

Reflecting on Changing Management Styles in Japan since the Reiwa Era

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I. Two Olympic Games in Tokyo

On July 23, 2021, the 32nd Summer Olympic Games began and lasted 17 days with an opening ceremony held at the National Stadium in Tokyo, which had been rebuilt at great expense for the 2022 games¹⁾. This was the Tokyo 2020 Olympic and Paralympic Games, which had been postponed from the previous year, due to the global pandemic, which commenced in 2019, thus the name Covid 19. The Tokyo Olympics 2020 was held amidst a pandemic which had infected over 250 million sadly recording over 5 million deaths²⁾. Although vaccines were rapidly developed and some developed countries had a vaccination rate exceeding 50%, globally the infection rate was rising as was the number who perished.

The Tokyo Olympics 2020 was held, despite 70% of the Japanese people, the host country people, having expressed their preference that the games should be “cancelled” or “postponed” a second time. Despite this, the IOC³⁾ (with Mr. Bach as President), the Japanese government and the Tokyo Metropolitan government decided to press ahead with the event under the slogan of “Keep safety and security.” This, despite the fact that the Japanese government declared a state of emergency for the third time⁴⁾, and the Tokyo Metropolitan area continued to break records for the highest number of daily infected people⁵⁾. The fact that this

event went ahead, even amidst a global pandemic, delighted some and outraged others (particularly the Japanese people as shown by opinion polls at the time).

The Japanese people, who were expected by be “OMOTENASHI” (to wholeheartedly look after guests) found difficulty fulfilling this lofty welcome, particularly as it is difficult to be excited about any spectator sport if one does not understand the rules (which many Japanese did not, given the wider variety of sports on display since the 1964 Olympics) this, together with the lack of spectators, made for a very unusual spectacle, most events took place to almost empty stadiums. When the Japanese flag flies in the victory stand, the few spectators that were present cheered, despite the vast number of empty seats in the stadium. The volunteers who greeted the athletes and IOC officials had to hold their smiles underneath their face masks, whilst watching in the scorching sun which exceeded 40°C. Nevertheless, the Japanese Olympic team, who had been preparing for the event for many years with a great sense of effort and talent were able to take home 29 medals, (including 16 gold, 5 silver and 8 bronze). This was a significant achievement if one remembers that at the 1964 Tokyo Olympics, the Japanese team were only able to bring home 10 medals in total, thus despite the pandemic, there was a huge difference in performance from Japanese sportsmen and women.

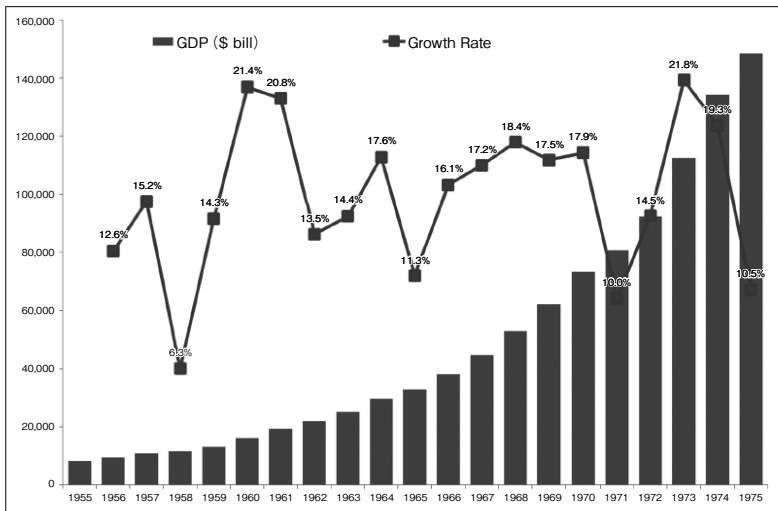
Looking back, on October 10, 1964, some 57 years previously, the opening ceremony was held at the old National Stadium under a clear autumn sky. In the midst of the East-West Cold War, 7,060 people from 94 countries participated. At that time, the participating athletes were in principle, “amateurs” as the OIC rules in 1964 did not permit professional athletes (those who made a living from sports) to participate. In that respect, it may be said that in those days, the Olympic spirit embodied a different ethic as Baron Coubertin, suggested, “It is meaningful to participate.” This despite the presence amongst these seasoned amateurs of athletes from Eastern Bloc countries (USSR, Romania, Czechoslovakia, Poland,

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Hungary and East Germany) who were in effect “state sponsored athletes” being virtually professional, being full time so called “state amateurs” with all their needs provided for by the state.

The decade of the Tokyo Olympics (1964) was held in a period in which Japan’s economy grew the most in its more than 2,000-year history. In the process of recovering from the devastation after the defeat in World War II, infrastructure in Japan was gradually developed and real economic growth continued to be in the range of 9% per annum in the 1950s and at an annual rate of more than 10% throughout the 1960s. This was the so-called period of “high economic growth.” The decision to host Tokyo Olympic Games in 1959, created the need for significant development and construction, such as the construction of the Tokyo Metropolitan Expressway, the Shinkansen (Bullet train) and a wide variety of sports facilities. This economic development continued through to the Osaka World

Figure 1: Economic growth rate during the period of high economic growth (1955-1975)



Source: Cabinet Office Annual Estimate of the National Accounts
https://www.esri.cao.go.jp/sna/data/data_list/kakuhou/files/files_kakuhou.html

Exposition in 1970 and as a result during these two decades the economics of the Tokyo Metropolitan Economic Zone and the Osaka Economic Zone greatly improved.

The world's attention to the astounding postwar Japanese economic recovery can be understood from an anecdote by Abegren J. C., a researcher of Japanese management and former president of Boston Consulting, who wrote, "The 21st century is the century of Japan.⁶⁾" It is true that at the same time, the world's interest in "Japanese-style management" was gathering. However, this interest rapidly subsided by the recession caused by the first oil shock (1973). Interest in "Japanese-style management" increased again after the second oil shock (1979). This was not until the 1980s, when significant interest continued in Japanese success stories e.g., the publication of "Japan as Number One" by Vogel Ebola F.⁷⁾.

The success of Japanese companies that had built internationally competitive businesses heightened interest in "Japanese style of management," and as a result many management scholars (both at Home in Japan and overseas) developed multiple theories based on case studies of Japanese companies⁸⁾.

However, while Japanese style of management was being touted as a model for corporate management, at the same time, Japanese companies and therefore the Japanese management style was hit by tremendous challenges. This is referred to as the "bursting of the bubble economy". The myth that had been built that "stock prices and land prices will never fall in Japan" in fact they both collapsed abruptly, and the Japanese economy was forced to stand on the threshold of the abyss. Needless to say, those who thought that 80% of the population was middle-class and that Japan was a rich country were perplexed and extremely worried. In the 1980s, many Japanese companies that had roamed the world with the strength of the Japanese yen and the confidence of Japanese-style management decayed as

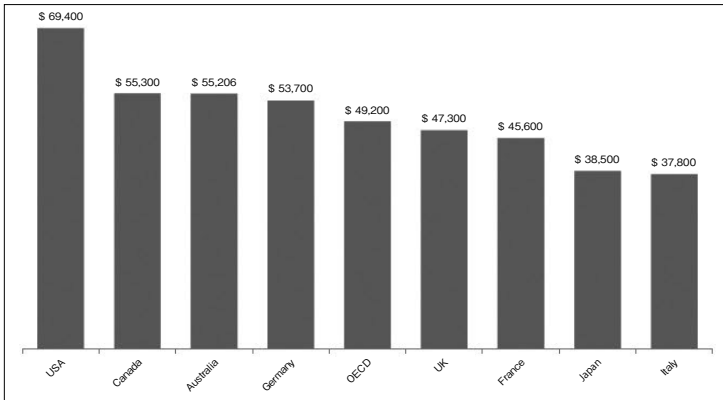
they watched a significant deterioration in their business and personal wealth. Indeed, many in the Japanese economy and many Japanese companies have been unable to escape this downward spiral and have suffered from a prolonged recession. During the 30 years of the Heisei era, Japanese-style management, which previously had been heralded as “the way forward” by many international academics was sometimes directly rejected, and Japanese companies faced significant loss of performance and conflict e.g., Nissan, which ultimately found itself having to appoint a foreign CEO, Carlos Ghosn, with mixed results.

The decision to host the Tokyo Olympics for the second time, brought much needed vitality to the Japanese economy. Very shortly thereafter, stock prices reached new highs not seen since prior to the bursting of the bubble economy. However, the salaries of ordinary people remained unchanged at the same level as during the bubble economy, more than 30 years previous. Under such circumstances, the “Labor Measures Comprehensive Promotion Act” (Work Style Reform Promotion Act)” was introduced in 2018.

