

Japan's Management Philosophy for Business Sustainability

HAYASHI, Hiroshige

Visiting Professor

Xi'an Jiaotong University School of Management, China.

ABSTRACT

According to prior research, a key factor in the longevity of those Japanese companies that have been in business for over 100 years would appear to be a capability in business management that fosters a good balance over three axes: steady succession (continuity towards future, contribution to society and local community), centripetal force (stable management, unity within company) and innovative creativity (innovation, customer-focussed operations). To accommodate changes in the civilization system (or management environment), long-lived companies have resolutely adjusted priorities along these three axes. It is widely accepted that management philosophy is an integral part of such management capability.

Today's management philosophy is embodied in a company's management principles, and defines ethical standards in the attitude and behavior of the company's activities. It also aims to maximize customer value, increase user-friendliness and overall comfort in society, contribute to the economic prosperity of the country and people, and work towards optimum benefit, extending as far as to contribute to the global economy and environmental protection. Management philosophy is evolving and broadening.

Looking at changes in Japanese management philosophy, its evolution and extent across the last four centuries, this paper demonstrates that management philosophy has been adapting to the contemporary civilization system in each of the four periods defined below.

1) Feudalistic Japan (1603–1868) and the philosophy of '*San-Pou Yoshi*' that stood for 'Justice before profit'. 2) Imperial Japan (1868–1945) and the 'Business Acumen with Samurai Spirit' that facilitated the industrial development policy of 'Rich country, Strong army'. 3) Democratic Japan (1945–1990) and the 'Business Acumen with Japanese Spirit' that created 'post-war economic growth'. 4) Global Japan (1990 – present) and the 'Global Optimization Acumen with Japanese Spirit', which aims for 'optimum business management for global operations'.

By examining the content of each period's management philosophy and its development, we can clarify issues of fluidity and immutability, path dependency and temporal characteristics. This discussion leads towards the conclusion that the current 'Global Optimization Acumen with Japanese Spirit' is in a formative stage and that further definition and systematization will be needed.

日本に於ける企業の持続性と経営哲学の関連

林 廣茂

(西安交通大学管理大学院客員教授)

要 約

100年以上持続している日本の長寿企業の、長寿の秘訣は、先行研究によると、継承力（社会・地域への貢献）、求心力（堅実経営、社内結束力）、イノベーション力（革新、顧客志向）の3軸のバランスを取る経営力が鍵であるようだ。文明システム（経営環境）の変化に適応して、長寿企業は3軸の重要度を柔軟に変えてきた。その経営力の要が経営哲学であるのは周知である。

今日の経営哲学は、経営原理として企業内で共有され、企業行動の態度や行動をエシカル（ethical）に規定する、そして、顧客価値を最大化する、社会全体の利便性や快適性を高める、国家と国民の経済繁栄に貢献する、グローバルな経済貢献や環境保護に至る最適善を志向している。経営哲学は進化し拡大する。

本稿は、日本の経営哲学の変遷、進化と拡大を、400余年の時間軸で俯瞰し、それが各時代の文明システムに適応してきたことを検証する。1) 江戸期（Feudalistic Japan）（1603-1868）の「先義後利」を正当化する「三方よし」、2) 明治・大正・昭和20年まで（Imperial Japan）（1868-1945）の「富国殖産」に資する「士魂商才」、3) 戦後-昭和の終わりまで（Democratic Japan）（1945-1990）の「経済成長」を実現する「和魂商才」、4) グローバル化時代（Global Japan）（1990-Present）の「グローバル最適経営」を目指す「和魂グローバル最適才」の4つに分ける。各期の経営哲学の中身、進化と拡大を取り出し、それぞれの不易流行性、経路依存性、時代の特殊性を明らかにする。

最後に、現在の「和魂グローバル最適才」は発展途上にありその定義と体系化が求められる、と指摘した。

Keywords : *San-Pou Yoshi*, Business Acumen with Samurai Spirit, Business Acumen with Japanese Spirit, Global Optimization Acumen with Japanese Spirit
三方よし, 士魂商才, 和魂商才, 和魂グローバル最適才

I The Life of a Company

Characteristics of Long-established Companies

In Japan, it is estimated that 52,000 companies have been in business for over 100 years (Yokozawa et al., 2012:74). They account for 2% of Japan's 2.6 million companies. 74% of them are family businesses.

