The Japanese Company Controversy
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The Japanese company controversy\(^1\) began twenty years ago when James Abegglen argued in his *The Japanese Factory*\(^2\) that Japanese companies were unique in their personnel policies and in their socio-economic character and that this distinctiveness originated in Japan’s cultural system. Abegglen offered two principal ways in which Japanese companies differed from Western companies:\(^3\)

Lifetime Employment (*shūshin koyō*) or the direct recruitment of workers from school at the terminal level of education, and the continued employment of workers until retirement, usually at age fifty-five with lump-sum retirement allowances.

Seniority Based Compensation (*nenkō joretsu*) or the payment of workers according to the length of employment rather than according to their experience or effort.\(^4\)

I would like to thank Richard M. Abrams, Harumi Befu, Robert Cole, Minja Paik, and Kozo Yamamura for reading and commenting critically on earlier drafts of this paper. I would also like to recognize the Japan Foundation and the Center for Japanese and Korean Studies at the University of California, Berkeley for the institutional support they provided me while I was collecting data for and writing this essay.

1. The phrase “the Japanese company controversy” is a variation of Marsh and Mannari’s “the Japanese Factory Controversy.” I prefer to focus on the company rather than on the factory because the policies and practices of employment which are the nexus of the controversy are determined in the head office and not in the plant. Some may feel, however, that my concern with the head office and white-collar workers, in contrast to the factory and blue-collar workers, broadens rather than enlightens the controversy. For the original use of the phrase “the Japanese Factory Controversy,” see Robert M. Marsh and Hiroshi Mannari, *Modernization and the Japanese Factory* (Princeton University Press, 1976), pp. 5–8.


3. Of course, the question of variation in employment policies and practices among Western companies, which needs systematic study, was and is ignored by Abegglen.

4. A convenient summary of these and other organizational characteristics of
Abegglen's claims for the cultural peculiarities of company work in Japan have been vigorously debated, often in the absence of substantial evidence on either side. This essay presents new documentation, based on the personnel records of one company, where lifetime employment, as measured by the length of employment for male managers, was found to be uneven and, generally, only moderate and where seniority-based compensation was characteristic for only certain managerial employees in the prewar period. These findings underscore the considerable historical variation in the intensity and universality of practices like lifetime employment and seniority-based compensation. In particular, it will be asserted that such practices were qualitatively different before and after World War II. Before the war, the prevalence of such practices was related to traditional household (ie) ideology and organization wherein human resources were differentially rewarded according to the degree of access to household property. Such culturally contingent models of enterprise organization, while appropriate for family capitalism, have proven to be inappropriate since the war with the appearance of large, publicly held, diversified corporations.

1. Genesis of the Debate

Abegglen argued that lifetime employment and seniority-based compensation were the essence of what has come to be known as "the Japanese Employment System." This system, according to Abegglen, grew out of Japan's feudal past. During the Edo period (1603–1868) in particular, feudal patterns of paternalistic service and obligation became a noteworthy feature of Japan's work culture. For warriors, the values of chūgi and chūkō were inculcated at home and in school. Merchants were taught hōon and hōkō as ideals of service not only to other commercial agents but to society generally. Craftsmen were trained in a family-like master and apprentice (oyabun-kobun) atmosphere, and even peasants often structured work activities in a main household-branch household (honke-bunke) mold of real or fictive kinship ties of service and obligation.5

Japanese companies as seen by Abegglen may be found in his edited volume, Business Strategies for Japan (Sophia University Press, 1970), particularly Chapter Two titled "Organizational Change: The Case of Japan."

5. Discussion of the various values and practices cited here are contained in most of the literature dealing with traditional Japan. Some Western language examples are: Robert Bellah, Tokugawa Religion (The Free Press, 1957); Ronald Dore, Education in Tokugawa Japan (University of California Press, 1965); Tadashi Fukutake, Asian Rural Society (University of Tokyo Press, 1967); Chie Nakane, Kinship and Economic Organization in Rural Japan (Athlone Press, 1967).
Accordingly, by the time the joint stock company was introduced in 1872, cultural patterns of lifelong loyalty and obligation between employer and employee were culturally ingrained.

Thus, at least according to The Japanese Factory and its supporters, lifetime employment and seniority-based compensation characterized corporate personnel practices in Japan from the beginning of industrialization. Abegglen’s work has been widely used to demonstrate that countries can “modernize” in spite of, or perhaps even because of, traditional customs and values. Consequently, The Japanese Factory has had significance far beyond the field of Japanese studies.

Within Japanese studies, however, the issue for debate has been the historicity and validity of the “Japanese Employment System” as defined by Abegglen. Robert Cole, Ronald Dore, Robert Evans, Hiroshi Hazama, Solomon Levine, Robert Marsh, Hiroshi Mannari, Koji Taira, Johannes Hirschmeier and Tsunehiko Yui, and others have argued repeatedly over, first, when the practices of lifetime employment and seniority-based compensation appeared and, second, how they became institutionalized.6

Since Abegglen, most writers have argued that the “Japanese Employment System” was not widespread before World War II. Before then, only highly skilled workers in major companies could possibly enjoy permanent employment.7 Even then, the privilege was not easily won; for example, as Hirschmeier and Yui point out, a worker in the prewar steel industry did not attain permanent status until around the age of forty, or after two decades of labor.8 Levine and others even question the relevance of Abegglen’s thesis, since it characterizes employment patterns in large companies only.9 Firms


8. Ibid.
with 300 or more employees today, or the so-called large firms, constitute 30 per cent of the distribution of the work force by size, and Levine estimates that the "Japanese Employment System" covers only about one-third of Japanese workers. The percentage would be much lower for the prewar period. Moreover, since large firms represent only 1.0 per cent of the distribution of firms by number, Abegglen's characterization of large firms seems no more than a caricature of the corporate economy as a whole. Finally, others, such as Galenson and Odaka, emphasize that many firms employ temporary and part-time workers who fall entirely outside the "Japanese Employment System." 10

Such objections seriously question the existence of widespread lifetime employment and seniority-based compensation or their equivalents in either the prewar or postwar era. The Japanese Factory has not fallen disgraced from the publisher's listings, however, as it has been revised and republished with a new emphasis and a new title, Management and Worker. 11 The modified thesis qualifies the historical authenticity of the "Japanese Employment System," but maintains the cultural and contemporary relevance of its values.

In this new version, the Abegglen thesis has found some surprising supporters, in light of their earlier rebuttals. For example, Ronald Dore describes the paternalism of modern Japanese welfare corporatism as a successful Abegglenesque innovation—cultural patterns of service and obligation have been retained in spite of rapid structural transformation in industry. 12 The historians Johannes Hirschmeier and Tsunehiko Yui see evidence of the values prescribed in the modified Abegglen treatise throughout the modern history of Japanese business from early Edo to postwar Showa times. Robert Cole seems to agree with the more recent Abegglen contention that the ideology of the "Japanese Employment System," as opposed to its implementation, including the values of lifetime employment and seniority-based compensation, was widely accepted and probably preferred from the early twentieth century. 13


Likewise, Hazama discusses the continuity and saliency of cultural values in Japanese industrialization although he, unlike Abegglen, distinguishes between traditional or preindustrial paternalism (on-jōshugi), written with the characters for gratitude and obligation, and modern or industrial paternalism (onjōshugi), written with the characters for warmth and geniality.

2. Findings from the Foods Industry Company

Surprisingly, the Japanese company controversy has been largely a debate without historical data. Most of the evidence offered has been in the form of opinion and observation, fragmentary with regard to individual firms and undifferentiated in terms of the corporate economy. Nevertheless, in spite of the paucity of reliable information, lifetime employment and seniority-based compensation have taken on universal and stereotypical qualities for describing Japanese employment patterns—not only in the West but also in Japan.

