Japanese Style Management
― The Japanese Management Accounting System as the Important Component and the Role of MBO in Japanese Firms

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I. On the Components and the Transferability of the Techniques of Japanese Management System, Especially Management Accounting System.

I.1　Introduction

Needless to say, it is very well known that Japanese Style Management was regarded as one of the most successful management methods. But nowadays, it is also known that Japanese Style Management has many defects and it is not always effective and applicable even in Japan now. This tendency is especially apparent in the nineties after the miserable breakdown of the "Bubble Economy" in the early nineties. Although we believed formerly that Japanese Management is always "the best", such an assertion is now regarded as almost doubtful. But it is also valuable to examine the reason of it. Basically, it is necessary to classify the components of the Japanese Style Management with regard to the transferability in order to understand the above mentioned problem correctly. In Takahashi(1986), he proposed a classification on the transfer-

ability of management styles and also in other studies, we can find various propositions on this theme. There are fundamentally three kinds of techniques and/or technologies, which are used in firms.

（1）Technologies as production factors, for example, machine plants and its mechanics.

（2）Techniques and professional knowledge, with which the technicians and operators operate the machine.

（3）Management-techniques or -technologies, with which the managers lead the staffs, i.e., to direct, to co-ordinate and to control.

Although these three different techniques have interrelationships, it is important for the discussion on the transferability of management-styles to make the fundamental character of the above mentioned techniques clear. And the first of them, （1）, is obviously not important in comparison to others as the topic of this discussion.

The second group of them is understood as the relationship between machine and person. And the third group of the techniques is mainly the relationship between person (manager) and person (staffs). Both kinds of techniques were understood originally under the concept of the "skill", in the old world of "Handarbeit". The industrial revolution brought us factory systems and it accelerated the mechanization of the means and methods to work and to manage. The tools were then replaced by the machines and in this process, the dual phenomenon of the transfer of skill became clear.

The first phenomenon includes the transfer of the skill from workers to machines. This phenomenon is well known as the mechanization of works.

The second phenomenon includes the transfer of skills from workers to managers. The number of qualitative works which belonged formerly to workers decreased and the task to lead （co-ordination and control）, which was not integrated till then, was assigned （transferred）to managers. This phenomenon is called "managerization" of works by Mohri（1973）.

Concerning these two phenomena, we should not look over that the managerization of works influences the mechanization process of works and the managerization accelerates the mechanization. The relationship between these two phenomena concerning the transfer of skills will explain the transferability of management techniques. That is, the transferability depends upon the possibility of the standardization of them.

I.2　Transferable Techniques

The system of "multi-function worker", for example lead by "Meister in the middle ages in Germany", is related to the relationship between "man and machine", whereas the system such as the life-long engagement and the seniority principle is not directly related to the "man-machine" relationship but developed as the relationship between "man and man（person and person）". The mechanism of the machine operation that is set in the machine itself is to be standardized relative easily by the development of manuals based on the fundamental techniques to handle the machine. Accordingly, workers can master the "how-to-techniques" or the "know-how" on the machine handling by the training.

Hence, it would be relatively easy or at least not very difficult to transfer new machines and the technique to operate them, although it depends upon again the level of techniques

(the quality of workers, the difficulty of the technique to operate and to maintain machines) and the economic, social and legal condition of the land in question. In the transfer of this type, workers can operate the machine probably soon after the study of manuals and the appropriate exercises. This means that the techniques which can be relatively easily standardized are also those which can be relatively easily transferred. There are many such examples in the field of management accounting. For example, the introduction of a new accounting control system based on computer programs is mostly successful, if the using method is correctly understood by the staffs, as it quite possible to standardize the using method, especially nowadays in the form of "manuals". And it would not be necessary to further mention them here.

I.3　Untransferable Techniques

On the other hand, it is very difficult to standardize the management-technique and to make a manual-book of it, as the transferability of skills of workers and the degree of delegation of task (authority and responsibility) to managers depends upon both the management-strategy of firms and the loyalty of workers and on the cultural structure.

Hence, the grade or the degree of the standardization and the grade or the degree of using the manuals on management techniques would be different among the countries and among the firms. It seems therefore to be difficult to transfer the management techniques without conflict, as the type of skill-transfer between persons is extraordinarily different among all countries.

