1 The Current State of the Japanese Economy and Challenges for Japanese Management: An Overview

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The success of the Japanese companies on the world markets since the 1970s has attracted much attention. What became known as 'the Japanese management model' was the first non-Western model which questioned the supremacy of Western approaches towards management and its principles and practices were imitated in many ways by a number of other Asian countries, such as South Korea, Taiwan and Singapore. But 'learning from Japan' was not a phenomenon limited to Asian nations. Many Western corporations also adopted several aspects of Japanese management, in particular with regard to production processes, and 'Japanese management' developed into a sub-discipline within the area of management studies.

It might be argued that until the early 1990s one was able to characterize this specific Japanese management model as rather coherent and self-contained, possessing an inherent logic in which its various elements were mutually self-reinforcing, very much in tune with the specific Japanese societal context and well suited to be successful on the world markets. At the same time this coherent and self-contained model was clearly distinguishable from Western management principles and practices. The self-reinforcing coherency among the various components of the Japanese management model and its fit with the particular Japanese societal context and the circumstances prevailing on the world markets at that time might well be postulated as important reasons for its success.

This favourable situation has, however, changed rather drastically over the last two decades. Most strikingly, what had previously been described by many as a more successful alternative to Western style management is now often considered to be a model of the past. A variety of factors has contributed to this development. Among those, the following elements will be particularly highlighted and subsequently briefly outlined:

- the long-lasting stagnation of the Japanese economy;
- ill-advised macroeconomic policies;
- delayed microeconomic reforms;
- delayed corporate restructuring;
- the introduction of new technologies;
- globalization-induced changes in the international competitive environment;
- entry of new competitors, aping Japanese management practices;
- socio-demographic developments; and
- changes in the value system of Japanese society.

The long-lasting stagnation of the Japanese economy

During the phase of the 'bubble economy' the prices of real estate and corporate shares entered into a mutually self-supporting upwards spiral, while at the same time consumer prices remained fairly stable. Once the satisfaction over the nominal wealth creation finally turned into anxiety over an uncontrollable asset inflation, the Bank of Japan raised its discount rate in order to curtail the money supply and to stop the rise in asset prices. After hitting a record high of 38,915 at the end of 1989, investors lost confidence and the 225-share Nikkei average at the Tokyo Stock Exchange began to fall. In 2003 the Nikkei Index hit bottom, having lost about 80 percent of its value. The real estate market took even heavier losses with property prices 90 percent below their peak by the end of 2004.

While most companies had fuelled their growth strategies with bank loans for which they provided real estate as collateral, a radical fall in the value of their shares and their collateral brought many companies close to bankruptcy. In order to improve their balance sheets companies had to pay back their debts, which meant cutting costs by stopping their capital investments (also in order to reduce the manufacturing overcapacity inherited from the growth period), rendering supply chains more efficient, halting hiring and replacing some of their better paid core workforce with lower paid temporary staff. Anxiety over (or de facto) job losses and wage cuts, the decline in the value of own assets and insecurity over the health of financial institutions (non-performing loan problem) all meant a drastic worsening of the situation for employees who responded by spending less. With falling domestic demand, consumer prices went down and capital investment was discouraged even more, further complicating the situation for companies. Employment and income consequently declined still more and the vicious cycle of low growth and deflation started. As a result, the average annual real GDP growth rate which was 4.4 percent during the 1970s and 4.1 percent during the 1980s fell during the 1990s to a mere 1.4 percent. During the same time period the unemployment rate rose from 2.1 to 5.4 percent and the active job opening to applicant ratio fell from 1.40 to 0.54. Particularly disconcerting is the youth unemployment rate which at 9.9 percent (2002) was almost double the average. The number of bankruptcies peaked in 2003 with about 20,000 cases (in 1990 there were less than 1000).

But there are currently encouraging signs of recovery which might lead Japan after the so called 'lost decade' of the 1990s finally back towards a sustainable path of growth. Already the label 'lost decade' might be rather misleading and might be better substituted with, for example, economic malaise, as on the micro-level many structural changes occurred which may lay the ground for a new period of self-sustained growth. Indeed, Japan's GDP in real terms grew by 2.4 percent in 2003 and is expected to expand by more than 4 percent in 2004. The forecasts for 2005 are, depending on the sources, however, lower again, at around 2 percent. The stock market is on the rise again and there are indications that the real estate market has finally hit bottom. A turnaround in property prices after more than a decade would certainly strengthen consumer confidence. An increase in consumer spending would help to sustain economic growth which so far is based almost exclusively on an impressive rebound of exports over the last few years, mainly to China. Indeed, there are early even though still conflicting signs that consumer prices might rise again, which would finally bring the consumer price deflation to an end. Rising prices would encourage companies to borrow money again, as many of them have succeeded over the last few years in reducing their debt level substantially. This would also help banks to increase their businesses and finally to get out of a seven year period of declining bank lending.