This paper offers evidence based on a continuous corporate record and provides an opportunity, therefore, not only to discover the general extent of the practices of lifetime employment and seniority-based compensation, at least for one firm, but also to reveal the degree of variation in the practices from year to year and decade to decade. For example, a continuous record will uncover the degree to which employees—different in ages, skills, and responsibilities—were paid according to only one criterion, namely, length of service. Further, although the recent scholarship of Hirschmeier and Yui as well as others has shown that the extent of permanent employment among blue-collar workers prior to World War II was far less than we had been led to believe based on Abegglen’s work, the implicit assumption continues that it was a standard practice for managerial employees of large firms. This paper focuses on the mobility of managers and challenges the presumption that they remained permanently with one company.

It was my good fortune to be permitted to copy the personnel records of a major Japanese foods industry company (which I shall call Foods Industry Company). The firm is relatively old, large, and successful: it has been incorporated for sixty years, it employs approximately 4,000 people, and it ranks about 150th in sales among Japanese companies.

I photocopied personnel records for all 1,890 "white-collar" male employees hired from 1918 to 1976. This number included three levels of managerial employees: senior consultants and advisors, middle- and upper-level managers, and three kinds of lower-level managers: clerical, technical, and operational. Fifteen per cent of the population, 277 persons, had worked their way up from non-technical blue-collar positions in lower-level management, either in scattered factories or in the general office. I chose not to copy the records of female employees, convinced that the information was not particularly valuable for this study. Female employees have not had white-collar careers in Japanese companies; typically, they work for one company less than five or six years and then leave, usually in order to be married.

This cache of records led me to the following conclusions concerning employment and personnel policies for Foods Industry Company:

1. The number of managerial employees entering the company each year was highly irregular, except for one short period from 1947 to 1952. (See Graph 1.) The hiring of full-time and part-time factory
workers was also irregular, as revealed in Table 1. Whether irregularity in employee recruitment was dictated more by the circumstances of demand or supply is as yet unclear.

2. Lifetime employment, as measured by the percentage of managerial employees who enter in any given year and stay with the firm for a specified length of time, varied significantly over the sixty-year period. (See Graph 2.) After removing figures on involuntary departures from the firm (for example, employees who died or were conscripted), I graphed the length of time that employees stayed on, or what is called “persistency of employment” in this essay.\(^{14}\) Keep in mind that persistency of employment is a measure of how long particular groups, that is, annual entering groups, stay with the firm; it does not describe job-leaving across years and groups. In general, I found three fairly recognizable and distinct subperiods.

From 1918 (or 1919, since three-year moving averages were graphed to smooth out the linear representation) to 1930, persistency starts high and remains high for around ten years, finally dropping off dramatically as a function of the age of remaining employees.

\(^{14}\) Persistency rates are calculated in the following manner: If an original 20 employees enter in year \(x\), and 10 remain in \(x + 5\) years, this would constitute 50% persistency of employment after five years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Blue Collar</th>
<th>Temporary</th>
<th>Blue Collar</th>
<th>Temporary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>1171</td>
<td>2101</td>
<td>134</td>
<td></td>
</tr>
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<td></td>
</tr>
<tr>
<td>1923</td>
<td>1445</td>
<td>2607</td>
<td>217</td>
<td></td>
</tr>
<tr>
<td>1924</td>
<td>1671</td>
<td>2590</td>
<td>152</td>
<td></td>
</tr>
<tr>
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<td>2693</td>
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<td>1926</td>
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<td></td>
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<tr>
<td>1928</td>
<td>1686</td>
<td>2773</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>1929</td>
<td>1796</td>
<td>2282</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>1930</td>
<td>2047</td>
<td>2256</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>1931</td>
<td>2094</td>
<td>2111</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>1932</td>
<td>2203</td>
<td>2138</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>1933</td>
<td>2063</td>
<td>2219</td>
<td>178</td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>2245</td>
<td>2423</td>
<td>233</td>
<td></td>
</tr>
<tr>
<td>1935</td>
<td>2084</td>
<td>2541</td>
<td>383</td>
<td></td>
</tr>
<tr>
<td>1936</td>
<td>2195</td>
<td>2585</td>
<td>129</td>
<td></td>
</tr>
<tr>
<td>1937</td>
<td>2173</td>
<td>2676</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>1938</td>
<td>2101</td>
<td>2478</td>
<td>343</td>
<td></td>
</tr>
<tr>
<td></td>
<td>134</td>
<td>2533</td>
<td>405</td>
<td></td>
</tr>
</tbody>
</table>
From 1932 to 1948, persistency is the lowest experienced in the history of the firm. This seventeen-year period can be further divided into two short cycles of rise and fall in persistency from 1932 to 1939 and from 1940 to 1948.

From 1949 to 1976, persistency rates begin by recovering to pre-1930s levels and then decline after 1962. The late 1950s and early 1960s show the highest persistency recorded in the company's history, with length of employment lasting fifteen to twenty years almost uniformly. (Although detailed discussion will follow, it is worthwhile to point out here that Abegglen's, and even Dore's, field work on the Japanese factory occurred during or near the postwar peak in persistency rates as seen in the third subperiod from the records of Foods Industry Company.)

3. Many of these workers, but not all, were recruited directly from school after finishing their education. Over the 1918–1976 period, 26 per cent of the employees had worked elsewhere before coming to Foods Industry Company, and including these, 12 per cent had worked previously for two or more companies.15 Further-

15. Compare with Marsh and Mannari's finding on interorganizational mobility for Electric Factory: 9.6% of men with one previous job and 3.1% with two previous jobs → Robert M. Marsh and Hiroshi Mannari, "Organizational Commitment and Turnover: A Prediction Study," Administrative Science Quarterly 22 (March 1977):63.
more, some employees continued their education even after joining the firm by attending night school, taking correspondence courses, or in a few cases temporarily leaving the company to study full-time. The percentage distribution of new employees with prior work experience is shown for the subperiods already delineated:

<table>
<thead>
<tr>
<th>Subperiod</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918–1930</td>
<td>15.6%</td>
</tr>
<tr>
<td>1932–1948</td>
<td>31.2%</td>
</tr>
<tr>
<td>1949–1976</td>
<td>53.2%</td>
</tr>
</tbody>
</table>

As these subperiods are of unequal length and include an uneven number of employees, however, a yearly tally of entering employees with prior work experience reveals the following averages and rates:

<table>
<thead>
<tr>
<th>Subperiod</th>
<th>Average per Year</th>
<th>Rate per Hundred</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918–1930</td>
<td>5</td>
<td>.18</td>
</tr>
<tr>
<td>1932–1948</td>
<td>8.5</td>
<td>.30</td>
</tr>
<tr>
<td>1949–1976</td>
<td>8.6</td>
<td>.22</td>
</tr>
</tbody>
</table>

The large amount and high rate of persons with prior work experience in the second subperiod, of course, reflects the number of men with military service in their backgrounds.

4. In all cases, education level was the primary criterion determining remuneration of new employees. Within education levels, employees of the same entering cohort were most likely to be paid according to seniority during their first ten years with the company, or, in other words, when they had the least seniority. Thereafter, seniority-based compensation grew less important than pay according to something else—probably performance or knowledge. This finding is based on an analysis of wages paid from 1918 to 1936. I chose 1936 as the cutoff date in order to allow for at least ten years of wage differentiation to occur; wages were entered on personnel records from 1918 to 1946 inclusive. The following comparison of wages paid to seven employees who entered the firm in 1921 with eight years of schooling is illustrative.

