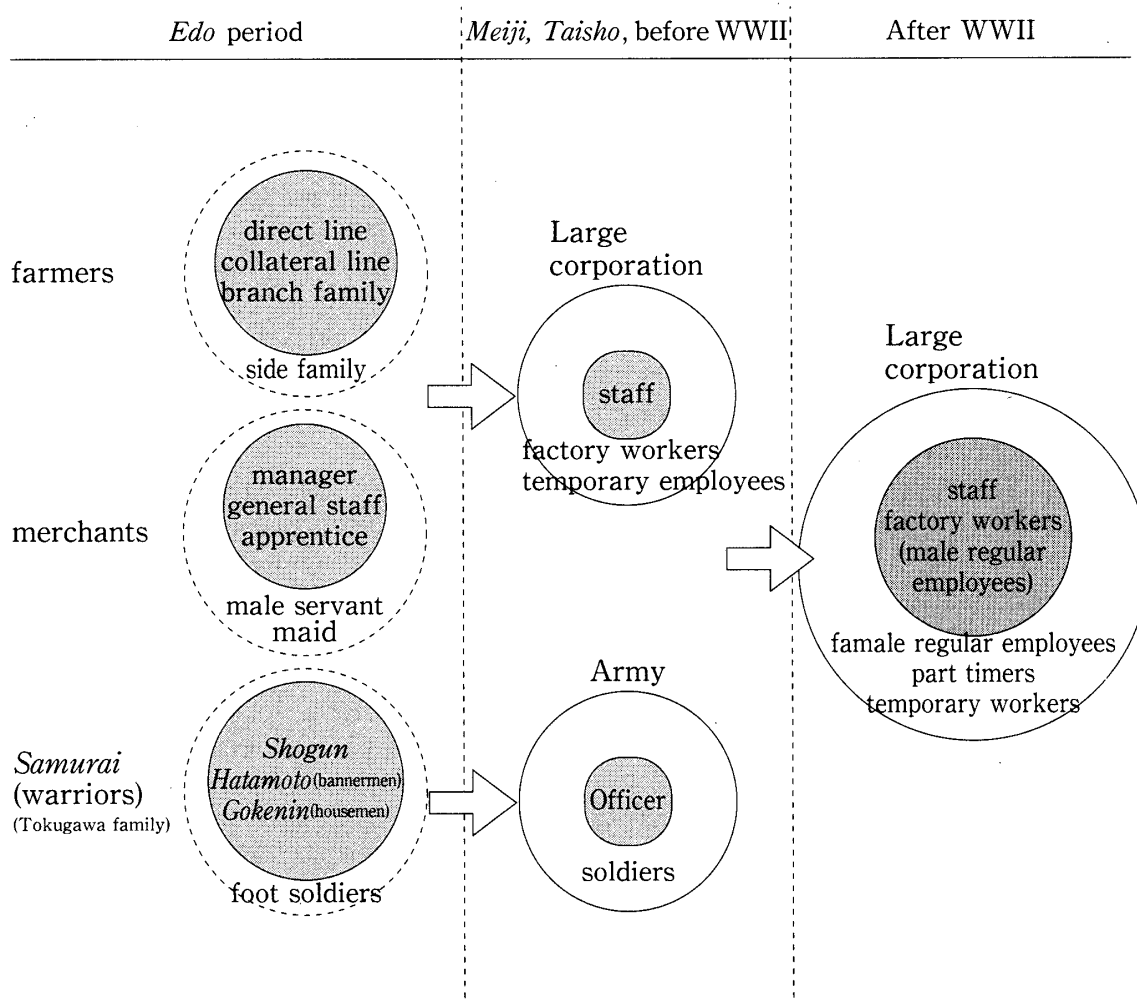
The authors consider that there is no objection to the view that sees Japanese corporate management as somewhat different from Western style management. The question is whether the difference is not essential but only in the form of expression, or if Japanese management is essentially different from Western methods. This paper does not seek to answer these questions. What matters here is to point out that Japanese corporate management style externally differs from that of the West and has been continued for a long time, and to discuss that the continuing background has been common regardless of the time.

What has made Japanese management different in form from that of the West for a long period of time? The authors regard the answer as *Uchi* (inside) Society, a form of traditional relationship structure in place since the *Edo* period. In the *Uchi* Society, the principle of equal, long-term give-and-take relations prevails, which is different from that in *Soto* (outside, antonym of *Uchi*). In the past, the relations were generally named *Giri* (obligation). Specifically, the give-and-take for the longest term is called *On* (obligation), for medium term, *Giri*, and for the shortest term, *Kashi-kari* (creditor-debtor). At any rate, each relationship means *Giri* (obligation) with a psychological element, where the *Uchi* Society is established<sup>42</sup>.

After the *Meiji* period (1868–1912) when Japan tried to modernise and industrialise, it was too difficult to learn the “spirit of civilisation” compared to the “externals of civilisation” such as technical transfer. Furthermore, to Westernise not only externally but spiritually might have risked the identity as the Japanese. There also existed anti-Western, anti-foreigner policy. The modernisation in the *Meiji* period could not help taking the form of “Japanese spirit with Western technology” with the externals of civilisation from the West and the inner spirit from Japanese tradition. An experiment, never seen in Western countries, was to take place in industrialisation with techniques and institutions taken in from foreign styles, but with society and culture remaining in traditional form. A hybrid of the West and Japan was attempted to be formed. The result seems to have been successful.