The secret of their longevity is management within their means and a policy of prioritizing sustainability over growth. In other words, a good balance has been achieved across the three axes; steady succession (continuity towards future, contribution to society and local community), centripetal force (stable management, unity within company) and innovative creativity (innovation, customer-focussed operation) (*ibid.*: 286-303).

Long-established companies have flexibly adjusted the weighting on those three axes according to the characteristics of the time. It is well known that the essence of such a three-axis management concept is often a family creed or company motto, which is the manifestation of the philosophy of the company's founders or successors.

Life-spans and Defining Factors

Companies have life-spans. As Ugajin (2013) calculated it: "We surveyed bankrupt companies from 1983 to 2013 (January–August) at five-year intervals and checked how long they had been in business. If we calculate the average by focussing only on large-scale cases of bankruptcy with debt exceeding JPY10 billion", the average

life-span of bankrupt companies in 1983 was 30 years; 30 years later, in 2013 (January–August), it was 35.5 years.

What determines a company's life-span? Company management rests upon five elements: company culture (custom and habit), company ideal (*raison d'être*), management resources (human resources, information, technology, funds, equipment), customer value-creation process (e.g. value chains, supply chains) and organizational structure (e.g. production, marketing, finance, human resource). Externally, companies exist within the contemporary civilization system at home and abroad, a system which encompasses politics, economy, society/culture, technology and environment. If companies struggle with internalizing changes in such external environments into the elements of their company management, they will have difficulties in internally innovating those management elements, thereby shortening their life expectancy. In short, it is adaptability to changes in the surrounding civilization system that determines a company's life-span.

Stanford University Professor, William P. Barnett, argues that companies that have succeeded in a certain situation (*or under the civilization system of a certain period*: Hayashi) tend to have strong *structural inertia* arising from their particular experience, but tend to fail more readily in different situations (*or altered civilization systems*: Hayashi) (Wakabayashi, 2014).

At home or elsewhere, companies must maintain the competitiveness of their company management elements by internalizing the

contemporary civilization system and its fluctuations. As sub-systems of the civilization system, companies must continue to carry out their duties within the applicable civilization system in and outside the home country – this is an issue of corporate social responsibility (CSR), through the creation of customer satisfaction values. We consider that companies that come to an end are those that are unable to maintain an up-spiral cycle of interaction with the civilization system.

The Life-spans of Companies and the Rise and Fall of Industry

The life-spans of individual companies are also affected by industrial fluctuations. The decline or disappearance of an entire industry will occur from time to time, when changes in the civilization system place that industry at a disadvantage for its very survival. In such cases, the scale of system change has gone beyond the control capability of individual companies.

For instance, considering the 1970s textile industry, 1980s semiconductor manufacturing, or 2000s flat-panel production, a representative industry of one period can decline and disappear in the next, or its operations be transferred from Japan to elsewhere to align with international product life-cycle. Such shifts are of course not unusual, and are thought to happen when the industry itself has a weakening adaptability to major changes in its civilization environment. Therefore, to analyze a company's life-span and the reasons behind its longevity, it is necessary to take an approach that considers the sustainability of both the company/business and

its industry.

II Management Philosophy

Definition of Management Philosophy

Company management is carried out by people and navigated by their philosophy. Essentially, what becomes the core of management philosophy (or principles of company management) are the managing executives' ideas and philosophy, which in fact are themselves part of the society's culture and reflect the executives' views on the world, civilization, history, values, ethics and morality. Such management philosophy is shared with all employees inherently via company culture and ideology, or the company's CSR undertakings, functioning as attitudinal and behavioral standards to ethically define the company's economically rational activities. This determines the company's commitment to CSR for their civilization system. Commitment may seem a vague generalization, but it refers to the level of a company's dedication to the 'social good' – community, state and world.

Fluidity and Immutability, Path Dependency and Temporal Characteristics of Management Philosophy

The notion of 'contribution to good' is constant, but 'content of good' may change, because 'temporal characteristics' and 'path dependency' are simultaneously present. Management philosophy is economically rational knowledge, and is at the same time wisdom relating to theories of value. This philosophy should be

drawn from an unbroken cycle consisting of induction from reality, time-and-space-specific phenomena, and deduction from universality, which is beyond time and space. It is the knowledge and wisdom obtained from one's own practice and his/her predecessors' experiences and teaching. Therefore, management philosophy changes, in that it expands and evolves.