Note that in this wage comparison, it takes four or five years before differences in pay become observable and that thereafter a subtle calculus of wage differentiation kept all but two employees from receiving the same pay more than a few years running. The accumulated difference in pay between the highest and lowest paid was nearly 20 per cent (18.5%). Over a twenty-five-year period, the high and low ends of compensation diverged at just under 1 per cent annually. Nevertheless, the F-Maximum Test for Homogeneity of
TABLE 2
A COMPARISON OF WAGES PAID TO SEVEN EMPLOYEES JOINING FOODS INDUSTRY COMPANY IN 1921
(wages recorded on a yen per month basis)

<table>
<thead>
<tr>
<th>Years of Employment</th>
<th>Employee 1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entering</td>
<td>5.5</td>
<td>6</td>
<td>6</td>
<td>9</td>
<td>6.5</td>
<td>6</td>
<td>6</td>
<td>6.4</td>
</tr>
<tr>
<td>1</td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
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<td></td>
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<tr>
<td>2</td>
<td>9</td>
<td>10</td>
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<td>10.1</td>
</tr>
<tr>
<td>3</td>
<td>10</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>18</td>
<td>12</td>
<td>12</td>
<td>12.6</td>
</tr>
<tr>
<td>4</td>
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</tr>
<tr>
<td>9</td>
<td>45</td>
<td>48</td>
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<td>53</td>
<td>54</td>
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<td>284</td>
<td>272.9</td>
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<tr>
<td>Average</td>
<td>60.1</td>
<td>60</td>
<td>71.1</td>
<td>69.2</td>
<td>70.2</td>
<td>63.7</td>
<td>68.2</td>
<td></td>
</tr>
</tbody>
</table>

Variance, or the statistical test to calculate whether the difference between the average wages was significant, revealed that an accumulated 20 per cent difference in compensation was not statistically significant, although this finding is strongly colored by the sample size.

5. Insofar as remuneration was tied to seniority, managerial employees with the highest levels of education show the least differentiation of wages over time, and accordingly, better educated employees follow the model of seniority-based compensation most closely. The following tables demonstrate this relationship. The first

describes differentiation of wages over time by year of employment and level of education; the second ranks the degree of seniority-based compensation by education level as measured by the average F-score.

TABLE 3
DIFFERENTIATION OF WAGES BY YEAR OF EMPLOYMENT AND LEVEL OF EDUCATION

<table>
<thead>
<tr>
<th>Entering Year</th>
<th>Years of Record</th>
<th>Education Level in Yrs.</th>
<th>Sample Size</th>
<th>F-Max Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>26</td>
<td>8</td>
<td>7</td>
<td>1.44</td>
</tr>
<tr>
<td>1921</td>
<td>16</td>
<td>6</td>
<td>5</td>
<td>1.01</td>
</tr>
<tr>
<td>1922</td>
<td>22</td>
<td>6</td>
<td>4</td>
<td>1.04</td>
</tr>
<tr>
<td>1922</td>
<td>18</td>
<td>8</td>
<td>7</td>
<td>1.55</td>
</tr>
<tr>
<td>1923</td>
<td>17</td>
<td>8</td>
<td>8</td>
<td>1.6</td>
</tr>
<tr>
<td>1923</td>
<td>19</td>
<td>13</td>
<td>5</td>
<td>3.63</td>
</tr>
<tr>
<td>1924</td>
<td>14</td>
<td>8</td>
<td>5</td>
<td>2.2</td>
</tr>
<tr>
<td>1925</td>
<td>17</td>
<td>16</td>
<td>6</td>
<td>(1.0)</td>
</tr>
<tr>
<td>1926</td>
<td>16</td>
<td>16</td>
<td>3</td>
<td>1.22</td>
</tr>
<tr>
<td>1927</td>
<td>24</td>
<td>8*</td>
<td>4</td>
<td>1.36</td>
</tr>
<tr>
<td>1928</td>
<td>13</td>
<td>10**</td>
<td>4</td>
<td>1.1</td>
</tr>
<tr>
<td>1929</td>
<td>14</td>
<td>10***</td>
<td>5</td>
<td>1.5</td>
</tr>
<tr>
<td>1929</td>
<td>30</td>
<td>8</td>
<td>4</td>
<td>1.1</td>
</tr>
<tr>
<td>1930</td>
<td>15</td>
<td>16****</td>
<td>4</td>
<td>1.23</td>
</tr>
<tr>
<td>1935</td>
<td>11</td>
<td>10**</td>
<td>5</td>
<td>1.1</td>
</tr>
<tr>
<td>1936</td>
<td>21</td>
<td>8*</td>
<td>5</td>
<td>2.06</td>
</tr>
</tbody>
</table>

* Employees hired in the factory and not in the headquarters.
** Graduates of technical, not academic, middle schools.
*** Graduates of academic middle schools.
**** Graduates technical universities.

TABLE 4
TENDENCY TOWARD SENIORITY BASED COMPENSATION AS MEASURED BY AVERAGING WAGE VARIABILITY SCORES (F-Scores)

<table>
<thead>
<tr>
<th>Years of Schooling</th>
<th>Average F-Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>1.62</td>
</tr>
<tr>
<td>10</td>
<td>1.3</td>
</tr>
<tr>
<td>16</td>
<td>1.1</td>
</tr>
<tr>
<td>(6)</td>
<td>(1.03)</td>
</tr>
</tbody>
</table>

These 81 cases represent all managerial employees entering the firm in a cohort of at least four persons of the same level of education and staying with the firm at least ten years. In one case, however, a three-person cohort was admitted in the absence of a larger group in order to increase the number of university-educated persons in the
sample. In all other cases, a minimum of four persons was required so that groups were sufficiently large for internal wage differentiation to occur and the condition that groups remain together for at least ten years was enforced to allow sufficient time for wage differentiation to appear. Normally, wage differentiation occurred only after five years of employment.

There are some anomalous data in Table 3. First, the 1925 cohort of university graduates contained one member whose remuneration varied considerably from the others. This person was a son of one of the families owning and operating Foods Industry Company, and as his level of compensation was significantly different, he was removed from the cohort analyzed here. Second, the sample of five persons who entered the company in 1923 shows a great wage differentiation and large F-score; they were graduates of normal or teacher training universities and had had widely varying experiences before joining Foods Industry Company. Two had been elementary school principals (one in the city suburbs and one in the countryside), two had been school teachers, and one had been a prefectoral policeman. Upon entering the firm, the range in their prior work experience was reflected in their compensation. The urban school principal was paid 100 yen a month while the former policeman received 55 yen a month, and the others fell in between. Clearly, this cohort’s latitude in pay was anomalous. Finally, the lack of wage differentiation and the low F-score of the 1921 cohort with six years of schooling deserves comment. They belong to a larger group of fifty-one of the initial eighty employees who were hired apparently on the direct recommendation of one or another of the company directors; their personnel cards show the names of individual directors advising their hiring. All of the employees in the 1921 cohort in question, and almost all of these early eighty employees, had only the legal minimum of education, namely, six years; yet in spite of their low level of education they were appointed to significant management positions and were paid strictly according to seniority. The reasons for this will be explored later. After removing these anomalous cases from the table and combining cohorts from different years but similar education levels, it is possible to rank the degree of seniority-based compensation by education level as measured by the average F-score.17 (See Table 4.) Statistically, there is

17. The F-Maximum score is derived by placing the largest variance, which is the sum of the squared deviations from the mean divided by the sample size, for wages paid to an individual over the smallest variance for wages paid to an individual within each cohort. In other words, the differences between each monthly wage payment
a pronounced decrease in wage differentiation as the education level of employees increases. In other words, except for the founding employees (an anomalous case), it was the university graduates who adhered closest to the seniority-based compensation model.

