

[Home \(/index.html\)](#) / [Encyclopedia of M...](#) / [Str-Ti \(index.html\)](#) / [Theory Z](#)

## THEORY Z

Follow **City-Data.com** (<http://www.city-data.com/>) founder on our **Forum** (<http://www.city-data.com/forum/search.php?do=finduser&u=2173187>) or [Follow](#)

[Like](#) [Share](#) 27 people like this. [Sign Up](#) to see what your friends like.



22 million professionals view & apply for jobs on LinkedIn every week

[Post a job](#)



Photo by: Elnur

Theory Z is an approach to management based upon a combination of American and Japanese management philosophies and characterized by, among other things, long-term job security, consensual decision making, slow evaluation and promotion procedures, and individual responsibility within a group context. Proponents of Theory Z suggest that it leads to improvements in organizational performance. The following sections highlight the development of Theory Z, Theory Z as an approach to management including each of the characteristics noted above, and an evaluation of Theory Z. Realizing the historical context in which Theory Z emerged is helpful in understanding its underlying principles. The following section provides this context.

### (DEVELOPMENT OF THEORY Z

Theory Z has been called a sociological (</knowledge/Sociology.html>) description of the humanistic organizations advocated by management pioneers such as Elton Mayo, Chris Argyris, Rensis Likert, and Douglas McGregor. In fact, the descriptive phrase, "Theory Z," can be traced to the work of Douglas McGregor in the 1950s and 1960s. McGregor, a psychologist and college president, identified a negative set of assumptions about human nature, which he called Theory X. He asserted that these assumptions limited the potential for growth of many employees.

McGregor presented an alternative set of assumptions that he called Theory Y and were more positive about human nature as it relates to employees. In McGregor's view, managers who adopted Theory Y beliefs would exhibit different, more humanistic, and ultimately more effective management styles. McGregor's work was read widely, and Theory Y became a well-known prescription for improving management practices.

But in the 1970s and 1980s, many United States industries lost market share to international competitors, particularly Japanese companies. Concerns about the competitiveness (</knowledge/Competitiveness.html>) of U. S. companies led some to examine Japanese management practices for clues to the success enjoyed by many of their industries. This led to many articles and books purporting to explain the success of Japanese companies. It was in this atmosphere that Theory Z was introduced into the management lexicon.

Theory Z was first identified as a unique management approach by William Ouchi. Ouchi contrasted American types of organizations (Type A) that were rooted in the United States' tradition of individualism (</knowledge/Individualism.html>) with Japanese organizations (Type J) that drew upon the Japanese heritage of collectivism. He argued that an emerging management philosophy (</knowledge/Philosophy.html>), which came to be called Theory Z, would allow organizations to enjoy many of the advantages of both systems. Ouchi presented his ideas fully in the 1981 book, *Theory Z: How American Companies Can Meet the Japanese Challenge*. This book was among the best-selling (</knowledge/Bestseller.html>) management books of the 1980s.

Professor Ouchi advocated a modified American approach to management that would capitalize on the best characteristics of Japanese organizations while retaining aspects of management that are deeply rooted in U.S. traditions of individualism. Ouchi cited several companies as examples of Type Z organizations and proposed that a Theory Z management approach could lead to greater employee job satisfaction, lower rates of absenteeism (</knowledge/Absenteeism.html>) and turnover, higher quality products, and better overall financial performance for U.S. firms adapting Theory Z management practices. The next section discusses Ouchi's suggestions for forging (</knowledge/Forging.html>) Theory Z within traditional American organizations.

## THEORY Z AS AN APPROACH TO MANAGEMENT

Theory Z represents a humanistic approach to management. Although it is based on Japanese management principles, it is not a pure form of Japanese management. Instead, Theory Z is a hybrid management approach combining Japanese management philosophies with U.S. culture. In addition, Theory Z breaks away from McGregor's Theory Y. Theory Y is a largely psychological perspective focusing on individual dyads of employer-employee relationships while Theory Z changes the level of analysis to the entire organization.

According to Professor Ouchi, Theory Z organizations exhibit a strong, homogeneous set of cultural values that are similar to clan (/knowledge/Clan.html) cultures. The clan culture is characterized by homogeneity of values, beliefs, and objectives. Clan cultures emphasize complete socialization (/knowledge/Socialization.html) of members to achieve congruence (/knowledge/Congruence.html) of individual and group goals. Although Theory Z organizations exhibit characteristics of clan cultures, they retain some elements of bureaucratic hierarchies, such as formal authority relationships, performance evaluation, and some work specialization. Proponents of Theory Z suggest that the common cultural values should promote greater organizational commitment among employees. The primary features of Theory Z are summarized in the paragraphs that follow.

## LONG-TERM EMPLOYMENT

Traditional U.S. organizations are plagued with short-term commitments by employees, but employers using more traditional management perspective may inadvertently encourage this by treating employees simply as replaceable cogs in the profit-making machinery. In the United States, employment at will, which essentially means the employer or the employee can terminate the employment relationship at any time, has been among the dominant forms of employment relationships. Conversely, Type J organizations generally make life-long commitments to their employees and expect loyalty in return, but Type J organizations set the conditions to encourage this. This promotes stability in the organization and job security among employees.

## CONSENSUAL DECISION MAKING

The Type Z organization emphasizes communication, collaboration, and consensus in decision making. This marks a contrast from the traditional Type A organization that emphasizes individual decision-making.

## INDIVIDUAL RESPONSIBILITY

Type A organizations emphasize individual accountability and performance appraisal. Traditionally, performance measures in Type J companies have been oriented to the group. Thus, Type Z organizations retain the emphasis on individual contributions that are characteristic of most American firms by recognizing individual achievements, albeit within the context of the wider group.

## SLOW EVALUATION AND PROMOTION

The Type A organization has generally been characterized by short-term evaluations of performance and rapid promotion of high achievers. The Type J organization, conversely, adopts the Japanese model of slow evaluation and promotion.

## INFORMAL CONTROL WITH FORMALIZED MEASURES

The Type Z organization relies on informal methods of control, but does measure performance through formal mechanisms. This is an attempt to combine elements of both the Type A and Type J organizations.

## MODERATELY SPECIALIZED CAREER PATH

Type A organizations have generally had quite specialized career paths, with employees avoiding jumps from functional area to another. Conversely, the Type J organization has generally had quite non-specialized career paths. The Type Z organization adopts a middle-of-the-road posture, with career paths that are less specialized than the traditional U.S. model but more specialized than the traditional Japanese model.

## HOLISTIC CONCERN

The Type Z organization is characterized by concern for employees that goes beyond the workplace. This philosophy is more consistent with the Japanese model than the U.S. model.

## EVALUATION OF THEORY Z

Research into whether Theory Z organizations outperform others has yielded mixed results. Some studies suggest that Type Z organizations achieve benefits both in terms of employee satisfaction, motivation, and commitment as well as in terms of financial performance. Other studies conclude that Type Z organizations do not outperform other organizations.

Difficulties in the Japanese economy in the 1990s led some researchers to suggest that the widespread admiration of Japanese management practices in the 1970s and 1980s might have been misplaced. As a result, Theory Z has also received considerable criticism. It is unclear whether Theory Z will have a lasting impact on management practices in the U. S. and around the world into the twenty-first century, but by positioning target research at the organizational level rather than the individual level, Ouchi will surely leave his mark on management practice for years to come.

SEE ALSO: Empowerment (../Em-Exp/Empowerment.html) ; Japanese Management (../Int-Loc/Japanese-Management.html) ; Theory X and Theory Y (../Str-Ti/Theory-X-and-Theory-Y.html)