Modern management philosophy construes ethical and moral standards that become the behavioral and attitudinal standards for a company and its employees. It aims to maximize customer value, heighten user-convenience and degree of comfort, values that benefit society as a whole, and contribute to the economic growth of both country and people. Current management philosophy looks at optimum good in terms of contributions to global economy and environmental protection. As seen above, management philosophy has concentric layers of progression and extent.

III The Chronological Evolution of Management Philosophy

By plotting changes in Japanese management philosophy and its expansion and evolution over four centuries from Feudalistic Japan to today's Global Japan, we can see how they have guided companies' adaptation to each civilization system.

Japan's 400-year business management history spans from Feudalistic Japan, when commercial capitalism was established on the base of physiocracy, to the time of Imperial Japan, which featured industrial capitalism, and the present

so-called information capitalism. For convenience, we divide this history into four periods, marked by fundamental changes in the civilization system, which comprises politics, economy, technology, society and culture. Using representative catchphrases for the management philosophy of each period, we analyze the fluidity and immutability, path dependency and temporal characteristics of each philosophy. 1) Feudalistic Japan (1603–1868) featured national isolation and the shogunate, and the philosophy of '*San-Pou Yoshi*' (= contributions to three parties: vendors, customers and society as a whole). 2) Imperial Japan (1868–1945) and 'Business Acumen with Samurai Spirit' after the country was opened to foreign trade and adopted an industrial development policy. 3) Democratic Japan (1945–1990) under its economic growth policy and 'Business Acumen with Japanese Spirit'. 4) Global Japan (1990 – present) and 'Global Optimization Acumen with Japanese Spirit', which aims for global optimization management.

In any of these periods, the following three religions are meta-integrated as a theoretical thoroughbass of management philosophy, although the degree of influence of each varies greatly from time to time. One is Confucianism, especially the Zhu Xi School and the Wang Yang Ming School of Neo – Confucianism, while the others are Buddhism – the True Pure Land School of Buddhism and Zen – and Shinto (ancestor worship and belief in eternal spirit and soul).

IV Merchant Philosophy of 'San-Pou Yoshi' in Feudalistic Japan (1603–1868)

Political/Economical/Social and Cultural Aspects

Feudalistic Japan under political system of the shogunate-With a very strict class system consisting of warriors, peasants, craftsmen and merchants, the Tokugawa shogunate, the central political power, directly governed feudal lords (totaling around 280 feudal clans in the mid-1770s), and the feudal lords directly governed the people in their territories. The three major cities, Edo (present Tokyo, then with a population of 1.2 million), Osaka (600,000) and Kyo (present Kyoto, 400,000) were under the shogunate's direct control. In feudal clans' territories across the country, castle towns and small and medium-sized cities were created. The stable feudalistic ruling covered every part of Japan, and lasted about 260 years. Japan's population rose from 15 million to 35 million.

The origin of the class system owed much to the Zhu Xi School of Neo-Confucianism, adopted as an official discipline for study by the Tokugawa shogunate. To perfect control all over Japan by the warrior class through order and ranking with Tokugawa Family at its apex, the shogunate imposed this class system arbitrarily. Through taxation in rice and kind, the warrior class sucked up the economic value produced by peasants, craftsmen and merchants, and simply consumed. Meanwhile, merchants were held in low regard, as they were not engaged in production economy like peasants and craftsmen,

but were profiting simply from distribution and commercial channels. Sorai Ogyu (1666–1728), a Confucian scholar and advisor to the 8th Shogun Yoshimune Tokugawa, spoke for the social perception of those times about merchants when he declared "merchants are an extremely despicable species, just like burglars and beggars".

Under this stable regime, learning (including Confucian studies and native studies) and the arts (literature and painting) were developed in the three cities and spread throughout Japan. It was mainly merchants (city-dwellers) who nurtured these studies. High academic and artistic levels, comparable to those of Western European countries at that time, were achieved during this period (Kawakatsu, 1997: 17–54, 179–217; 2006: 160–220).

The economy also steadily grew. Merchants supported the economy, and by using double-entry bookkeeping, they managed assets and liabilities and carried out accurate profit and loss calculations. A cash economy using gold, silver and copper was developed, while credit and exchange dealings were used for commercial payments and fund transfers over long distances, such as between Osaka and Edo or clan territories. Merchants priced their goods not only according to quantity but also to additional values like quality. In short, an economic society based on modern economic rationality was developed.