On the positive side, Japan still has the largest current account surplus in the world, the second largest trade surplus in the world (second to Germany), has been the world's largest creditor for 20 years, has a high R&D expenditure rate (higher than the USA or Germany) and a top secondary educational system (according to the PISA study, measuring the abilities of 15 years old high school students, Japan ranks first in mathematics, second in science and eighth in reading comprehension of all OECD countries). These are all important factors for regaining a healthy economy and Japan is indeed currently in its best economic position since 1989 to escape from over a decade of economic stagnation and repeated recessions.

Ill-advised macroeconomic policies

It took the Japanese government a long time to acknowledge and fully understand the structural crises the Japanese economy found itself in during the post-bubble years. Believing it was dealing with 'just' a cyclical downturn, the Japanese government responded by one public spending programme after the other, while the Bank of Japan lowered short-term (nominal) interest rates to zero and increased the money supply in order to encourage companies to invest again. Faced, however, with an overcapacity in capital goods and continuous uncertainties for consumers, these policies failed in their objective to jump-start the economy again.

With nominal interest rates of zero and deflation occurring, real interest rates are above zero. With growing deflation, real interest rates are increasing and GDP is shrinking. Deflation therefore puts severe constraints on monetary policy, as the Bank of Japan cannot lower nominal interest rates below zero. In Spring 2000, when the economy showed slight signs of improvement, Governor Hayami overoptimistically raised interest rates in the midst of deflation, which turned out to be a costly mistake. The economy went down again and the Bank of Japan had to return to the zero percent interest rate policy.

With the immediate banking crisis under control by now, the main problem of the Japanese economy lies in government debt. Because of falling tax incomes on one side, and rising expenditures on the other, the annual budget deficit and the cumulative government debt have increased sharply. The budget deficit amounts to approximately 9 percent of GDP and the gross government debt level is currently at a staggering 150-170 percent, depending on measurement. This frequently reported figure is however misleading as it does not take into account the substantial amount of 455 trillion yen the Japanese government owns in assets. Taking this into consideration, the net government debt is at 60-80 percent of GDP. Frequently, the public work programmes with which government tried, largely in vain, to stimulate growth have been named as responsible for this situation and indeed between 1990 and 2000 the parliament passed no less than 21 supplementary budgets to provide for additional public work related expenditures. Public work programmes peaked in 1997 but have significantly declined since. While these programmes have probably been over-emphasised as the cause of the government's debt problem, the issues of social security and local transfer expenditures have so far been underrated. Public awareness of the pension system crisis is, however, increasing. Whereas social security and retirement benefits were left in times of high economic growth and a stable population largely to the companies, with unemployment insurance hardly an issue, the state sector has in times of low economic growth, an aging society and higher unemployment rates to make sufficient provision for the establishment of a satisfactory social security system, in particular with regard to pensions. This daunting task is still largely pending.

Once in 1997 a slight improvement of the economic situation occurred, government increased consumption taxes in order to reduce its deficit. This tax reform was, however, ill-timed as it immediately reduced consumer spending again when it was just about to recover. With a currently reviving economy, taxes might rise again in the near future to close the government income gap. But this policy bears the danger that consumer spending, which so far has not recovered, could slow down even more. There is little debate among economists, however, that at some point higher tax revenues will be needed in order to reduce the deficit and to provide for increasing costs of social security and pensions. Japan has much potential to increase taxes, as the tax level in Japan still is very low (at around 20 percent, it is even lower than the American tax level and half of Europe's tax level). In view of the aggregate demand problem, timing remains, however, crucial.

Delayed microeconomic reforms

Mistakes by government did not only occur on the macro, but also on the micro level. The Ministry of Commerce and Industry, later renamed Ministry of International Trade and Industry (MITI) and now METI (Ministry of Economy, Trade and Industry), was rather successful in the 1950s and early 1960s in allocating scarce resources into the reconstruction of export-oriented industries (at the expense of domestic consumption). In the late 1960s to 1980s, with lack of capital not an issue anymore, it changed its focus towards soft guidance of mainly manufacturing firms. Relying purely on (more short-term oriented) market forces was not considered sufficient to foster long-term growth. If administrative guidance was ever a fruitful strategy was always a matter of much controversy (in other words: were Japanese companies successful because of or despite administrative guidance?). There are indications that in the earlier period administrative guidance had rather positive effects on economic growth. With the escalating complexity of world markets, shorter product cycles, new technologies and a growing sophistication and fragmentation of consumer demands, the limitations of an elite bureaucracy's ability to pre-empt market outcomes became, however, increasingly evident. Examples of ill-advised guidance given to domestic companies became abundant. Only rather late, in the second half of the 1990s, did METI shift its main focus to deregulation and structural economic reform.

