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Ethical Aspects of "Japanese Leadership Style"

Iwao Taka
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ABSTRACT. This article describes three characteristics of the Japanese Leadership Style (JLS): self-realization, appreciation of diverse abilities, and trust in others, which have both positive and negative ethical implications. In addition to illustrating how JLS allows Japanese corporations to avoid some of the ethical problems plaguing U.S. corporations, the authors will explain how these characteristics engender the loyalty and initiative of Japanese employees which promote incremental innovation and competitive advantages. Implicit in this discussion is the premise that both the American and Japanese business communities, by analyzing their own ethical issues and leadership styles, can learn from each other.

Japanese corporations have generally not been preoccupied with the same ethical issues that plague their United States counterparts. The concerns of the two business communities have not been mutually exclusive, but there is a difference in the emphasis placed on specific issues in Japan compared to the United States. While business ethicists in the United States have been more concerned with whether and how to close a plant, how to prevent workers from manufacturing defective products or stealing the company's assets, and how to behave morally and remain competitive; the Japanese have focused more on how to contribute to the world with the spirit of noblesse oblige, how to encourage people to admit and respect values and practices different from their own, how to include women in the workforce, and how to encourage people to express unconventional way's of thinking (Keizai Doyukai, 1990). The difference in ethical concerns seems to result largely from the distinctive characteristics of the "Japanese Leadership Style" (JLS), and the normative environments from which it arises.

This article will explore how JLS not only affects the types of ethical issues that arise, but also contributes to incremental innovation in Japanese corporations. From an ethical perspective, JLS has both positive and negative impacts as Japanese corporations largely avoid many problems typically arising in the United States, while at the same time they have their own set of issues with which they must deal. Furthermore, rather than interfering with productivity, the same characteristics of JLS which are associated with ethical advantages also encourage the type of incremental innovation which enhances business performance.

After explaining the parameters of our investigation, we discuss how JLS relates to the Japanese normative environment, the positive and negative implications of JLS, and how JLS is associated with *Kaizen* or incremental innovation.

I. The parameters of our investigation

Some clarification of our terminology is necessary at the outset. First, by "Japanese corporations," we mean the idealized large organizations that place

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priority on interests of employees, and hold long-term strategic perspectives. Japanese corporations can be contrasted to American corporations which stress the interests of stockholders and are more likely to emphasize short term goals (Hayes and Abernathy, 1980; Wattenberg, 1988; Dertouzos *et al.*, 1989). Although not all Japanese or American corporations fit these stereotypes, for the sake of simplicity we use these terms as "the ideal types" in a Weberian sense.

"Leadership" is a second term which warrants elaboration. Hemphill and Coons define leadership as "the behavior of an individual when he is directing the activities of a group toward a shared goal," (1957, p. 7). This definition focuses on three characteristics we would like to emphasize: (1) the human trait required (2) to coordinate interests of individual members of the group (3) towards the group's goal.

Finally, we would like to concentrate our examination of leadership in Japanese corporations on the manufacturing industries such as automobile and electronics. These industries and their durable consumer goods are extremely important in both the national economy and international trade. For instance, the Japanese auto and electronics industries accounted for 6.4% of the GNP in 1989 (*Keizai Tokei Nenkan*, 1992). These industries also constituted 41.18% of the total exports for 1991 (*Toyo Keizai Tokei Geppo*, 1992). In addition, examples from the manufacturing sector are familiar, straightforward, and can easily be compared to U.S. industries.

Why do different ethical issues arise in similar contexts? We assert that the difference between American and Japanese leadership styles results in divergent ethical issues. There may be other factors contributing to the contrast in ethical problems, but we are attempting to clarify one perspective which sheds light on how ethical issues arise.

Americans and Japanese can both learn from analyzing the differences in leadership and management styles. We can each learn better ways to approach our respective ethical issues. As Americans are probably less familiar with JLS, and space is limited, this article concentrates on Japanese leadership style, but an implicit assumption is that each can learn from the other.

II. The normative environments and ideal characteristics of JLS

In order to pinpoint the ideal characteristics of JLS, first and foremost, we have to understand in what unconscious "normative environments" Japanese people are living, because the characteristics of leadership are associated with these normative environments. After explaining the normative environments that serve as a foundation, we will discuss three ideal characteristics of JLS: (1) emphasis on self-realization, (2) appreciation of diverse human abilities, and (3) trust in others. Needless to say, these are not clearly separated but conjointly related.

1. Two normative environments

The normative environment reflects the value system of a society and determines what they consider acceptable or expected behavior. In this environment every individual person, event, or thing acquires its own meaning in relation to something beyond the secular world (we might be able to call it the ultimate reality).[1] If we follow this definition, we can show two influential normative environments: the "transcendental normative environment" and the "group normative environment," (Kyogoku, 1983, pp. 139—188; Abe *et al.*, 1990, pp. 235—239).