Progress was also made in the field of science and technology, including shipbuilding, construction, civil engineering, flood control, agriculture, mathematics, astronomy,

fermentation, textile, sword-making and armaments. These became infrastructure technologies supporting the economy, and it was mainly merchants who facilitated the progress of science and technology.

As for agriculture, Japan achieved the world's then highest level in productivity per arable land area through 'industrious revolution'. Between 1600 and 1820, the gross yield in rice and grain *kokudaka* per cultivated acreage increased over 1.5 times, and the volume in *koku* (1 *koku* = 150kg) grew nearly 2.5 times, from 19 million to 47 million *koku*. New field development, securing water for agriculture through riparian works, advancement in cultivation equipment and increased use of organic fertilizers also contributed to the growth in rice and kind production (Hamano, et al., 2009).

The accumulation of these developments in economy, science, technology and 'industrious revolution' of this period laid the foundation for Japan's rapid modernization after Meiji Restoration of 1868.

The Way of the Merchant as Merchants' Self-justification

The way of the merchant emerged as an offspring of the class system by the late 17th century. It maintains that merchants' profit is a justifiable price or gift from the higher order, because they earn it by serving society and the people, meaning they are practicing justice.

For instance, the management philosophy of Omi merchants, who were representative of Japanese merchants of early modern times, is said to have been '*San-Pou Yoshi*'. Merchants

used such legitimate profit for reinvestment in their business as well as for the benefit of society through secret charity works, e.g. making secret donations for infrastructure refurbishment or to help the poor. Merchants' everyday life was a practice of diligence, frugality/simplicity and stoicism, from which good deeds in the present life would bring retributive justice in a coming life, where they would be rescued by Amitabha and taken to the land of happiness. Retributive justice would also be assigned to their descendants in the form of a long-successful family business.

The way of the merchants declares a justification and *raison d'être* for the merchants who were treated as "despicable and greedy". In reality, all Japanese people, including the warrior class, were aware that society wouldn't have existed without the merchant-led economy. More specifically, the lives of Japan's 31 million people in the late 1750s were sustained by the commercial and physical distribution run by around 1.8 million merchants of all business sizes. The country's economic centers were three major cities, Edo, Osaka and Kyo. Osaka was particularly known as a 'world kitchen', where produce arrived from all over Japan, from the tax rice of the shogunate and other clans to agricultural and marine products and other local specialties; after necessary secondary processing, these items were sold across the country as value-added goods. Physical distribution mainly relied on marine transportation covering the whole country; merchants handled both commercial and physical distribution. Wealthy merchants of the three major cities and medium

and small-sized merchants of each clan's territory were connected through logistical networks. The warrior class at this period numbered just under 2 million, and peasants 27 million.

Baigan Ishida (1685–1744) is one of the thinkers who theorized and explicated the way of the merchant, and is regarded as laying the groundwork for Japan's commercial capitalism. He developed a theory of commercial capitalism in the 18th century when the physiocratic shogunate and other clans oppressed the merchants while relying on them for financial matters. Ishida was also a scholar of the Wang Yang Ming School of Neo-Confucianism, applying its teaching that awareness comes only through practice to the relationship between Li and profit.

According to Ishida, merchants' pursuit of profit and their ethical and moralistic deeds should be considered two sides of the same coin, and should develop interactively and progressively into a higher level. Through such an up-spiral development, profit would be generated for society as well as for the merchants themselves. "Profit to the merchant is what rice-salary is to *Samurai*. No profit to the merchant is what no rice-salary to *Samurai*." "A true merchant thinks of a win-win solution to both others and himself." "The merchant's profit is an officially-recognized hereditary stipend earned through his sincere contribution to society, therefore it is a gift from the higher order." Thus, he justified the profit generated from the way of the merchant.

The Way of the Merchant Emphasizing '*San-Pou Yoshi*'

Copious amounts of family precepts and death-bed advice teachings of the deceased recorded by Omi merchants reflect the above management philosophy, which remains relevant today. Apart from '*San-Pou Yoshi*' and 'works of charity in secrecy', there were countless pieces of advice: 'A man without regular occupation can have no stability of purpose' (Unless you have legitimately-earned funds, you cannot offer contribution to the world); 'Emancipation by faith in others' (As Amitabha emancipates people/all others.); 'Diligence, frugality/simplicity and stoicism are the basis of the social order'. Worship of three religions – Shinto, Confucianism and Buddhism (particularly True Pure Land Sect) – and ancestor worship were also stressed, indicating accordance between religious and economic ethics.