It is a “work style reform” that was promoted under the slogan of “Dynamic Engagement of All Citizens.” Will this significant labor reform finally enable Japanese companies to transition away from “Japanese-style management” which has been an undercurrent in the management systems of Japanese companies and has changed little in the 30 years since the bursting of the bubble economy? And is it really a transition from the “membership-type employment” to “job-type employment” that we often hear about in Japan in recent years? Even as we have to wait for the pros and cons to emerge, will the second Tokyo Olympics become a symbol of the revival of Japanese society, Japanese companies, and Japanese management, as it once was?

In this paper, we will consider what so called “Japanese-style” management is and, how it has changed throughout the Heisei era (from 1980 to 2019), focusing

Figure 2: Average income in major countries (2021)



Source: OECD Employment Outlook (2021).

particularly on the Human Resource systems, which is the foundation of Japanese style of management.

II. Strengths and Weaknesses of Japanese Style of Management

The easiest answer to the question “What is Japanese style of management?” would be to illustrate the existence of a social system that is referred to as the “three sacred treasures” the three major characteristics that are the foundation of so called “Japanese style management”. Thus, we will now consider the strengths and weaknesses of the three social systems such as “lifetime employment,” “seniority,” and “in-house unions.”

(1) Lifetime employment system

Most students in Japan join a specific company in the April of the year they graduate, whether high school or University graduates. The lifetime employment system (LES) is a system that provides “cradle to grave” employment, a relationship with a prospective employee, thus the individual will only work for

one company throughout their lifetime, from graduating school or University, until retirement. The practice of the LES has been recognized as one of the cores components of the traditional Japanese management system of Japanese companies⁹⁾. This system took root in Japan during the period of high economic growth in the 1950s and 1960s, with the aim of securing a motivated and stable labor force for companies and improving their retention rates. Nearly half a century later, by the year 2000, about 90% of large companies had adopted this system¹⁰⁾. 10 years have passed since the bursting of the bubble economy, and despite the challenges that pervade the Japanese economy, the LES practice has continued. Let's consider the strengths and weaknesses of the LES, which is one of the cores of Japanese style of management.

The first benefit of the LES for the employer is that it increases the sense of belonging of employees to the company. Under life-time employment, employees are able to plan their lives from a long-term perspective, without worrying about sudden dismissal or layoffs. So long as a company prospers, the well-being of its employees is therefore guaranteed. As a result, this strengthens employees' sense of belonging to the company, fostering a diligent attitude towards their duties, and creating strong psychological bonds amongst and between employees. At the same time, a strong sense of belonging to a company is a driving force that elicits a company's active commitment from all employees to continued growth. As Professor Iwasaki's late father (Tsukasa Iwasaki), who worked (35 years) for a small family business, so eloquently put it, "If the company improves, our family will also improve."

A second benefit of LES is that it revitalizes human resources. If the employee retention rate is high, investment in education and training is not wasted and becomes cumulative in impact, thus an outflow of skilled skills can thereby be avoided, and the business retains its experienced workforce. In short, it makes it

possible to minimize labor costs that are caused by continued employee turnover, not just in terms of losing the employees and their skills, but also the cost of finding and training a new replacement. In addition, the LES facilitates the introduction of technological innovation. Resistance to labor-saving associated with technological innovation such as automation or informatization often hinders the improvement of production processes, but under the LES system, there is little danger to unemployment, and managers can actively promote the introduction of the latest technology. Witness the Luddite movement in actively resisting and even sabotaging equipment during the industrial revolution in England and France¹¹⁾. Indeed, the word sabotage comes from French workers using the Sabot (wooden clog, to break the looms hence the word Sabotage) to break/stop the looms.

It is a fact that these three characteristics of Japanese style management supported the period of high economic growth around the time of the first Tokyo Olympics in 1964. On the other hand, changes in economic conditions, such as the first oil shock and the collapse of the bubble economy, caused the disadvantages that influenced the basis of the superiority of “Japanese type of management.”

Under the LES, the elasticity of labor is impaired, because personnel expenses have a fixed cost character. In contrast to western companies, which allow flexible adjustment of production through termination and layoffs, Japanese companies have fixed labor costs even if a crisis looms over the business, thus it becomes difficult for the company to respond promptly to a downturn in the economy or business. Therefore, since the year 2000 many Japanese companies are increasingly hiring part-timers and contracted employees in Japan, the main reason for this shift in employment status from Les to part time/contract is to change labor cost from fixed into a variable component.

As the declining birthrate and impacts of the aging population in Japan occurred so the LES combined with the seniority system (to be described later),

results in many high-wage middle-aged and a comparatively older workforce in companies, and thus costs per employee make such businesses internationally uncompetitive. The introduction of early retirement systems and performance-based wages is a common method employed to curb soaring average cost per employee labor costs.

In addition, less movement of workers between firms leads to rigidity in skills. Whilst long-term employment promotes the sophistication of specialized skills that can only be used within a specific company, these same skills can become obsolete rapidly with each new technological wave. In addition, they may be bound by misunderstandings and status quo assumptions based on previous technology, which may hinder new business activities. Witness Sony Trinitron v Samsung flat Screen technology or Swiss watch industry v Seiko and Citizen watch.

After the bursting of the bubble economy, these disadvantages came to the fore, and restructuring (business restructuring) such as personnel reductions in middle management, early retirement recommendations, and secondments to subsidiaries became rampant, and the adverse effects of restructuring struck at the heart of the LES.

(2) Seniority system

Inextricably linked to the LES is the “seniority system,” in which wages rise and seniority increases as the number of years of continuous service increases. Under this system, as the number of years of service increases through regular salary increases, not only will wages continue to increase until retirement, but also the number of people in senior positions also rises. At the heart of this system is the idea that the achievements of experience, education and training increase with age, and the tangible and intangible contributions to companies increase accordingly, so that past and cumulative contributions should be rewarded.

One of the merits of the seniority system, like the LES, is that it has helped to increase loyalty to companies by giving employees a sense of stability and security that makes it possible to predict their long-term lives. In addition, there are built-in psychological considerations and a sense of balance and equality, such as not placing too much emphasis on abilities and achievements, so that it does not significantly damage workers' self-esteem and does not diminish their motivation and loyalty. In addition to the long-term perspective of performance evaluations, there are also merits such as the suitability of enabling more team or groups based, rather than individual performance evaluations. It has often been ridiculed as GNN (Giri; Bonds, Ninjo; Humanity, and Naniwabushi; old style traditional management), but it can be said that to be a typically Japanese approach to employment.

Nonetheless, the experience within a company and the results of on-the-job training are not necessarily directly reflected in the company's performance and the abilities and achievements of individuals. As a result, since the 1990s, many companies including small- and medium-sized enterprises, have introduced an evaluation system that takes into account the ability to perform duties and achievements for white-collar workers (the ability-based grade system). However, even if such systems are common, the bias toward seniority-based systems remain strong, and are still very common in many businesses throughout Japan.

In terms of whether remuneration and promotions are incentives to motivate people to perform better, the psychological considerations and equality of the seniority system is necessarily an effective method of motivation. The seniority system is a system with strong relaxed elements such as the ability to build good relationships and loyalty, though it lacks objectivity, such as accurately evaluating achievements of individual work and paying wages as compensation, and it can be said that authority and responsibility have become factors that give rise to a somewhat ambiguous structure.

It is true that the seniority system with lifetime employment as a background is effective in strengthening competitiveness by lowering the average cost when the size of the company expands and it experiences a high growth rate, but when the businesses growth rate is low, both the cost and the job position are negative. At a time when moderate or high growth is not anticipated, experience has shown that there needs to be a review of the seniority-based systems. In fact, with the rapid deterioration since the oil shock there has been a certain amount of pessimism associated with the seniority systems, particularly amongst the younger new recruits.

(3) In-house union

The third facet of the “three kinds of sacred vessels” of Japanese type of management is the practice of “in-house unions.” In contrast to non-Japanese countries, labor unions are organized by occupation and industry to exert their social influence, particularly on wages and working conditions, while labor unions in Japan are based on a single union organized by the company and represent only one company and not a trade or profession. Compared to Western-style labor unions which tend to be organized by occupation and industry (thus the commonly used term in the west of “trades unions” used to describe them), company-specific unions allow individual corporate unions to take their own initiative and operate on their own (independent of other companies unions) and play a role in achieving harmony between workers’ interests and corporate management efficiency, according to the circumstances and business conditions of each company.

In addition, under the Japanese personnel system, which is premised on internal promotion, it is easy to share values between hierarchies or between occupations, and as a result, management policies become clearer, mutual understanding between labor and management is deepened, resulting in less

tensions between labor and management as there is more goal congruency, what is good for the company, good for the worker and a more co-operative style of labor-management cooperation is established. In addition, the degree of involvement of the union in the management and operation system through its activities becomes stronger. Union activities themselves play an important role in the development of managers. Therefore, in the case of in-house unions, the position as a member of the company becomes stronger, and the position as a worker is relatively weaker. Compromises are often made according to the circumstances of individual companies such as business performance and social conditions, as well as the logic of management. In particular, in the midst of economic downturns, the union is expected to play a role of supporting management based on a labor-management cooperative system, rather than as a pressure group. Although it has its role, it is still and has been the case, that it takes courage to oppose the boss.