The easiest way to show the meaning of "transcendental" is to look at one of the famous Japanese didactic poems:

> Although there are many paths at the foot of a mountain, they all lead us in the direction of the same moon seen at the top of the mountain (Kyogoku, 1983, pp. 137—138).[2]

This poem suggests that though there are innumerable phenomena in this tangible world, each person or phenomenon (every path) has its own spiritual energy which is linked with a single universal or ultimate reality (the moon).[3] This individual spiritual energy can be described as the soul, spirit, raison d'être, or life force, and in Japan it is identified as the "numen." The key to appreciating this perspective is to understand that all numina are linked with an ultimate reality, similar to the idea reflected in the expression "All roads lead to Rome." We refer to the philosophy that all numina (paths/roads) are linked with the ultimate reality (the

moon/Rome), as "transcendentalism," because it assumes that all persons and things transcend day to day existence by being linked to a higher force. This attitude is transcendent in another sense of the word as it transcends religious and cultural distinctions. It has long been unconsciously shared by Japanese people as "common sense," whether or not they belong to any specific religious denomination (Kyogoku, 1983, p. 164; Yamamoto, 1979, pp. 118–153). This philosophy is also expressed in Western culture in the common saying cited above, although it has never been as central to the Western belief system as it has in the East. Thus, we call an environment where various concrete norms arise from this basic idea, the "transcendental normative environment."

The second normative environment necessarily derives from this transcendental normative environment, because the latter gives a raison d'être not only to individuals, but also to groups themselves. Thanks to the transcendental normative environment, every group also has its own numen which compels it to insist on its own survival. We use "group normative environment" to describe the context in which norms pertaining to the existence and prosperity of the group affect its members.

In Japan, the most influential groups have been *ie* (family), *mura* (local community), *kaisha* (business corporation), and *kuni* (nation). Although the authority of *ie, kuni,* and *mura* has weakened since World War II, we still cannot ignore their influences. It should also be noted that *kaisha* has taken over many of the functions of *ie* and *mura*. The main reason why these are powerful influences is that they are intuitively assumed to hold their own numen: *ie* holds the souls of one's ancestors, *mura* stands on a genius loci (tutelary deity), *kaisha* maintains its corporate tradition (or culture), and *kuni* has the soul of the nation's Imperial Ancestors.

2. Three ideal characteristics of JLS

The three ideal characteristics of JLS arise from these two normative environments. By referring to the "ideal characteristics" we do not intend to say that these characteristics can be found in all leaders in Japan. We merely mean that these are the prototypical, essential human features that common Japanese people highly appreciate or want to observe in their

group life. These are the attributes the Japanese people look for in their leaders. The three ideal characteristics discussed below, are the (1) emphasis on self-realization, (2) appreciation of diverse abilities, and (3) trust in others.

Self-realization. The first ideal characteristic, "emphasis on self-realization," is the logical reaction to the first of the normative environments described above. As long as Japanese people are living in the transcendental normative environment, they are likely to strive to fulfill their potentials. Such fulfillment is believed to lead them toward higher stages of development or toward the ultimate reality. The important point here is that in most cases these efforts are made at the workplace, inasmuch as most individuals spend about 48 hours a week there in order to earn their living.

Although the spiritual significance of work is reminiscent of how Max Weber explains the role of the Protestant Ethic in "The Protestant Ethic and the Spirit of Capitalism," there are important distinctions. Calvinism, the Protestant sect on which Weber concentrates, maintains that man's fate is predestined, and his good work can be viewed as evidence that he is one of the elect but never as a tool for achieving salvation:

> Thus, however useless good works might be as a means of attaining salvation, for even the elect remain beings of the flesh, and everything they do falls infinitely short of divine standards, nevertheless, they are indispensable as a sign of election. They are the technical means, not of purchasing salvation, but of getting rid of the fear of damnation (Weber, 1905/1989, p. 115).

Psychologically this attitude can motivate individuals to work hard to demonstrate that they are one of the elite, but the work itself does not have the same significance as it does when it is considered intertwined with a transcendent force. People may strive for apparent good works, but there is not the same aspiration to perfect the work itself as it is assumed that "everything they do falls infinitely short of divine standards." There is also that nagging assumption that many are already "doomed by an inexorable fate, admitting of no mitigation" (Weber, 1905/1989, p. 117). Finally, it is important to emphasize that Calvinism emphasizes that God is separate from man ("even the elect remain beings of

the flesh"), and both God and man are separate from the world — they are not of the world. The physical world is inert, a thing that must be mastered rather than an expression of an ultimate life force. According to the Protestant Ethic, work is merely a worldly sign of salvation rather than a means for attaining salvation or self-realization, thus the work itself is far less significant than it is in the transcendental normative environment.

As touched upon above, work is also given its own numen in the transcendental normative environment, and is supposed to be an important path to development. Moreover, almost all resources pertaining to work, such as human resources, capital, machines, tools, materials, information and the like, are consciously or unconsciously presupposed to be ultimately connected with a universal force. Because all things have this spiritual implication, Japanese people work hard and not only try to make the best use of their own time and talents, thereby unifying themselves with the "great life force" of the universe, but also strive for optimal use of all relevant factors.[4] Capital, equipment, information, workspace, as well as workers, should all be utilized in the best manner possible. A typical example of this tendency is reflected in the remarks made by Konosuke Matsushita, a founder of Matsushita Electronic Industrial Co. (Panasonic):

> Human beings can actualize a truly-balanced-prosperity of spiritual and material life, by realizing the potentials of living creatures, things, and events endorsed by the universe, and by making the best use of their potentials, because the realization and the best use of them are God's will (Konosuke, 1975, p. 9).