Among all those, the practical ethic of '*San-Pou Yoshi*' is regarded as an early CSR prototype, as it accurately expresses much of management's social responsibilities towards direct and indirect stakeholders. For instance, while judging your own need, work in harmony with the environment. Observe the company's ideals, such as stable management that protects employees and helps them grow (= Contributions to vendors). Carry out seamless innovation and stick to customer-first policy (= Contribution to customers). Make a contribution to the local community and state (= Contribution to society) (Suenaga, 2011). The content of '*San-Pou Yoshi*' also reveals 'the secret of longevity' in Japan's long-established modern companies.

V Management Philosophy of 'Business Acumen with Samurai Spirit' for Industrial Development in Imperial Japan (1868–1945)

New State Structure

After the Meiji Restoration, Japan's biggest objective as a state was to swiftly become a modern first-class nation equal to the powerful countries in the West. To begin with, a new state structure was formed. After a dramatic 180-degree turn from the shogunate to a constitutional monarchy with imperial sovereignty, the Empire of Japan was established.

Universal conscription was introduced, and the Imperial Rescript to Soldiers and Sailors was adopted (1882). The rescript strongly reflected emperor worship and the belief in ranks and order, a legacy from the Zhu Xi School of Neo-Confucianism, requiring soldiers to follow and practice loyalty, courtesy, bravery, fidelity, simplicity and sincerity. In the Imperial Rescript on Education (1890), the core concept was the five virtues of Confucianism (loyalty, filial piety, order, service to elders, integrity), but it stated that those five virtues were universal ethics and morality derived from the Imperial Ancestors. All citizens were encouraged to follow the five virtues. The national religion (Shinto) and Confucianism were combined, and education was given to make practice of the virtues a way of life, expressed through imperial worship, ancestor worship, loyalty to the emperor and state, duties to your parents, order of the married couple, respect for elders and

harmony among siblings, and trust with friends. Discipline at home and in the local community developed as an extension and complement of this education.

Management Philosophy of 'Business Acumen with Samurai Spirit'

A resilient and stable economy was essential to secure peace among individuals, households and society in a state based on imperial sovereignty. Businesspeople and entrepreneurs concentrated on following state policy on national wealth, military strength and the promotion of industry. Not only ex-merchants, but also many ex-warriors became businessmen and entrepreneurs, participating in industrial development. The management philosophy that acted as a mental driver for them was 'Business Acumen with Samurai Spirit', created from a meta-integration of the Ways of the Samurai and the Merchant. Warrior loyalty to a lord in Feudalistic Japan was replaced by loyalty to the emperor, the wealth of a clan's territory was expanded to that of the nation, and the merchant spirit of '*San-Pou Yoshi*' was added – and a management philosophy for a new era appeared.

Japanese Industrial Revolution

As industrial revolution of Imperial Japan began, the leading commercial businesses run by merchants in feudalistic time declined, and modern industry based on manufacturing facilitated by Western technology spread rapidly. Regarding the decline of the conventional merchants and the rise of new entrepreneurs and businesspeople in the Meiji Era, Matao

Miyamoto carried out empirical research, from which the following is derived (Miyamoto, 1999: 25-79).

Among 231 wealthy merchant families in 1849 (four years before Perry's fleet came to Japan), only 20 survived 53 years later; these were among a total of 353 wealthy business families in 1902 during the modern industrialization period. The survival rate was 9%. According to business rise/fall analysis by trade type, many wealthy merchants in the Edo Period were money exchangers, kimono merchants, rice and grain dealers, cotton wholesalers and shipping agents, trades which were leading the economy at that time. After 53 years, among those who became wealthy during the rise of modern industry, we see names like Mitsubishi, a newcomer who began the path towards *zaibatsu*; Mitsui and Sumitomo, who survived after changing to banking or general trading firms; and Eiichi Shibusawa, who founded many companies. Modern industries such as railways, electric power, fertilizer, shipbuilding, spinning, iron manufacture, mail steam packets, import/export, food and finance produced many wealthy businesspeople.