Furthermore, government and its elite bureaucracy did not realize soon enough the worldwide relative increase in the importance of services as opposed to manufacturing. For too long the combined country's efforts went into fostering the competitiveness of selected manufacturing sectors, at the neglect of service industries. Even today, not least because of excessive regulation, protective measures against foreign competitors and an overly domestic focus, service industries continue to be comparatively uncompetitive. A lasting recovery of the Japanese economy will hardly be possible without a substantial strengthening of the service sector. For this to happen, a thorough liberalization of the regulatory environment would seem to be required.

The introduction of stricter guidelines for the banking sector, in particular with regard to non-performing loans took a long time and arguably prolonged the banking crisis. While the situation of the largest banks, frequently being urged to merge among themselves, has clearly improved, a large number of Japan's smaller regional banks still remain burdened by non-performing loans and management problems. Government needs to step in, recapitalize some, force others to merge and close down those which are beyond repair. The privatization and reform of the Japanese postal service, considered to be the largest savings institution in the world, is still not under way. A separation of the postal distribution, banking and insurance activities of the current postal service would allow for more transparency and for regulation on the same terms as private competitors.

In the construction, wholesale, retailing and utilities sectors, moreover, many companies only survive because of government protection, tax breaks and subsidies. The same goes for many small and medium sized companies across a wide range of manufacturing and service sectors. This not only takes enormous resources away from more productive uses, but distorts competition, holds back possible productivity improvements and cements the lack of competitiveness of the beneficiaries.

Delayed strategic readjustments and corporate restructuring

Errors were made not only by government, but also by the management of companies. Most companies, efficient or not, can do reasonably well in a growth economy, in particular if successful companies are not aiming to drive weaker companies completely out of business, as was often the case in Japan. In high growth Japan, companies often received a share of the market which was regarded as 'fair' through the means of administrative guidance or through government procurement, for example in the construction sector. In this situation, less competitive companies did not work hard enough at improving their performance and, as a result, in many industries Japan is burdened by too many producers. Since the transformation from a growth to a mature economy, companies can no longer count on receiving a share of an ever growing market; and in times of smaller government budgets they can also not indefinitely hope for government support in the form of contracts or subsidies.

With a very strong focus on long-term growth, the short-term profit situation was not sufficiently considered. Even companies which triumphed globally during the years of high growth in terms of market share, often had only very low profit margins. As a result, even firms previously considered to be highly successful encountered financial problems, once the economy went into decline.

Striving for growth also led companies to over-diversification. Companies entered markets in which they had no specific competitive advantage but, during the years of high growth, they were still able to sell their products and thus continue their growth. Shrinking markets and a tougher competitive environment, however, created problems for over-diversified companies. In order to concentrate on core competencies, some companies now have been pulling out of markets where they encountered losses, selling off or closing down divisions they do not consider part of their more focused strategies, but also starting to acquire companies whose activities fit into their strategic concepts. These moves imply, however, quite a significant paradigm shift, as the core workforce employees and not the shareholders have always been regarded as the prime stakeholders in Japanese companies and a sell-off of company divisions entails a sell-off of a company's main constituents.

Also cross-shareholdings and stable shareholdings limited for long the potential for more radical restructuring such as engaging in mergers and acquisitions. Specifically take-overs by foreign companies have been hardly possible (and even at the end of 2004 foreign companies are only able to acquire Japanese firms which have major financial problems). Cross-shareholdings (still about 10 percent) and stable shareholdings (about one third) are, however, in the process of being reduced. In particular foreign stock holding is currently almost five times as high as it was 20 years ago. Unfriendly takeovers (by a foreign or domestic company) though still are virtually impossible to stage in Japan.

Furthermore, also the supply chain management developed increasingly into a competitive disadvantage for many Japanese companies. Major manufacturers simply had too many suppliers and were too tightly bound to them. This increased costs and did not put enough pressure on suppliers to become more cost efficient themselves. In particular vertical *keiretsu* networks were affected by this problem. Nissan under Carlos Ghosn set here a highly publicized example of how to streamline a company's supply chain successfully.