Of course, this does not imply that every Japanese has always and seriously concentrated on work. It would rather mean that this attitude toward work has been basically respected by common Japanese people.[5] On account of this, in Japan, the leader is expected to be a hard worker and a seeker of self-realization.

Appreciation of diverse abilities. The second ideal characteristic is 'appreciation of diverse abilities,' especially others' abilities. In the transcendental normative environment, anybody who tries to work earnestly is equally believed to be able to reach the

same life force. Here the contrast with the Calvinist's assumption of predestination becomes especially important. According to Calvinism, good work or success is a sign that one is part of the elect, and that which falls short is evidence that one is predestined to be excluded from the fold. Even though the religious belief itself may no longer be as influential in the United States as it once was, the view that some work is more worthwhile than others is still a dominant perception. In Japan, whatever work people do, whatever position people take, if they make sincere efforts to proceed on their path, they are deeply and widely respected by others.

In Japan, therefore, a person who looks down on others' abilities does not fit in the transcendental normative environment so that he or she can rarely be an ideal leader. Only a person who respects or at least tries to respect diverse abilities, and a person who permits or encourages others to proceed to the life force through their own work, can successfully take leadership without arousing serious conflicts with group members.

As is often pointed out, one of the features of Japanese corporations is that workers propose a great number of suggestions, and management considers most of them seriously (Imai, 1986, p. 15). This feature is based on the belief that each worker knows very well the real issues regarding his or her own work, because each worker is regarded as an expert in his or her field. Therefore, executives or managers have encouraged the workers to express their opinions or ideas as to how to tackle the issues. One of the reasons why Japanese Quality Control (QC) circles have so far done well is dependent on this second characteristic of leadership (Itami, 1987, p. 90). This attitude contrasts sharply with that often found in American corporations where a prominent concept is that unless management is well done or unless a simplified job is given to them, workers will cause serious problems (U.S. Department of Labor, 1988, p. 18).

Trust in others. The third ideal characteristic of JLS, 'trust in others,' arises from the group normative environment. As noted, in Japan, besides the transcendental normative environment, the group normative environment has exerted influences on individual behaviors within the groups. Because of this group

normative environment, Japanese tend to think that once a group is formed and acquires its numen, it should survive as long as possible.

On the basis of this belief, group members try to understand the other members' feelings and expectations, in order to construct and maintain harmonious group relations. In the process of constructing such relations, the leader takes an extremely important role of fostering group solidarity based on mutual trust. Namely, the leader tries to show his or her "trust in others," since this trust is believed to be the most certain way to receive the followers' trust. Once the followers begin to regard the leader as trustworthy, they come to cooperate with one another to attain the group's purposes. In this sense, 'trust in others' has been one of the key characteristics of JLS.

For example, the workers in the Japanese auto industry are given a large amount of discretion. The workers can propose better ways of decision-making and working, and have actually changed company practices by themselves. The workers can also stop the whole assembly line when they find a defect or another problem. Workers cannot be given such discretion unless the executives and leaders can trust them, because the workers can use such a privilege to stop the assembly line for sabotage (Shimada, 1988).

With these ideal characteristics of JLS in mind, we consider how JLS affects the kinds of ethical issues which arise and how it is tied to incremental innovation. For many related reasons, JLS allows Japanese companies to avoid some ethical problems, while giving rise to others, and seems to make it possible for Japanese corporations in the assembling industries to be competitive in the international market (Okuno, 1991).

III. Ethical aspects of JLS

As noted at the beginning of this paper, business ethicists in Japan have been much less concerned than their American counterparts with the need for sophisticated monitoring systems to prevent negligence and theft, the effects of plant closings, and the trade-off between morality and competitiveness. The transcendental and group normative environ-

ments, along with the associated ideal characteristics discussed above, result in a leadership style that minimizes the need to deal with such issues.

The emphasis on self-realization, appreciation of diverse abilities, and trust in others fosters a respect for all the workers, which helps explain why Japanese employees are given priority over the stockholders. This regard for the employees encourage them to maintain relatively strong loyalty toward their firms. Put in another way, because the loyal employees generally try to do what seems to be good for their corporations, issues such as manufacturing defective products or stealing the firm's assets have not been earnestly discussed in Japan. Furthermore, plant closures have generally not created ethical problems, because management which emphasizes employee interests only closes plants and/or lays off workers as a last resort.[6]

The two normative environments and associated characteristics also encourages the long term perspective which stresses maintaining existing business relations. This perspective is another reason why the Japanese business community has not considered the issue of closing plants as seriously as the American has. For Japanese corporations, it is extremely important to maintain existing relationships with employees and suppliers so that the option of plant closure is basically viewed as out of question.[7]

What is more, the Japanese business community has not seriously discussed the relationship between morality and competitiveness, simply because most top management implicitly believes that in order for corporations to be competitive in the long run, the corporations should be moral. Putting it differently, they have unconsciously, or implicitly, accepted that short-term profit-oriented behaviors are not only immoral, but also less competitive, and long-term behaviors are more moral as well as more competitive (Itami, 1987; Imai and Komiya, 1989, pp. 3—26; and Keizai Doyukai, 1990, p. 92).

As we discuss further in the next section, it seems that JLS has largely contributed to the competitive edge of Japanese corporations at the same time it has largely avoided some of the ethical issues that are common in the United States. At this point we would like to examine the question of whether JLS is ethical or not from the influential Kantian and Rawlsian perspectives.

1. *JLS from the perspectives of Kant and Rawls*

First, in the Kantian approach, the following three formulations of the Categorical Imperative are important: (1) an action must be universalizable; (2) an action must respect rational beings as ends in themselves; and (3) an action must stem from, and respect, the autonomy of rational beings (Kant, 1969).

When we confine our attention to the extant labor-management relations, we can say that the characteristics of JLS seem to satisfy these formulations. For example, such characteristics as an emphases on self-realization, appreciation of diverse abilities, and trust in others have historically, especially after World War II, encouraged Japanese executives/managers to treat the employees as ends, and to respect the autonomy of workers, in a relative sense. And the employee-oriented practices can be considered universalizable, because even if applied to every employee within a corporation, the practice will rarely hurt interests of the specific employees group such as blue-collar or white-collar workers within the corporation. As the practices reflect respect for the individuals involved and are reciprocal in nature they are ethically sustainable.[8] Therefore, in this Kantian sense, we assert that JLS and its management style are ethically acceptable.

We can also examine JLS from the perspective of Rawlsian theory, a more sophisticated version of Kant's Categorical Imperative and traditional social contract theories based on the following principles:

> First: each person is to have an equal right to the most extensive basic liberty compatible with a similar liberty for others.
>
> Second: social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone's advantage, and (b) attached to positions and offices open to all (Rawls, 1971, p. 60).

If we apply this theory to the benefits distribution within Japanese corporations, we can conclude that JLS or its management style is rather ethical and fair. As for the first principle, since every member, including both executives/managers and employees, is supposed to have an equal 'numen,' and especially since all members have an equal right to decide their own retirement from the corporation (corporations cannot fire the employee forcefully and unilaterally),

we can say that each person has equal rights to basic liberties compatible with similar liberty for others.

In addition, while valuing equal liberty, J. Rawls has accepted social and economic inequalities. That is to say, "the distribution of income and wealth," and "the design of organizations that make use of differences in authority and responsibility, or chains of command" can be unequal, as long as both (a) these inequalities bring about the greatest benefit to all, including the least advantaged, and (b) upper level positions or offices are open to everybody under conditions of fair and equal opportunity. Therefore, we have to ask whether or not JLS is ethical by the standards enunciated in the two subparts of the second principle.

With regard to the demand of subpart (a) that inequalities bring about the greatest benefit to the least advantaged, Japanese corporations seem to comply, at least to a greater extent than their United States counterparts. In Japan, as well as in the United States, it is assumed that paying executives more than ordinary workers leads to the greatest benefit for all, including the lowest level workers or least advantaged, because the higher remuneration will entice the most talented to accept the increased stress and responsibility involved in upper level positions. If the most qualified are running the corporation, profits will be maximized and the company's survival will be protected, which is to everyone's advantage. But in relative terms, Japanese corporations appear to be more faithful than U.S. corporations to the demand that inequalities bring about the greatest benefit to the least advantaged as the disparity is much less in Japan. In 1990, the average U.S. chief executive made 85 times the pay of a typical American factory worker, while in Japan the executives made only 17 times the pay of the ordinary worker on average (Byrne, 1991). The success of Japanese corporations suggests that the disparity in Japan is sufficient to attract sufficiently qualified people to executive positions, and the much larger gap in the United States seems to create more inequality than is necessary to benefit all. With less disparity in Japan, a relatively larger portion of corporate income is allocated to the ordinary worker or least advantaged (Abegglen and Stalk, 1985, pp. 191–198).

Adherence to the principle that inequalities must benefit the least advantaged can also be seen in the

way Japanese companies typically react to financial hardship. When a corporation encounters serious economic difficulties, executives will first seek to lower costs by reducing expenses (for instance by decreasing the number of orders to their subcontractors), cutting their own benefits and dividends, and perhaps by minimizing overtime and wage increases. Only when there is no other alternative will a company actually lower the wages of the workers.

In extreme cases when the difficulties cannot be overcome even with the above measures, the company will sell assets before laying off workers. Even when workers have to be laid off as a last resort, company executives often find and offer them new job opportunities to insure that the needs of the workers' families are satisfied (Abegglen and Stalk, 1985, pp. 199–200; Nihon Keizai Shinbunsha, 1990, pp. 14–15).

Considering these policies, it seems fair to say that in postwar Japan, the advantaged (executives) have not been allowed to improve their own conditions, without improving the conditions of the least advantaged (the employees). We rarely see the case where executive pay keeps rising while the performance of the company is deteriorating and the living conditions of the workers are worsening.[9]

Turning to the second principle requiring fair and equal opportunity for all who aspire to upper level positions, although it is difficult to conclusively demonstrate that Japanese corporations meet this standard, their tendency to decentralize power is inclined to increase opportunities for advancement. Compared to U.S. corporations, Japanese corporations are more likely to include additional people in the administrative hierarchy, sometimes adding positions and creating titles to increase the number that can be accommodated. It is also possible for the workers to share almost the same information as their superiors as often they all work together in one large room and eat their meals together. Itami calls this characteristic "decentralized sharing" in order to contrast it to the U.S. proclivity for centralization (1987, pp. 82–98). Considering this decentralization of advantages such as power and information, along with the observation that many Japanese workers have become managers and executives, suggest that Japanese corporations provide more equal access to opportunities than their American counterparts.