Reasons for Companies' Decline

For company sustainability, the adaptability of on-going business operations to changes in civilization system is not enough. Innovative creativity allowing business diversification or shifts in business lines is also necessary. This is also demonstrated in Miyamoto's research. Among businesspeople developing the economy of Imperial Japan, the number of merchants

coming from feudalistic days was small – the majority were new ambitious businesspeople entering manufacturing industry or commercial business.

As for the traders who disappeared from the wealthy list, we might advance one or some of the following reasons, given here in modern interpretation. 1) They were too content with their previous successful experiences or business models. 2) They did not learn advanced production technology or management methodology for new industries. 3) They had been protected by privilege or regulations against market entry by newcomers or foreign investment. 4) Their company lacked a capacity for globalization at home and abroad.

In short, it was a question of whether or not they could internally realize the innovation required for the new era.

VI Management Philosophy of 'Business Acumen with Japanese Spirit' for Economic Growth in Democratic Japan (1945-1990)

Japanese Spirit Stayed Strong

The 1947 Japanese Constitution declared a new state founded on democratic principles, conferring sovereignty to the people. The previous industrial dynamic of serving the country through industrial development was rejected, as it was considered to have encouraged militarism, and the *zaibatsu* that had sustained Japanese economy were dismantled. Ethical, moral and behavioral standards based on Confucianism and Shinto, seen as militarist

and feudalistic, were removed from education. For the same reason, local community ethics and morality were also fast losing their influence as disciplinary standards for social and home life. From Imperial Japan to Democratic Japan, real transformation of the state and people occurred.

Meanwhile, the majority of people working towards the high economic growth of post-war Japan were born in the late Meiji to the Taisho Period (1910–1925), having been taught the Imperial Rescript on Education. The men had also been indoctrinated with the Imperial Rescript to Soldiers and Sailors. These constituted the pre-war and wartime generations. After the war, these generations replaced the earlier mission of ‘loyalty to the emperor’ and ‘vanguard of militarism’ with a new mission to ‘rebuild the nation’ and ‘strive to build the nation through economic power’. This succeeded in making Japan the world’s second biggest economy. They accounted for the majority of company-owners and management executives until the end of the 1980s and the collapse of the bubble economy (1991–1993).

Having been trained in pre-war and wartime education, these people had a strong Japanese spirit, way of thinking and philosophy. They had a highly developed society and spiritual culture wherein modern Western rationalism and Japanese traditional culture were meta-integrated. Although it was destroyed in the war, Japan already had an advanced industry by the 1930s, utilizing technology introduced from the West. Knowledge and experience of company management in capitalist economy and industrial society had been accumulated.

The mentality of pre-war and wartime generations emerged again in the context of ‘Business Acumen with Japanese Spirit’ described as follows. In a company, “workers strove to fulfill the duty given to them, and to do it to the best of their ability. They were dedicated to the whole, and sacrificed themselves for that; they were patriotic, committed to their company, and very loyal to the organization. They were decisive, courteous, and had a sense of mission, and had no reason to feel shame”. In short, they carried out a service to the whole and didn’t mind sacrificing themselves, taking risks and never giving up till they achieved a good result. This shows deep mental strength, allowing them to stir their minds when tackling the rebuilding of Japan’s economy.

Characteristics of Growth and Development Patterns of Japanese Companies

There is a unique pattern noted in the development and evolution of Japanese industry and companies. (Hayashi, 1999:1–10) It has some association with the sequence of ‘*Shu* (Follow), *Ha* (Digress), *Ri* (Separate)’, which is said to be the development and evolution pattern of Japanese culture. For fifty years after the war, Japanese companies realized evolution and development by the three steps of ‘Adopt & Imitate, Adapt & Improve, Adept & Innovate’.

The evolution and development of Japanese industry and companies would have been unthinkable without the transfer of industrial technology and management knowledge from the West, especially the US. First, learning from

the US, and adopting and imitating, Japan started new industries within the country – this is the stage of '*Shu*'. Japanese products were mere imitations of America's and were of poor quality and cheap, until the 1960s.

Eventually, from what they had learned, Japan adapted and released improved products – the '*Ha*' stage. The products performed better and became smaller and lighter, but the price was still affordable. They were latecomers after American products, but had higher performance and usability and lower price, gaining popularity. Japan in the 1970s became a big exporter of high-technology appliances such as transistor radios, black and white televisions, color televisions, cameras and watches. This was the 1970s.