Therefore, we can mention many examples, in which the transfer was not successful. For example, the job description was not successfully introduced as a management-technique in the Japanese firms in the fifties, as it didn't fit the Japanese Culture of that time. In those days, Japanese firms tried to introduce American management systems, which was in effect not successfully introduced. Especially, the clear arrangement of the job according to American model could not be compatible with the traditional RINGI-system (group decision making through consensus). For this reason, the American job description system could not be directly introduced to Japanese firms but it was modified together with the modernization of the RINGI-System. The content of the job was shared to groups, sections and departments. What is thereby important is that the technique was later anyhow introduced only after the modification.

In the field of management accounting, the famous example of this type is the case of Management By Objectives (MBO). We will review it later in this paper.

II. The Role of MBO in Japanese Management System.

II.1　The Structure of MBO and the Introduction of it in Japan ― An Overview.

As is well known, MBO was created in USA and this partly caused the trouble in Japan. That is, MBO was not always successfully introduced in the early times of the introduction.

Weihrlich (1986) summarizes the propositions about the comparison of Japanese and United States management approaches and even if we examine only a part of it, the part on "Planning", it is not difficult to understand the difference.

Table 1　Propositions About The Comparison of Japanese and United States Management Approaches[*]

Japanese Management	United States Management
Planning	
1 Long-term orientation.	1 Primarily short-term orientation
2 Collective decision making ("ringi") with consensus.	2 Individual decision making.
3 Many people are involved in preparing and making the decision.	3 Few people are involved in making and selling the decision to persons with divergent values.
4 Decision flow is from the bottom to the top and back.	4 Decisions are initiated at the top and flow down the organization.
5 Decision making takes a long time. Implementation of the decision is fast.	5 Making a decision is fast. Implementing the decision takes a long time and requires compromise, and often results in suboptimal decisions.
6 People share decision power and responsibility.	6 Decision power and responsibility vested in designated individuals.
7 Individual goal ambiguity.	7 Individual goal clarity.
8 Operational decisions are strategic.	8 Operational decisions are tactical.
Organizing	
1 Collective responsibility and accountability.	1 Individual responsibility.
2 Ambiguity of decision responsibility.	2 Clarity and specificity of responsibility.
3 Informal organization structure.	3 Formal bureaucratic organization structure.
4 Common organization culture and philosophy are well known. Competitive spirit toward other enterprises.	4 Common organization culture lacking. Identification with profession rather than with the company.
5 Changing processes in the organizatlion with emphasis on consensus. Use of internal change agent.	5 Changing goals in the organization. Confrontation. Frequent use of external change agent.
Staffing	
1 Hiring young people out of school. Hardly any mobility of people among companies.	1 Hiring people out of schools and from other companies. Frequent company changes.
2 Slow promotion through the ranks.	2 Rapid advancement highly desired and demanded.
3 Loyalty to the company.	3 Loyalty to the profession.
4 Very infrequent performance evaluation for new（young）employees.	4 Frequent performance evaluations for new employees.
5 Appraisal of long-term performance.	5 Appraisal of short-term results.
6 Rewards for long-term performance.	6 Rewards for short-term results.
7 Small differences in pay increases.	7 Substantial differences in pay increases（especially for top managers）.
8 Rewards for group and company performance.	8 Rewards for individual achievements.
9 Promotions based on multiple criteria.	9 Promotion based primarily on individual performance.
10 Training and development consldered a long-term investment.	10 Training and development undertaken with hesitation because employee may switch to another firm.
11 Broad intracompany career paths. Exposure to many enterprise functions.	11 Frequently narrow career path within the organization. Expertise in specialized enlerprise functions.
12 Lifetime employment common in large companies.	12 Job insecurity prevailing.

（Cintinued）

Japanese Management	United States Management
Leading	
1 Leader as a social facilitator is part of the group. 2 Paternalistic style. 3 Common values facilitate cooperation. 4 Avoidance of confrontation may lead to ambiguities. Emphasis on harmony. 5 Confluence of working and private life. 6 Bottom-up communication. 7 Emphasis on face-to-face communication.	1 Leader as decision maker is heading the group. 2 Direclive syle, strong, firm, determined. 3 Often divergent values. Individualism may hinder cooperation. 4 Clarity valued; face-to-face confrontalion. 5 Separation of working and private life. 6 Communication primarily top-down. 7 Emphasis on written communication.
Controlling	
1 Control by peers. 2 Control focus on group performance. 3 Save face. 4 Extensive use of quality control circles. 5 Suggestion box considerable success.	1 Control by superior. 2 Control focus on individual performance. 3 Fix blame. 4 Limited use of quality control circles. 5 Suggestion boxes with limited success.