3. Representativeness of the Findings

The evidence from Foods Industry Company suggests great variation in the number of employees hired annually, considerable numbers of employees with previous work experience, moderate and uneven persistency of employment, and varying degrees of wage differentiation among employees according to level of education. Before discussing the findings on persistency and compensation in detail, it is important to try to estimate how representative these results are for Japanese companies as a whole. In fact, the findings may be atypical because of the character of the employees, the location, type, and age of the company, or outside factors such as war or merger activities within industry. The following examination of these factors, however, suggests that the evidence from Foods Industry Company may be taken as representative for much of Japanese industry.

The only employees studied were male and managers. Is it possible that these limitations led to the findings of uneven and only moderate persistency of employment? Probably not. In fact, the sex bias in the study would tend to exaggerate persistency, if anything, since in Japanese industry females are more likely than males to leave work after shorter periods of employment. Likewise, although we have no studies comparing white- and blue-collar job separation rates in Japan, there is no prima facie reason to assume that managers should leave with greater frequency than workers.

If the characteristics of employees do not appear to exaggerate the findings, perhaps the character of the firm itself may influence these research results. The size, age, location, and technology of

and the average for all monthly wage payments to individuals are calculated separately, squared, added together, and divided by the number of wage payments analyzed. For a particular individual, this produces a measure of how much the wage increase has been over the period in question (assuming no decrease in wages), and for a particular group, the F-Maximum score is a measure of the degree of variability in wage increases within the cohort. A linear regression of F-Maximum scores on education, or a correlation calculation of how strongly wage variability is affected by education, produced a negative correlation of \(-0.51\), which was significant at the .05 level (one-tailed test). In short, education and wage variability were negatively correlated to a significant degree.
Foods Industry Company may be important in this regard. The first of these can be dealt with briefly. Since studies indicate that the largest firms have the lowest quit rates, there is no reason to suspect that persistency rates in Foods Industry Company, one of the largest foods industry enterprises in Japan, are unusually low. Moreover, compared with other companies across industrial categories, Foods Industry Company has been and continues to be one of the larger enterprises in Japan.

The age of an enterprise may affect the turnover of its labor force. Older, more secure enterprises, especially those with deep roots in local communities, should hold onto their workers better. In this regard, we should expect to find a high rate of persistency of employment in Foods Industry Company, for, although it has been a corporation for sixty years, its history as an enterprise, continuously located in one community, goes back to the late seventeenth century.

Indeed, the age of this enterprise throws into question one of the long-standing explanations for the appearance of the "Japanese Employment System." Levine, Evans, Hazama, and others have argued that practices like permanent employment and seniority-based compensation were developed to overcome the resistance of the oyabun master craftsman to the corporate environment. It is argued that skilled artisans were employed as work gang leaders to bring an entire working crew with them into the factory so as to overcome, through a close and paternalistic relationship between boss and workers, the chronic labor turnover and absenteeism of early factories in Japan. Practices like permanent employment and seniority-based compensation were devised to mollify and retain skilled workers by keeping craftsman and crew working in a place and a manner essentially inimical to their guild tradition.

Although such an argument might apply to the emerging new enterprises of the late nineteenth and early twentieth centuries, it cannot be considered appropriate for older established enterprises which could benefit from employment practices already in operation for several hundred years. In the case of Foods Industry Company, for example, we can presume that workers did not have to be bribed to factory work, since so many were reared in a community where grandparents, relatives, and friends had sought and secured work for

generations in the firm or its antecedent enterprises. This applies equally for "managerial" and "non-managerial" workers until roughly World War I when education, and not local connections, increasingly became the means for recruiting employees.

Moreover, Japan’s industrialization before World War I was more rural-centered than urban-centered, and it occurred primarily through the expansion of traditional industries. Since oyakata craftsmen were already part of the communities where rural-centered traditional enterprises were located, there was no particular need to bait them for factory work. In such cases, the supposedly “Japanese” practices of permanent employment and seniority-based compensation by which Abegglen and others have characterized the traditional culture were likely to have been utilized least. Such practices are really more a part of the newer, urban, and indeed Western-inspired industries.

The rural location of Foods Industry Company may have had other consequences as well. Studies suggest that job satisfaction and size of city where the employing company is located are negatively correlated, that intrinsic or expressive job satisfaction appears higher among rural workers, and that rural workers accept, indeed approve of, more conservative company policies. Of course, the greater satisfaction of rural workers in Japan may have a lot to do with not having to commute—which can be a nightmare in Tokyo or Osaka at rush hour. Also, it may be harder in a rural environment to gain information and access to work elsewhere, especially in cities, and this may dispose workers to be more satisfied with what is locally available.

Turnover rates, size distribution of firms, and internal promotion ladders vary widely from industry to industry, and such differences may be critical in assessing the findings on Foods Industry Company. Accordingly, it is difficult to know how representative these findings are in the absence of similar data from other indus-


tries. However, it can be surmised that the food processing area, where technology is evolving rapidly, would tend to deemphasize those paternalistic labor practices common to industries characterized by "low-energy," low-level technology and skills, and a low education level for employees. The increasingly capital-intensive character of the foods processing industry has required continual upgrading of the work force through in-company training and the recruitment of better educated employees. Of course, the process production skills gained in the course of technological modernization of Foods Industry Company have not been as readily marketable as mass production or batch production skills, that is, those skills connected with areas like electrical equipment and appliances, automobile assembly, and optical instruments. Yet it is significant to note that despite technological modernization of the firm, redundant laborers were not laid off. It is possible that redundant labor was retained out of a sense of paternalism, although a more persuasive explanation is that the firm did not want trouble with the company union, which has been a leader among food and beverage workers in the postwar era.

Finally, it is difficult to assess the importance of exogenous factors, such as war or industry merger activity, on the employment practices of the firm. Obviously, Japan's military activities account for much of the extreme fluctuation in employment during the 1930s and 1940s, but it is impossible to know if the experience of Foods Industry Company was unusual in this regard without comparative information from other firms. As for industry merger activity, it may be that the decline in persistency from the mid-1960s reflects a company decision in 1966 to combine marketing activities with those of another firm. At this time, seventy-four mid-career managers from the other firm were brought into the company, which may have affected the persistency of Foods Industry Company employees, but an accurate evaluation of this factor would require a computer-assisted analysis of the personnel data so that recruitment into the firm and mobility within the firm could be studied as interdependent processes. It is likely that the introduction of seventy-four "outsiders" into the firm touched off some of the departures from the firm after 1966, but the point must be considered moot until further analysis.


24. Harrison White is most eloquent and emphatic on this point. See his Chains of Opportunity.
Thus, on balance, the character of the employer and employee would seem to favor a high persistency of employment in Foods Industry Company. The sex of the employees studied, the size, age, and location of the firm, as well as the employment practices of the company in the face of technological modernization, all suggest that the rates of persistency in this firm ought to be, if anything, better than average.

4. Explanations for Variation in the Persistency of Employment

Although it appears that the findings on persistency of employment in Foods Industry Company do not seem to be exaggerated, gauging the reliability of the data is not explaining the data. Both economic and noneconomic causes might be adduced for the fluctuations in persistency.

