

# Leadership and Organizational Management in Japan

Lau Sim Yee<sup>1</sup>

**Abstract** This paper explains leadership and organizational management in Japan based on the author's observations and thus his interpretations of Japanese styles of management. The explanation ranges from: key drivers of Japan's economic development; leadership in the Japanese context; how a leaderless Japanese organization creates leadership; why a leaderless Japanese organization performs well; Japanese organization management is indeed a process of continuous learning; the role of information sharing and communication for the effective organizational management; the influence of information technology; Japanese organizational management in the context of principle-agent approach; several limitations and challenges of Japanese organizational management. This paper argues that Japanese organizational management styles are applicable to late industrialized countries if the attempt was modified by incorporating their own cultural attributes.

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## Introduction

As the title illustrates, this paper aims to focus on leadership and organizational management in Japan. It should be noted at the outset that this paper is written based on the author's observations and thus his interpretations of Japanese styles of management, instead of explanations base on a rigor empirical analysis. The objective here is not to impart the theoretical explanation of what are factors underpin the Japanese success. But the purpose is to elucidate the Japanese experience to foreigners by a foreigner residing in Japan.

This paper is organized as follows. Section 1 briefly outlines key drivers of Japan's economic development. Section 2 explains leadership in the Japanese context. Section 3 attempts to highlight the meaning of leadership in the Japanese cultural context. Section 4 highlights how a leaderless Japanese organization creates leadership. Section 5 argues why a leaderless Japanese organization performs well. Section 6 shows Japanese organization management is indeed a

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<sup>1</sup> Faculty of Economics and Business Administration, Reitaku University, Japan. Email: simyee@reitaku-u.ac.jp

process of continuous learning. Section 7 discusses the role of information sharing and communication for the effective organizational management. Section 8 illustrates the influence of information technology (IT). Section 9 describes Japanese organizational management in the context of principal-agent approach. Section 10 highlights several limitations and challenges of Japanese organizational management. This paper concludes with a note on the applicability of the Japanese organizational management styles.

## **1. Key Drivers of Japan's Economic Development**

Japan is the third largest economy in the world, with a nominal gross domestic product (GDP) of roughly 500 trillion yen or about 4.5 trillion USD. A large volume of literature has been documented to explain the impressive economic performance of Japan after the end of World War II. There are many elements that have underpinned the development process in Japan. These elements are strong government interventions in mobilizing resources, allocation of resources, acquiring foreign technology and development of indigenous technological capability, promotion of exports, restriction of imports, etc. They were implemented in the form of industrial policy package, fiscal investment and loan programs and other economic means under a relatively stable macro-economic environment.

Equally critical, because of the scarcity of natural resources, this island nation inevitably has to rely on its people to transform imported low value added raw materials into higher value added manufactured goods targeted at world market. In this regard, human resources development (HRD) and human resources management (HRM) have contributed and will continue to play a crucial role in Japanese firms so as to keep their comparative advantage persistently. At the macro-level, formal education channels contributed importantly in strengthening human capital, which in turn has enhanced the capacity to produce higher value added goods and services. At the micro-level, viz., at firm level, the emphasis of continuous HRD and HRM brings about productive human capital that is crucial for enhancing productivity, which as a consequence, influences Japanese competitiveness in the market place.

## **2. Leadership in Japanese Context**

A leader is a person who provides vision, and has the ability to articulate why that vision is important, and also has the capability to convince followers to share his or her vision, and thus to support him or her to achieve targets set by the vision. A leader requires to characterize by, at least, charismatic personnel, legitimacy of being leader (either through a process of fair selection, or inheritance), reward and coercion (punishment), and expertise or professional experience to lead followers.

There are several theories for explaining leadership. For example, genetic theory expounds that leadership ability is transmitted genetically, and thus a leader is born not made. Trait theory, which is also quite similar to genetic theory, asserts that an offspring of a great leader may not have leadership ability because wrong trait was inherited. Behavioral science explains

leadership in the context of task orientation and employee orientation. However, in the observed reality, leadership is far more complex than theoretical explanations. Neither the genetic theory nor trait theory can explain leadership in a simplified form. Thus, it must not be taken for granted that leadership is born naturally. In fact leadership styles are not innate but they can be cultivated or learned by proper guidance. At the same time, it should be noted that there is no single correct style of leadership, and leadership needs to be flexible so that followers are convinced to support.