Japanese companies have focussed all too often their efforts on the efficient manufacturing of products which, in the firm's attempts to gain market share, have been developed to appeal to the highest possible number of customers. This has lead invariably to me-too strategies and learning from best practice activities, by which companies try to emulate products of competitors and successful production processes. When products are regarded by customers, however, as rather inter-changeable with regard to features, design and quality, the only distinguishable factor of importance for them becomes the price. This leads to a self-destructive spiral of cutting margins. Consequently, companies need to develop more strategies to differentiate their products from those of their competitors. A more differentiated product might appeal only to a more segmented group of potential customers, but its perceived uniqueness will allow for higher profit margins.

The much needed differentiated and bolder strategies increase the necessity for more outstanding, more unconventional and less status-quo-oriented top managers. Here again, the arrival of Carlos Ghosn at Nissan has been significant. In order to streamline the decision making process at the top, while at the same time increasing the scope for new ideas and expertise, several companies cut the number of members of their boards of directors by up to 50 percent and for the first time invited outside directors to join their boards. Since recently, Japanese corporations have legally a choice between the traditional corporate governance structure, or a more American-style one. As both have been permitted by law, they currently co-exist with an increasing number of corporations opting for the more transparent American-style one. While top management, which is ultimately responsible for the survival of the company, often realizes the necessity for reform and change, it is the middle management in Japanese companies which often still holds on to old values and practices and acts like a brake on structural reforms.

The introduction of new technologies

Japanese businesses took a long time to adapt to the appearance of new technologies and did not provide a new environment suited for a knowledge intensive economy. Japan still lags behind, for example, in the use of the internet and has not embraced the organizational restructuring made possible through the application of internet and other IT applications, to the same extent as Western competitors. While, particularly in the US, the invention of new IT products has often been generated by small but highly specialized start-up companies, Japan still relies on its major conglomerates. The number of companies starting up, especially in high value added industries such as IT, has been very low over the last two decades. With deregulation, lowered minimum capital requirements, changes in the tax system and easier access to venture capital this problem is, however, being addressed. But cultural factors also play a significant role here. While the start-up of a new venture is always and everywhere a risky business, the American business environment is not only legally but also socially much more tolerant towards failure and bankruptcy. In Japan, however, a businessman who goes bankrupt might still lose his house, the savings of his entire family, and the stigma of having gone bankrupt will hardly allow him a second chance.

Globalization-induced changes in the international competitive environment

The last two decades have seen global trade grow at twice the rate of global production. Lower value added and labour intensive production activities are with increasing globalization steadily shifting to those countries which have a cost advantage. While Western Europe outsources much of its labour intensive production to Eastern Europe and American companies' preferred production location has traditionally been Mexico, geographic proximity has become less important. More and more East and South East Asian countries, in particular China, have emerged as successful production bases. Even though these countries are close to Japan, making them ideal locations for labour intensive production activities of Japanese companies, Japan was for long rather reluctant to embrace this outsourcing process fully. Strained relations with its neighbours, going back to colonial and war periods, are one reason, another the reluctance to give up jobs in Japanese companies and create them anew abroad. This has, however, changed substantially over the last decade. More and more frequently other Asian countries are being integrated into the production networks of Japanese companies. In this cross-border value adding process based on the division of labour, Japanese firms are generally shifting the production of semi-finished goods to other Asian countries, for which technology and capital comes mainly from Japan. High value added activities, such as R&D and the production of more sophisticated products, are mostly kept in Japan. In 2003 China accounted for about 40 percent of all Japanese off-shore production, with other Asian countries for another 40 percent, while Western countries accounted for 18 percent. Almost half of the off-shore production was for the respective local markets, but an increasing share was for export to Japan (about one third) and even for export to third countries (about one quarter).

Globalization does not only, however, imply the translocation of labour intensive low value added production processes in order to reduce costs, but also affects the location of more advanced activities in the value chain. In order to make sure that each single activity from R&D to marketing is dealt with in the most suitable place, activities are outsourced to specialized suppliers, joint ventures are formed and companies acquired across the world. Japanese firms, which relied heavily on their horizontal and vertical relations within the same *keiretsu* structures and which are known for employing a rather insular approach to management, have often found it somewhat more difficult to engage in flexible cross-cultural cooperation. Globalization poses a particular challenge for Japanese SMEs as they are often not in a position to actively exploit the benefits of globalization. Problems arise in assuring the necessary qualification standards of the potential work force abroad and from questions of how to best divide up the value added chain over different locations.