*source: H. Koontz, C. O'Donnell,. and H. Weihrich, *Management*, 8th ed.（New York: McGraw-Hill, 1984.）Used with permission.
Source: Weihrich（1986）, p.208-209.

The essence of the great difference between Japanese and American Style Management is summarized in table1. For example, group-oriented, long-term and value-shared decision making of Japanese Style Management can be understood from this table without difficulty. And they are in fact the major causes of the difficulty in introducing the MBO to Japan.

On the other hand, the structure of MBO could be summarized as follows. It is a management model, by which the application of a target-determination and -arrangement in advance is stressed, without narrow rules of procedure. The staffs are permitted to have the latitude in accomplishing the job. In this way, the management of higher administration level is unburdened and the workers are motivated with more own-responsibility. The following requirements characterize the MBO.

the priority of the target components,

the compatibility of individual targets with the higher total target,

the clarity and the exactitude of the target given in advance,

the reality and the flexibility of the target given in advance,

the participation of the staffs in the process of the target formation,

the precedence of the own-control over the extraneous control.

Even if the risk of the incorrect development, for example, to ladle out the right to control, exists, workers would finally be able to appreciate the experience of MBO, especially in connection with the personal judgment positively.

In the light of the above mentioned six characters, it can be easily expected that the introduction of MBO technique in Japan was not very easy, at least without modification. It is said that the first big company which introduced formally the technique of MBO in Japan is TOSHIBA.

In the case of TOSHIBA, MBO was charac-

teristically carried out with the cooperation of all the workers as well as their managers in an area, while the applicability of MBO in USA was apparently restricted to an individual manager level because of the strong individualistic U.S. tendency in business.

In Monden and Sakurai (1989), they call the U.S. Version the "individualist type" and Japan's version the "group type". One can without difficulty expect that the system of communication within a work area is important, since a Japanese management control system is characterized as a group type. Intra-organizational communication is often limited to meetings only among top management. Workers (Staffs) get therefore the information of decisions without having participated in the decision-making process which they must follow. In Japan, group decisions are considered generally superior to individual decisions regarding decision implementation. Hence, meetings with attendance by all members are recommended. Every related member is hoped to attend the meeting, and then the information asymmetry between managers and workers would be avoided. The process is summarized by Monden (1989) as follows.

"In principle, a meeting attended by all members is held to discuss any problems, such as those in a division's business plan for the coming year or in a work area's budget for the next period, before establishing objectives, Such problems are singled out and categorized, and then middle managers determine the general objectives of their own divisions in counsel with top management. Next, they inform their managers of the scope of the requested items and general objectives, and then let their subordinates plan the details themselves. Based on these detailed ob-

jectives, objective cards are made and finalized by the managers and their subordinates. A general meeting is then held to present the objectives."

In this way, they try to have a communication which will bring them a successful accomplishment of the plan and budget.

At the time of the decision, the managers take responsibility. Monden (1989) summarizes further.

"When it is time to evaluate results, workers first evaluate themselves. Afterward, they hold a meeting with their supervisors. When they reach an agreement, the supervisors' evaluations are determined and written on the objective card.

A meeting is then scheduled to present the results. Finally, the evaluation is utilized as reference data for merit ratings. Since objectives are established cooperatively with the participation of the entire work area, the phenomenon of cooperation by all participants is bound to be created at the stages of establishing, performing, and evaluating objectives even if an objective belongs to an individual."

As the typical and the most advanced example of Japanese Type System, the management accounting system in TOSHIBA is very famous. The company adopted the organizational system of profit centers run by operational divisions fully equipped to perform long- and middle-term profit planning and short-term budgetary control. The aim of this system is "profit management". It is very favorable to involve workers at operational levels in the profit management system and MBO is, of course, a way and an attempt to accomplish the objectives of the organization. There is a great difference in the individual desires or the motivation between in U.S. and in Japan. In the U.S., monetary rewards are

the primal factor in most cases. But in Japan, what is regarded as most important is the inner rewards such as job satisfaction or the feeling of accomplishment.