In order to consider the effect of general economic conditions on the persistency of employment at Foods Industry Company, we should examine the movement of wage differentials and of economic cycles in the twentieth century. Koji Taira’s periodization of wage differentials and Simon Kuznets’ account of economic fluctuation are used for this purpose. Taira’s hypothesis, which is based on the well-known Reynolds and Taft study of wage differentials in the West, is that the narrowing of wage differentials is associated with prosperous economic conditions and the widening with depressed conditions. On the assumption that the fluctuation in rates of persistency for Foods Industry Company might be associated with Taira’s and Kuznets’ efforts to periodize Japanese economic history, the following comparison was drawn up:

<table>
<thead>
<tr>
<th>Taira</th>
<th>Kuznets</th>
<th>Foods Industry Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910-24 wage narrowing</td>
<td>1914-20 economic upswing</td>
<td>1918-21 high persistency</td>
</tr>
<tr>
<td>1924-34 wage widening</td>
<td>1920-32 economic downswing</td>
<td>1922-30 falling persistency</td>
</tr>
<tr>
<td>1934-46 wage narrowing</td>
<td>1932-38 economic upswing</td>
<td>1932-39 rising persistency</td>
</tr>
<tr>
<td>1945-66 wage narrowing</td>
<td>1938-45 economic downswing</td>
<td>1940-48 falling persistency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1949-62 rising persistency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1963-76 falling persistency</td>
</tr>
</tbody>
</table>

There is a considerable agreement between variations in employment persistency at Foods Industry Company and general eco-


nomic conditions as analyzed by Taira and Kuznets. If anything, Foods Industry Company’s rates of persistency respond somewhat tardily to general economic indicators, but this is not surprising as individual firms do not adhere exactly to market-wide conditions. Persistency rates improve as the economy picks up and as wage differentials narrow, leading us to believe that general economic conditions have influenced employment in Foods Industry Company.

But personnel policies and practices are not just a question of economic circumstance. They reflect other elements as well, such as the age and education of employees, their rural or urban backgrounds, and their life experiences in general, including previously held jobs. The changing characteristics of employees themselves, as well as the general economic conditions, may correlate with the changing rates of persistency. When the sixty-year employment record of Foods Industry Company is broken down into the subperiods identified earlier, consistent and significant variation in the noneconomic profile of workers and in rates of persistency may be observed.

The subperiods that witnessed improving economic conditions and a narrowing of wage differentials are times when the average age of entering employees fell. In turn, the changing average age of new employees may be related to variations both in the average level of education and in the ratio of entering employees with prior work experience. Breaking these statistics down by subperiods yields the following.

<table>
<thead>
<tr>
<th>Average Age</th>
<th>Average Education</th>
<th>Prior Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918–21</td>
<td>19.6</td>
<td>8 years</td>
</tr>
<tr>
<td>1922–30</td>
<td>22.6</td>
<td>9.2 years</td>
</tr>
<tr>
<td>1932–39</td>
<td>19.9</td>
<td>10.3 years</td>
</tr>
<tr>
<td>1940–48</td>
<td>25</td>
<td>10.65 years</td>
</tr>
<tr>
<td>1949–62</td>
<td>21.1</td>
<td>13 years</td>
</tr>
<tr>
<td>1963–76</td>
<td>24.6</td>
<td>14.7 years</td>
</tr>
</tbody>
</table>

Here we can see a consistent covariation between improving economic conditions and a younger, more experienced but less well educated employee. The pattern of acquiring less schooling during periods of economic upturn has been observed worldwide, and it lends support to the view that employment practices in Japan are primarily neither culture-specific nor noneconomic.

When the average age of entering employees is graphed on an
annual basis, the considerable range in ages becomes immediately apparent. (See Graph 3.) From a low seventeen years of age in 1932 to a high thirty-five in 1947, mean age varied greatly but not erratically. Better economic conditions called younger men to work. Even when one compensates for the increasing length of education of employees, the relative differences in average age of entering employees by subperiod remain the same, as indicated below.

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Average Age</th>
<th>Average Length of Education</th>
<th>Adjusted Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918–21</td>
<td>19.6</td>
<td>0</td>
<td>19.6</td>
</tr>
<tr>
<td>1922–30</td>
<td>22.6</td>
<td>1.2</td>
<td>21.4</td>
</tr>
<tr>
<td>1932–39</td>
<td>19.9</td>
<td>2.1</td>
<td>17.8</td>
</tr>
<tr>
<td>1940–48</td>
<td>25</td>
<td>2.65</td>
<td>23.35</td>
</tr>
<tr>
<td>1949–62</td>
<td>21.1</td>
<td>5</td>
<td>16.1</td>
</tr>
<tr>
<td>1963–76</td>
<td>24.6</td>
<td>6.7</td>
<td>17.9</td>
</tr>
</tbody>
</table>
The second subperiod, as mentioned before, corresponds to Japan's wartime period, and the variation in age in this period does not match well with educational differences alone. Rather, the general manpower shortage of this subperiod, in terms of both civilian and military manpower, suggests why the ratios of employees with prior work experiences are so high at this time.

As noted earlier, rural workers are generally more satisfied with their jobs than urban workers, and this might be expected to be especially true for those rural employees from the town where Foods Industry Company is located. For such employees, corporate work would not entail adjustments to new surroundings, workmates, or neighbors, and there would be fewer uncertainties of life-style and livelihood. The changing percentages of rural, urban, and hometown employees may help explain the fluctuations in persistency by sub-period. These figures describe that relationship:

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
<th>Hometown</th>
</tr>
</thead>
<tbody>
<tr>
<td>1918–21</td>
<td>48.2</td>
<td>3.6</td>
<td>48.2</td>
</tr>
<tr>
<td>1922–30</td>
<td>60</td>
<td>12.6</td>
<td>27.4</td>
</tr>
<tr>
<td>1932–39</td>
<td>51.1</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>1940–48</td>
<td>49.2</td>
<td>16.2</td>
<td>34.7</td>
</tr>
<tr>
<td>1949–62</td>
<td>37</td>
<td>28</td>
<td>35</td>
</tr>
<tr>
<td>1963–76</td>
<td>21</td>
<td>65.7</td>
<td>13.3</td>
</tr>
</tbody>
</table>

*Honseki*, or residence of registration, of course, does not always reflect genuine roots—rural or urban—or even genuine residence. One suspects *honseki* was a more accurate indicator of background in the prewar period, given the massive population movements associated with the war and with postwar reconstruction. Nevertheless, in the postwar period, falling rates of persistency correlate best with the increasingly urban background (and hence declining rural character) of new employees.

The sudden rise in the percentage of hometown employees in the subperiod 1940–48, in spite of the extremely uneven but generally low rates of persistency at this time, reflects more the wartime confusion and postwar readjustment than any weakening of the hometown-job satisfaction thesis.

Assembling all of these noneconomic elements together into one tabulation provides strong evidence for finding social, demographic, and educational correlates for the variations in employment persistency over the sixty-year history of Foods Industry Company.
When we combine these statistics with the earlier observed variations in persistency and general economic conditions as analyzed by Taira and Kuznets, we can see that variations in rates of persistency for Foods Industry Company seem rational and predictable, although it is not possible to specify precisely and mathematically the strength of the covariations found until a computer-assisted analysis of the data is undertaken. For the moment, it appears that the direction of the relationship is clear: the high persistency of employment is associated with periods of economic upswing and narrowing wage differentials and with younger, less educated, but more experienced and rural employees. This means that employees who entered the firm in periods of economic upswing tended to be young, from rural areas, already with work experience but with fewer years in school, and that they tended to stay with the firm longest.

These findings on job persistency seem so reasonable in fact that one is tempted to oversimplify the complexity of Japan’s employment practices, until one faces the peculiar discovery that seniority-based compensation existed among certain Food Industry Company employees and not among others. Let us turn now to this intriguing problem.

5. Rationales for Differences in Employee Status and Rewards

Metaphorically, corporations, like all living things, possess both body and spirit. The body, or organization, cannot long survive without spirit or ideology. There may be, accordingly, two rationales, one organizational and one ideological for rewarding some employees for ability and some for seniority.

As far as the organizational rationale is concerned, employees with more specific and useful knowledge of the operations of Foods Industry Company had more value. Before the war, process technology was not widely shared, and the heterogeneity found in formal
education limited its general worth. Such limits put a premium on working managers who had been operationally trained within the company. Their immediate value was recognized and they were rewarded accordingly. For other employees, however, whose formal education was more general and longer in duration and whose period of leadership in the firm would come accordingly later, compensation by seniority allowed maximum investment in fixed costs, like plant and equipment, while minimizing variable costs like wages. Compensation by seniority allowed the brunt of labor expenses to be postponed by nearly the entire working life of those covered by such a system of remuneration. An additional benefit of delaying full compensation was that productivity per unit of wages was higher, even though productivity per worker might be lower. Although the number of workers paid more strictly according to seniority were few compared with those paid otherwise, their wages were considerably larger, and thus significant savings to firms could be realized by paying this group low wages at first but rewarding them later for loyal service. Obviously, offsetting even a portion of labor costs would benefit a firm in the expensive process of technological modernization. One should consider further that the period when seniority-based compensation was most pronounced in Foods Industry Company was a time of widening wage differentials, according to Taira. Since widening differentials are associated with economic downturn, the hoarding of capital for investment in plant and equipment might be considered a good reason for lowering labor costs in economically difficult times.

In sum, by deferring some portion of compensation, Japanese manufacturers were able to keep their labor costs relatively low during the prewar period. Thus, practices like seniority-based compensation minimized labor expenses during the financial and technological squeeze of industrialization and enabled the Japanese to concentrate scarce resources where they would be most advantageous.

Ideologically, the rationale for paying one group by performance and one by seniority was to distinguish and encourage different

27. Makoto Asō lists 31 different types and levels of schools in 1935. See his “Nihon no kyōiku to kigyō seichō” (Japanese Education and the Growth of Enterprise), in Nihon no kigyo to shakai, ed. Hiroshi Hazama (Tokyo, 1977), pp. 70–100.
roles, ranks, and values within the firm. The clue to ideological differentiation in Foods Industry Company is found by examining two prewar groups, both of which were compensated by seniority but only one of which responded with long years of service.

Those hired from 1918 to 1921 (immediately after incorporation) represent the only known group in the sixty-year history of Foods Industry Company to fit the model of both lifetime employment and seniority-based compensation. They appear to have been hired as a rule on the basis of personal relationships with owners of the firm, meaning that they were either acquainted with or employed by these men during the time when individually owned enterprises characterized the organization of production in town. This would account for both their youth (most had only the legal minimum of education) and their high degree of prior work experiences upon joining Foods Industry Company. And personal acquaintance and patronage as well as previous enterprise and community experience would explain their privileged role in the firm as factory and general managers in spite of their low level of formal education.

University educated employees (who were hired in number after the mid-1920s) warranted their privileged roles in the company because of their high level of formal education. Higher education signaled their ability, but it did not automatically carry authority within the organization. This had to be earned through experience, validated through leadership, as well as confirmed through acceptance in the traditions of ownership and management in a family-run firm. Compensation by seniority, it will be argued, was one way to rationalize ideologically the managerial authority which university graduates would come to wield in the company.

Thus, those joining the firm from 1918 to 1921 came to their status and power within the firm naturally, that is, through their personal associations and highly relevant work experience. Those joining later bore other marks of status, namely, higher formal education plus the test of delayed gratification or compensation.

In either case, only men who had acquired status could assume leadership. Once assumed, they had to keep their status within the organization either by performance, by how they were rewarded, or by what they represented. What they did was lead the organization, obviously enough, and how they were remunerated seems clear as well, but what they represented was tradition and service.

Tradition and service in prewar Japanese companies were closely connected with the forms of ownership and control in enterprise. Most enterprises, whether corporations or partnerships, were
family owned and operated. In such organizations, leadership was often based on more than business know-how; usually it represented obligation and obedience to the person or persons who owned and operated the enterprise. Accordingly, tradition and service at the upper levels of such organizations conformed to the expectations of the family members at the core of the enterprise, and leadership was essentially ideological in the sense that family values and traditions provided the intellectual framework within which the enterprise operated. For such organizations, this ideological orientation was often more salient than any rules or regulations.

In the case of Foods Industry Company before the war (or any family dominated enterprise), top management personified the values and beliefs of the owners, the collection of eight, and at times nine, families which jointly controlled and managed the enterprise. The role of management for them, whether they were the hand-picked initial employees or the later, better-educated managers, was to maintain not only the "body" of the enterprise—the corporate organization—but also its spirit as a family-governed firm. In order to do this, they had to be considered not only able but also acceptable and legitimate. Seniority-based compensation served to confirm them in their roles and to offer them up as models of tradition and service.

Max Weber has written that the "traditional" type of authority rests on an established belief in the sanctity of immemorial traditions and the legitimacy of the status of those exercising authority over those working for them. In this case, managers received their power to exercise authority from the owner-operators of the firm, but the legitimacy of that authority had to be earned. Part of it came through education, either inside or outside the company, and part of it was achieved through ideological sanction. In this way, the ideological function of seniority-based compensation was to identify and reward a class of leaders distinguished by property (or proximity to it), sacrifice (delayed compensation), knowledge, and service.

Although seniority-based compensation was probably used to define and endorse the positions, roles, and rewards of top managers, apparently many better educated employees did not respond enthusiastically to the practice. In fact, they quit more often than the less well educated. Compensation was company controlled, but persistency of employment was employee controlled, and better edu-

TABLE 5
LIKELIHOOD OF LEAVING FIRM BY EDUCATIONAL LEVEL, 1918–1948

<table>
<thead>
<tr>
<th>Educational Level (in yrs.)</th>
<th>Within 10 yrs.</th>
<th>Within 20 yrs.</th>
<th>Within 30 yrs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>2.0%</td>
<td>21.0%</td>
<td>51.0%</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>10.7</td>
<td>32.1</td>
</tr>
<tr>
<td>8</td>
<td>16.1</td>
<td>28.6</td>
<td>44</td>
</tr>
<tr>
<td>9</td>
<td>12.5</td>
<td>38</td>
<td>44</td>
</tr>
<tr>
<td>10</td>
<td>34.5</td>
<td>50</td>
<td>44</td>
</tr>
<tr>
<td>16</td>
<td>52</td>
<td>66.6</td>
<td>74</td>
</tr>
</tbody>
</table>

(Persons with 11, 12, or 13 years of education were not included in the table as their numbers (n = 14) were judged insufficient.)

cated employees, particularly university graduates, chose to leave in large numbers. In all likelihood, many were driven away by the rural location of the firm, by the concept of deferred compensation, and by the domination of the enterprise, ideologically and organizationally, by a family clan. (See Table 5).

6. The Rise and Fall of the "Japanese Employment System" after the War

Since the war, the dynamics of employment have changed and the need for two kinds of employees, one rewarded according to useful knowledge and specific ability and one according to general knowledge and annointed authority, has disappeared. An egalitarian ethic has equalized personnel policies for all employees of large firms, and a new emphasis upon profit performance has made family dominated firms almost anachronistic.

Employment dynamics in Japan have historically been characterized by a surplus of labor. Before the late 1950s and early 1960s, labor was abundant and relatively cheap, and companies could afford to underemploy workers; and workers for all their numbers could not afford to seek out the highest bidders for their services. Since the mid-1960s, however, labor has become scarce, as can be seen by the ratio of new vacancies to new job applications by education level. (See Table 6.) Not only has labor become scarce, it has become better educated as well, reflecting the growing knowledge-intensive character of Japanese industry. In the last few years of

32. Table taken from Galenson and Odaka, p. 591.
recruiting by Foods Industry Company, for example, the number of new employees with graduate-level education beyond the baccalaureate degree has noticeably increased. In this way, companies can displace the costs of employee education elsewhere—to the education system or to other companies—but of course the cost of hiring and holding on to the better educated is rising proportionately. Once trained, especially in an economy of labor scarcity where industrial techniques are increasingly similar, employees are likely to be lured away to other companies, or so Gary Saxonhouse found in his historical study of employment in Japan's textile industry.\(^{33}\)

General education, as evidenced in today's higher levels of public and private school education, may well be a stimulus to movement between firms. Along these lines, Vladimir Stoikov recently found that the outside experience of employees is substitutable to a great extent for the skills acquired within Japanese firms.\(^{34}\) This finding, of course, contrasts with the expectation that it is the length of service in one organization which determines level of compensation. Indeed, it suggests that as labor becomes more sought after in Japan, persons entering a firm in mid-career will not be at a disadvantage relative to others of their own age. Recently, more and more workers in Japan have been recruited in mid-career, and the phenomenon appears related to the general scarcity of qualified workers and to the desire to "buy" experience and skills gained at another company's expense.

