I have one additional complaint which is far less substantive and which could be leveled against most books written by econometricians. The book does not hold together well as a unitary, integrated work. Indeed, almost all of the chapters had been published earlier as discrete, stand-alone pieces of analysis. As a result, the reader searches in vain for a consistent argument—or even theme—to pull him or her along from one chapter to the next.

But as long as one does not expect such an intellectual "gestalt," one should not be disappointed. (Indeed, my favorite chapter—chapter 5—has perhaps the most tenuous link of all to the rest of the book.) This is excellent work using statistically sophisticated empirical research to bring together two otherwise disconnected strands of analysis—the "locational advantages" facing Japanese firms engaged in FDI, and the use of strategic trade policies by Western states. Belderbos has made an important contribution to both our knowledge of these issues and our methods of examining them.

Who Runs Japanese Business? Management and Motivation in the Firm. Edited by Toshiaki Tachibanaki. Edward Elgar, Cheltenham, Glos., U.K., 1998. xxv, 262 pages. $85.00.

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The stated aim of this book is to investigate the issues of promotion, corporate government, and related subjects in Japanese firms. In particular, the primary focus is on questions such as who becomes department heads (middle-level managers such as *kachō* and *kakarichō*) and top executives, who governs the company, and how business is managed.

The book contains an introduction, conclusion, and ten chapters divided into two groups. The first three chapters concern issues related to top executives, who are defined as either members of firm boards or firm auditors: "Road to the Top and Executive Goals," by Toshiaki Tachibanaki (ch. 1); "Determinants of Top Executives' Promotion and Remuneration," by Tomohiko Noda (2); and "Do Positions and Tenure of Top Executives Affect Their Attitudes?" by Hideshi Itoh and Hiroshi Teruyama (3).

The other seven chapters consider issues related to middle-level managers, defined as either section heads, department heads, or those in other middle-management positions: "Path to Becoming a Manager," by Yoshinobu Kobayashi (4); "Effort Incentives," by Hideshi Itoh and Hiroshi Teruyama (5); "Work Incentives for White-Collar Workers," by Naoki Mitani (6); "White-Collar Careers in a Large Electronics Company," by Hisakazu Matsushige (7); "Does the Name of the University Matter?" by Isao Ohashi (8); "Careers and Work Attitudes of Engineers," by Yasunobu Tomita (9); and "White-Collar Careers and Trade Unions," by Fujikazu Suzuki (10).

An interesting feature of the book is that all the chapters in each group use the same data sets. Both data sets are survey-based and were collected in 1993. The first three chapters use data based on questionnaires sent to 8,000 top executives of 2,128 large Japanese firms randomly selected from the 40,800 top executives listed in the 1993 Tōyō Keizai Top Executive Survey (*Yakuin shikiho*) published by Tōyō Keizai Shinpōsha in Tokyo. The data sample consists of the 2,246 completed questionnaires (the response rate was 28.1 per cent). The questionnaire queried executives on the types of positions held, their beliefs on the reasons for their promotions to top executive positions, their lifestyles and work attitudes, their priorities on various executive decisions, the universities from which they had graduated, the number of employees in their firms, their annual incomes, their industries, and their age and sex, among other variables. No original questionnaire (or a list of original questions) is included in the book.

The data set used for the last seven chapters was derived from 2,100 original questionnaires sent to white-collar employees of five large Japanese firms. Of these, 1,816 questionnaires were completed. Three of the five firms were manufacturers, one each from the auto, electronics, and chemical industries. The remaining two were an electric power company and a department store. The questions included in this survey seem similar to those included in the other survey, except that the top-executive related questions are replaced by questions on employees' impressions about how firms' promotion decisions are made. The university major of the respondent is also identified in this survey.

The ten chapters of this book examine various hypotheses about the behavior of Japanese executives and workers. No attempt is made by the authors to examine those aspects of Japanese firm behavior that are often thought to be significantly distinct from the behavior of Western firms. The methodologies used by the authors as well as the emphases of the chapters vary, making it necessary for the reader to be cautious in comparing the findings presented in various chapters.

Nevertheless, certain hypotheses that are specifically associated with Japanese firm behavior are focused on in the book. One such hypothesis is that pay at large firms is higher than pay at small firms for all ranks of workers. This hypothesis, discussed in chapters 1 and 2, is often found true for firms in both Japan and the West (and also in other countries) and is of little interest by itself. What would be of interest is an investigation of why the pay differential due to firm size is much larger for Japanese firms than for Western firms. The authors unfortunately do not explore this subject empirically using their data sets.

Another hypothesis dealt with extensively throughout the book is that workers who are graduates of select universities such as Keio, Waseda, Tokyo, Kyoto, and Hitotsubashi Universities tend to be paid significantly more than those who are graduates of other universities. (A corollary of this hypothesis is that graduates of these select universities have higher and faster probabilities of promotion than graduates of other universities since salaries and ranks are highly correlated.) This hypothesis and possible explanations are particularly discussed in chapters 1, 2, 4, and 8. One explanation given is that graduates from these select universities have more ability to network and perform than graduates from other universities. Unfortunately, there is no investigation of the unusually large promotion and income effects due to select university qualifications found in Japan.

There do exist explanations for the income and promotion effects on those who work for large firms and those who are graduates from select universities in Japan that are not mentioned in the book. One is the sample selectivity explanation: those able to enter and graduate from the select universities and/or able to gain employment with large firms are more competent in Japanese corporate society than those who are not. If this hypothesis holds, then the findings in various chapters of this book confirming these hypotheses may only reveal spurious statistical correlations.