In this way, in-house unions have become an old standby in Japan, and union-management cooperation has been fostered and strengthened to function effectively. On occasion, it can be that workers are forced to abandon their rights in favor of the business's needs. In other words, excessive union-management cooperation has hindered workers from their original position as stakeholders and has at times become an obstacle to sound governance.

(4) Evolution of Japanese type of management theory

The controversy over whether these three these three kinds of sacred vessels (common traits of HR seen in Japan) were a source of strength for Japanese companies have already caused various debates at the stage of establishing Japanese type of management. One of the most representative of these was the fundamental question of whether the kinds of sacred vessels themselves are indeed peculiar to Japanese companies as it has been found that in many developed countries that

there is a correlation between age and years of service and wages in developed countries too¹²⁾. The existence or non-existence of universality has been a point of contention in the so-called “cultural approach,” which seeks to explain the characteristics of Japanese styles of management by differences in Japanese culture and Japanese psychological characteristics¹³⁾. In addition, some criticized the fact that Japanese management studies at the time was the subjects of detailed study and analysis¹⁴⁾.

It seems that it is very difficult to establish the extent to which these three facets are primarily Japanese traits or not, it is not as clear as one would think. Ryushi Iwata, a pioneer and great master of Japanese management studies, described the situation at that time as follows¹⁵⁾.

“For about 30 years after the war, Japanese business administration has accepted the American model, which has the character of normative theory, as a universal model. For this reason, theoretical interest in the management of Japanese companies was low, and in contrast to the advanced American model, Japan’s backwardness was pointed out, and there was only interest in bringing the reality of Japan closer to the American model. It is no exaggeration to say that there was no effort to theorize and understand events that was compatible with the reality of Japan.”

In short, before Japanese companies were able to compete with leading international companies, Japanese business leaders had not established a way to theoretically explain where the competitive advantages of Japanese companies lie. Therefore, in order to explain Japanese style of management in a journalistic manner, he brought to the fore the “three kinds of sacred vessels” that had established the source of Japanese companies’ strength as a social system. In short, it can be said that the three “three kinds of sacred vessels” merely illustrated the characteristics of the personnel system of Japanese companies at that time.

In view of this, it is not surprising that interest in Japanese management was lost in the turmoil caused by the first oil shock. However, with the two oil crises, things changed drastically. The concept of so called “belt-tightening”, which was adopted by many companies after the first oil shock, assisted the recovery of the business performance of Japanese companies and demonstrated an overwhelming competitive advantage on the international stage. Although it did not reach the period of high economic growth in the 1960s, it was 3-5% in the 1980s. Japanese companies with Japanese style of management had come into the spotlight more than ever. The title of “Japan as Number One” a very successful business book was symbolic of this approach. Moreover, by this time, social institutional features such as the “three kinds of sacred vessels” (or characteristics) had also injected themselves into the relationships between people and organizations, as Tadanori Nishiyama pointed out¹⁶⁾.

“In Japan, a corporation is a place of living (a kind of home) for workers, and as in capitalist countries such as Europe and the United States, since the manager is not a substitute for the shareholder who is the capitalist, there is no sense of separation between the manager and the general worker, and the manager is also a member of the worker, and the both have identity and oneness. Many of the phenomena that are considered to be characteristics of so-called ‘Japanese type of management’, such as the fact that the constitution of Japanese Labor unions is not as militant and indeed is comparative, as compared to the foreign countries. Also, Japanese unions are company-specific, there is company-wide quality control (TQC), and the Japanese type of lifetime employment system are not unrelated to the structural characteristics of Japanese companies, but it is an adaptive form, linked to the social development of the modern Japanese economy.”

In this way, research on Japanese management had become focused on the characteristics of communication and decision-making systems of Japanese

companies. For example, one source of superiority of Japanese style of management, which has been noted, is that work was not carried out based on detailed manuals and job descriptions, that the instructions of superiors are often by way of a rough outline not comprehensive, and that information is often collected through personal connections, human relationships, and relationships of trust, rather than through official channels. In addition, the sharing of information was actively promoted systematically, such as the management collegial system, the approval systems¹⁷⁾ and frequently held meetings, because the division of labor was ambiguous, and each person's work tended to be carried out in compatibility with the cooperation of each person in charge. In addition, the importance of semi-formal communication networks such as the "nemawashi" "consensus-building process: in Japanese¹⁸⁾ has been identified as a characteristic of Japanese management.

In addition, it has been suggested that the strengths of Japanese companies include job rotation, which is carried out as a personnel policy, promotes communication throughout the company, contributes to the realization of information sharing, accumulates information in each workplace individually by changing workplaces on a regular basis, and thereby promotes information sharing and knowledge throughout the organization. Ryushi Iwata commented on the research at the time as follows¹⁹⁾.

"In recent years, a small number of management scholars have taken a 'serious' interest in the very reality of Japan. As a result, the reality of Japanese management diverges greatly from the American model of normative theory, etc., but it is an adaptive form that has been formed over the years to conform to the social and cultural environment of Japanese society. In Japanese society, it has come to be recognized that it functions only partially, imperfectly."

Building on the research of these predecessors, up-and-coming business

scholars such as Ikujiro Nonaka and Takayuki Itami, professors at Hitotsubashi University at the time, Tadanori Kagono, a professor at Kobe University, Yoshiya Teramoto at Meiji Gakuin University, and Takahiro Fujimoto, an associate professor at the University of Tokyo, led the research of Japanese companies in a new direction. They and their young followers, who were nurtured by them, analyzed the management behavior of Japanese companies, and they attempted to construct a universal theory by conducting empirical research and analyzing Japanese management from a new perspective. As a result, management concepts originating in Japan such as “knowledge creation²⁰⁾”, “humanism²¹⁾” and “implicit knowledge²²⁾” were proposed. In Europe and the US, many researchers published books based on case studies of Japanese companies and set up unique concept such as “Management Revolution²³⁾” and “Core Competence²⁴⁾”, “Re-engineering²⁵⁾”, “Visionary Company²⁶⁾” and so on.

In this paper, we raise the issue that their research on Japanese management and on Japanese companies have contributed greatly to the understanding of businesses and business administration research in the 1980s - early 1990s and thereafter.

III. In the Heisei Recession

In the previous section, we have examined the advantages and disadvantages of the typical Japanese style of management that is “three sacred vessels”, which have formed the basis of corporate management in the postwar growth stage of the Japanese economy and Japanese companies. As can be understood from this, the “three sacred vessels” are neither the essence of Japanese type of management nor the core competencies of Japanese companies in an economically strong era. Nonetheless, there is no doubt, that they have played an important role in fostering the core competencies of contemporary Japanese companies.

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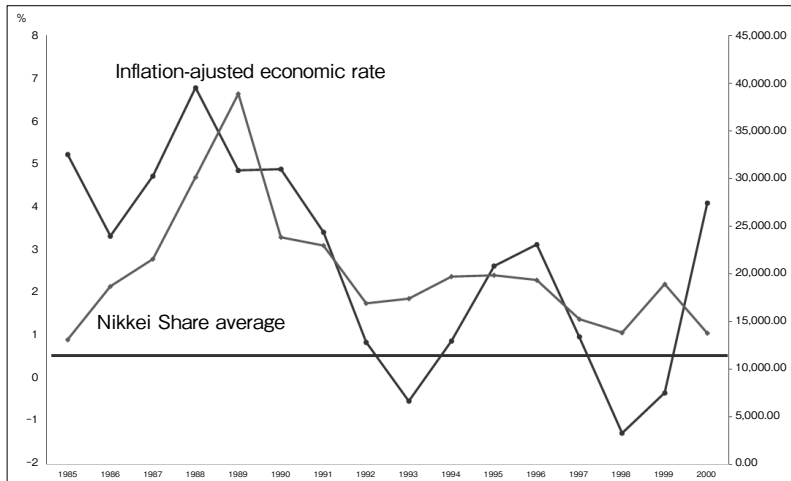
In this section, we will consider how the system that has been supporting Japanese management has changed during the past 30 years of the Heisei era.

(1) Bursting of the bubble and the long recession

In 1987, just prior to the Heisei era, the bubble economy commenced. In 1985, the rapid appreciation of the yen after the G5 held at the Plaza Hotel in New York, USA, hit Japan's export industry very hard, casting a dark cloud over the future of the Japanese economy. It has been suggested by many commentators that the monetary and fiscal measures taken by the Japanese government and the Bank of Japan to deal with this situation led to the bubble economy.

