

8.32: Ouchi's Theory Z

Learning Objectives

- Differentiate between Theory X, Theory Y, Theory Z managers
- Explain the implications of Theory X, Theory Y, and Theory Z for employee management



During the 1980s, American business and industry experienced a tsunami of demand for Japanese products and imports, particularly in the automotive industry. Why were U.S. consumers clamoring for cars, televisions, stereos, and electronics from Japan? Two reasons: (1) high-quality products and (2) low prices. The Japanese had discovered something that was giving them the competitive edge. The secret to their success was not what they were producing but how they were managing their people—Japanese employees were engaged, empowered, and highly productive.

Management professor **William Ouchi** argued that Western organizations could learn from their Japanese counterparts. Although born and educated in America, Ouchi was of Japanese descent and spent a lot of time in Japan studying the country's approach to workplace teamwork and participative management. The result was Theory Z—a development beyond Theory X and Theory Y that blended the best of Eastern and Western management practices. Ouchi's theory first appeared in his 1981 book, *Theory Z: How American Management Can Meet the Japanese Challenge*. The benefits of Theory Z, Ouchi claimed, would be reduced employee turnover, increased commitment, improved morale and job satisfaction, and drastic increases in productivity.

Theory Z stresses the need to help workers become generalists, rather than specialists. It views job rotations and continual training as a means of increasing employees' knowledge of the company and its processes while building a variety of skills and abilities. Since workers are given much more time to receive training, rotate through jobs, and master the intricacies of the company's operations, promotions tend to be slower. The rationale for the drawn-out time frame is that it helps develop a more dedicated, loyal, and permanent workforce, which benefits the company; the employees, meanwhile, have the opportunity to fully develop their careers at one company. When employees rise to a higher level of management, it is expected that they will use Theory Z to "bring up," train, and develop other employees in a similar fashion.

Ouchi's Theory Z makes certain assumptions about workers. One assumption is that they seek to build cooperative and intimate working relationships with their coworkers. In other words, employees have a strong desire for affiliation. Another assumption is that workers expect reciprocity and support from the company. According to Theory Z, people want to maintain a work-life balance, and they value a working environment in which things like family, culture, and traditions are considered to be just as important as the work itself. Under Theory Z management, not only do workers have a sense of cohesion with their fellow workers, they also develop a sense of order, discipline, and a moral obligation to work hard. Finally, Theory Z assumes that given the right management support, workers can be trusted to do their jobs to their utmost ability and look after for their own and others' well-being.

Theory Z also makes assumptions about company culture. If a company wants to realize the benefits described above, it need to have the following:

- **A strong company philosophy and culture:** The company philosophy and culture need to be understood and embodied by all employees, and employees need to believe in the work they're doing.
- **Long-term staff development and employment:** The organization and management team need to have measures and programs in place to develop employees. Employment is usually long-term, and promotion is steady and measured. This leads to loyalty from team members.
- **Consensus in decisions:** Employees are encouraged and expected to take part in organizational decisions.

- **Generalist employees:** Because employees have a greater responsibility in making decisions and understand all aspects of the organization, they ought to be generalists. However, employees are still expected to have specialized career responsibilities.
- **Concern for the happiness and well-being of workers:** The organization shows sincere concern for the health and happiness of its employees and their families. It takes measures and creates programs to help foster this happiness and well-being.
- **Informal control with formalized measures:** Employees are empowered to perform tasks the way they see fit, and management is quite hands-off. However, there should be formalized measures in place to assess work quality and performance.
- **Individual responsibility:** The organization recognizes the individual contributions but always within the context of the team as a whole.

Theory Z is not the last word on management, however, as it does have its limitations. It can be difficult for organizations and employees to make life-time employment commitments. