

*Pacific Affairs: Volume 79, No. 3 – Fall 2006*

Regardless, the overall strengths of the volume outweigh its shortcomings. The book provides concise and accessible overviews on a range of issues that should be useful for readers interested in Japan's current relations with other Asian nation-states.

*University of British Columbia, Vancouver, Canada*

HYUNG GU LYNN

**JAPANESE MANAGEMENT: The Search for a New Balance between Continuity and Change.** Edited by René Haak and Markus Pudelko. Hampshire (UK), New York: Palgrave Macmillan. 2005. xiv, 267 pp. (Tables.) US\$100.00, cloth. ISBN 1-4039-4194-7.

This book, the output of a project with the same title undertaken by the German Institute for Japanese Studies in Tokyo, consists of nine chapters (chapters 2 through 10) on various aspects of Japanese management. The book also contains the editors' introduction and conclusion (chapters 1 and 11). The broad areas covered by the contributed chapters are as follows: organizational behaviour, human resource management and learning; multinational firms; and finance and corporate governance.

This book addresses predicting the future directions for so-called post-WW II Japanese management practices (JMPs), typically characterized by employment relationships (life-time employment, seniority-based wages, enterprise unions); close inter-firm relationships (*keiretsu* groupings, bank-based corporate governance system); and the just-in-time-based Toyota production system (chapter 10), accompanied by near-perfect-quality management and *kaizen* mechanisms. In many ways, JMPs formed an internally consistent system in equilibrium in terms of their stakeholders' incentives, and implementing any change in it would be difficult and cause serious system-wide problems.

J-firms believed JMPs were working efficiently, producing high-quality products at globally competitive prices. But such desirable properties of JMPs turned out to be realizable only when long-term and stable business relationships existed between J-firms and their stakeholders (e.g., employees, their corporate shareholders, *keiretsu* suppliers). These desirable business relationships eroded significantly following the burst of the massive financial bubble in 1990.

However, many pointed out problems with this system even during its 1980s heyday; particularly its exclusive nature, that the system favoured insiders (e.g., *keiretsu* suppliers, prime-aged male regular workers who were hired as new graduates) and was unwilling to accept outsiders into the system (e.g., foreign or non-*keiretsu* suppliers, female workers and mid-career job seekers). In J-firms' thinking, only the economic efficiency of the JMPs mattered, and the possible social costs arising from their inability, for

example, to buy from foreign suppliers and to treat female workers fairly could be ignored. In the 1990s, the costs arising from the system's weaknesses became overwhelming. Furthermore these costs were significantly magnified by the massive low-cost pressures of globalization, which began to affect the Japanese economy at about the same time.

In the early 1990s, because of their existing long-term business relationships, J-firms could not take advantage of globalized markets for low-cost suppliers, workers and outsourcing opportunities, but their US and European competitors did. Yet, to survive, J-firms had to cope with such low-cost pressures from overseas by relinquishing some of the traditional long-term business relationships with their business partners (e.g., regular employees, *keiretsu* suppliers) (chapters 1, 6, 9). J-firms did this and, as predicted, massive system-wide problems arose, putting the JPMs' system out of equilibrium.

Globalization also brought new international standards (often accompanied by new Japanese laws) in business practices that the J-firms had to observe (chapters 7, 8), such as: new accounting rules (e.g., consolidated financial statements, market-value-based reporting); and corporate governance practices (e.g., Japanese and foreign shareholders, both individual and institutional, demanding transparent information disclosure and share value maximization, corporate social responsibility). This caused more disturbance to the JPM system, which was already in disequilibrium. (JPMs as related to the recent changes in Japanese corporate governance mechanisms are discussed in Masao Nakamura, "Japanese Corporate Governance Practices in the Post-Bubble Era: Implications of Institutional and Legal Reforms in the 1990s and Early 2000s," *International Journal of Disclosure and Governance*, vol. 3, August/September, 2006.)

The difficulties J-firms are having in adjusting their management system to these new realities are competently addressed in the included chapters. How J-firms can create a new, efficient system while incorporating the globalization factors discussed above on one hand and the demand for more socially acceptable behaviour (e.g., employing more women, market orientation, CSR) on another remains to be seen. (See Nakajima, "Japanese Society under Marketization and Globalization," in M. Nakamura, ed., *Changing Japanese Business, Economy and Society: Globalization of Post-Bubble Japan*, New York: Palgrave Macmillan. 2004, pp. 144-57.)

University of British Columbia, Canada

MASAO NAKAMURA