The economic stimulus measures as a countermeasure against the yen's appreciation and recession were too successful, resulting in a surplus of money, and by the end of the following year, land prices and stock prices had soared. In 1988, the awakened general population took advantage of this, and the consumer

Figure 3: Economic growth and stock price trends (1985-2000)

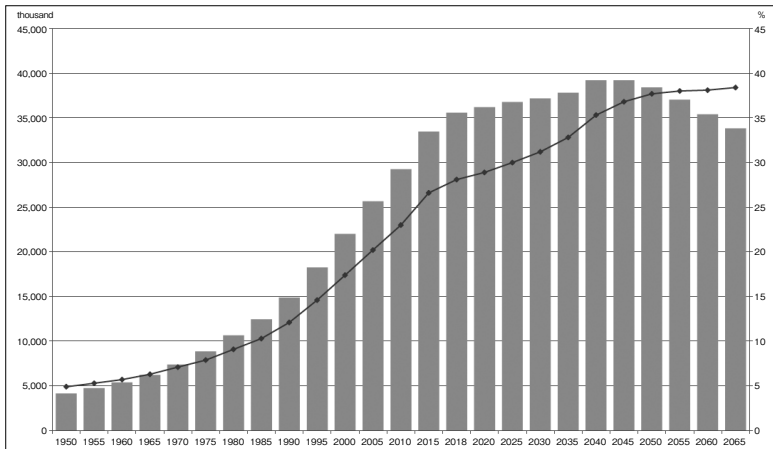


Source: IMF-World Economic Outlook Database (2021)

market was revitalized almost immediately with dramatic effect. Furthermore, when tax reduction measures were taken, along with calls for the expansion of domestic demand, the bubble economy flared up mainly among the wealthy, as a result economic activity in the whole of Japan became frenzied. At the final session of the end of 1989, the stock price hit an all-time high of 38,957 yen, and the bubble of asset prices reached its peak²⁷⁾.

However, bubble feast without substance in the real economy cannot last very long. Since January 1990, stock prices have been on a downward trend, halving in just nine months, and falling below 60% of the 1990 value in 1993. In addition, as a result of the sharp decline in land prices, which had been soaring, non-performing loans expanded. Scandals involving financial institutions, such as compensation for losses, provision of profits, and concealment of huge losses, were discovered, and the government's bankruptcy and rehabilitation of financial institutions began. As if to add insult to injury, the Asian currency crisis coincided with the bankruptcy of major financial institution²⁸⁾. Unfortunately, the

Figure 4: Aging Shift (1990-2000)



Source: Prepared from the White Paper on the Aging Society of Reiwai

bankruptcy of major financial institutions led to the successive bankruptcies of companies that used them as their main banks. The bankruptcy of large companies at the end of 1997 added a further shock the Japanese economy, which had been stagnant since the bursting of the bubble. Adding to deregulation and mega-competition due to the financial Big Bang, the advent of an unprecedented aging society which had become a reality, and the business environment surrounding Japanese companies became even more difficult and challenging.

At this point, many Japanese companies had come to realize the limitations of the conventional management system. Needless to say, immediately after the bursting of the bubble economy, some companies began to work on changing their business structure and organizational management structure in order to overcome the crisis. Companies worked on various cost-cutting measures and rationalization, such as “re-engineering” using information technology, costly white-collar restructuring centered on the baby boomer generation²⁹⁾ and overseas relocation of production bases. Re-engineering partially realized efficiency at sales and production sites and achieved considerable results such as labor cost reductions through white-collar staff reductions. However, the personnel system had not changed fundamentally.

The bursting of the bubble economy exposed cracks in Japanese style of management that had hitherto attracted the world’s attention, but the emergency actions and supportive care by Japanese companies did not produce significant performance results, in fact it only led to employees increased employees’ distrust of their company.

(2) Keywords of conversion

It is undoubtedly true that the LES and the “seniority system” made a significant contribution to the growth of Japanese companies, additionally it

should be noted the significant contribution that these practices made, not only to the economic and managerial realm, but also a significant contribution to social life in Japan. And based on them, the workplace formed a world where people lived beyond the field of just economic activity. For employees, the workplace was their very sphere of life, and it has a particularly important presence in Japanese employees' life. However, everything has not progressed as predictably as the three facets would suggest. The suggestion that the performance of employees might improve with years of experience, whilst talented employees might be nurtured through appropriate skill development policies, and high results both for the individual and company might result. This is because recent changes at a speed never experienced before have occurred in both technology and market dynamics. In other words, the pressure to rapidly upskill the abilities and competencies that had been accumulated over time has increased. E.g., the difference between digital v analogue. In addition, it became difficult to continue with a system in which wages rose based on age and years of service, rather than performance or ability. In short, the business environment has fundamentally changed, the conditions that have allowed the previous Japanese style personnel system to function smoothly has collapsed, and such practices can be detrimental, rather than contribute positively to companies or the Japanese economy. The reality of the advent of an aging society, particularly relevant in Japan, has made the situation even more serious.

One of the options for resolving the situation is to shift to a performance-based personnel system from the previous seniority system. In other words, shifting the focus of personnel management to a system that focuses on performance and pays remuneration according to degree of attainment and contribution to companies' performance. The incorporation of performance-based elements has also transformed the relationship between “companies and people” seen in the Japanese

personnel system up till now. Firstly, it separates employment from wages. The seniority system and the lifetime employment system have been discussed as a set operating in tandem, but the performance-based system separates the wage system from the employment system. By introducing a performance-based remuneration system, in which wages are determined in relation to “on the job” performance and market prices, instead of seniority, it was expected that the adjustment of wage amounts in response to the ups and downs of business performance would relatively weaken the adjustment pressure on the numbers of employees employed.

The other is the shift from lifetime employment to “long-term employment”. It is extremely significant that companies guarantee employment stability. This is because, if dismissal occurs, not only is it complicated in terms of how to deal with the individual burden portion of pensions, retirement benefits, social insurance, etc., but the dismissal itself is extremely difficult under Japanese law. Additionally, the cost of obtaining a job at other companies is also significant. Under a personnel system such as long-term employment, choices regarding skill development opportunities and benefits are also left to individuals. The shift away from LES to short term employment requires “individual responsibility” in terms of job, personal growth, and daily life. Such a change is to reconstruct the relationship between companies and employees under the concept of “individual responsibility” and to abandon the conventional idea that “personnel philosophy = livelihood security”. Needless to say, this shift to a performance-based system not only comes with its challenges to individual employees, but also had a considerable impact on the labor market as a whole. Performance based evaluations in Japan, have so far not been well adapted to suit the Japanese mentality.

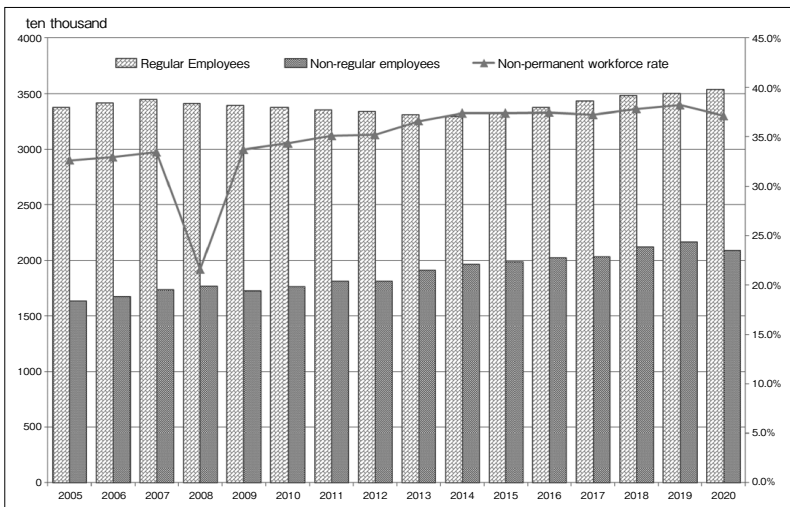
(3) Transformation of the Japanese style of management system

In the face of these contradictions, confusions, challenges, and limitations, the personnel system in Japan has been gradually modified progressively throughout the Heisei era.

One of these changes is in the system of diversification and pattern of hiring staff.

People who possess specific skills and abilities, have come to be recruited as experienced employees through mid-career or year-round recruitment, which does not set a time limit on employment. In addition, with the aim of encouraging people to operate so as to become variable costs, the number of non-regular employees such as part-timers, part-time workers, contract employees engaged in work under fixed-term contracts and temporary employees dispatched from other companies has increased significantly. Originally, non-regular employees were

Figure 5: Changes in the number of regular and non-regular employees (2005-2020)



Source: Labor Survey 2020 and 2013
https://www.stat.go.jp/data/roudou/rireki/gaiyou.html#ft_nen

hired to adjust production volume in response to fluctuations in demand, such as period workers, but due to the expansion of service industries, such as convenience stores and food services industries, companies that depend on the labor force of non-regular employees has increased sharply. In addition, outsourcing, in which internal operations are outsourced to external companies, has also become actively promoted. This diversification of the hiring patterns has opened a crack in the Japanese personnel system, which has been considered on the premise of employment of regular employees and lifetime employment.

