

# Sources of Japanese Productivity: Competition and Cooperation

---

**Kosaku Yoshida**

---

The purpose of this paper is to help American managers understand why productivity in many Japanese companies is higher than in American companies. To explain this phenomenon, special emphasis is placed on the Japanese form of competition and cooperation that is the underlying social fabric of Japanese society.

In the early United States, where natural resources were abundant in a vast country with sparse population to exploit it, the people were encouraged to compete with little or no restriction in order to promote development. America was founded on the idea of free competition, and the spirit of free competition is today's American behavioral principle, from individual workers to large corporations.

On the other hand, Japan, a country the size of California, consists of four main islands, and mountain ranges run north to south along the center of the largest island, leaving less than 15% of the land arable. The population of this island is over a hundred million, half that of the United States, making it a very densely populated country. In addition, Japan's resources are scarce. Nearly a hundred percent of all energy needs and almost all food, except rice, the main staple, are imported.

What would happen if people were allowed to compete freely in such an over-crowded society? People would compete for scarce resources and food for survival, and the "haves" would constantly need to protect themselves from the "have nots." The social order would be destroyed, the people would be weary and divided, and the country would retrogress.

In Japanese society, the social structure minimizes free competition and therefore prevents this kind of self-destruction. All Japanese institutions consciously try to discourage or eliminate free competition to maintain the social status quo. In fact, the Japanese people are basically patient and obedient and shun competitiveness. This is illustrated in their system of life-time employment and a seniority system which rewards higher age with pay.

If the Japanese are not competitive at home, then why are they so competitive in international business? How can they be successfully motivated to work hard and improve productivity without competing with each other? This paper will search for answers to these questions and provide a background with which to evaluate the applicability of Japanese style of management to American companies founded on the principle of free competition.

---

*Professor, School of Management, California State University.*

## **Limited Competition: In Business Life**

Since lifetime employment and the seniority system is the basic organizational principle in Japan, most of the people are employed by one company throughout their lives. Once a person is in a job, generally he can neither go back to school to obtain a better job nor move to another company with higher pay. In Japanese society, it is institutionally difficult for a person to start all over again or enter into some other field. What he is expected to do is to do his best to reach the destination predetermined by the last school one graduates.

The employment "ticket" that one buys at the graduation of academic institutions is likened to a lifelong train ticket that an employee will ride throughout his working life. This ticket will select his possible destinations; that is, it determines which companies he can select and what positions he can attain there. Once on this train, he cannot select another route or buy another ticket in the future. The lifetime train for a Japanese in the work force proceeds at a predetermined speed based on his education and the exams he has passed.

In large corporations the better qualified people are hired and groomed as candidates for executive positions. Typically, these people are officially recommended by a handful of prestigious universities so that graduates from small, undistinguished universities are not even given a chance to take exams for employment at these corporations. Different universities issue tickets for different destinations. The elite travel on a different track from the rest, and throughout their careers their advancements are fairly well guaranteed. This is especially true in the case of those government officials who graduate from a handful of highly esteemed universities and pass the senior governmental exam. They can predict fairly accurately what their ultimate positions will be.

Thus, the Japanese worker competes with others within an institution, or even within a segment of that organization, throughout his life. It is a limited competition, limited to those who are on the same train. This situation makes the competition between members covert because of the camaraderie generated by being on the same train and sharing the successes and failures of the organization. Consequently, people who are cooperative and get along with others are preferred to aggressive and competitive people. Competitiveness is subordinated to cooperativeness.

## **Free Competition: In Educational Institutions**

In principle, Japan is a country of *laissez faire*, which implies free competition between individuals. However, as

previously discussed, free competition is rare between the people, with one exception. That is in the nation's educational institutions, where anyone can enter any prestigious university by passing the entrance exam. Wealth, social status, position of the family, or alumni status of the parents have no bearing on admission standards, whereas they do at Harvard, Oxford, or Cambridge. The scores on the entrance exams are the only criteria for admission.

Once a person graduates from one of these universities, he is assured of a stable career and a high social status. Consequently, educational institutions minimize the distance between social classes, and thereby the upward mobility between generations is enormous. This provides motivation to the younger generation of Japanese society.<sup>1</sup>

Thus, every Japanese, regardless of his background, starts from the same point in elementary school to acquire his position in society on his own merits. This is free competition, fierce, yet fair. Thus the notion of *laissez faire* is maintained. Through this fierce, free competition, educational institutions screen meritorious people and classify the people into different working classes to reduce the intensity of competition that results from overpopulation. People accept the social strata developed by this educational system and realize that their station in life is the consequence of their academic performance. During their school years, they become conditioned to accept that intelligent people are naturally treated better.

As a result, the competition to enter the top universities is extremely fierce. Virtually all parents, from the elite to the uneducated, desire their children to graduate from a university, preferably a prestigious one. Here in America, uneducated parents do not necessarily regard education to be that important and let the children make their own career choices.

The desire for higher education is almost an obsession with the Japanese, and this obsession for higher education has pushed academic standards to be among the highest in the world. The competitiveness in the individual is developed early in Japanese life. People, "Japan's only natural resources,"<sup>2</sup> are sufficiently prepared for working life through free competition in their school days.

### Why Are Japanese So Productive?

Free competition is over at the time of leaving school. Generally, Japanese workers stay in one institution all their lives.

Although the entry level pay of most employees in a company varies with their education, generally the difference is insignificant. Pay raises result from negotiations between the board of directors and the union and are awarded almost equally across the board. Virtually no one negotiates his own pay raise. Incidentally, in Japan, a union is made up solely of the employees of a company, ranging from the blue collar workers to middle management people, and deals mainly with problems pertaining to that company. Thus, an individual employee does not compete with another for higher salary. Even in a case of transfer to a less important position due to a serious mistake, salary is rarely reduced. One earns the same amount regardless of one's output. Why, then, are Japanese considered hard workers when they have no apparent incentives?

**Effect of Education.** As discussed earlier, because of the competitive nature of the educational system, students develop the habit of working hard and persevering through rigorous training. Thus, one of the most difficult and important tasks for a company—to instill good work habits—is already developed by schools. This contrasts with most American students who do not enter the competitive business world with the appropriate training for competition or hard work. In this sense, Japanese corporations have an advantage over their American counterparts in raising productivity.

**Social Values and High Quality Products.** In a country where competition for wealth or money is discouraged and wealth is assumed to be distributed widely for all to survive, the Japanese often appreciate such intangible values as respect, status, recognition, or praise more than current income. They compete for these social values. This is a highly limited, covert competition.

For example, a typical manager is not paid for overtime work, and usually the extra pay for a manager is insignificant. Being promoted to a managerial position and working longer hours could be tantamount to having the employee's pay reduced. Thus, anyone seeking promotion surely does not do so to maximize his current income. He is seeking status, prestige, or social recognition. Occasionally the impact of the position is greater than that of money.

This type of culture surely encourages the Japanese to improve the quality of their products. They would not sacrifice the quality just to reduce cost. The competition for better quality products is institutionalized by the Deming Prize, named after Dr. W. Edwards Deming, the noted statistician who in 1950 explained to top management in Japan how to improve quality and to capture the markets. The quality of Japanese products changed from cheap to high quality and competitive in a short period of time. Corporations compete fiercely for the Deming Prize to gain recognition for high quality products. This differs substantially from the American method of price-cutting. Thus, it is clear that Japanese competition is covert while U.S. competition is overt. This covert competition is the source of Japanese vitality.

**Wage Distribution.** The elimination of monetary competition is not limited only to white collar workers within a company. The salary difference between white and blue collar workers is very small, with blue collar workers being paid a salary, not wages. Japanese educational institutions classify people into different working classes in order to reduce the intensity of competition that results from overpopulation. But the distribution of income is based mainly on the seniority system, not on the level or kind of education.

In the United States, where there is job mobility, a person who stays at a low-paying job for a long time may be considered unable to do anything else or to lack initiative. But in Japan one must ride a prescribed train throughout his life, a train determined mostly by his academic record in his youth. The small differences in the distribution of wealth across the company and the seniority system is very effective in motivating the non-elite, such as blue collar workers or high school graduates,<sup>3</sup> and at the same time, in promoting solidarity throughout a corporation.

**Job Security.** Since Japanese companies have a basic policy of lifetime employment for their workers, once the workers are hired, they are rarely fired or laid off. In periods of adversity, most Japanese corporations put payment to the employee as their top priority, dividends are second, and the last priority to executives' salaries. In extreme adversity, the pay of top executives is cut in preference to reduction of employees' pay. Mass layoff occurs only when a company is almost bankrupt. Therefore, the job security of employees of big corporations in Japan is much greater than that in America.