From conceptual approaches of leadership, being propounded in a large volume of literature on the subject, it is quite natural to ask what kind of leadership prevails in Japan. My answer to that question is simple—there is no leadership in the Japanese context. I shall clarify this statement later on.

While Japan has become the third largest economy in the world (she was the second largest economy from mid-1960s to 2010), but that achievement was not the result of strong leadership in Japanese political sphere. It was neither attributed to strong economic leaderships in international economy. The success story is mainly the consequence of hard work, dedication, and aspiration of doing better the next day by Japanese people. In fact, it is not *because of* “leaderless” but it is *in spite of* “leaderless” that has brought about the success story.

Many observers claim that Japanese culture is unique, if not peculiar. Explaining leadership in the Japanese cultural context is not easy. Japanese culture and value are not conducive for outstanding leadership. Rather, it inhibits a leader to prevail. A typical Japanese expression of “*deru kui ha utareru*” (literally translated into English as “the stake that goes out is driven in”) exemplifies why it is difficult for a Japanese to succeed as a leader.

### **3. What Does Leadership Mean in the Japanese Cultural Context**

Because Japanese culture inhibits an individual to lead, therefore, leadership is not explicitly observed from an individual. It is the collective effort of a group, or a united force in an organization that sets the vision, and the group or the organization makes sure everyone is a follower in achieving targets set by that vision. In other words, participatory approach makes every member of a group or in an organization as the leader and as a follower—both sides of the same coin. For this reason, leadership is not cultivated nor inherited in Japan. In a broad sense, leadership in Japan is not a science but an art.

Japanese society places utmost importance in maintaining harmony. This cultural attribute has its root from her agrarian history. For example, the productivity of each farmer was different because of different quantity of inputs (such as size of land, availability of fertilizers, knowledge/experience, etc.), but every farmer was concerned of one another’s output, not in the sense of competition, but in the context of shared results. In order to have a shared result, it is quite natural for every member in a village to have the spirit of mutual assistance, which as a result, it has created the foundation for building harmony for coexistence. Nitobe (2008, p. 27) explained this kind of behavior in the form of politeness—“Politeness is a poor virtue, if it is actuated only by a fear of offending good taste, whereas it should be the outward manifestation

of a sympathetic regard for the feelings of others. It also implies a due regard for the fitness of things, therefore due respect to social positions.”

Western world, or more specifically, Anglo-Saxon civilization emphasizes on conflict and resolution. Disagreeing with one another is a natural event, and thus there is always a conflict in the Western context. For that purpose, effort to mediate in order to bring about a resolution is of a priority, and thus, that resolution is the result of “the survival of the fittest,” which implies the outcome of a competition.

On the contrary, Japanese culture emphasizes on conflict and reconciliation, which as a result, it enables the conflicting parties to reconcile with one another in order to “survive in harmony.” As such, Japanese cultural attributes indeed play an important role in enhancing the organizational management, which in turn contributes to the success of Japan in international economy at macro level, and the competitiveness of Japanese companies in international market place at micro level.

#### **4. How a Leaderless Japanese Organization Creates Leadership**

A Japanese organization does not need a leader to create leadership. Leadership in Japanese cultural context means the ability to build a consensus. This implies there is no outstanding individual who rises to lead. A good leader in the Japanese cultural sense—*NOT* the conventional Western cultural sense—is a person who has mastered the art of coordination, either in a formal or in an informal setting.

Typically, consensus is built in an informal setting, for instance, outside the normal routines inside the organization or off-office hours outside the organization. This practice is time consuming, but it is also a process of confidence building among members. Hence it is effective for team building too. By doing so, a consensus is already attained before a formal setting. Thus at that time, it is simply an official endorsement of a collective decision by the participants. This practice is called *nemawashi* in Japanese, which means a process of informal consultations or laying the groundwork to achieve mutual understanding and support.

Usually if a consensus was not attained for a new proposal in a given time period, decision making procedure is postponed until a time that a consensus is achieved. Or, a decision will be made if the dissenters, normally in a very small group of people, agree not to object the subject matter in a formal setting. Typically, it is not “culturally correct” for an individual to go against others, particularly, if *nemawashi* has already been carried out.