The diversification of hiring patterns and the expansion of non-regular employees was initially received positively, because of the resultant increase in the number of female workers and the transformation of the industrial structure. Previously in Japan, the division of gender roles dominated, with the husband working and the wife staying at home, from the late Showa period to the early Heisei period, women were mainly full-time housewives and among female workers, family employees and self-employed people were the mainstream. For this reason, for full-time housewives, the work styles of “being able to utilize professional qualifications and skills,” “convenient time,” “subsiding household budgets,” and “not being bound by organizations” were attractive³⁰⁾.

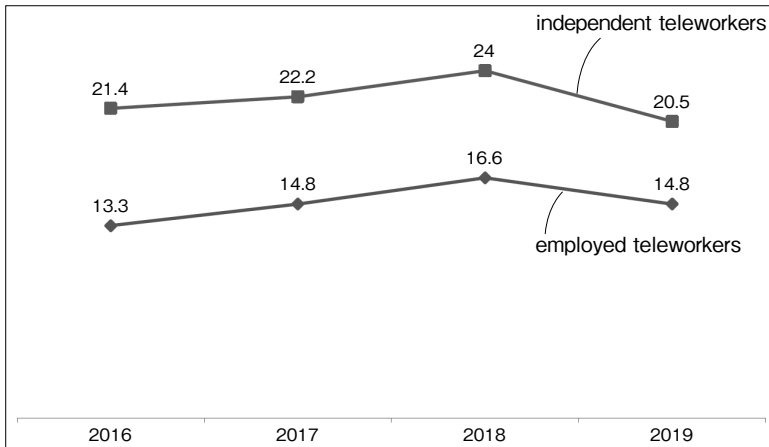
However, as time has passed, negative perceptions of the non-regular employee system has increased³¹⁾. The number of employees who have become non-regular employees due to “lack of employment opportunities as regular employees,” which was initially limited to around 10 to 20 percent, has risen significantly to 30% by 2003³²⁾. This was referred to as the “glacial age for job applicants (in the sense that the younger workers are unable to obtain work)” which continued from the bursting of the bubble economy until 2004. In 2020, the government began to react to help the younger generation to get work, thought many considered their reaction was too late.

The second is the diversification of work styles such as hours and location of work.

In the Heisei era, working “from 9:00 to 5:00” and “in your usual office” as a one-size -fits-all work system began to change. For example, in terms of working hours, “Flexible Working Hours system” which allows employees to freely choose the time to come to work or leave the office within the standard working hours of the day, the “Modified labor system” (in the west referred to as flexi-time) which allows employees to adjust working hours on a monthly or yearly basis to increase working hours during busy periods and other events or eliminate the need to treat them as overtime work became common. In addition, the “discretionary labor system” was adopted in R&D departments and information systems departments, in which the wages of practitioners and others are determined by criteria other than hours worked, and the “deemed working hour system,” which is applicable when it is difficult to grasp actual working hours, was introduced.

With the spread of the internet and increases in the speed and capacity of

Figure 6: Teleworker rate



Source: “Health, Labor and Welfare White Paper 2021”

communications, flexibility in work locations has also evolved, flexible working styles that could freely use employees time and place using information and communication technology, were promoted. A new type of office such as telecommuting, for example, SOHO (small office, home office) and the free-address system emerged. This results in making work styles and work location more flexible according to employer and employee preferences. In 2006, the Japanese government announced the “New Strategy for IT” and set a goal of making 20% of the employed population telework by 2010. However, that goal has not yet been achieved. Ironically, under the declaration of a state of emergency in response to the COVID-19 pandemic, not only has there been little progress in remote office work, despite the request for 70% telecommuting by the government, but it has also become clear that Japan, which have been believed as an advanced IT country, has lagged far behind the rest of the world. In spite of the onslaught of the 6th wave of the pandemic, caused by the Omicron strain, rush-hour trains were still crowded with masked commuters even in January 2022.

The third aspect is a change in the system of assessment. This is a shift from system of assessment based on years of experience or age, to a system that emphasizes competency, that incorporates the principles of competition from the marketplace, and a system focused on performance, results and effective performance evaluations.

Components of such assessments are the degree of ability of the individual (ability assessment), what kind of attitude he or she has in the workplace (emotion evaluation), and what kind of performance he or she has achieved (performance evaluation). Each of these criteria is graded according to the content of the work and the position in which they are placed. For example, if you are a manager, the ability evaluation is for planning, leadership, negotiation, etc., and the emotional assessment is for innovation and subordinate development and team building.

From the period of high economic growth to stable economic growth, many Japanese companies mainly assessed subjectively by primary evaluators (direct superiors) based on seniority. However, it is common sense to suggest that under such a system that employees should work like workhorses, under such a system one could clearly not be disrespectful to one's superiors. In contrast the modern assessment requires, transparency, openness and effective personal assessment and open and honest contribution. Companies have therefore adopted a self-reporting system in which employees declare their own thoughts on their performance, future career aspirations, goals, and skill development. Also, the management by objectives (MBO) system, in which individuals set goals for achievement of work through discussions with their superiors and evaluate them according to the degree of achievement of those goals. In addition, some companies have introduced multifaceted assessment (360-degree assessment) system that takes into account the evaluation of not only superiors but also colleagues and subordinates.

This personnel assessment is very important as it determines the wages and promotion of employees. Even as the cracks in traditional Japanese type of management began to surface, internal promotions, promotions by educational background, and seniority promotions etc. would not be completely replace the traditional system. The promotion system is transitioning to becoming a more performance-based system amid the shortage of posts and the diversification of technology, particularly with the increase in university graduates as a proportion of white-collar workers. The first performance-based assessment system was introduced in Japan in the mid-1980s, but approximately 90% of companies adapted a results-based system introduced between 1995 and 2004³³⁾. However, among those companies that responded, that they had introduced performance-based pay, they confirmed that nevertheless the seniority based system had not been completely displaced. In fact, some companies that have adopted strict

performance-based personnel systems, have since been forced to retreat from this practice. The introduction of an annual salary system, similar to that of professional sports players has not yet penetrated the Japanese personnel system.

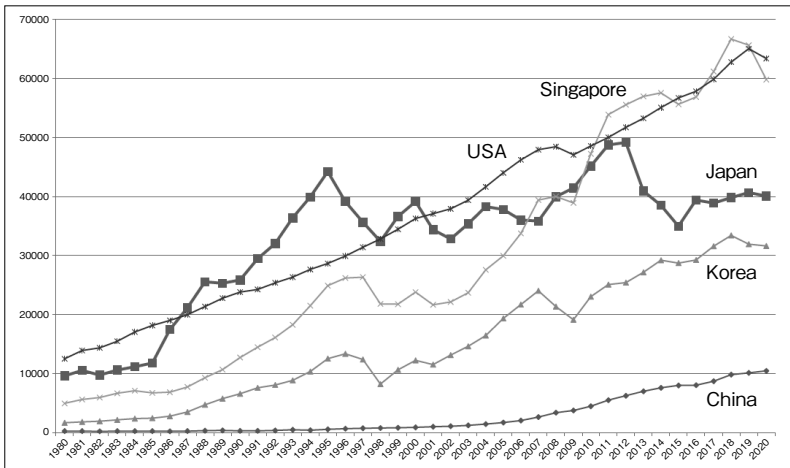
The fourth change is seen in the determination of individual wages and the wage system. Although it is one of the sacred instruments of traditional style of Japanese management, in the late Showa era, many Japanese companies adopted a payment system that incorporated not only seniority pay, but also job pay that emphasized the ability to perform duties and job pay that emphasized the importance and difficulty of duties. The reality is that seniority still accounted for a significant portion of employees pay³⁴⁾. Gradually, this led to an increase in the weight of the performance portion. Around the year 2000, foreign companies and some companies in Japan began to introduce incentive systems such as annual salary systems and stock options³⁵⁾. At that time, it was widely suggested that the introduction of a performance-based system would provide fair wages based on an accurate assessment of an individual's achievements and contributions, thereby improving employee motivation and morale. This represents a significant change to Japanese traditional management and society as Japan is a very collectivist and team-based society (reference Hofstede Cultures consequences).

The fifth is a change in the welfare system. The welfare system in Japan includes not only the period of tenure, but also retirement. Since the period of high economic growth, Japanese companies had borne a large amount of welfare expenses, such as retirement benefits, pensions as sustenance for people in retirement, interest subsidies for housing loans, company condominium, health cost insurance, and medical care facilities in addition to cash salaries. In the first half of the Heisei recession, expenditures other than cash salaries increased significantly, putting pressure on corporate management. In addition, these welfare programs had become problematic, because they did not adequately respond to the

diversifying needs of workers.