Entry of new competitors, aping Japanese management practices

East and South East Asian countries have already been mentioned in the context of production sites for Japanese corporations. But obviously, these countries also possess an increasing number of successful indigenous companies which directly compete with established Japanese corporations. What is remarkable is that these countries often employ very similar competitive strategies to those Japan started out with. Countries such as South Korea and Taiwan, and more recently to some extent China, concentrate on the production of a limited range of middle-tech products, which can be successfully exported to the world markets if quality standards are high and the price is low. Both can be achieved through an emphasis on production efficiency, as Japanese companies have demonstrated. Businesses cooperate closely with their respective governments which give preferential treatment to a few major companies. Smaller companies, the production of goods for domestic consumption and the service sector are comparatively neglected. Chinese companies especially are emerging as competitors of Japanese firms. Chinese products are competitive not only in traditional light manufacturing industries, like textiles or toys, but increasingly in labour-intensive, assembly-based industries like electronics, communication equipment or optical goods. These industries are still important for Japan in terms of employment and global market position, where it maintains a formidable manufacturing and supplier base. Despite Japan's strong position in technology-intensive, high value-added product segments, the revenue and profits generated from high volume, cost-sensitive market segments still exert a significant influence on the overall economic performance of many Japanese companies in industries such as consumer electronics, office and communication equipment, agricultural machinery or trucks.

As long as Japanese companies continue to rely heavily on efficient production processes of high quality but interchangeable goods, which are comparatively easy to emulate, companies from other Asian countries will have a good chance to take market share away from Japanese firms. The relative decline in Japan's competitiveness vis-à-vis various Asian countries has been caused not only by their labour cost advantage but also by improvements in their manufacturing management, product quality and overall productivity. This may well lead to a head-on rivalry with Japanese corporations, not only on other Asian markets but increasingly also on Japan's home market. As already outlined above in the context of domestic competition, the arrival of new competitors from other Asian countries should drive Japanese companies even more towards differentiating their products, offering unique values to their customers and building up stronger brand identities.

Socio-demographic developments

Japan, like most European countries (but unlike the USA), is burdened with an increasingly ageing society. This results from both a steeply declining fertility rate and an increase in life expectancy (the highest in the world). As has been already mentioned, the government has to adapt to this development and make provision for the soaring costs of pensions and medical care. Also for companies, the amount of pensions to be paid signifies a growing financial burden and with the move to more transparency, pension liabilities need now to be reported. But demographics also has a direct influence on management, specifically on two of the three main pillars of Japanese HRM: lifelong employment and the seniority principle (the third one being company unions). If, hypothetically, every new member of the core workforce of a big corporation is to have his job secured for the entire duration of his work-life, and in addition to have a rise in the ranks guaranteed, than companies must constantly grow in size. This requires a growing economy and an increasing number of new recruits which can only be provided by population growth. As both conditions are no longer met, lifelong employment and the seniority principle cannot function any longer as before and are, consequently, on the decline. This is particularly true for the seniority system.

Even though the demographic decline is in the current situation with a comparatively high unemployment rate not of major immediate concern for companies with regard to recruitment of new personnel, this problem will aggravate once the Japanese economy experiences sustainable growth again. With the (male) workforce in decline, Japanese companies could still tap one source of employees which as yet has been almost completely neglected, at least for higher positions: the pool of well qualified women of whom many would be eager to build up a career on their own. Indeed, an increasing number of young Japanese women are not satisfied with their traditional role as wives and mothers and decide not to marry. To allow women the same career opportunity as men would, however, signify a substantial change in the employment patterns of Japanese companies and, with all the change currently occurring in HRM, this is one of the aspects so far least subject to any modification.

Changes in the value system of Japanese society

Japanese are frequently depicted as highly collectivistic and relation-oriented. As employees they are usually described as loyal to the company to which they have a family-like attachment, strongly motivated, self-sacrificing and patient with regard to their own aspirations. And while features and practices which are deeply embedded in cultural and social values are not easy subject to fundamental transformation, change does occur also in this area. With more affluence, Japanese tend to become more individualistic, materialistic, short-term oriented, market driven and less willing to sacrifice leisure time as well as vacation time for the sake of the company. Companies can therefore no longer assume the same loyalty from their employees as they could some two decades ago. This is even more the case as these companies are also not keeping their part of the implicit social contract between employers and employees – by stepping back, for example, from the above mentioned lifelong employment and seniority principle. As a consequence, companies need to find new ways of motivating their workforce which is a major challenge for Japanese management. With all these changes in the value system of Japanese society under way, it would be an illusion, however, to expect anything like a profound ‘Westernization’ of Japanese society to happen. Japan’s society will most certainly retain its uniqueness, not by choice but as a historical imperative.