A president or a CEO of a firm, or a director-general of a public institution, or even a minister, is not a leader in Western cultural sense. Rather, he or she is simply a superior who has the ability to make the coordination for building a consensus with his or her counterparts in other institutions. At the same time, he or she also has a good understanding that a decision is made on the basis of consensus within his or her organization. Furthermore, such a person stands above others not because of his or her expertise or smartness, but as a superior who takes responsibility for failures. Put differently, leaders in Japanese organizations are not being assessed in terms of intellectual capability, decisiveness, quickness in decision making,

ruthlessness, instead they are judged by the ability to create an environment for his or her subordinates to work conscientiously and cooperatively in order to allow delegation of decision or authority to the lower level in the organizational hierarchy.

## **5. Why a Leaderless Japanese Organization Performs Well**

Japanese organizations, particularly those in the manufacturing sector, are regarded as high performance work systems. Japanese high performance work systems are attributed to the lifetime employment system and seniority system.

The internal labor market in Japan is indeed unique in comparison with other advanced countries. Labor mobility in the Japanese internal labor market is extremely restricted. Typically, the Japanese internal labor market has only one entry, whereby new graduates are hired, and one exit, whereby employees exit at the time of retirement. On the contrary, most internal labor markets in other advanced countries constitute multiple entries and multiple exits, which imply high mobility of employees.

Lifetime employment system in Japan demands employees in terms of “affective (or a desire to) organizational commitment,” “continuous commitment,” “occupational commitment,” and “normative (or obligation) commitment.” In addition, a lifetime employment system enhances trust in the society. For this reason and others, which I shall explain later, generally, the society does not encourage a worker to jump from one company/organization to another.

Seniority system is generally influenced by the cultural attitude of giving respect to the elderly. Having said that, however, economic reasoning in terms of productivity and contribution is used to explain the wage function of seniority system. In other words, a young employee usually receives a higher expected wage that does not commensurate to his or her contribution, but after a certain time period the contribution is greater than the expected wage. As a result, in a lifetime employment period, total expected wage received from the company equals to total contribution by an employee to the company. In addition, egalitarianism in Japan produces less disparity in terms of expected income between CEO, top managers and ordinary employees, which contrasts huge income differential in Western firms. Dore (1996, p. 379) highlighted that—“Japan is the ‘most socialist society in the world’.” He also underlined that “The secret ingredient—the common source of egalitarianism and efficiency—is ‘togetherness’” (Dore, 1996, p. 390).

From the economics perspective, the lifetime employment system and seniority system are mutually reinforcing. The predictability from these two mutually reinforcing elements actually enhances the long-term planning of an organization in terms of career development, HRM, quality and productivity improvement, strategic planning, etc. An example of career development is the following. A potential CEO is normally being identified after 10 or 15 years of joining the company. Normally, a CEO is selected from 2 or 3 candidates (either one of them could deliver similar results) who are contemporaries hired at the same year. The predictability of reward system creates greater stability and also prevents inter-personnel rivalries.

Japanese culture does not encourage competition, but it upholds the spirit of shared

outcome. The homogeneity of Japanese society emphasizes the sense of “togetherness,” which in turn strengthens lifetime employment. In addition, cultural factors also influence the process of promotion in the lifetime employment and seniority system. More specifically, promotion in an organization is not truly made on merits. Even a promotion is made based on merit, the wage differential between a promoted person and others is not significant. Fair and equitable salary system allows more resources for investment in productive activities.

As shown above, Japanese organization excels in maintaining a harmonious environment between employer and employees, and among employees, which in turn strengthens the commitment, motivation and loyalty of employees, which are key drivers of high performance.

## **6. Japanese Organizational Management is a Process of Continuous Learning**

Koike (1990, p. 5) has showed that a Japanese organization is characterized by its emphasis on on-the-job-training (OJT). A Japanese organization does not require a new employee to endow with a specific skill or knowledge before joining. In other words, what an employee has learned in school (either at a secondary or at a tertiary level) is not important. Rather, a firm demands a new employee to acquire a firm-specific skill or knowledge through the OJT process.