Existing labor-management relations in Japan

appear to be relatively ethical when examined from a Kantian or Rawlsian perspective. Under JLS, practices are generally universalizable, treat the workers as ends in themselves, and respect the autonomy of employees. Each individual is accorded extensive liberties, and inequalities are reasonably arranged to accrue to everyone's advantage and linked to positions open to all.

2. Negative aspects

On the grounds that analysis of JLS might suggest better ways to approach some ethical issues in America, we have so far focused upon the ethically positive aspects of JLS. However, it should also be noted that there are several negative aspects, and Japanese corporations might be able to learn from their American counterparts. Roughly speaking, there are at least four issues we have to touch upon:

(1) How can the so-called trust-based community be open to newcomers?
(2) Have Japanese women been encouraged to realize their potentials, been appreciated for their abilities, and been trusted at the workplace as much as men have been?
(3) Have Japanese corporations really contributed to the improvement of employees' living conditions?
(4) In the group-oriented community, are different philosophies likely to surface within the group?

Exclusion of newcomers. First, although mutual trust itself should not be blamed, business relations based on that trust are so tightly combined that it is often difficult for newcomers to enter the extant relations. When we have discussed the positive aspects of JLS from the Rawlsian perspective, we have presupposed that the least advantaged are employees or workers. But if we assume instead that the least advantaged are people outside the corporation, including less competitive corporations in the same industry all over the world, we have to modify our analysis under the second principle.

Under a modified analysis which postulates that a competitive firm may use its advantageous position to further its interests on the grounds that (a) such

inequalities being about the greatest benefit to the least advantaged people or corporations throughout the world, and (b) the advantageous opportunities are equally open to everybody, we may not be able to conclude that JLS is ethically acceptable. The interlocking business relationship among the competitive firms, even if based on something so laudatory as mutual trust, are likely to be obstacles for newcomers who try to enter the existing relationships. When considering outsiders, the Japanese business community does not seem to satisfy the second principle (b) requiring that advantageous opportunities be equally open to all.

It should be noted that the effort to maintain existing business relationships does not violate the principle of free competition, because most of the corporations freely choose to participate in the trust-based relationships.[10] Nonetheless, if we look at this trait from the ethical viewpoint, such behavior turns out to be a critical issue to discuss. It seems Japanese corporations should be more open to considering competitive bids, for the purpose of giving business chances to the newcomers, in order to fulfill their social responsibilities in this age of a global economy.

Exclusion of women. A second problem arises when we include women working outside the home in our analysis. Although we have explained that an emphasis on self-realization, appreciation of diverse abilities, and trust in others are JLS's main characteristics, we must admit that these characteristics have generally been directed exclusively toward the Japanese male community. That may have been acceptable when most women were content to confine their work to the home, where they have long been expected to realize their potentials, but now that an increasing number of women are working in the business world it no longer seems appropriate. From a Kantian or Rawlsian perspective JLS should promote self-realization, appreciation of others' abilities, and trust among women as well as men.

On this issue the Japanese could learn from the continuous effort that has been made in recent years in the United States to integrate people of diverse races, genders, religious, or cultural backgrounds. Even though all barriers have not been overcome, and the struggle has not been problem free, U.S. corporations have made great strides in reducing

discrimination in the work place. Through changes in the law and dominant attitudes, U.S. corporations have developed a more heterogeneous work force that reflects the diversity of the population. This is not only more socially responsible, but it allows the corporation to benefit from the increased range of talents brought by people with different backgrounds, and it reduces the costs of government support and control of people barred from legitimate means of earning a living. The Japanese business community, which has so far enjoyed its homogeneity, has to pay more attention to the interests of women, and other 'outsiders.'

Asset gap between corporations and workers. A third qualification that should be considered is how much the Japanese workers (to be precise, male workers) have benefitted compared to the corporations themselves. We argued earlier that the least advantaged are benefitted relatively more in Japan than in the United States because executives are less likely to use their position to advance only their own interests and the gap between executive and worker income is smaller. However, if we assume that the most advantaged are the corporations rather than the executives, the inequalities found in Japan look much less ethical under a Rawlsian analysis.[11]

Doubts arise when we see that since World War II, Japanese corporations have become rich while the living conditions of their employees have improved very little. Corporate assets generally include real estate holdings which have dramatically increased in value in recent years. The problem becomes especially apparent when one compares the increase in residential real estate values with the increase in wages, and considers the impact on the individual's ability to afford housing. While the Price Index of the residential areas in Japan's six largest cities has increased by 154.6 times from 1955 to 1988, the Index of Nominal Wage has only increased by 18.9 times in the same period (Nihon Keizai Shinbunsha, 1990, pp. 286–293). The dramatic increase in residential real estate values is linked to the rising costs of commercial real estate. Corporations looking for ways to invest excess profits often purchase commercial real estate, thus driving up the price of real estate in general, while the employees who work for them cannot afford to buy their own homes. Even if we take into consideration a recent decline in prices of

real estate and stocks, we can still say that this gap between assets and salary has enlarged in the long run.[12] Because JLS contributes more to corporate wealth than employee wealth, it has fostered an asset gap between Japanese corporations and Japanese common or least advantaged people that can be considered unethical.