For example, retirement bonus was originally a part of salary that had been accumulated and paid as a lump-sum payment at the time of retirement. Retirement bonus, which had been considered as part of life plan after retirement, has been drastically reduced due to the prediction that companies could not bear the burden as the aging of the population and long-term service progressed. Companies have therefore begun to adopt point-based retirement benefits, this system assesses retirement benefits based on the degree of contribution to the company, rather than blanket “across the board”. In addition, rather than applying a welfare system uniformly to all employees, measures such as “Cafeteria Plan”³⁶⁾ that meets diversifying employee needs individually was also introduced. In addition, pension funds can now be selected according to individual circumstances. The welfare programs provided by companies and the life plan after retirement had also changed from a uniform and rigid system to a flexible and

Figure 7: Changes in average GDP per capita in major countries (1995-2020)



Source: IMF-World Economic Outlook Database (2021)

selective system, and at the same time, self-responsibility had also been required, thus that for the future, workers must take responsibility for their own careers and not rely only on the company taking responsibility for their careers.

In this way, Japanese type of management, especially in relation to the personnel system, has gradually changed its form throughout the Heisei era. It is to be incorporated into the “Work style reforms” indicated by the Japanese government, as a labor policy for a new industrial society.

IV. Challenges of “Work Style Reform” by Japanese Government

We would now like to discuss the “work style reform” measures presented by the Japanese government as a leading change in the Reiwa era.

(1) First year of Heisei era and Reiwa era

As mentioned earlier in this paper, the Heisei era started amid a bubble economy, and all of Japan got carried along with this bubble economy. Regardless of age or sex Japanese people enjoyed an economic miracle which many thought was endless. Thirty years later, the situation at the start of the Reiwa-era has changed dramatically.

At the same time, the Japanese government introduced a number of fiscal stimulus measures in an attempt to move the Japanese economy out of the long-lasting Heisei recession. As a result, the country’s debt ballooned 100 trillion yen, affecting future generations. During this period, Japan also experienced several unprecedented natural disasters, the Fukushima earthquake and several super typhoons). The scars from these natural disasters have not completely healed to this day. In the Reiwa-era, that started with the pandemic, streets are filled with small- and medium-sized business owners and their employees who have had their plans turned upside down, and the subsidies spent to rescue such people will

increase and be a burden on future generations to come, and it is certain that it will impose an additional burden on the Japan's finances.

On a more positive note, the average life expectancy at the start of the Heisei era was 75.92 years for men and 81.90 years for women, this has now increased to 81.4 years for men and 87.45 years for women. As a result, the elderly population as a proportion of the population has doubled, and the proportion of the elderly in the total population increased from 12.1% to 28.4%. Projections suggest that by the year 2040, 40% of men will be 90 years old and 20% of women will live to be 100 years old. So, it will become the era of the "100-year lifespan". Longevity is something to be celebrated, but on the other hand, a period of a fall in population is also imminent, due to the declining birthrate (from 1.57 to 1.34 people.³⁷⁾ When that happens, it is certain that the working population will decrease, and at present, female workers are relied upon to bridge this gap and make up for the shrinking workforce³⁸⁾.

At the beginning of the Heisei-era, the common practice the Showa-era that husbands should "work outside" and wives should "protect the home" was accepted. Women in Japan, have had their life consciousness changed significantly, and both men and women have come to place more importance on "work-life balance."

The 30 years in Heisei-era in relation to change, were much more drastic than the 30 years of the latter half of the Showa-era. Despite this rapid change, Japanese people's average income has changed little. With more than half of the Japanese people complaining that their lives are difficult, there is no shadow of Japan's former self, where at one time all the 100 million people considered themselves to be Japan's "middle class." The proportion of non-regular employees, with a large disparity in treatment, increased from 19.1% to 38.3%, making it difficult to make a living without both partners in the household working. It is now not an easy task

for couples to ensure their child is fully supported and receives a good education to build a future to support the “100-year life society”.

As a result of these challenges, a national policy “Work Style Reform” was launched in order to address these challenging issues before they become critical, time will tell how effective they will be.

(2) Action plan

In 2015, the Shinzo Abe Cabinet, which has been Japan’s longest serving civil administration, established the Council of Promoting Dynamic Engagement of All Citizens, with the aim of realizing the three major goals of “GDP of 6,500 trillion yen,” “the desired birth ratio 1.8%,” and “zero% turnover from nursing care” in order to realize the dynamic engagement of all Japanese citizens. Based on the draft formulated at a meeting of Cabinet, this meeting comprised of relevant ministers and experts and the Cabinet approved the Plan for the Dynamic Engagement of All Citizens the following year. It was an astute plan, designed to provide support for child-rearing from the fruits of growth generated by a strong economy. According to the government, “Work Style Reform” was indispensable to achieve a stable economy for Japan in the future and the government concluded that “it is necessary to make a major change in the way social idea and systems so that the diverse work styles are possible.”

Specific policies for work style reform were presented as “improving the treatment of non-regular employees, including the realization of equal pay for equal work,” “correcting long working hours,” and “promoting the employment of the elderly”. In March of the following year, the “Action Plan for Work Style Reform” was introduced, and the “Act on the Improvement of Related Laws for Promoting Work Style Reform (Work Style Reform Related bills)” was issued, which stipulated that reforms would be carried out in stages according to industry,

business type, scale, etc., and the reforms were to be carried out sequentially. Many of the plans were designed to resolve the personnel issues that had arisen from in the Heisei era. These reforms can be described as an attempt to propose a new type of Japanese type of management by re-evaluating and transforming the relationship between companies and workers.

(3) Vision

The four priority policies for work style reform were 1) correction of long working hours, 2) building a more flexible labor system, 3) ensuring adequate annual holidays and health support for workers, and 4) equal pay for equal work.

The first priority was to correct long working hours. As of 2017, the total actual working hours in Japan were 1,706 hours, a decrease of more than 300 hours per year, compared to the early Heisei period, when the total actual working hours per year exceeded 2,000 hours. Nonetheless, compared to developed countries in Europe, it is still a longer working day. Compared to Germany, it is more than 300 hours more per annum of working hours. In addition, the number of certified work-related injuries for “overwork deaths” and the number of workers’ paid by the workers injury compensation system is also increasing. What is surprising is that the working hours in Japan, which have been said by some commentators to be excessive, are in fact shorter than compared to the United States.. Japanese workers memories are still fresh from the times when illegal labor called “service overtime” was rampant in Japan until fairly recently. In this reform, a legal upper legally enforceable limit has been set for overtime work, and specific methods for gathering working hours data has been stipulated, but also the securing of work break times has now been clearly defined.

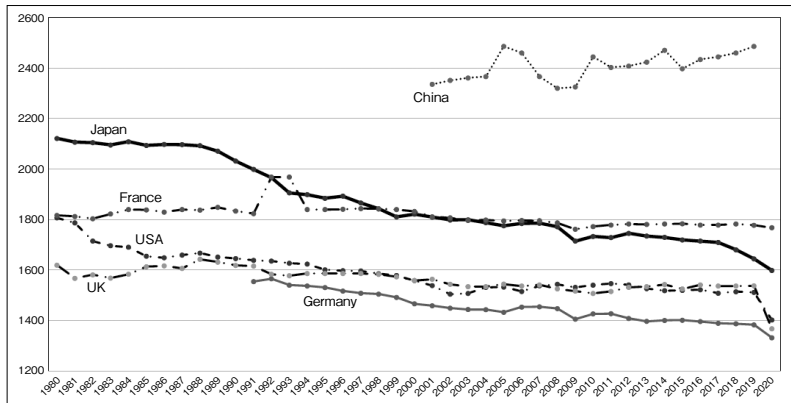
The second concrete measure is in relation to more flexible working styles. As discussed earlier in this paper, various ways of working have been introduced in

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the 30 years of the Heisei era. However, the scope of application of these systems has been limited, and there were many systems that were inherently disadvantageous to workers due to insufficient system design, for example the rate of introducing flexi-times systems and paid vacation leave is insufficient. The new work style reforms are designed to address these problems. In addition, measures such as ensuring the health of workers and work-life balance is to be addressed, and enforcement measures such as making it compulsory to take paid leave and annual leave will be strengthened.

One of the highlights of work style reform is the introduction of equal pay for equal work. In the previous Japanese-style employment system based on the premise of lifetime employment and seniority, regular employees and non-regular employees were treated very differently. For example, no non-regular workers held managerial positions, and a clear line was drawn between non-regular employees and regular employees in terms of wages and working conditions, which favored the regular employees. However, in recent years, the expansion of

Figure 8: International comparison of total actual working hours



Source: OECD Employment Outlook (2021).
China Labor Statistics Yearbook

the gig economy has led to an increase in freelancing, and the expansion of side jobs with the result that new rules are necessary. Nonetheless, if parity between regular and non-regular employees is reached, overall wages will be reduced on average, an area to watch for the future with interest as this policy may not have the impact it desires.