As described formerly, it is well known that the Japanese system of management is characterized as the group type, and one more character, the tendency to break work areas into smaller units is surely another important one that differs much from those in other countries. This is often also regarded as the important part of "Participative or Group Decision Making". A personal relationship among the group members arises from this small units composed of six to eight people. As is often stressed in the literature on Japanese Style Management, small groups are emphasized in the Japanese business world and administration.

The group activity of this type is supposed to help to motivate both the organization and the individual members. An also well-known unique Japanese System is the career development program（CDP）. CDP is designed to develop the ability of the MBO participants as human abilities, and it continues lifetime long and therefore on the premise of lifetime employment system. Accordingly, management develops a career program to encourage a person's specialty with the time horizon of approximately ten years. Based on this system, a job program of approximately three years length is planned and revised yearly. Consequently, MBO in Japan tries to encourage both individual development objectives and primary business objectives of the firm.

II.2 The Effect of the 'Value Change' on the Transfiguration of Japanese Management Accounting, especially on MBO in Budgeting System of Japanese Firms.

In the previous section, we mentioned six characters of the MBO system. In other words, they are the components and the requirements of the system and whether the system functions successfully or not, depends upon the effective fulfillment of them. In the post-war period and especially in these days, the phenomenon of the "value change" has become apparent in the young generation. The typical tendency of the change could be summarized as follows.

As we formerly noticed, there are six important factors which influence the effectiveness of the MBO system.

① the priority of the target components,

② the compatibility of individual targets with the higher total target,

③ the clarity and the exactitude of the target given in advance,

④ the reality and the flexibility of the target given in advance,

⑤ the participation of the staffs in the process of the target formation,

⑥ the precedence of the own-control over the extraneous control.

We can pick out ②, ③ and ④ from these six factors as those which are relatively much affected by the "Value Change" of the MBO participants, mainly, of the subordinates. What is common in these three factors is that the "Target Interpretation" is necessary to realize these factors and eventually to ensure the smooth operation of the MBO system.

In interpreting the target, the difference of the value judgment system between younger and the difference of the value judgment sys-

tem between younger and older generation quite affects the outcome. In Albach（1993）, the following trends are listed as the symptom of the value change.

a）the change from material value to mental value,

b）the change from the industrial society to the post-industrial society,

c）the change from the self-fulfillment by "Arbeit" to that by free time,

d）the change from the family as the center of the life to the partnership of limited length,

e）the change from the wish to have children to the unrestricted and self-related endeavor after happiness,

f）the change from the orientation to investment and saving to that of consumption,

g）the change from the dependent wife to the emancipated woman,

h）the change from the prosperity-increasing society to the throwing-away society,

i）the change from the society with a widely accepted value system to the highly diversified society with many sub-cultures,

j ）the change from the respect for the older generation to the radical withdrawal from everything that was accepted by the older generation,

k）the change from the right and rules to the opposition out of the parliament and to the radical citizen movement or even to the terrorism,

l）the change from a positive attitude to the technical progress to a rejection of all further technological development and technological life form.

Among these trends, we can again select those which are important for us to consider the effect of the value change upon the function of MBO in Japan. Such factors help us to understand the path of the influence. Consequently, we can take notice of d）, i）and j）as the key factors which play the important role to explain the relationship between the causes and the outcome（i.e. the impact）of the value change.

What is affected by the value change in the formerly mentioned requirements of the MBO is related to the constructing process of the target. This process consists of several steps and problems arise often in the step of the co-ordination of the individual target to the higher total target. As is noticed, these three factors relate directly to the important ingredients of the Japanese Style Management. This correspondence is briefly summarized as follows.

d）・・・ the firm to which one belongs as a "family".

i）・・・ the dominance of the firm' s value system over the individual value system.

j）・・・ the seniority principle.

The problem of the target conflict arises inevitably out of these gaps in the process of target co-ordination.

In Igarashi（1995）, several cases are presented, in which MBO is not successfully executed. The author calls the situation "MBO disease". As the cause of this "disease", he mentioned four defects in the Japanese MBO system.

First, the lack or the distortion of the view on "co-worker" that is compatible with them at the side of the managers.

Second, the lack of the concrete system and instrument by which MBO functions.

Third, the lack of the manager' s ability to motivate their staffs. Fourth, the lack of the concrete "know-how" to operate the system. In the past, especially in the seventies and eighties, the Japanese MBO System operated

almost successfully based on the basic assumptions …of Japanese Style Management.