Another possible explanation is sociological and based on corporate groups and networking. Large Japanese firms are at the tops of the pyramids of their respective corporate (*keiretsu*) groups and hence workers and managers of large firms manage many more employees (including those of affiliated firms) than workers and managers of small Japanese firms. Since the primary determinant of managers' pay is the number of subordinates under their supervision, workers and managers alike at large Japanese firms get much higher pay than their counterparts at small firms. This may also explain the Japan-West difference in the magnitude of firm-size effects on earnings since such vertical corporate groupings are much more prevalent in Japan than in any other country. Similarly, at the individual level, graduates of select Japanese universities are better connected and hence are able to network better, which in turn leads to better business performance and higher promotion probabilities. Obviously these alternative explanations are not exhaustive and are likely to co-exist in practice.

In addition to the firm-size and select-university effects discussed above, a number of other interesting business practices, associated with Japanese firm behavior, are discussed. These include the effects of job rotation and the role of top management in Japanese firms.

The long-term employment and seniority-wage practices at many Japanese firms make it difficult for firms to hire (regular) workers for conducting only specific tasks (jobs), since, according to the seniority-wage system, pay at many Japanese firms is typically specific to individual workers and their ranks but is not usually specific to the tasks they do. Workers are often rotated from one job to another. Such job rotations involve job changes (assignments) across different functional departments (e.g., sales, marketing, production, product development) and also involve employee transfers to other affiliated companies which are often within the same corporate (*keiretsu*) group. Such job rotations and transfers are not necessarily unique to Japanese firms but the degree to which they are practiced is much more substantial within Japanese firms than in firms in the West. Japanese firms view this practice as compulsory for workers to earn the type of employment security their regular employees enjoy.

The question of how job rotation and job transfer affect workers' promotions, wages, and other characteristics is discussed in chapters 1, 2, 7, 8, 9, and 10. While some career paths (e.g., those involving sales experience) are found to be more likely to lead to top executive positions, most authors report numerically small and sometimes contradicting effects of job rotation and transfer on workers' wages. These indeterminate numerical findings may result from the nature of the sample used: all survey respondents had experienced some form of job rotation or transfer. Under such conditions there is little variation among sample observations and no statistically significant results can emerge.

Although most hypotheses considered in the book are related to the behavior of workers, one hypothesis considered is relevant to corporate governance. This hypothesis proposed by Masahiko Aoki states that an important function of top executives of Japanese firms is to play an intermediary role in resolving the conflicting interests of the firms' shareholders and employees.[1] Chapters 1 and 2 discuss this hypothesis. Needless to say, this hypothesis is not compatible with (and is not acceptable to) the standard view in Anglo-American corporate governance that the role of managers is to maximize the wealth of shareholders. This implies that good pay-incentive mechanisms align the interests of managers with the interests of shareholders so that managers work in the interest of shareholders. This minimizes the agency cost resulting from managers acting in their own self-interest.

While chapter 1 tentatively concludes that Japanese top executives work first for firm employees rather than shareholders (p. 23), thus rejecting the hypothesis, chapter 2 argues that the hypothesis is indirectly verified (p. 50).

1. Masahiko Aoki, *Information, Incentives, and Bargaining in the Japanese Economy* (New York: Cambridge University Press, 1988).

Unfortunately, these conclusions are based on self-reporting attitude data and hence need not reflect actual firm objectives.

More generally, the main difficulty of many of the studies reported in the book is that the data sets used do not have information on the performance of either the firm itself or its competitors. It seems that such performance measures could have been added to the data (particularly the first data set of top executives) since the employer of each respondent is known. Such data would allow a study of the correlation between executives' salaries and firm performance, thus giving a more direct method of testing various hypotheses about the role of top executives in Japanese firms.

Another source of information that could have enriched the analyses reported in the book is data on sample firms' affiliation with corporate (*keiretsu*) groups. This is particularly so given that chapter 3 reports that top executives emphasize the performance of the corporate group to which their firms belong and that there is some empirical evidence also that top executives of Japan's bank-based *keiretsu* firms pay more attention to firm value than do top executives of non-*keiretsu* firms.[2]

All in all, the book provides a useful overview of what Japanese managers do. Certainly, the data sets provide interesting descriptive information about the role of managers in the internal labor market of Japanese firms. However, since the research was done, Japanese business conditions have drastically deteriorated and many analysts now blame the types of Japanese business practices discussed in this book for the continuing poor performance of Japanese firms and the Japanese economy. The Japanese government and leading business organizations are calling for a more market-oriented (Anglo-American-like) approach to business. In particular they recommend abandoning, or at least substantially modifying, the seniority-based wage system and long-term employment practice in favor of skill-based wages and flexible labor-market practices.

As all the chapters of this book suggest, traditional Japanese management practices are deeply rooted among the employees and managers of Japanese firms. For this reason it is not obvious that a timely change will take place in Japanese management practices to accommodate the new, more market-based labor-management practices. Without such a change in the near future, the Japanese economy may continue to suffer from its post-bubble recession for some time.

2. Randall Morck and Masao Nakamura, "Banks and Corporate Control in Japan," *Journal of Finance*, Vol. 54, No. 1 (1999), pp. 319–39.