Limitations on innovative expression. Although Japanese workers are given much discretion in performing their routine work, and are allowed to freely express their opinions as to how to improve existing working conditions or procedures, they are not encouraged to propose ideas which contradict basic practices of their corporations. It is especially difficult to propose alternative ideas when the proposal will disturb existing harmonious business or political relationships.

Although they did not occur in the manufacturing industry, we offer the Recruit shares-for-favors scandal in 1989, the Japanese securities scandals in 1991, and Sagawa (Japan's second-largest parcel-delivery firm) scandal in 1992 as examples because they clearly illustrate how difficult it is to raise ethical questions that might disrupt extant relations in Japan. With respect to the securities scandals, once the compensation of the brokerages for the losses of institutional clients became a basic practice in the Japanese securities industry it was implicitly accepted by managers and employees alike. The practice was accepted as a premise of doing business not only by the "big four" brokerage houses, but also by small- to medium-sized brokerages in Japan. The compensation practice attained such widespread acceptance because it was regarded as one of the best ways to maintain the extant business relationships.

Based on this premise, the employees of the securities firms invented various compensation tactics to evade the violation of Japanese Securities and Exchange Law. Moreover, no one in the securities industry ever criticized this basic practice in public. Because the members had strong loyalty toward their firms, it was considered taboo to "blow the whistle" in the industry (Kyogoku, 1983, pp. 202–203).

If we simply apply Kantian approach to this compensation practice, we can argue that the securities firms have treated the ordinary and foreign clients not as ends but as means. At this point, we cannot help but say that there are ethical problems with JLS because it does not encourage workers to raise frank ethical objections to accepted practices.

IV. JLS and *Kaizen*

JLS has not only affected what ethical issues arise, but it has also contributed to the impressive progress the Japanese have made technologically. When it comes to "technological progress," we classify it into two levels: "sporadic and epochal innovation" and "incremental innovation." M. Imai has called the former "the great-leap-forward progress (innovation)," and the latter "the gradualist progress (*Kaizen*)," saying "Japanese companies generally favor the gradualist approach and Western companies the great-leap approach" (1986, p. 23). Basically our definition of *Kaizen* as "incremental innovation" follows his definition of "gradual incremental improvement."

Then how are the characteristics of JLS connected with Japanese corporations' propensity for *Kaisen*? This question can be answered by looking at *Kaizen* by individuals and *Kaizen* by organizations. In examining these two variations, we again see the importance of the normative environments and ideal characteristics.

1. *Kaisen by individuals*

Kaisen by individuals can be explained mainly in terms of the transcendental normative environment, where values of "self-realization" and "appreciation of diverse abilities" acquire an importance. In this environment, every activity can be a means of individual self-realization so that assembly workers as well as managers/engineers take part in *Kaizen* activities. Of course, most of these activities do not radically change the technology or technical information of the corporation, but improve it steadily and by small increments.

Toyota provides a good example of how the corporate environment encourages continuous, small scale improvement. To achieve this purpose the company emphasizes "four 'S's," "five Whys," and "resolution of three 'M's." Four 'S's mean *Seiri* (clearing), *Seiton* (arrangement), *Seiketsu* (cleanliness),

and *Seiso* (sweeping and washing). Since, for Japanese, the workplace is unconsciously considered an important training site to reach the great life force, it is expected that the site be clean and well-organized. The five "Whys" refer to the series of questions that should be asked when a problem arises. One starts by asking why the problem arose, but instead of accepting the initial explanation, continues by asking what gave rise to the apparent cause. In this way the investigator goes back at least five levels in order to proceed from identifying the trouble to finding the ultimate source of the difficulty. Three 'M's, that is to say, *Muda* (waste), *Mura* (unevenness or irregularities), and *Muri* (overburden) are not welcome so that people are supposed to resolve these 'M's (New United Motor Manufacturing, Inc., 1988, pp. 27–28). Similar catchwords are often found in many plants and offices in Japan.

These efforts to improve the workplace, including the effects to improve the ways to work or to make decisions, are regarded as means of self-realization of individuals. And those who are seriously engaged in such activities are likely to be credited with leadership. This does not, however, hint that only the leaders have been engaged in such activities. Inasmuch as the common members appreciate the leaders' positive involvement in such activities, and the leaders let the members' potentials be realized, many of the members become unknowingly involved in self-realization activities, and thus in *Kaizen* movement (Imai, 1986, p. 34).

As a result, the transcendental normative environment has supplied many industrous workers to the Japanese labor market, giving an ethical basis to "diligence." Nonetheless, it has not created extremely individualistic people who pursue only their own short-term interests. Rather, it has produced self-interest seekers with a long-term perspective. And also, due to the group normative environment, there is a relatively high degree of cooperation between leaders and workers, a cooperation which is believed to contribute to everyone's well-being in the long run.

2. *Kaizen by organizations*

If Japanese people had been diligent at only the individual level and had not been cooperative at the group or organizational level, they might not have brought about *Kaisen*-oriented corporations. But the group normative environment has encouraged the leaders or the leading companies to construct cooperative relations both within and among the companies.