By and large, conceptually, there are two types of learning. First, learning is a process of obtaining knowledge in order to solve specific problems based upon existing premises. Second, learning is a process of establishing new premises (such as a new paradigm, schemata, mental models, or new perspectives) to override an existing one. In these contexts, therefore, OJT in a Japanese organization is indeed a process of learning by doing.

OJT has several advantages. First, when a particular skill is largely indefinable and also partially communicable through words or documents. Second, OJT helps to improve the understanding of a specific task, in which frequently, it strengthens accumulated knowledge in overcoming specific problems either based upon existing premises or creating new premises that override existing one. Third, OJT is a career ladder, which begins from the easiest task to a slightly more difficult one, and eventually to the most difficult jobs. Fourth, OJT specific provides broad career paths within an organization. Hence career development process is of a firm specific, which reinforces lifetime employment system (i.e., no incentive for job hopping). Last, but not least, in encouraging continuous learning, OJT costs less than off-the-job training.

Furthermore, there are three types of OJT, viz., broad OJT, supplementary OJT, and short-inserted OJT. Broad OJT is a system that rotates a person through several sections/divisions within an organization. Supplementary OJT is for a person to acquire a new knowledge/skill by observing other peers/seniors. Short-inserted OJT is conducted either outside or within the organization so as to facilitate a person to acquire a new knowledge/skill in a short period of time (usually for a few days or for a few weeks).

## 7. Information Sharing, Communication and Coordination are Drivers for Effective Organizational Management

As mentioned above, because a Japanese organization emphasizes on consensus building as the mode for making a decision, the process entails an exhaustive practice of information sharing and communication. These can be conducted informally through discussions within the organization or exchange of opinions during off-hours outside the organization such as over a dinner (which normally include alcoholic drinks). This is a typical practice of *nemawashi*. Furthermore, seniors often invite juniors to informal setting to absorb their opinions as well as to communicate with them. Such kind of approach is conducive to build team spirits and trust.

In a formal setting, information sharing and communication are conducted in the form of *ringi* system. This is a system in which an agenda or a subject matter is solicited for consolidating a consent from within a division, from between divisions, and from the hierarchy in a written form. Thus, *ringi* system is a means for the vertical and horizontal communication, information sharing and coordination within an organization.

The basic information that needs to be included in a *ringi* (a written document for soliciting a consent) is 5W2H (who, why, what, where, when, how and how much). The *Ringi* system by itself is a consensus for an informed consent (*gougisei*, literally translated as a council system). Therefore the process does not encourage over ride of consent. If a consent could not be reached at any stage of the *ringi* process, it is reverted back to the drafter, and he or she would have to review the contents and re-submit. Re-submission continues to the extent until everyone gives consent. Otherwise, the drafter may choose to give up entirely. In this regard, *nemawashi* is extremely important in order to obtain consent from the people concerned before a formal procedure.

As such, the *ringi* system is an important mode of information sharing and communication within an organization. At the same time, the *ringi* system is a bottom-up approach, in which it allows personnel at the lower hierarchy level to engage with their seniors in a positive manner, notwithstanding it is a time consuming endeavor. Moreover, the *ringi* system is also a platform for OJT too.

Beside the *ringi* system, many Japanese organizations typically incorporate following practices to enhance communication, which has an effect of strengthening team spirits and the sense of togetherness in owning a process of consensus building. Daily report (*nippo*, either verbally, or in written form, 5 minutes) by subordinates at the end of a working day. Daily short meeting before the start of a working day (*chourei*, 5 minutes). Encouraging formation of informal task force (often in quality control activity and in search of improvement of productivity). In additional, a superior is encouraged to be a good listener to subordinates, and a subordinate is encouraged to practice *Hou Ren Sou*, which is an abbreviation for combining *Houkoku* (reporting), *Renraku* (communication), and *Soudan* (consultation).

## **8. Enhancing Productivity in the IT Age**

Japanese organizations are increasingly categorizing their work activities in following ways to take advantage of IT age.