It should be stressed that the factors outlined above are not mutually exclusive but, in contrast, in many ways reciprocally affect and reinforce each other. It is the combination of these factors which brought about a serious crisis for Japanese management. As a result, the degree to which Japanese management needs to change in order to respond to this predicament, and to what extent it can continue in its former guise is currently highly disputed. A further complication arises as fundamental alterations in some aspects of an otherwise unchanged model lead to internal inconsistencies, which can put the entire system in danger. Consequently, authors differ vastly today in their descriptions of Japanese management and even more so in their proposals for which directions it should take.

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This publication brings together up-to-date research by a number of renowned American, Asian, Australian and European scholars of Japanese management with the objective of disentangling some of the confusion that characterizes the current debate on continuity and change in Japanese management.

David Methé in his chapter ‘Continuity through Change in Japanese Management: Institutional and Strategic Influences’ deals with the problem of how Japanese corporations adjust to variation in their environment. According to Methé, the core of the Japanese management system is to safeguard the corporation’s own existence and the employment of its core workforce, defining the institutional identity of each corporation as an economic community. Given the currently difficult economic environment, Japanese companies are under mounting pressure to change in order to survive. Methé sees three sources of change for the Japanese management system: entrepreneurial activities of start-up firms, foreign companies entering the Japanese market and incumbent change which is change introduced by the established major companies themselves. While entrepreneurial start-up companies and foreign entrants are rather weak, the author feels it is unlikely that major changes in the Japanese management system will result from either of these two sources. This leaves only the major companies themselves as initiator of pervasive change. Evidence is given that incumbent change tends to be largely homeostatic, that is trying to resynchronize the corporation with its environment, without, however, changing its fundamental character. Yet, the gravity of the economic problems also calls for heterodynamic change which radically alters basic elements of the organization. Some pillars of the traditional Japanese management system are consequently significantly transformed or even abolished. This holds particularly true for the seniority system and cross-shareholding. The rationale for these heterodynamic changes, even with regard to the very pillars of the Japanese management system remains, however, the survival of the company and the preservation of its identity as an economic community. In the current phase companies experiment with combining various aspects of the traditional Japanese management system and of new elements. The economic environment will select which of these numerous experiments will succeed. But the objective remains, according to Methé, to introduce change in order to assure the continuity of the Japanese company's identity as an economic community.

Robert J. Ballon has highlighted already over many decades of research on the Japanese business system its specific qualities and merits. A leitmotiv in his work is to explain the Japanese business system in the context of Japan's unique cultural and social environment. And it is also from this perspective that Ballon approaches his contribution for this book on 'Organizational Survival'. Economic success and organizational survival is, according to Ballon, for the Japanese since the *Meiji* period and their confrontation with the West 'not so much an action to decide than a reaction to urgent necessity', in order to 'safeguard nationhood'. Private companies thus were entrusted with the public mission of ensuring the survival of Japan as a nation. Ballon starts out his analysis by discussing the specific socio-economic environment of the Japanese firm. He suggests that this environment can be best described as a complex of close and interdependent interactions among the public and the private sphere and among large and small companies. These interactions are based on both competitive strategies and co-operative structures. Next, the author focuses on the viability of the company itself. He identifies and discusses in this context three key issues: how the organization fits into its environment; how it manages its human and financial resources; and how it interacts with its stakeholders. Ballon suggests that the Japanese perceive a business organization as a living organism and, accordingly, as employees of an organization, Japanese do not *work* for a company, they *are* the company. In an argumentation which is very similar to Methé's, Ballon concludes that for any living organism, and that includes in this context the Japanese corporation, the continuity of its existence matters most. Consequently, under this perspective, the question of continuity or change becomes close to irrelevant. As internal change is required for survival in a changing environment, organisms and organizations need to assure their survival, or their continuity, through change. Ballon brings this argument to the point as follows: for the Japanese 'continuity is through change'.

Schon L. Beechler, who has published vastly on Japanese multinationals, specifically on their human resource management as well as their globalization practices, combines in her contribution 'The Long Road to Globalization: In Search for a New Balance between Continuity and Change in Japanese MNCs' both aspects: while outlining the path Japanese multinational corporations took over the last 25 years in their efforts to globalize, she refers specifically to aspects related to human resource management. The starting point of her analysis is the often described difficulty for Japanese multinationals of ‘both thinking and acting globally’. Beechler suggests that ‘challenges of global management are essentially challenges not of structure or strategy but of management philosophy and approach’. Japanese multinationals might be global in their international investment strategies and structures, what is lacking in many Japanese corporations, however, is what Beechler calls a ‘global mindset’. Overly headquarter-dominated control systems and decision making processes led by Japanese nationals are in this context particularly problematic. Beechler outlines several recommendations: One key factor is more integration of non-Japanese managers into the decision making process of Japanese foreign subsidiaries, which will improve collaboration with expatriates and increase local responsiveness. Another important objective should be, according to the author, to attract and retain highly qualified local managers with global skills, increase their motivation and train them in such a way that they are able to perform effectively in global integration roles. In short: ‘Japanese MNCs must simultaneously be locally responsive and globally integrated, taking advantage of resources around the globe, both Japanese and non-Japanese.’ Beechler concludes that while Japanese corporations have to change and adapt in their efforts to globalize successfully, the specific Japanese cultural and societal values and norms will continue to have a significant influence on their corporate culture. The notion that Japanese corporations might lose their ‘Japaneseness’ in the process of globalization is therefore deeply flawed.

