

THE CULTURAL DIMENSION OF CERTAIN JAPANESE MANAGEMENT ACCOUNTING TECHNIQUES

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ABSTRACT

This review examines the cultural dimension of certain Japanese management accounting techniques. It finds that these techniques may not be readily exported to non-Confucian societies. Implications for managers and academics in Confucian and non-Confucian societies are discussed.

INTRODUCTION

The spectacular success of the Japanese economy since World War II has drawn much attention in the world. The management and cultural factors that have contributed to its success have been tensely studied and discussed (see Macharzina, 2000; Styhre, 2002; Perlitz, 1994, among others). However, the slow growth of economy and troubling state of entrepreneurship in Japan during the 1990s has been of equal concerned to many scholars (see Helms, 2003; Inoue, 1996; Rapoport, 2002, among others). Helms (2003) identifies numerous variables as the contributing factors contributing to the recent stagnant economy and weakening entrepreneurship in Japan, including conventional Japanese business culture, lifetime employment, its seniority system, its tight regulatory policies, labor unionization, and Japan's group-oriented and risk-adverse oriented population. Helms (2003, p. 254) writes that "Taichi Sakaiya, director-general of the Economic Planning Agency, feels Japanese society is an 'industrial monoculture' optimized for mass production and does not value individualism or risk taking. People are expected to 'fit in' and work within groups. Group dynamics are suitable for large manufacturing organizations and led to Japan's success in the 1980's. But Japanese business and society are slow to change" and thus its economy continues to struggle as Japan tries to diversify from mass production and large manufacturing organization, and adapt to changes required by globalization of manufacturing and services (Helms, 2003, p. 254).

Several management accounting techniques such as total quality control (TQC), just-in-time production (JIT), Kaizen costing, target costing, and Kanbans have been widely cited as factors contributing to the post war-1990s period of operational excellence in Japan (Berger, 1997; Kidd, 1995; Styhre, 2002). But, when the above Japanese

management accounting concepts are exported to other countries, they are found not as successful in Japan (Perlitz 1994, Styhre 2002).

This review has four parts. First, it discusses the cultural background that is embedded in Japanese management accounting concepts. Second, it explores particular management accounting concepts and practices that have been developed in this unique culture of the Japanese. Third, it investigates the issues that arise when these Japanese concepts and practices are exported to a foreign country. Finally, the last section summarizes the key issues as discussed above with an emphasis on the impact of cultural dynamism on business and accounting practices.

JAPANESE CULTURE

Hofstede (1980a, 1980b) conducted a series of studies of over 50 national cultures and identified four cultural dimensions that would affect organizational behavior and business practice: individualism/collectivism, large/small power distance, strong/weak uncertainty avoidance, and masculinity/femininity. Based on these four dimensions, the Japanese are identified as a people with high collectivism (i.e., as group oriented), large power distance, strong uncertainty avoidance, and dominance of masculinity.

In Hostede's subsequent study (Confucian Connection, 1988), a fifth dimension was identified, Confucian Dynamism. Almost all of the items in this dimension are related to the teachings of Confucius, and include perseverance toward slow progress, possessing a sense of shame, and protecting "face" (Sharp et al., 1997). It is unquestionably-clear that the Japanese culture has been highly influenced by and connected to Chinese culture. Hofstede and Bond (1988) note that Asian cultures highly value

personal relationships, and emphasize stability and harmony among individuals and societies. It is specifically noted that if the Confucian teaching of perseverance is practiced in personal life, it becomes manifested in organizational behavior and business practice as a willingness to be future-oriented and as a willingness to be long-term oriented in terms of organizational behavior and business performance.

According to the Book of Analects, a book written about Confucius (550 – 478 B.C.) and his sayings and his doings by his followers, there are three major Confucian teachings: loyalty, forgiveness, and the five fundamental relationships, referred to as Wu Lun in China. The five relationships are those between the following dyads: a) ruler-subordinate, b) father-son, c) elder brother-younger brother, d) husband-wife, and e) friend-friend. All human relationships are derived from one or of a combination of these five relationships (Shih, 1988). Confucius' teaching has also "nurtured Chinese people to respect their elders and leaders," and to perform filial duties to parents (Hung, 2001, p. 22).