First, primary activities, which are activities that should be executed by a division/department. Priority is given for these activities in terms of improving business processes and related technology. Second, common activities, which are activities that should be shared with other departments. Third, automation, which relates to activities that could be substituted by available IT technology, or automation of user friendly interphase. Fourthly, outsourcing, which identifies activities that could be outsourced, which as a result, contribute to minimizing internal work-load, and taking advantage of that, to encourage employees to explore new opportunities.

In categorization of activities, following three dimensions are taking into consideration to ensure effective organizational management. First, assessment of activities value in terms process capability from the perspective of quality, cost and benefit, customer satisfaction, and others. Second, evaluation of current performance, which is conducted thoroughly by examining the needs and process capability, and the comparative advantage vis-à-vis other departments. Third, predictability in terms of quality, cost, time, and other related interphase. If predictability is weak, most likely, those activities concerned are not appropriate for automation.

## **9. What is Japanese Organizational Management in the Context of Principal-Agent**

The fundamental objective of management is to solve the principal-agent problem within an organization. In an organizational hierarchy, the upper layer becomes a principal, while the lower layer becomes an agent. Thus, the central issue lies on delegated discretion from a principal to an agent. A classical principal-agent problem is a situation whereby an agent responds to his or her own individual incentives, which differ or contradict the principal's interests. In this respect, Western organizations put particular emphasize on rule-base instructions so as to minimize delegated discretion. Hence Western organizational management is often related to the strong command and control from superiors to subordinates, and also with strict supervision and intense demand from top to bottom of a hierarchy. As such, western organizations encounter numerous conflicts, and thus they require clear procedural rules for resolutions.

On the contrary, those attributes mentioned above contribute to minimize principal-agent problems in a Japanese organization. Delegated discretion has a broader scope for interpretations, and thus do not require a clear cut rule based instructions. Cultural aspects also facilitate the receptiveness of a broad interpretation of delegated discretion. In addition, to a certain extend, the ambiguity of Japanese language also helps to interpret in favor of discretionally decisions. For example, *nado* (means etc.) can be interpreted to include anything in relation with the substantive and contextual issues. Or, *toumennokan* (means for the time being) can be adapted for quite a long period, and to an extent of no time limit, depending on the



subject matter!

Individual incentives do not influence an agent to act against the interests of a principal because it is of that agent's benefit to uphold a greater good of protecting the interest of his or her organization. This practice is in consistent with the commitment to lifetime employment. The cultural sense of "togetherness" or "groupism" thus prevails and it plays an effective role to minimize principal-agent problem confronts by a Japanese organization. As such, process is more important than procedural rules. Procedural rules in a Japanese organization are often written ambiguously for the purpose of facilitating broad interpretations of a contextual and/or a circumstantial issue.

## **10. Limitations and Challenges of Japanese Organizational Management**

Japanese organizational management styles were, and to a large extent, they are still the strength of a Japanese organization. They have played a crucial role in improving the efficiency and effectiveness of Japanese organizations to compete with western organizations in international market place. Japan, which was a latecomer in modern industrialization, has a telescopic advantage in adapting the best practices from other advanced countries, and then transform them into practices that suit Japanese cultural contexts. As a result, we have observed many Japanese organizations excel themselves impressively in terms of quality control, high productivity, branded products, etc. *Japan as Number One*, *Make in Japan*, *Total Quality Control*, *Kaizen*, *The Toyota Way* received great attentions from many "Look East" followers. Sony, Panasonic, Toyota, Honda, Canon, Mitsubishi, Sumitomo, etc., are popular Japanese brands span across the globe.

Since the 1990s, Japanese economy has been extremely sluggish because of institutional dysfunctions in private and public sectors. In addition, declining birth rate and aging population affected the sense of uncertainty for most Japanese, and these two issues pose enormous policy and structural challenges to Japanese economy. Equally serious, other late industrializers such as China, Korea and others are challenging Japan in manufacturing sector. On the other hand, advanced countries such as the U.S. and many European countries have taken enormous advantage of the opportunities offer by information and communication technology and other high-techs to expand their business frontiers in the increasingly globalized market place. The missed opportunities that have been encountered by the Japanese, in cultural sense, are inevitable. Because its culture inhibits individuals to lead in the western sense, thus the majority is uncertain how to chart a direction to a new frontier. Those hesitations are compounded with the risk adverse attitude—as a result of not-to-compete posture shaped by cultural attributes, which in turn reinforces the wait and see mind-set. Consequently, Japan, which was admired internationally until early 1990s, has started to loose its visibility. Recently, "The Sun Also Sets," "Japan Passing," and most recently, "Leaderless Japan," which were used as cover phrases for the *Economist*, are slogans that exemplify the diminished relevancy of Japan in the last decade.