The converse of this phenomenon may help explain why certain employees of Foods Industry Company stayed with the firm in spite of wage differentials in the prewar period. Since the level of general


education was low compared with that of company-specific education, and since process production skills were not yet widely sought after, employees had little hope of parlaying experience and knowledge from one firm into a position elsewhere. This may explain the apparent correlation between educational level and employment persistency over the sixty-year period.

Added to the high degree of company-specific knowledge in the prewar period was the highly specific nature of Japan’s education system. Logically, the concepts and practices of lifetime employment and seniority-based compensation require a high degree of homogeneity in the work force and a parity in skills among entering employees. In the prewar period this was difficult to achieve because of the bewildering complexity of kinds in schools. There were trade schools, normal schools, several levels of elementary and intermediate schools, not to mention preparatory and other higher specialized schools, in addition to universities and colleges. Consequently, a typical group of twenty or thirty employees entering Foods Industry Company would be classified into four to six or more salary categories based on these different levels of education. With the work force so fragmented from the start, the concept and practice of seniority-based remuneration had little meaning, as few employees could realistically compare wages.

The heterogeneity in education upon entrance was adjusted subsequently by in-company training and experience, but as a result the beginning and ending parity in skills required logically by the model was not easily met, and lifetime employment and seniority-based compensation did not go together before the war. Rather, the reverse was true for Foods Industry Company. Employees who stayed longest with the company were those least likely to be paid according to seniority, probably because they controlled the greatest stock of useful knowledge. Consequently, employees with the least formal education but the most in-company knowledge were paid more according to ability than according to seniority and, at least partly as a result, stayed longer with the firm. Company experience and knowledge were valued, recognized, and rewarded. University graduates, on the other hand, with more general education but less company-specific knowledge and little or no prior business experience, were paid strictly according to their actual accumulated value to the organization, measured by the number of years served with the firm, or, in short, according to their seniority.

The postwar egalitarian emphasis has standardized schools and curricula and had leveled educational attainment within the popula-
tion; company personnel policies have corresponded by equalizing opportunities, rewards, and performance criteria within firms. Many have argued, Taira most persuasively, that the "Japanese Employment System" became generalized in the postwar era with the advent of universal standardized education, which assumes a uniformity in skills, and with the resurgence of an American-inspired labor movement, which promulgated equal treatment for equally trained employees.  

For nearly twenty years, the "Japanese Employment System" seemed to answer the need for a skilled, committed, and stable labor force.

Recently, however, the homogenization of education has contradicted the rapidly diverging needs of postwar companies competing in new markets, with new technologies, against new rivals. Since the mid-1960s, in particular, Japanese business has had to deal with problems such as successive yen revaluations, the oil embargo, wild fluctuations in costs of natural and manufactured resources, Vietnam-inspired inflation, shifts in the geopolitical patterns of East Asian and international power alignments, and the increasing costs of bringing "externalities," like pollution control, into the internal cost structure of doing business. In the midst of all this instability, employers have questioned the desirability of personnel policies like lifetime employment and seniority-based compensation.

In contrast to the similarity of background and experience logically required for the practices of lifetime employment and seniority-based compensation, the demands of industry today call for a heterogeneous work force with wide-ranging experience, skills, education, and interests. Although it is sometimes argued, by Abegglen and Drucker for example, that the lifetime commitment of firms to their employees allows them to shift and retrain employees without fear of resistance, this flexibility is only as good as the flexibility of persons already on the payroll. Diversification, either through the development of new product lines or through geographical expansion, may require entirely new and unusual skills, skills not available within the actual or potential reach of present employees.

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37. A negative case in point was the marketing merger effected by Foods Industry Company in 1966. The 74 mid-career managers which came to Foods Industry Company as part of the merger were no bargain—they were older and less well educated.
TABLE 7
LIKELIHOOD OF LEAVING FIRM BY EDUCATIONAL LEVEL, 1949–1976

<table>
<thead>
<tr>
<th>Educational Level (in years)</th>
<th>Within 10 years</th>
<th>Within 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>44.0%</td>
<td>44.0%</td>
</tr>
<tr>
<td>9</td>
<td>25.5</td>
<td>31.4</td>
</tr>
<tr>
<td>10</td>
<td>31.3</td>
<td>31.3</td>
</tr>
<tr>
<td>12</td>
<td>3.7</td>
<td>5.1</td>
</tr>
<tr>
<td>16</td>
<td>6.3</td>
<td>7.3</td>
</tr>
</tbody>
</table>

The increasing need for general as opposed to company-specific knowledge has affected employment practices more and more in the postwar era. The peak of "lifetime employment" was passed more than a decade ago, in the sense that lifetime employment and seniority-based compensation, as argued earlier, logically demand a homogeneous work force. Today, a strong demand for employees with varied and sophisticated skills, international experience, and wide business abilities undermines the attractiveness of lockstep promotion and compensation for employer and employee alike. Of course, the increasing importance of general education has not eliminated the need for in-company training, and a great variety and amount of it continues today. Nevertheless, the level of general education of employees has become the best predictor of which employees, by their own volition, are likely to stay longest with Foods Industry Company. (See Table 7.)

Thus, in the prewar period when company-specific knowledge was at a premium, employees of Foods Industry Company with the least formal education but the greatest on-the-job experience stayed with the firm longest. In the postwar period, this situation has been reversed. Of course, the likelihood of staying with or leaving the firm is not entirely a matter internal to a firm. The external demand for labor must be considered as well. Fortunately for the argument presented here, the prewar period, when better educated employees were most likely to leave Foods Industry Company, was an era of general demand for management employees with more than the minimum of education. And in the postwar period, when the less well educated left Foods Industry Company more frequently, there has been a continual demand on the labor market for workers with less than the average FIC managerial employee. In this case, therefore, diversification, although resulting in an improvement of marketing and distribution, led to a lowering of actual and potential employee skills.
than a college education. Accordingly, in the case of Foods Industry Company, the internal and external demands for labor by level of education seem consistent with the findings presented on job persistency both before and after the war.

Finally, in the postwar period, the emphasis on, indeed the requirement of, performance by leaders in the international business arena has undercut the traditional value placed on service and loyalty before the war and has greatly diluted the actual degree of family ownership and control of enterprise.

The first steps in the separation of ownership from control in Foods Industry Company occurred late in the prewar period. At that time, the Japanese government, trying to rationalize and centralize industry for the war effort, forced the firm to divest itself of, first, its local banking operation and, later, its local railroad line. Although these subsidiary operations did not contribute a great deal to the company's profits, they were important to the controlling families' prestige and authority within the firm and in the community. Ownership was further separated from management in the early and mid-1960s, when Foods Industry Company decided to expand purchasing of raw materials, to market finished products overseas, and to diversify product lines at home. In order to finance such large-scale expansion, the company directors borrowed considerable funds from city banks, reducing the stock share of the original owning families to approximately 25 per cent.

As a result of the strategy of diversification, new kinds of employee skills became necessary, and about this time the profile of employees recruited by Foods Industry Company changed. Employees became older, better educated, and more urban in background. Their function changed as well. Instead of preserving an old established family firm, they were hired to perform in new business ventures in terms of the bottom line—costs and profits. Given the finance charges for the capital debt acquired through diversification, there could be only one measure of organizational legitimacy now, namely, the ability to do the job quickly, cheaply, and well.