The influence of Chinese culture on and its connectedness to Japanese culture is reflected in the text Japan and the Pacific Rim (2004), which notes that many Westerners think of Japanese people as imitative, preventative, pragmatic, and inquisitive. For the Japanese, it makes sense to copy success, whether it is a successful superior or a successful Western company or a successful educational curriculum. To be preventative, the Japanese prefer long-range over short-range planning, and workers test and retest every product to prevent customers from receiving defective products. The Japanese turn pragmatism to work-as-hard-as-required, do-what-it-takes perseverance to solve problems. In addition, the Japanese save on average 15% of income, and in their personal spending behaviors, for example, save enough money to buy new furniture and to make a down payment before purchasing a new house. The Japanese are also obligative. They have a great sense of duty toward those around them. Japanese workers are willing to work late without pay to improve their job skills and product quality and to not let down fellow workers and employers. Thousands of workers maintain life-long friendship and employment. Duty to the group is closely linked to respect for superiors and senior authority. Finally, the Japanese are regarded as inquisitive because of their enthusiasm in learning new ideas, knowledge, and even foreign cultures. Many Japanese struggle to read a book or newspaper while standing inside a packed commuter train. Many Japanese also travel

abroad, and learn about foreign cultures through radio and television programs. There is no doubt that the Japanese emphasize education as much as the Chinese.

MANAGEMENT ACCOUNTING TECHNIQUES DEVELOPED IN JAPAN

The Japanese culture has developed many unique management accounting concepts and practice. Indeed, while for a long time the United States of America's (U.S.A.) companies were regarded as exemplary for the operational efficiency, in the 1970s and 1980s Japanese management accounting had become the "Holy Grail" of modern management (Perlitz, 1994). Many Japanese management accounting techniques originated in the U.S.A. but were refined in Japan are consistent with Japanese culture. These widely cited techniques include TQM; JIT production and inventory control; Kanbans, a card or tag carrying the information of inventory (item, quantity, date, etc.) attached to a component and used in conjunction with JIT; Kaizen costing (continuous gradual improvement); and Target Costing (where cost control is achieved by realizing a predetermined target). Interestingly, the concepts of JIT, Kaizen Costing, Target Costing were first introduced by Henry Ford, the father of "Fordism."

In Ford's book "My Life and Work" (1922), he described an idea that is very similar to JIT (p. 143):

We buy only enough to fit into the plan of production, taking into consideration the state of transportation at the time. If transportation were perfect and an even flow of materials could be assured, it would not be necessary to carry any stock whatsoever.

Similarly, in the same book, Ford (1922) described the concept of ongoing, continuous, if small, improvement (today's Kaizen costing) as (Chapter IV, para. 20):

If we have a tradition it is this: Everything can always be done better than is being done. That pressing always to do work better and faster solves nearly every factory problem.

Furthermore, the concept of Target Costing can be found in Ford's (1922) book (Chapter X, paragraph 10):

Our policy is to reduce the price, extend the operations, and improve the article. You will notice that the reduction of price comes first....The new price forces the costs down.

HOW JAPANESE CULTURE NOURISHES ITS MANAGEMENT ACCOUNTING TECHNIQUES

Japan has various cultural characteristics and its culture is associated with several management accounting techniques, as discussed above. These management accounting techniques have been nourished by its culture. The Chinese Taosim's Yin-Yang (negative-positive) way of thinking has deeply rooted itself in Japanese culture. The Yin-Yang philosophy divides the whole world in two sides in terms of nature, feeling, and mood. In other words, any object on earth is either on the Yin (negative) side or the Yang side. Yin represents the female side of the universe and may be characterized by adjectives such as dark, sad, moon, murky, and soft, whereas Yang is the male side and stands for things like bright, happy, sun, clear and solid. Unlike the oriental Yin-Yang way of thinking, Western thinking is polarity-oriented, in which patterns like good or bad, acceptable or unacceptable predominate (Perlitz, 1994).