The importance is that there is job security, not only for elite white collar workers, but for blue collar workers as well. Job security has more impact on those who do not have the possibility of climbing up the social ladder than to those who do. This is another compensation for the irrationality of meritocracy. Japanese corporations do not neglect the people that happened to be classified into the lower working position only by their youthful educational performance. Once they are hired, even the people in the lowest ranks share the successes and failures of the company as a member of the company.

In the U.S. during an economic downturn, the lowest level of blue collar workers, usually the last hired, are laid off first, and the order of layoff is exactly the reverse order of corporate hierarchy. In a society where job mobility exists and a loser in one place can start all over again in another place, where one can enter into new competition any time, firing is a necessity. However, during periods of sluggishness and high unemployment, as in recent years, it is not easy for a worker to find a better job or any job at all. To be fired is not an incentive to seek a new job or a challenge for new competition, as it should be, but only the humiliation of human dignity. For these people there is no improvement in job motivation.

We should be aware that similar conditions to those in Japan, such as short supply of scarce resources, especially oil, and excess population (another aspect of this is the high unemployment rate) are emerging in the U.S. These conditions, in turn, may be conducive to introducing the Japanese style of management here. One of the characteristics of Japanese management is not to cut off those people who are in a disadvantageous position. For people at a disadvantage, we should not create the fear of becoming a loser in the job competition or of being fired, but an incentive of security and protection.

#### **Advantages of Non-Monetary Competition**

As seen above, a profit-seeking company in Japan is composed of those workers motivated by something other than the competition for money. This makes the labor cost very low, giving the corporation big savings in personnel costs. Also, with competition for money between individual workers eliminated, the workers unite under the common slogan of "company improvements mean higher wages." Under this slogan, labor and management cooperate toward a common goal.

In a company with a seniority system and equal pay raises to every employee, a man's long-term contribution is evaluated more heavily than the individual's glorious performance in the short-run. To maximize individual profit only through the improvement of the total group (company) profit

is the mission of a businessman within a resource-scarce and overpopulated country. When the workers consider total profit before individual profit, there is a spirit of cooperativeness. Therefore, energy which could have been wasted in the fruitless competition is directed toward more productive use. For example, when a worker is ill, the fellow workers would take up the slack by working overtime. If someone makes a mistake and the next worker notices it, he will repair it.

Japan, thus, has developed a social structure and institutions which minimize free competition and prevent self-destruction from excessive competition. A lifetime employment and seniority system is the basic organizational principle, and most people are employed by one company throughout their lives.

However, we should notice that the process of classifying the people into companies is through severe free competition. Educational institutions screen meritorious people, classify people into different working classes to reduce the intensity of competition in society, and make them competitive through the ethics of hard work. Thus, in Japan, the most difficult and important jobs for top management are not performed by corporations but by schools before the people start working.

Once a person is in a job, overt competition is discouraged, but covert competition is encouraged. Workers strive not for extra money but for recognition and respect, which results in Japanese high quality products. Based on the belief that to improve individual profits by improving the profit for all is the most effective way of utilizing scarce resources in a highly populated country, many devices in Japanese-style management unify all the classified employees for a common objective of improving the profits of a company. High productivity in Japanese companies is the result of a delicate balance of cooperation and covert competition between highly trained competitive individuals working toward the common goal of the welfare of their company.

Today, the problems resulting from the shortage of resources and the increase in population have become worldwide, and are even prevalent in the U.S. Japan has had these problems for many years. The Japanese educational system and the Japanese style of management were created for the Japanese in response to these problems in order not only to survive but to prosper. The environment of today's world economy is changing to conditions similar to those under which Japanese-style management was created. This is the reason for high productivity in Japan. We may be entering into an era where changes are required in the American educational system and management style which developed in an environment of the abundance of natural resources with scarce people.

#### **Footnotes**

1. Chie Nakane, "Tate-Shakai No Ningen Kankei" (Human relations in the vertical society), Tokyo - Kodansha, 1979, pp. 100-101.
2. Kyonosuke Ibe, "It Took the Japanese to Build Japan," *Business Week*, 6 October 1980, p. 18.
3. Tsuneo Iida, "Nihon-Tokushusei-Ron Wa Naze Kiken Nanoka," (Why is the Theory of Japan - Special Country Dangerous?) *Toyo Keizai Weekly*, Kinkei Series, No. 57, 10 July 1981, p. 15.