But nowadays, the basic assumptions changed on account of the value change and some of them, especially those related to the human side of Japanese Style Management do not hold necessarily.

As mentioned in Koyama（1991）, the strongest desire of young generation is now self-realization and they want to get or realize their desire as soon as possible. Firm（Kaisha）is no more family for them and their personal value system is often prior to that of the firm. The seniority principle and the teaching of Japanized Confucianism, the most important components of Japanese Style Management, holds no more in the consciousness of the people of the young generation.

It may be therefore asserted that the above mentioned three trends are important signs that Japanese Style Management is confronted now the severe turning point.

III. How will MBO in Japan change in the Future?

In Monden（1989）, the relation between effort and performance, and the relation between performance and reward are analyzed.

In his opinion, MBO may be called a system that triggers an organization to meet its budget. While the budget is based on data, the MBO goals are agreed upon by top and middle management.

Based on the expectancy theory regarding motivation, he proposes to adopt a system that has a favorable influence on effort and performance from the viewpoint of management control system planning. According to his interpretation, managers have two kinds of expectations, that is, effort-performance expectation（hereafter, E-P expectation）and performance-reward expectation（hereafter, P-R Expectation）. The former is the expectation that a certain amount of effort will result in a certain level of performance. On the other hand, the latter is the expectation that a certain level of performance retained brings a certain reward. Although the typical reward here is monetary one such as a promotion, salary increase or bonus, the non-monetary reward such as inner feeling of accomplishment and satisfaction are also important. Based on these expectations, managers try to make efforts to work.

There are two key factors which almost determine the effectiveness of the budget system in E-P and P-R Expectations.

The first is the standard to evaluate the performance and it corresponds budget and stan-

Figure1　Effort-Performance and　Performance-Reward Expectations
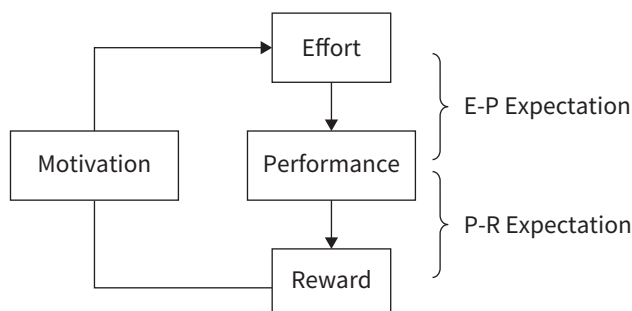
Source：Monden（1989）, p.415

dard system in a budget system and corresponds the method to evaluate objectives in MBO. The second is the reward or incentive system in P-R Expectation. In this system, both the ability and the performance are appraised. In this regard, the contribution of results to performance is often stressed in evaluating. This system is named "Merit Rating System". These relationships are shown in the following figure, figure 1.

The important requirements necessary for the future development in this system in consideration of the young generation could be summarized as follows.

First, one must try to develop the evaluation system according to the viewpoint of young generation as possible. In figure 1, it is easily understood that both the relation between "Effort" and "Performance", and that between "Performance" and "reward" are exposed to uncertainty. From the viewpoint of the agency theory, it is always necessary to design the system in which the agency cost is reduced as possible. Because of the uncertainty, however, the cost increases especially when the young generation attends the MBO System, as they regard the uncertainty as the crucial factor which hinders the realization of their desire. The time horizon of their plan and activity is remarkably shorter than that of the old generation and this means that the system must be designed in the form that all of them are possibly observed at a glance. The relationship of the components must be clear and easy to understand and to observe.

That means also that the effect of uncertainty on the result of staffs should not be too seriously accounted in the evaluation system.

Second, the basic idea of the motivation in the E-P and P-R system must be flexibly changed. As mentioned in the previous sec-

tion, the target of the firm is not necessary an absolute one for the young generation. In the process of the target co-ordination of the MBO System, the variety of the value systems of the participant in the MBO System should be reflected.

Third, and the most important is that we should not misunderstand the word "Management By Objective" as "Management（Pressure）by Work Quota". The original idea of MBO was based on the wish to make progress by consensus. As is also well known, consensus is one of the most important ingredients of Japanese Style management. Remembering this fact once more, the process of the target co-ordination and the execution of the work to perform the target should be for both the managers and the staffs pleasant and comfortable.

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