It is pertinent that the government tried to take steps and make changes to the management system of private enterprises. However, the “relationship between management and employees” that the government is aiming for is extremely difficult to direct when individuals and companies are co-dependent on each other, thus changing the nature of this relationship is challenging. Particularly when at the end of the day the relationship is after all, a legal contract as well.

V. Brief Conclusion

In this paper, we have considered the changes in the management systems experienced by Japanese companies over the half-century period from the first Tokyo Olympics to the second Tokyo Olympics, with particular focus on the personnel systems commonly used in Japan. During this period, Japanese companies have gone through five phases follows: 1) a period of high economic growth that depended on domestic demand, 2) a period of stable economic growth that depended on exports, 3) a “bubble economic period” which ultimately burst, 4) a “Heisei recession” that arose from the bursting of the bubble and 5) a “deceleration period” in which the Japanese people were desperately lamenting their low ranking as compared to other advanced economic countries. Looking at it another way, the Heisei era spanned two phases, a short-term boom of just over four years and a long recession of more than 20 years, and the international competitiveness of Japanese companies and the Japanese economy has declined

markedly during this period. At the same time, the value and reputation of the management systems of the once much heralded “Japanese management system” that once attracted the attention of scholars from around the world has waned.

Was this the main factor in the stagnation of Japanese companies and the Japanese economy, or were there other factors at work? In concluding this article, let us consider this issue.

(1) Japanese management life cycle

In considering the life cycle of the Japanese style of management, we can see five distinction phases, 1) the “formative period” of Japanese type of management leading up to the period of high economic growth, 2) the period of stable economic growth, the “establishment period”, 3) the bubble economy era as the “stable period”, 4) the Heisei recession period, being the “decline period”, and 5) the Reiwa era is the “extinction” or “rebirth” period.

It can be said that the dominance of corporate behavior in the Heisei era, which corresponded to a period of decline in the life cycle of Japanese type of management, was a denial and at the same time a break from the past. In other words, it can be said that management has been trying to place their center of gravity towards an “innovation” orientation, rather than the continuous “kaizen” orientation that Japanese companies have previously been so successful at. For this reason, leadership has emphasized the institutional disadvantages of Japanese type of management and has focused on building different systems. Certainly, the challenging top, executives, and middle management may seem pompous and staid, however, they may have been appropriate for their time. Additionally, it is dangerous to proceed with innovation and change without consensus from at least a majority, if we try too hard to innovate, we may either get frustrated along the way, or we fail which may leave a trail of devastation into the future.

Any success of course, will be applauded. If one considers a business start-up, there is less to lose, (though high risk for the founders), but comparatively low risk for society, provided some succeed. The less sacrifice you have to make, the easier it is for the individual and perhaps the more likely you are to succeed. However, existing organizations and companies already have a business model, and they cannot challenge innovation with only the same logic, methods, and passion as companies that start from scratch. As Einstein so eloquently put it “We cannot solve our problems with the same thinking we used when we created them.”

Innovating the business structure (business design) in accordance with changes in the business environment is a requirement to sustain success. Therefore, it is necessary to create new businesses and innovative business designs as quickly as possible, not only for competitors, but also for potential competitors. Since companies cannot escape from their own life cycle, ensuring adequate renewal is necessary, otherwise we are facing eternal businesses decline. Having said that, without the input of management resources, there would have been no innovation or change. It is exactly this opportunity that start-up companies have, in being able to divert all of their management resources into innovation. This is because it can be said that the greatest strength of a startup company is that it has very little to lose and critically, it has no history and bad habits and is therefore infinitely flexible to adjust to market and customer’s needs.

On the other hand, incumbents are required to innovate business design and reform the existing organizational management structure (management design)³⁹⁾ at the same time as running the business and servicing customers. However, in order to reform management design, careful prudence is needed. This is because there are many invisible parts in management design, and it is necessary to consider that it is a complex, continuous synchronous system, and people with emotions that cannot be moved by algorithms alone⁴⁰⁾.

Looking back, from the period from the stability of Japanese style of management, until the bursting of the bubble economy, the “three sacred vessels” functioned effectively in strengthening the competitiveness of Japanese companies. Business design and management design matched perfectly. However, at the same time that livelihoods were in a state of stagnation due to the long-term economic stagnation, globalization and technological innovation were progressing rapidly, and the business environment surrounding companies showed exponential challenges and changes. Many companies have undertaken significant transformation to respond to changed circumstances. However, for Japanese companies at the time, the bursting of the bubble economy was too abrupt, and it was necessary to innovate and change the management systems that had been imprinted for 50 years, before they could formulate a clear plan with an accurate blueprint for the future.

For corporate management, it may be necessary to provide symptomatic treatment in a timely manner, but when overcoming major changes, it is logical to first promote innovation in business design and reform management design. However, many Japanese companies in the early Heisei era tried to survive the dramatic environmental changes only by reforming management design. That was an initial mistake made by many during the Heisei era.

(2) Vicious cycle of leadership

In addition, there were problems with subsequent developments, particularly in the area of leadership. Many of the leaders who first undertook reform after the bursting of the bubble economy were employed under the so-called membership-type employment system⁴¹⁾, and having benefited from high economic growth and the bubble economy, were nurtured and promoted in the traditional style of Japanese management which was prevalent during their formative years and stable

periods in the Japanese economy. In that sense, the executive is successful in evolving and expanding business and establishing a corporate foundation. Without a philosophy or vision, and without sensing the difficulty of the revitalization process that appeared with the traditional Japanese style of management, many of them dragged on their successful experiences and carried out restructuring under the banner of cost reduction, sticking to their own interests, rather than fundamentally addressing the problem. This thus by necessity paved the way for the innovation syndrome that would continue in the future.

After those leaders stepped out of the arena, they were entrusted with the task of transforming the next generation of leaders who had benefited from the period of high economic growth in their childhood and the bubble economy in their middle age, and who had never materialized business growth or success on their own. They were pure cultural leaders during the period of decline of Japanese type of management. The next generation of executive- and middle-management leaders acted as if they were sensitive to changes in the business environment at hand. However, they were unable to anticipate the accelerating changes in the environment, or even catch up in the worst case, and could not envision a new business design because they could not objectively understand the changes that the Japanese economy and Japanese businesses were going through. So, as a matter of course, they focused only on securing and maintaining their own position. However, customs, cultures, institutions, and other cultural structures that had been constructed in the organizational process are difficult to revive once erased, and thus the chaos increased.

Changing management design requires careful and thoughtful consideration. Partial optimization and total optimization do not necessarily coincide. As we consider introducing a partial optimization, on reflecting back we are unable to recall what the overall optimization we were looking for at the beginning was.

Thinking about what to change and at the same time contemplating what should not be changed is a critical function of change leadership.

Leadership in a business environment, going through rapid disruptive change, must have thoughtful investigation and meticulous planning to transform management design effectively. What we should consider is the “face of Janus” regarding offense and defense. It is not enough to be good at one or the other. It is not enough to be a strong-willed, a leader must lead with effective ideas, thoughts, and actions.

As a reminder, this is not to say that all of the top, executives, and middle management of the Heisei era were like this. Looking back on it now, it is a hypothesis based on experience that the average executive’s performance approximated this. We consider this is such a way, it can be said that what brought about the decline of the Heisei era, was not the Japanese type of management system, but the cycle of poor leadership cultivated within it. No matter how much we pretend that “Japanese companies have potential,” we have reached one of the lowest levels among developed countries in terms of indicators, other than the middle management rating. Executive leadership in Japan is no longer what it once was. Now is the time to break this cycle of poor leadership.

(3) Break the vicious cycle

Alas, we are one of the “great misguided generations” who have been playing a part in the vicious cycle of continually changing leadership, without stable leadership strategies for individuals, companies and society at large. Therefore, the conclusion of this article is there is much challenging work to do.

Now that the Reiwa era has begun, that is, the post-pandemic period is a critical time to predict the ups and downs of Japan, and the bearers and protagonists of this torch are the youth of today. As we have suggested, during the

30 years of the Heisei era, Japanese companies and the Japanese economy has definitely weakened. In terms of life cycle, what comes after decline is ultimately death, but it is foolish to just wait for the grim reaper to decapitate! Fortunately, or unfortunately, the social and business environments have changed significantly on a global scale over the past 30 years, and it has become unclear what is the right leadership style that should be adopted and what would prove to be dysfunctional. What was once inappropriate may have become appropriate, and what was once appropriate has become inappropriate. Or what was once inappropriate may still be inappropriate, and vice versa. Economies and trends have become inconsistent and discontinuous, and disruption is on the increase, not decrease. In the current global business society, where Lu Wei is flourishing, opportunities are definitely there, it is just a question of identifying them and finding a way to fulfil the latent needs around. In a world full of contradictions and confusion, great opportunities arise by finding ways to resolve and address the challenges of the time. The dramatic increase which Japan Inc sportsmen and women achieved in terms of number of medals at the 2020 Tokyo Olympics is largely due, not only to the immense efforts of athletes, but also to the increased number of new sports, which were not there in the Tokyo Olympics of 1964.