Other postwar changes have accelerated the decline of family control and with it the importance of the traditional ideology of service and loyalty in Japanese companies. For one thing, as the ratio of managers to workers has increased in the course of diversification, the authority and power of owner-managers has become diluted. Also, the postwar law against holding companies has greatly complicated the coordination and control of a multiple family enterprise. Families have had to withdraw from active management to be
replaced by new, or at least promoted, personnel, and as a consequence organizational leadership has become more formal and less personal. The organization is held together more by rules and regulations and less by ideology and tradition. Organizational consciousness is now focused around the commonality—really the equality—of all workers rather than around differential socialization based on ability or status.

7. Conclusion

In our study of Foods Industry Company’s employment practices, we have found uneven but generally moderate rates of employment persistency and seniority-based compensation for only certain managerial employees in the prewar period. These findings point to significant historical variation in the periodicity and in the quality of the elements composing the “Japanese Employment System.”

Both lifetime employment and seniority-based compensation as traditional practices—that is, as prewar, selective policies—were associated with the unity of ownership and control in management. This raises some crucial questions concerning the importance of household (ie) ideology and organization in the business history of Japan.

Ie ideology is an ideology rooted in property. The protection, acquisition, and transfer of property are the central concerns of ie ideology in Japan. Those with property or those destined to acquire property were educated to be dutiful and loyal to the corporate body or household, both in its material and human senses. For those outside the ie or household, however, loyalty to household and the enhancement of household prestige were not expected or needed. Since most traditional workers came from propertyless or essentially propertyless families and were not assimilated into positions of power in family-controlled economic enterprises, they were not particularly attracted to ie ideology.

This distinction is evident, for example, in the differential socialization of fudai and genin household members in the history of early Tokugawa agrarian relations. Fudai members, who were expected to become full participants in the propertied household, were nurtured and educated as nascent “family” members. Genin were not treated so well because they were not expected to become part

of the "inner" organization—the ie or household in its corporate propertied sense. Likewise, John W. Hall and Thomas M. Huber have shown that what distinguished the "inner" warriors from the "outer" warriors of Okayama and Chōshū, respectively, was not only the size of their hereditary stipends, but also the special roles, duties, and values that accompanied their closeness to the ruling lord and family. Their role was to symbolize in their station and service the ideology of loyalty and tradition—not unlike the role of those compensated by seniority in the prewar Foods Industry Company. By analogy to the "inner" warriors, we might consider the "inner" employees of Foods Industry Company as a class of industrial retainers groomed to promote and protect the property and values of the families owning and operating the firm.

Although the loyalty that employees owed to companies was something spoken of and enjoined by those at the corporate core, it was not necessarily a value accepted by employees. Indeed, the labor difficulties and disputes in Japan from the turn of the century onward (and Foods Industry Company had its share) suggest that ie ideology and other paternalistic values were not attractive to workers, did not compel them, and were not accepted by them. They were attracted more by ideologies of struggle (socialism) in the prewar period and of equality (democracy) in the postwar period. When employees stayed on the job, it was likely to be for pragmatic rather than paternalistic reasons. Marsh and Mannari have found that Japanese stay with one firm for the same reasons that Americans do, namely, for cumulated pay, rank, seniority, and status. In other words, paternalistic ideology does not cause behavior consistent with the practices of permanent employment and seniority-based compensation, except perhaps for those at the propertied core of corporate groups. Nevertheless, companies cannot choose to ignore organizational spirit or ideology. Foods Industry Company articulated ie ideology as an alternative to unionism and as a vehicle of economic rationality. In other words, workers were asked to accept less in the name of company loyalty and service.

Although the findings in this essay are based on evidence from only one company, much of the argument undoubtedly holds for other Japanese enterprises because most prewar businesses, large


and small alike, were family owned and operated. *Ie* ideology, which joins kinship to property, is suited ideally for such enterprises. But it has become less and less appropriate since the war with the devastation of prewar ideology, the breakup of *zaibatsu*-style industrial organization, and the popularization of the egalitarian ideal, and since Japanese enterprises have expanded, diversified, merged, and moved into international markets. Paternalistic practices, where they exist, are no longer confined to particular groups within firms as an extension of the personality of owner-operators. Rather, they have become nearly universal in large firms, impersonal, and contractual. The postwar or new paternalism is more a creature of the American Occupation than the traditional culture of Japan. The new paternalism is an expression of equality while the old paternalism was the embodiment of hierarchy. Through American supported and inspired union activity and through national acceptance of a new egalitarian ethic, the right of permanent employment and a seniority-based wage system were won for all regular employees of large corporations in the postwar era, and welfare and fringe benefits, which constituted paternalistic rewards for dutiful and loyal service in the prewar period, have become matters of democratic right.

The employee caste system that existed before the war with different styles of reward and control, however, was a logical and effective system within the context of traditional firms. Within it, forward-looking and profit-conscious innovation could be combined with the patrimony and prestige of a family-owned and operated firm. This dual approach to personnel management was successful in an important sense: persistency in employment was always moderate or better, even in the darkest days of the war. But it was also unsuccessful in an important sense: those rewarded least according to ability, the better educated employees, particularly the university graduates, left in large numbers.

The two-tiered or two-track approach to rewards, it must be emphasized, was not unique to Foods Industry Company. It is a component of *Ie* ideology and organization: those closests to property are the core and cause of the process of segregating human resources; their status and power come from ties to property. The outer and secondary tier of personnel have separate processes of allocating status and reward. In such a system, rewards for performance on the one hand and for loyalty on the other are *not* mutually incompatible, since in this segregation of employee resources, tradition and change are both accommodated.

Although compatible in the sense that both styles of employee
management worked, the two styles of reward and status were not equally viable. The traditional style which treated top employees like trusted vassals was really a vestige of preindustrial corporate enterprise. As long as the personalities of family members in charge of enterprises were paramount, personal patronage and prestige determined the allocation of rewards. But once incorporation occurred and individual, relatively small, enterprises were merged and mechanized, less personal and more bureaucratic forces of allocation emerged. Suddenly, not only was it difficult for one man to manage the company competently, but his wishes had to be tempered against those of other executives who were frequently relatives. The routinization of operations made it more possible for one man to lead the firm and for the petty rivalries and jealousies of various personalities to be diminished. Recall that only the first group of men hired to run Foods Industry Company, those hired from 1918 to 1921 with minimal levels of schooling but with personal recommendations from the directors, adhered closest to the "Japanese Employment System." Otherwise, employees were hired and rewarded on an increasingly less personal basis. Probably by the mid-1930s, and certainly by the mid-1940s, the traditional, household-centered system of employee selection and advancement had all but disappeared in the wake of an increasingly impersonal and bureaucratic selection process. Thus, the waning of traditional employment practices appears strongly related to the "maturation" or evolution of industrial structure in Japan.

In conclusion, this study has found evidence to support everyone so far involved in the Japanese company controversy. Abegglen's thesis of lifetime employment and seniority-based compensation has been found valid, but only for an inner circle of elite employees in the prewar era. Cole's emphasis on the importance of traditional ideology in setting the style of modern management suggests the continuity of a diffuse ie ideology in the corporate world of contemporary Japan. Taira's and Dore's elucidation of the "Japanese Employment System" in the postwar era really describes the transformation of prewar particularistic paternalism into a postwar universal paternalism of modern welfare corporatism, which is consonant with the experience of Foods Industry Company. What holds these diverse strains together in the history of Foods Industry Company, and more generally in the development of Japanese industrial relations, are the interconnections between ownership, ideology, and organization during the transition from family enterprise to international corporation.

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