In a mass production environment, where work is divided into extremely small units or narrowly defined jobs, communication among those units or jobs becomes very difficult. When concentrating only on a small portion of the job, workers generally do not have strong interests in manufacturing better final products. They are also apt to protect their own proprietary information, so that work can rarely be done in the most efficient manner. However, communication among production units is extremely important, especially when manufacturing assembled product which requires a large number of parts. Because only better cooperation among parts manufacturers results in better final products, each manufacturing unit has to understand the basic know-how of the other units. This will enable each unit to understand the reasons why other units propose some improvement in their parts, or what kinds of changes will be required in its own unit if the other units try to improve their parts.

The advantage of maintaining long-term business relations among companies is illustrated by Hirschman's concepts of 'exit' and 'voice,' (1970). If companies are only concerned with short-term transactions, then when company A is not satisfied with the quality of company B's product company A will 'exit' or cease doing business with B. Although B may realize and address the problem after losing A's business, in a business environment where there are many other companies which are only focusing on short-term transactions, B may simply initiate a new relationship with company C, then D, then E . . . , continuing his inferior methods in each now short-term business relationship. In contrast, if the emphasis is on long-term transactions, Company A will frankly explain its dissatisfaction to Company B, thus using its 'voice' to motivate and assist Company B in improving its performance. If company B fails to make the desired improvements, Company A may still eventually 'exit,' but in an environment characterized by long-term transactions, the 'exit' will constitute a louder 'voice' as it will have much more impact than in a context in which transactions are

typically short-term. This enhanced motivation to improve tends to foster competitive advantages in a business community like that found in Japan which emphasizes long-term business relationships among companies.

In Japan, the leaders have played positive roles in promoting and coordinating communication among the workers in a particular group. More specifically, they trust the members, transfer a large amount of authority to them, give them much discretion, and make use of bottom-up-information.

This type of communication based on trust observed within a corporation can also be found among corporations. The vertical (as opposed to horizontal) type of *Keiretsu* such as Toyota group, Matsushita (Panasonic) group, or Nissan group, is an example of communication based on trust among corporations.[13] In this cooperation among group companies, as assembler (leading company) takes leadership over the suppliers. The assemble encourages the first-tier suppliers to form some kind of cooperative association, and the first-tier suppliers also lead the second-tier suppliers to follow suit.[14] In this way, many vertical types of *Keiretsu* have been formed in Japan.

If the suppliers are ruthlessly competing with one another as purely adversarial units, they are unlikely to share their own findings with other suppliers, because the sharing may lead to them losing the next bidding to their rivals. By contrast, if the suppliers trust the assembler as well as the other suppliers, and learn about one another's ideas as to how to improve their products or parts, the sharing of information turns out to contribute to the incremental innovation as a whole.[15]

As J. P. Womack *et al.*, suggested, if the suppliers are just ordered "to keep their heads down and continue working," they never have practical ways of optimizing and of continuously improving their parts, because they have no information about the rest of the final product (1990, p. 59). To avoid this shortcoming, the assembler or leading company is to encourage them to communicate with one another.

A fortiori, the assembler is also making various efforts to get trust from suppliers. One of the most important means for the assembler to be trusted, or what has actually been practiced by many Japanese corporations, is that the assemblers have tried to ensure that the suppliers made a reasonable return on the investment for their incremental innovation.

The transcendental normative environment has promoted *Kaizen* at the individual level while the group normative environment has been more directly involved in fostering *Kaizen* at the organizational level. The resulting hard workers and cooperation within and among corporations have contributed greatly to corporate performance in Japan.

V. Conclusion

The Japanese Leadership Style is intertwined with the transcendental and group normative environments, and reflects the three ideal characteristics which arise from those environments.

The emphasis on self-realization, appreciation of diverse abilities, and trust in others fosters a generally ethical approach to business. Monitoring employee negligence and theft, plant closings, and compromising morality for the sake of competitiveness have not troubled Japanese corporations to nearly the extent seen in the United States. Furthermore, the same characteristics that make JLS ethical from both a Kantian and Rawlsian perspective, also foster the incremental innovation that contributes to Japanese business performance.

It would be misleading to pretend that Japanese business relations are free of ethical difficulties. The group normative characteristics which have enhanced business ethics and innovation have also contributed to the exclusion of outsiders and woman, the suppression of unconventional ideas, and a disproportionate increase in corporate wealth as compared to individual wealth. Perhaps the Japanese could learn from their American counterparts when it comes to dealing with these issues. However, the details of how the United States responds to these ethical problems in ways other countries could model must wait for another article.

This article attempts to suggest how the United States, along with many other countries, can gain insight from the Japanese approach. The emphasis on self-realization, appreciation of diverse abilities, and trust in others has led to labor-management relations that treat the workers as ends in themselves and respect their autonomy. Because everyone from executives to employees is viewed as having equal numen, all have the right to determine their retire-

ment from the firm, the gap between executive and employee compensation is not as dramatic as in the United States, and workers are only laid off as a last resort — and even then alternative employment is often provided. Rather than make them less competitive, Japanese Leadership Style also engenders the loyalty and initiative which promotes incremental innovation and competitive advantages.

Acknowledgements

Notes

[1] The original idea of "normative environment" is borrowed from "Semantic Cosmos" proposed by J. Kyogoku (1983).

[2] This philosophy can also be found in Neo-Confucianism and Buddhism. In Confucianism, people are believed to have their own microcosm which can be related to the one single macrocosm (Miura, 1979, p. 28). In Buddhism, people are considered to hold Buddhahood, which is similar to the Confucian microcosm in the sense that it is the universal spirit within the individual (Fujita, 1970, p. 54).