After continuous familiarization and innovation (Adept & Innovate), Japan built industries surpassing those of the originator, the US – the '*Ri*' stage. After experiencing two oil crises, Japan created world standards for performance and fuel efficiency of small passenger cars, and in the fields of color TV and semi-conductors, Japanese industry outperformed American counterparts in both performance and cost. And that was 1980s.

Japanese-style management developed from the meta-integration of American industrial technology and management methodology and 'Business Acumen with Japanese Spirit'. To learn about it and the secret of its powerfulness, company executives and business management academics came to Japan, from the US initially, and then from other parts of the world. The strength of Japanese-style management was said

to be that company employees "are loyal to their bosses, pay respect to their seniors, unite together and follow through their job." This is the strength of teamwork. Companies institutionalized "seniority-order wage system, lifetime employment and company unions" (Abegglen/ translated by Yamaoka, 2004). Thus, they preserved the hierarchy and order of the organization, raised the employees' sense of loyalty through employment stability and life security, and achieved humanity and group harmony in sharing a common destiny. In brief, at the core of the mentality of 'Business Acumen with Japanese Spirit' was found loyalty, justice, service to elders, courtesy and integrity, all related to organizational hierarchy and order, which is the essence of Confucianism. And humanity and harmony were there, wrapping up those virtues.

VII Management Philosophy of Global Optimization Acumen with Japanese Spirit in Global Japan (1990-present)

Economic Downturn and Shrinkage after 1990s

According to the System of National Accounts (GDP Statistics, 2014), Japan's nominal economic scale reached the peak of JPY523 trillion in 1997, and diminished to JPY492 trillion by 2013. According to the IMF database (2014), the world's nominal economic scale expanded by 3.36 times in the space of 23 years between 1990 and 2013. China's economy grew 21-fold, from 1990's USD390 billion (13% of Japan's GDP) to the scale equivalent of 1.7 times Japan's USD4.9 trillion. Japan's world economic share dropped from 14%

in 1990 to 8% in 2013. During that period, the drive for Asian economic growth shifted from Japan to China.

Companies That Succeed or Struggle in Implementing Business Diversification

From 2005 onwards, Japan's digital home appliance companies, who formed a significant part of the nation's economic foundation and were representative of Japanese manufacturing, started retreating. In 2011–2012, their displacement in world markets by Korean counterparts became certain. Although consumer needs vary by country or ethnic group, Japanese manufacturers continued with globally standardized marketing, which was badly suited to diverse needs, and this was the principal reason for their decline.

For some time after the Lehman Brothers Collapse in 2008, Japanese motor manufacturers saw their performance in the market of advanced countries decline, and in the emerging market they struggled, as Korean competitors surpassed them. However, while continuing technical innovation, Japanese car manufacturers made a drastic shift towards locally-specific product development and marketing, and managed to revive. In the environmentally-friendly vehicle sector, such as hybrid, electrical and fuel-cell types, Japanese companies lead the world.

One study examined the time elapsed since foundation for the top 297 Japanese companies as regards market capitalization as of the end of 2013 (*Nikkei*, 2014). Companies over 100 years old numbered 61 (20%); Companies of 80–90+

years, 72 (24%); 50–70+ years, 118 (42%); and under 50 years, 46 (15%). It is pointed out that in general, leading Japanese companies coming under global competition have difficulties with business diversification. Also mentioned is that inside Japan, the rate of new business launch and the growth rate of emerging companies are low (*Nikkei*, 2014). To adapt to changes in the civilization system inside and outside the country, some companies continuously carry out reforms and innovation following the up-spiral pattern of '*Shu, Ha, Ri*', but not others, and the divide between the two is widening.

Weak Responsiveness to Globalization

In the world, universality and specificity are developing concurrently and expanding. This we will describe as globalization. Civilization values such as technology, science and economic rationality are becoming more and more universal everywhere, and the competition for supremacy in these values determines company competitiveness. On the other hand, regarding cultural values specific to certain countries or ethnic groups, such as history, tradition, religion and culture, communities appreciate these special features more, become confident about them, and transmit these values to the outside world. Therefore, states and races all over the world are forming a mosaic-like fabric where competition for supremacy of universal civilization values and competition for the influence of specific cultural values are proceeding. This is the real state of globalization. Information communication technology is facilitating its simultaneous, rapid, expansive

progress.