The authors assume that it is the *Uchi* Society that was used as the Japanese way in order to generate the hybrid (see Figure 4). During the *Edo* period, in the agricultural community, the “*Uchi*” was formed by main household in the center with descendants, collateral relatives, branch and side families. The members of the *Uchi* Society maintained the give-and-take relationship with the main household over a long period of time not only economically but based on a relationship of trust. Merchants were classified into *Decchi* (apprentice), *Tedai* (general staff) and *Banto* (manager). They began to serve as *Decchi* in childhood and were devoted loyally to the master (imbalance of give-and-take relationship), until they become *Banto*. Finally, the *Banto*, given

<sup>42</sup>*On*, *Giri* and *Kashi-kari*, the length of which vary, all mean “give-and-take”. *On* is obligation held over generations, *Giri* is that in middle-term, and *Kashi-kari* is on a relatively short-term basis. Moreover, the longer the term is, the more psychological and non-monetary matters are included. Consequently, it is the *Uchi* Society that the authors define the society where people behave balancing those give-and-take relations equally, including psychological and non-monetary matters. Rules held in the *Uchi* Society are quite distinct from those in *Soto* (outside). In Japan, when this unique *Uchi* Society is formed successfully and one can join it happily as a member, he/she calls proudly the organization, for example, “*Uchi*’s company (my/our company)” and “*Uchi*’s school (my/our school)”.

Figure 4 The Development of the *Uchi* Society

Notes) The circles indicate structural organisation. The shaded portions indicate the *Uchi* Societies. Beginning with the *Edo* period, the organisation itself is generally the *Uchi* Society because of its small size. The organisation functionally exists and is observable only when the organisation is large or as needed in a crisis. During the *Meiji*, *Taisho* and prewar periods, the organisation was enlarged and became distinctly divided from the core *Uchi* Society and the peripheral parts. After WWII, the organisation has further expanded corresponding to the growing number of members of the *Uchi* Society.

a part of the goodwill, received the reward of permission to conduct the same business as the main household, resulting in the equal balance of the long-term give-and-take relationship.

In society of *Samurai* (warrior), *Hatamoto* (banner man) and *Gokenin* (houseman) constitute the *Kachu* (*Uchi* Society) in *Tokugawa* Shogunate families. They are always loyal to the *Kachu* (sometimes to their Lord), as they feel psychologically in debt to the *Kachu* (household) for protection, security and livelihood. In order to repay for balancing out, they try to maintain loyalty over the generation. Here is still the governing principle of balance of give-and-take relations, for a long-term, psychologically and non-monetarily.

In the *Meiji* period when the first attempts to manage large organisations were made in Japan, the only system that existed was the *Uchi* (inside) social system dating from the *Edo* period. The military was easily introduced, because, organised into the elite (as officers) and commoners (as soldiers) as found in any country, its system resembled the Japanese classes of the warrior society from the *Edo* period. Large corporations such as the *Zaibatsu* (financial clique) solved their problems by forming an organisation mirrored after the military system and the *Edo* period's merchants' household. The important point is that the organisations are dual structured. The staff of college graduates are placed at the core of the organisation, with the workers arranged around the staff. Moreover, in the *Soto* (outside) are temporary workers and day laborers. During the *Meiji* period when the educational background-oriented society was newly added to the already elite class society of the *Edo* period, this dual structured *Uchi* Society fit perfectly with large corporations. This organisational system is considered to have continued until the end of World War II.

After 1945, the corporate society was awash with the waves of democratisation. The core parts of corporate *Uchi* Society were largely expanded because of "the unity of staff and workers", this realised the abolishment of the discrimination between staff and workers. However the dual structure remained the same as before; women laborers, part-timers and temporary workers remained as peripheral workers. It is true that the postwar Japanese society has been greatly stabilised with the "unity of staff and workers" strengthening and expanding the corporate *Uchi* Society.

However, as women march into the corporate society and overseas workers participate in the workplace, the expanded *Uchi* Society faces new problems as to how to treat those peripheral laborers (women and foreign laborers). Moreover, when Japanese corporations or affiliated companies advance abroad, they face an even larger problem such as whether or not to place the non-Japanese local workers into the core posts, or, in other words, to allow them within *Uchi*.

Japanese corporate society has established a unique organisation characterised by lifetime employment and seniority. Though there are some scholarly arguments about when those systems were completed, the authors underscore that the roots of the system stem from the *Edo* period, have grown little by little, and continue to blossom only through enlarging or shrinking the core. They seem to have fitted rather well into the Japanese culture and functioned properly as well.

It will be interesting to see how the *Uchi* type of corporate society evolves hereafter. Several alternative ideas could be proposed. However, we are quite sure that since this system of *Uchi* Society has so far adapted perfectly to the Japanese society, this organisation must continue to exist as the core of the corporations, while being continuously improved, enlarged or shrunk according to the circumstances at the same time maintaining the essence of Japanese culture. This is because culture cannot be changed rapidly:

"If you have to change habits, don't change culture."  
Peter F. Drucker, *Managing for the Future*<sup>43</sup>

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<sup>43</sup>Drucker, Peter F., *Managing for the Future*, Butterworth-Heinemann, 1992.