When the polarity-oriented thinking is applied to the quantity-cost relationship by Westerners, they would assume the product quality can only be achieved through higher product costs. But the Yin-Yang way to deal with this problem does not eliminate a best combination of these two objectives: high quality with a low cost. This is the thinking process by which the Japanese developed its lean production capabilities through JIT and Kaizen costing. Furthermore, in the Western tradition of individualism and Marshallian economics, each person presents his or her own suggestion to a problem and the group then spends significant resources finding a single "best" solution. In the Japanese tradition of the group and collectivism, the group discusses the same topic over and over again until a collectively acceptable solution is achieved (Perlitz, 1994). As a result, it is not inevitable that there will be a winner and a loser, or a scapegoat, as is too often true in a Western society. The collectivism and joint-effort aspect of Japanese culture has nourished the ideas of Kaizen and Target Costing.

The well-known Asian wisdom of "the way is the end" has also provided much momentum for Japanese management accounting thinking. The Chinese have widely cited this old saying since the Zhou Dynasty (1027-777 B.C.): "The universe continues permanently, a scholar shall accordingly cultivate and improve himself without as end" (from the book of Yi-Gin, or Zhou Yi). While Confucius was walking through a bridge and observing the endless water flows, he reminded his students and followers, "The time passes exactly like the water flows, it never ends at any day or night" (Book of Analects, p. 165). The Japanese have converted this philosophy of "endlessness" to management accounting techniques – namely, Kaizen Costing, a continual gradual improvement in cost. This continual process is very opposed to the Western counterpart; as a German proverb says: "After the work is done, it is pleasure to rest."

As noted above, the Japanese are imitative, pragmatic, and inquisitive. When U.S. Navy Commodore Matthew Perry and his "black ships" arrived in 1853 to open Japan for trade, the Japanese realized that they no longer could keep themselves isolated from the rest of the world. The Emperor Meiji started the well-known Meiji Restoration in 1868. Some Western life styles and languages were quickly imitated and adopted. For example, the words "banana," "truck," "trunk," and many others were transplanted from the West, and the Japanese pronunciation for these words are nearly the same as the English pronunciation. The Japanese also have the sense of symbiosis (Kyosei in Japanese), in which they were able to learn and adapt Western things and thinking (Perlitz, 1994). "Kyosei circles" are founded in Japan as think tanks that nourish the Japanese thinking for TQM and other management accounting techniques like Kaizen and Target Costing.

CULTURAL TRAP WHEN A FOREIGN NATION ADOPTS JAPANESE MANAGEMENT ACCOUNTING CONCEPTS

Perlitz (1994) recognizes both environmental and "cultural fit" are two major factors affecting the success of a management accounting technique. He further argues, "If the cultural background changes, the methods and the strategies might have to change accordingly" (Perlitz, 1994, p. 59). Illustratively, Kidd (1995) studies the implementation of the JIT, Kanbans, and Kaizen Costing in Japan, South Korea, and the United Kingdom (U.K.). He finds that spring manufacturers using these techniques have better advantages in

Japan and South Korea than their counterparts in the U.K. A number of attributing factors for this result have been identified. First of all, Japan's financial, production, and even personnel systems, are more strongly tied to long term results and performance measures. Second, the Kaizen approach is endemic in Japan; a company may not have a profit in the first year of production, but it may reduce production costs 10 percent or more in subsequent years. Third, both Japanese and South Korean companies foster long-term relationships with suppliers. But in the U.K., business is conducted and relationships are created through legal contracts, not by word or mouth, or by the promise of good will. Fourth, workers in both Japan and South Korea have good general attitudes toward incremental improvement, an attitude that is generally lacking in the United Kingdom. Finally, psychometric differences do exist in the East and West. But in sum, the U.K. culture is dominated by a short-term outlook and individualism, and the imposition of Japanese methods to British society would be thought unreasonable by U.K. workers unless U.K. managers use different tactics for implementation.