To work actively on a global scale, businesspeople must have a strong and resilient way of thinking or philosophy that allows them to work together in harmony with special, unique features of each different country or culture while commanding universality as an aid in and outside the country. In other words, it is essential for them to have suitable knowledge and Japanese virtues together, allowing them to win both competitions in individuals' civilization skills and in their power of cultural influence.

However, there is a concern that the reality of Japanese people today is actually against globalization. The pre-war and wartime generations have retired, and their children, who grew up with a post-war education, have been in charge of business management since the latter half of 1990s and through the 2000s. These are the post-war and after-post-war generations, and have not really inherited the strong Japanese spirit that the previous generations possessed.

Post-war and after-post-war generations do not have the abilities required in a society growing rapidly from the 1990s through information communication technology and globalization. They are short of ability in innovative value creation via high-level specialist knowledge as well as wisdom, or originality and ingenuity. In addition, they are weak in human qualities, or lack resolution or strong adaptability to diverse cultures; thus they are little suited to winning solo matches home or abroad. Therefore, they are unable to materialize '*Shu, Ha, Ri*', so necessary in today's global competitions for soft-value creation.

When these generations were growing up, it was impressed upon them at school and home that it was important to avoid fighting and competition, and to maintain friendly relations with everybody in a homogeneous society. Therefore, they have tended to avoid overseas work because they find it hard to mix harmoniously with people of different cultures while competing with them. According to the IMD World Talent Report (2014), Japanese people's foreign language skill ranks close to bottom, 54th among 60 world nations and regions.

Wake-up Calls from Two Distinguished Businesspeople

We cannot quantitatively prove a direct link between the fact that the after-post-war generation have been dominating the core of Japanese economy and management of company activities since the 2000s and the sluggishness in the country's economy and in Japanese companies' global competitiveness during this period. However, discussion regarding possible relationships between the two is active. We look at the views of the late Konosuke Matsushita and Kazuo Inamori. They represent Japanese top management executives who have been raising alarm, saying that current business management lacks leadership with a firm philosophy and an ability to realize and practice seamless innovation in management. Both figures have something in common – 'Achieve big justice as a human through practice'; 'Have a sense of mission thorough your life' – they share a management philosophy of 'awareness comes

only through practice.’

The management philosophy of Konosuke Matsushita (1894–1989), founder of Panasonic, has strong tints of Confucian and pantheistic attitudes in the pursuit of truth and of Buddhist belief in modesty and compassion (Matsushita, 1979, 2001). “Following the order of nature and society, accomplish big justice (= social justice or contribution towards a better country and society) – that is the human mission. Share this sense of mission with all employees across the company, and supply low-price good-quality home appliances in inexhaustible quantities to earn appropriate profit (= Tap water philosophy). Don’t accept socially unjustifiable profit. The company is something left in our care from society, and is the place to accomplish our human mission”. Thus, Matsushita prioritized ‘customer profit’ and ‘customer satisfaction’ above all else.

Kazuo Inamori (1932–), founder of Kyocera, grew up admiring Takamori Saigo, a student of Wang Yang Ming School. Inamori’s management philosophy has a strong influence from this school of Confucianism and Zen Buddhism. “Unite the higher order (justice) with your own efforts (or accomplish big justice)”, he preaches, “Revere heaven, love people [or ‘Carry through justice and humanity for big justice. Do the right thing and don’t fear’] – Take this as your destiny. And through the work that only you can do, and being consistent in your speech and action, you must improve yourself (Be conscious of the here and now and yourself)” (Inamori, 2004, 2009). “Japan now is too peaceful and indulging in comfortable quietness. Japanese people have

forgotten about big justice and lost the mental capacity of a fighting spirit” (*Nikkei Business*, 2013).

VIII Conclusion

A distinct management philosophy unique to Japanese people is not yet dead. However, it has not been systematically built upon by subsequent generations. The redefinition of management philosophy and its succession through systematization are required. Throughout the country’s long history, people have inherited Japanese spirit and way of thinking and philosophy as cultural memes. This cultural heritage must be redefined and systematized from the perspective of path dependency and immutability. It should then be developed and evolved into management philosophy as explicit and implicit knowledge reflecting the temporal characteristics of today’s information-driven and globalization-oriented society. A new philosophy, ‘Global Optimization Acumen with Japanese Spirit’, is proposed.

Management philosophy is not a fundamentalist concept, but through continuous evolution and expansion, it needs to maintain a freshness corresponding to its time. ‘*Shu, Ha, Ri*’ for the modern era is needed.

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