Ronald Dore has been known over many decades for explaining the characteristics and specifically the merits of the Japanese business model to his readership. In his latest book ‘Stock Market Capitalism: Welfare Capitalism. Japan and Germany versus the Anglo-Saxons’ he describes a trend of the Japanese management model towards the Anglo-Saxon stock market capitalism, but at the same times raises question marks about the value of this development for Japanese society. His chapter in this publication ‘Innovation for Whom?’ is very much in the same vein, focussing in particular on intellectual property rights. With reference to a particular, widely publicized, court case Dore highlights how inventors’ rights to ‘proper’ recompense are being currently strengthened over the rights of their employing companies to exploit these inventions. For the author this recent development is a clear indication for how the entire Japanese business model has been shifting over the last decade towards a higher degree of market individualism. Other manifestations of this shift in Japan are for Dore the following: the current discussion on ending lifelong employment; the replacement of the seniority system with performance orientation; and the growing importance of shareholder value. Dore explains these symptoms of what he calls a 'market-individualist syndrome' by three factors: the cultural influence from the Anglo-Saxon countries; constraints from the globalization of financial markets; and most of all: a growing individualism in Japanese society.

Yoshiya Teramoto and *Caroline Benton* focus in their chapter, entitled 'Organizational Learning Mechanisms for Corporate Revitalization', on the relationship between institutions and organizational learning processes. Drawing on institutional economics, their starting point is an analysis of institutions, defined as a 'self-sustaining system of beliefs', and their effect on economic growth. Teramoto and Benton come to the conclusion that a range of institutions that have previously promoted growth in Japan are becoming in the context of a global market environment increasingly a liability and are therefore currently subject to fundamental change. Examples of such institutions are lifetime employment, the seniority principle, the main bank system, the *keiretsu* system, cross-shareholding, and government-led intra-industry co-operation. As institutions affect how organizations are learning, a change of institutions implies new rules and methods of how organizations learn. Both authors define among others the limited range and variation of persons involved over time in knowledge acquisition processes, as well as the limited diversity in the interpretation of knowledge as fundamental weaknesses in the traditional way of organizational learning in Japan. While being well adapted for incremental innovation, traditional learning processes of Japanese organizations are not advancing radical, non-linear types of innovations. Based on this analysis the authors develop a new model for organizational learning that specifically addresses complexity, diversity and the dynamics of change. This suggested learning mechanism promotes knowledge and value sharing, contextual over-viewing, emergent linkage of variant knowledge as well as hypothetical experimentation of the newly created knowledge and is designed to assist companies in accessing more diverse and richer sources of individual and organizational knowledge.

Luke Nottage and *Leon Wolff* bring, with their article 'Corporate Governance and Law Reform in Japan: From the Lost Decade to the End of History?', a legal perspective to this publication. They argue that sluggishness in economic performance contrasts starkly with an eruption of activity in law reform. In fact, the authors compare the scale of ongoing legal innovation with that of the *Meiji* Restoration and the Allied Occupation and speak of a ''third wave' of legal and regulatory reform'. The urge to restore economic competitiveness is defined as the main driving force of the present process. In their analysis the authors focus on describing the influence of the various stakeholders under the new corporate governance framework on management. Next to the shareholders, also creditors, employees, government, consumers, suppliers, and NGOs are considered. The authors conclude that under the new corporate governance regime, shareholders gain most in influence, but so too do consumers and to some extent NGOs. On the other hand, there are clear ‘losers’ in the struggle for corporate control: first and foremost those who were always said to be the real ‘owners’ of Japanese companies, the employees. With the banking crisis, the deterioration of the main bank system and the decline of loans as the main instrument in corporate finance, the creditors might even become evicted from the inner circle of stakeholders in the Japanese corporation. Government will also be less able to guide and influence corporate decision making. Its role will shift more to ex post control. One leitmotiv that goes through the entire article is the discussion of the degree to which the current legal reforms constitute an ‘Americanization’, in particular with regard to a convergence on a shareholder-oriented model of corporate governance. Overall, Nottage and Wolff accept the notion of a major convergence towards an American-type corporate governance model, with several important qualifications, however.