[3] The philosophy of the life force is explained in detail in "*Shin Shukyo ni okeru Seimeishugiteki Kyusaikan*" ("Life-oriented salvation in Japanese new religions") by M. Tsushima, S. Nishiyama, S. Shimazoe, and H. Shiramizu (1979, pp. 92—115).

[4] The propensity is vividly illustrated in the Japanese tendency to make seemingly trivial activities, such as arranging flowers, making tea, practicing martial arts, or studying calligraphy, the ideal ways to complete their personal potential (to go beyond the tangible world). Becoming an expert in a field is likely to be thought of as reaching the stage of *kami* (one of gods).

[5] The statement that opportunities for success in life are open to all Japanese does not guarantee that all succeed in acquiring wealth and social status. Rather many Japanese are stymied in their career plans, en route. These people tend to make themselves satellites of successful people (Kyogoku, 1983, p. 179).

[6] Even when Japanese corporations cannot help but lay off

their workers, most of the large corporations have been able to pay a reasonable amount of retirement income to the workers who lose their jobs. The main reason why they have been able to afford this practice is that the assessed value of their assets under the fixed property tax law (and the inheritance tax law) has been significantly lower than the current value. Especially because of the consistent increase in the value of real estate, most of the large corporations have been easily able to raise a large amount of working capital or necessary cash by selling or mortgaging the land at the current value (Nihon Keizai Shinbunsha, 1990, pp. 291—292).

[7] Japanese corporations do occasionally face the issue of plant closure. For example, according to the "Maekawa Report" (Ministerial white papers and proposals) published in 1986, several Japanese coal mining companies were forced to close their mines, in order for Japan to increase the import of coal. But even in this case, these corporations tried to offer new jobs to the workers. Furthermore, because the Japanese tend to take costly steps to avoid leaving workers without a means of support, they are motivated to find ways to make inefficient factories pay off in the long run. As a result, they encourage management and labor to improve the production process, decision-making process, etc.

[8] Of course, when it comes to interests of other stakeholders, the employee-oriented practices might hurt stockholders' benefits in the short run, might damage communities' interests by polluting air and water, or the like. Yet as long as the Japanese business community keeps their long-term-perspective, these potential disadvantages will be mitigated by the corporate long-term strategies.

[9] The relative superiority of Japanese companies as compared to U.S. companies on this issue is underscored by the disparity in executive pay described in the text, as well as the frequently cited statistics demonstrating that in the United States during the 1980s "the rich got richer and the poor got poorer." For example, one typical article explains that from 1977 to 1992 (using projections for 1991 and 1992) the families in the top 5% income bracket saw their pretax annual income increase 55%, while the pretax income of the bottom 20% decreased by 11% (Pennar, 1991). According to Rawls, "Those who have been favored by nature, whoever they are, may gain from their good fortune only on terms that improve the situation of those who have lost out. The naturally advantaged are not to gain merely because they are more gifted, but only to cover the costs of training and education and for using their endowments in ways that help the less fortunate as well" (Rawls, 1971, pp. 101—102). From this perspective, the income distribution within American corporations might be unethical.

[10] The Japanese Fair Trade Commission (FTC) has found that most Japanese corporations transact business with other corporations voluntarily, and that the relations within the

horizontal *keiretsu* have actually been gradually weakening (1991, 1992).

[11] One of the problems inherent in Rawlsian approach is that when it is applied to a business context, there is not always agreement on who is the most or least advantaged.

[12] According to *Nihon Keizai Shibbun*, Sep. 22, 1992, the average land price of Tokyo residential area has declined by about 15% from 1990 to July 1, 1992. But still the Price Index of that area has grown from 100 to 215.6 from 1983 to July 1, 1992.

[13] Generally speaking, there are three prewar *Zaibatsu* related *Keiretsu* (the big financial combines: Mitsui, Mitsubishi, Sumitomo), three bank related *Keiretsu* (Fuji [Fuyo], Daiichikangin, Sanwa), and the several independent corporate groups such as Toyota, Nissan, Matsushita, Toshiba, Shin Nihon Seitetsu, Hitachi and the like. As far as the former six groups are concerned, although the presidents and chairmen of the same group periodically exchange their opinions about the general matter, they do not have the common strategic decision-making units so that their relations are relatively horizontal. On the contrary, the latter independent groups are likely to hold a hierarchical structure among group corporations. In this paper, I would like to use the term Keiretsu to denote the latter independent group (Negishi, Tsuji, Yokokawa, and Kishida, 1990, pp. 3–150; *Gendai Nihon no Kigyo Group (Industrial Groups in Modern Japan)*, 1987; "Japan's Troublesome Imports," 1992, p. 61).

[14] Toyota has three first tier suppliers groups: The Kanto Kyohokai, the Tokai Kyohokai, and the Kansai Kyohokai. Nissan has two first tier suppliers: the Shohokai and Takarakai. As for Toyota group's structure, see Sato, 1988, pp. 65–109; Womack, Jones, and Roos, 1990, pp. 153–156.

[15] To be sure, some corporations might steal precious know-how or technology of other corporations in this cooperative process. Yet, in most of these cases, because the former will be excluded from the cooperative circle, such a behavior will not pay off in the long run in Japan. See Beauchamp and Bowie, 1983, pp. 124–125.

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