Now that we can break the cycle of defeat, we should be able to start all over again and soon. We need to prune a number of areas in the Japanese personnel systems, before new shoots can grow more rapidly than before.

<Notes>

- 1) This decision has not been made in the past, and it can be said that it was a fairly unusual decision.
- 2) In March 2020, WHO declared it a “pandemic” by Covid-19.
- 3) Thomas Bach, President of the IOC, was quite positive about hosting the Tokyo Olympics.
- 4) The Prime Minister at that time was Mr. Yoshihide Suga.

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- 5) The Governor of Tokyo at that time was Ms. Yuriko Koike.
- 6) Boston Consulting Group, ed., *Exploring Japanese Management*, Toyo Keizai Inc., 1970, pp. 1-2
- 7) The book published at the time was Vogel Ezra F., “Japan as number one”, Harvard University Press, 1979 (*Japan as Number One*, translated by Wakako Hironaka and Akiko Kimoto, 1979), William Ouchi, *Theory Z*, Sony Magazines, translated by Jiro Tokuyama, 1981)
- 8) The following research is representative of Japanese management studies at the time and translated into Japanese. Peters Thomas J. & Waterman Robert H., *Harper Collins, “In Search of Excellence”*, 1982 (*Excellent Company*, translated by Kenichi Omae, 1983), Peters Tom, “*Handbook for a Management Revolution*”, Excel/, a California Limited Partnership, 1987, (*Management Revolution*, translated by Isao Hirano, TBS Britannica, 1989), Robert C. Christopher, “*Second to None*”, Crown, 1986 (translated by Jiro Tokuyama, Kodansha, 1986), Hamel Gary & Prahalad C. K., “*COMPETING FOR THE FUTURE*”, Harvard Business School Press, 1993, (*Core Competence Management*, translated by Kazuo Ichijo, Nihon Keizai Shimbun, 1995)”, Hammer Michael & Champy James, “*Re-engineering the corporation*”, Boston Consulting Group, *Timebase Competition*, President’s Company, 1990, Harpercollins, 1993 (“*The Re-engineering Revolution*”, translated by Ikujiro Nonaka, Nihon Keizai Shimbun, 1998), Collins Jim & Porras Jerry I., “*Built to Last*”, Harper Bus, 1994, (*Visionary Company*, translated by Yoichi Yamaoka 1995), Carter D. E., *Concurrent Engineering*, JMAM, 1992, Takahiro Fujimoto, B. Clark, *Empirical Research Product Development Capability*, Diamond Corporation, 1993
- 9) As of 2021, many companies have set 60 years of retirement as the mandatory retirement age.
- 10) Yoshio Higuchi, “*Has the Long-Term Employment System Collapsed?*”, *Journal of Japan Labor Studies*, No. 525 / April, 2004
- 11) The machine destruction movement that took place in the textile and knitting industrial zones of England during the Industrial Revolution of the 1810s. A movement of handicraftsmen and workers who risked losing their jobs because of the machinery industry created by the Industrial Revolution.
- 12) Ryushi Iwata, *The Japanese type of management Controversy*, Nihon Keizai Shimbun, 1984, p. 19
- 13) *Ibid.*, pp. 45-72
- 14) *Ibid.*, pp. 74-97
- 15) *Ibid.*, pp. 187-188
- 16) Tadanori Nishiyama, *Japan is Not Capitalist*, Mikasa Shobo, 1981, p. 98
- 17) The approval system is a decision-making system in which a document called a “request for approval” is circulated, and after deliberation on the departments and positions involved in the decision-making, the approval of many related parties is obtained before implementation. Basically, it has the character of a confirmation ritual of information transmission and approval authority, but its main function is to resolve conflicts of opinion and share information. Toyoaki Ono, a pioneering authority on Japanese type of management theory, wrote in “*Japanese type of management and the Decision-Making System*” (Diamond Company, 1960) that “the

- decision-making system was the whole of Japanese corporate management.”
- 18) “Rooting” is an informal process for obtaining consensus, and the above-mentioned approval system is said to be a formalization of root turning. The advantage is that by facilitating communication between vague departments of authority, it is possible to find better solutions while resolving disagreements through casual discussions.
 - 19) Ryushi Iwata, *ibid.*
 - 20) Ikujiro Nonaka, Hirotaka Takeuchi, Katsuhiko Umemoto, Knowledge Creation Enterprises, Toyo Keizai Inc., 1996
 - 21) Itami, Keiyuki, *Humanism*, Chikuma Shobo, 1987
 - 22) Ikujiro Nonaka, professor emeritus of Hitotsubashi University, explains the characteristics of Japanese companies with reference to Polanyi’s research.
 - 23) Peters Tom, “Handbook for a Management Revolution”, Excel/, a California Limited Partnership, 1987 (The Management Revolution, translated by Isao Hirano, TBS Britannica, 1989)
 - 24) Hamel Gary & Prahalad C. K., “Competing for the future”, Harvard Business School Press, 1994 (Core Competence Management, translated by Kazuo Ichijo, Nikkei Shimbun, 1995)
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 - 26) Collins Jim & Porras Jerry I., “Built to last”, Harper Bus, 1994 (Visionary Company, translated by Yoichi Yamaoka, Nikkei BP 1995)
 - 27) For more information on the state of the consumer market at the time, please refer to Iwasaki’s book “Redesigning Corporate Design” for details.
 - 28) From 1997 to 1998, major financial institutions such as the Hokkaido Takushoku Bank (Takugin), the Long-Term Credit Bank of Japan (Nagabank), the Japan Bond Credit Bank (JGBs), Yamaichi Securities, and Sanyo Securities went bankrupt due to an increase in nonperforming loans and a slump in stock prices.
 - 29) The baby boomer generation (the Ministry of Health, Labour and Welfare refers to it as the “baby boomer generation”) refers to the generation born during the baby boom period from 1947 to 1949. The average number of births over the past three years has reached 2.6 million.
 - 30) Since the Equal Employment Opportunity Law for Men and Women in 1985, the Child Care and Family Care Leave Act and the Part-time Labor Law have been enacted one after another, and legislation has been developed to make it easier for women to work, and now 90% of female workers are employees, and double-income households account for more than 65%.
 - 31) Ministry of Health, Labour and Welfare, “Report on the Survey on the Actual Situation of Business Start-ups on the Diversification of Employment Patterns”, 2003
 - 32) *Ibid.*
 - 33) This is a survey conducted by JILPT in 2004 targeting companies with 200 or more employees, “A Comprehensive Analysis of Corporate Management Strategies and Personnel Treatment Systems.”
 - 34) The occupational qualification system is a system in which employees are evaluated based on their ability to perform their duties, such as their skills, knowledge, and

experience, and their internal ratings are determined, and salaries are paid accordingly. The occupational ability salary system has advantages such as a high degree of freedom compared to job salaries in which the job description is determined in detail and salaries are paid, and it is possible to flexibly allocate human resources and draw out the motivation of employees to develop their abilities. It is a fact that, partly because the meritocracy has been loudly advocated, the ratio of seniority to the occupational qualification system has been dispelled to a considerable extent. It is also true that even now, it is impossible to say with certainty that this has been completely dispelled, or that it is true.

- 35) It is a high-value reward system such as stock options (the right to purchase company shares) that allow you to buy your company's shares at a predetermined price.
- 36) It is a system that allows employees to select their favorite points from the welfare menu set by the company. This system originated in the United States in the 1980s.
- 37) The birth rate in 1989 and the fertility rate in 2021. Source: Ministry of Health, Labour and Welfare, vital statistics.
- 38) However, even now in the Reiwa, the gender gap in Japan is a major problem and is being taken up internationally.
- 39) *ibid.*
- 40) Harari Y. N., in his book *21 Lessons*, points out that all the activities of living organisms are determined by algorithms, but only the mind is different. Harari, Y. See N., "21 Lessons for the 21st Century," Random House, 2018.
- 41) The twin concept of membership-type employment is job-type employment. The type of employment of the former is a lifetime employment system, and the latter is typical of freelance. In Japan, Hitachi, Fujitsu, KDDI, Shiseido and others are actively working to introduce it.

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Reflecting on Changing Management Styles in Japan since the Reiwa Era

This article is the last of four articles by Dr. Gannon and Professor Iwasaki and builds on the original ideas by Professor Iwasaki in “Rethinking of Japanese Management” in The Annual Bulletin of The Institute for Economic Studies, No. 35, 2022