James C. Abegglen, whose book ‘The Japanese Factory’, published in 1958, was arguably the first thorough analysis of the Japanese business model to appear in the West, is known to Japanese management scholars for an overall rather sympathetic view of Japanese business principles and practices. In his chapter to this volume, ‘A Perfect Financial Storm’, Abegglen describes the turmoil the Japanese financial system has had to endure over the last one and a half decades. By now, ‘companies have weathered the storm’, though ‘at considerable cost; all made necessary by a brutally difficult economic environment and changed regulations; all now largely accomplished as a new era begins.’ Abegglen explains the mechanisms by which the Japanese economy progressed from a capital-short, developing, post-war economy to a ‘bubble economy’ with extraordinary increases in real estate and share prices in the 1980s and describes in detail how Japan was drawn after the bursting of the ‘bubble’ in the 1990s into the vicious cycle of low growth and deflation. Subsequently, the author depicts how Japan has largely overcome its financial crises, which regulatory reform steps were taken to increase transparency, and how recent developments have lastingly changed the character of corporate finance in general and the role of the main bank in particular. The most lasting change the financial debacle has triggered Abegglen considers to be the shift away from bank lending and towards direct debt and equity, but the institution of the main bank will continue to exist in a somewhat modified form. While Abegglen acknowledges fundamental changes in the Japanese financial system, as in many other areas, the Japanese will continue, in his view, to hold firmly on to those aspects that are strongly based on cultural values and social behaviour.

Markus Pudelko examines in his contribution 'Japanese Human Resource Management: From Being a Miracle to Needing One?' the management of the human factor. In his analysis he also refers to his own empirical work on HRM practices of American, Japanese and German corporations. If solely focusing on Japan, much of the reported findings suggest a rather comprehensive and still ongoing change in Japanese HRM. The direction of this change is rather unambiguous: there is a clear move towards Western, or more specifically US American practices. If one takes, however, the gathered data on the USA and Germany into consideration as well, the change argument is put into perspective. It might for example be true that the traditional Japanese focus on seniority in the area of promotion and compensation is increasingly replaced by a more Western-style performance orientation (the change argument); the comparative data indicates, however, at the same time that Japanese companies are *still* significantly more seniority oriented than their American or German counterparts and are likely to continue to be so in the future. This argument justifies the sustained validity of the continuity argument. Whereas all articles take on a time perspective which might lead to zooming in on change (change over time), this article in particular highlights the importance of what might be called the location perspective, which tends to underline the continuity argument (despite changes over time, overall patterns between countries continue to persist).

René Haak´s chapter on 'Japanese Production Management: Organizational Learning at the Confluence of Knowledge Transfer, Technology Development and Work Organization' shows that Japanese production management is associated with specific forms of work organization, of logistics and quality, of manufacturing processes, of personnel deployment and of education. Its main characteristic overall is that it has been strongly moulded by the Toyota Production System (TPS) and is expressed in the philosophy of continuous improvement, which means in this context a permanent pattern of change based on the evaluation of the current production process. Japanese management has to determine which part of the production process should be continued and which altered. René Haak argues that the highly-regarded *kaizen* concept, the Japanese leadership philosophy which still remains valid even under the currently prevailing low growth conditions, has proven to be an effective method for learning particularly in the area of production and enables progress in a combination of individual, organizational and interorganizational learning. While several articles in this book stress particularly change tendencies in Japanese management, this article highlights to a much larger degree the continuity of Japanese management practices. This should come as little surprise, after all it is production management which arguably has been cited most often as the area of management where Western companies could learn most from Japan.

In the concluding part, *Markus Pudelko* attempts in ‘Continuity vs. Change: The Key Dilemma for Japanese Management’ to summarize the arguments which favour a fundamental change in the Japanese management model in order to regain competitiveness and which speak against it. One key claim being made is that it is not so much the actual Japanese management practices themselves that previously have changed for the worse and caused a decline in competitiveness of Japanese companies. Instead, the global business environment has altered in a way which happened to be in favour of the inherent strengths of the American management model, but were negative for the inherent strengths of the Japanese one. According to Pudelko’s interpretation, inherent strengths and weaknesses of various management models remain quite constant over time; what varies is the relative relevance of the different strengths and weaknesses. The challenge for the Japanese management model is, therefore, to find a balance between continuity and change in such a way that the modified demands of the global business environment are met again.