Regarding the implementation of Kaizen in a foreign country, it is found that the motivation for Kaizen in Japan is "Jishusei." The "Jishusei" is intrinsic to Japanese culture. "Jishsei" is usually translated as volunteerism in a Western world that would commonly interpret that term as free choice of joining, while the Japanese concept actually emphasizes the autonomous improvement of work (Lillrank & Kono, 1989; Berger, 1997). The Jishusei/Volunteerism phenomena is a good of example of "the linguistic and cultural problems of understanding and transferring the motivational aspects of Kaizen" (Berger, 1997, para. 14).

Adler and Cole (1993) studied and compared the performance of two car assembly plants that implemented the Kaizen concept of continuous improvement (CI). They find the New United Manufacturing Motor inc. (NUMMI – a Toyota-GM joint venture) is better than the Volvo Uddevalla plant because the NUMMI plant has standardized their work processes while Uddevalla has not. On the other hand, Berggren (1994) makes the same study and argues that the Uddevalla plant would have been as equally successful with respect to CI as the NUMMI if the Uddevalla plant had been given the right management support. In addition, the Uddevalla plant would not have risked the motivational cost of highly regimented work.

Conversely, and by way of contrast, there are consequences to the Japanese for failing, primarily for cultural reasons, to adopt necessary management accounting concepts and practices. Specifically, the "debt bomb" that has resulted in Japan facing "the worst economic crises since the great depression in the 1930s" (Khambata & Bagdi, 2003, p. 58) is due to Japanese banks' inability to write-off bad debt. While there are specific institutional constraints on Japanese banks' ability to write-off bad debt (Takahashi, 2002), it is also clear that the root of these institutional constraints and the root of bank and government officials' inability to change the constraints or use existing write-off authority is the influence of Chinese/Confucian culture on and its connectedness to Japanese culture. As noted above and as noted by Hwang and Staley (2005), the Chinese/Confucian culture emphasizes loyalty, the value of certain dyadic relationships, the importance of not failing, and the importance of "saving face" (not demonstrating disrespect to other parties). Clearly, when one writes-off bad debt, one is not behaving with loyalty or respect to the other party. Thus, it is not surprising that the Japanese are unable to write-off bad debt. And, consequently, while Nordic and the U.S.A. were able to write-off bad debts and resolve a similar banking and economic crises in three years, the Japanese banking and economic crises remains unresolved today (Takahashi, 2002).

CONCLUSIONS

The post World War II Japanese economic miracle rightly caught the attention of professionals and academicians alike. Management accounting techniques and practices were adapted from the Japanese; companies rushed to adopt them; and management accounting text books hurriedly incorporated TQM, JIT production and inventory control, Kanbans, Kaizen costing, and Target Costing along side traditional management accounting topics.

The recent slow growth of the Japanese economy and troubling state of its entrepreneurship, however, provide an opportunity to examine the universal applicability of these management accounting techniques and practices. Such an examination finds that they may not be readily exported to non-Confucian societies. Indeed, many of these management accounting techniques and practices were developed in Western societies (the U.S.A. in particular), only to languish until they found a fit in Japanese culture.

As a result, companies and academics in Western cultures may wish to take a more measured approach to adopting TQM, JIT, Kanbans, Kaizen costing, and Target Costing. Western companies and academics may also wish to try to inculcate and reward behaviors related to some of the cultural underpinnings of Japanese and Confucian cultures – namely, behaviors that emphasize perseverance, individuals' autonomous improvement at work, long-term goals and objectives, cooperative decision making, and multi-goal target setting – as part of their implementation of TQM, JIT, Kanbans, Kaizen costing, and Target Costing

Companies in Confucian cultures – particularly those in newly industrialized environments – may wish to consider adopting TQM, JIT, Kanbans, Kaizen costing, and Target Costing. And Japanese companies may wish to consider recognizing when TQM, JIT, Kanbans, Kaizen costing, and Target Costing and other management accounting techniques (together with their underlying cultural imperatives) no longer serve their best interest, and make a conscious decision to adopt management accounting procedures and techniques that go against their cultural grain, for example, the writing off of bad debt.

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