Presently, Japan as a whole in general and many Japanese firms in particular are in search of new break through to re-invent and to re-position themselves so as to recover from the

missed opportunities of the last two decades. There are several challenges for Japan to overcome its present problem. Below are, among other things, a few examples of new challenges.

Japanese need to encourage more competition among themselves, instead of upholding steadfastly on traditional mentality of “groupism.” This change must be accommodative to, at least, any individual who could rise up outstandingly as a leader. Leadership should at least have a combination of consensus building tradition and also strong charisma to challenge the establishments or existing premises being held hostage by the culture.

Japanese need to create environment that is conducive to debates among the Japanese, regardless of hierarchy or seniority. This is fundamentally important for Japanese to reinvent themselves in enhancing their creativity. The culture of *haji* (shame), with regard to a failure, by the Japanese value system needs to be re-oriented, if not discarded entirely. Japanese need to get use to failures, and in a forward-looking manner, regard failures as the building blocks for success. Furthermore, the tendency of relying on precedent should not be encouraged, but challenging existing premises and receptive to new ideas or new concepts need to be promoted.

Lifetime employment system should be maintained but seniority system needs to be revised because without a merit-based assessment of performance creates enormous cost pressure to Japanese organizations in competing in the global market place. It also has increasingly become the source of discontent among the younger generation vis-à-vis older generation. With more than 25 percent of the population age above 65-years old, Japan needs to stay focus on how to motivate aged population to be dynamic and stay healthy on the one hand, it also needs to stimulate younger generation to be more creative and more competitive, and assume more responsibility with open-minded not in the confine of the island nation, but in the global context, on the other hand.

### **Concluding Remarks: Applicability of the Japanese Organizational Management Styles**

Friedman (2016, p. 3) cautions that every inhabitant on this planet faces enormous challenges from three strong forces, viz., technology, globalization, and climate change. Obviously, technological change has driven and will continue to accelerate globalization, in which the intensity of cross border exchanges of good, services and capital has risen amazingly in the last quarter of century. In addition, movement of people across national borders has increased rapidly. These two forces have indeed flattened our planet. Equally serious, while the quest for a higher level of living standards has lifted our income but it has also triggered the change in global climate because of intensified mass production and consumption spanning the globe. For every country, regardless of the level of development, the debate on positive influences/impacts and shadows of these forces will continue. But at the same time, these forces also raise the necessity to clarify how to establish the balance between socioeconomic openness and the space for managing national policy is indeed urgent. Equally crucial, finding an answer to the question of how to minimize vulnerability of national socioeconomic situation against the need of enhancing international competitiveness is unavoidable. In these contexts, it is important to put

efforts in strengthening the capacity of public administration and formulation of policy responses to accommodate the continuous process of technological change, globalization and climate change. Hence this essay alludes that many countries can draw lessons from Japanese experience in public and organizational management.

Japanese public and organizational management, which embodies Japanese leadership, is embedded strongly in its cultural and value systems. Thus, it is surely a complex process to understand the working of Japanese management styles. More critically, it is not easy to comprehend how Japanese styles are executed if learners do not have a background understanding of Japanese culture. This is a herculean task. As such, the wholesale adaptation of Japanese organizational management styles is not advisable. Rather, it is more realistic for foreign learners in terms of: firstly, to grasp key elements that underpin the strength and characteristics of Japanese organizational management; secondly, to examine how to modify Japanese styles in order to apply them.

In this connection, I urge governments in late industrialized countries to put priority in supporting their local research institutions to conduct in depth studies of their own culture, in which better understandings of their own cultural attributes—either as a multi-racial cultural setting or in the setting of a homogeneous society—are useful intellectual discourse. This approach can certainly contribute to the foundation for enhancing every country's ability in harnessing relevant foreign experiences—such as Japanese experience—with modifications that are applicable in each cultural context within its national boundary.

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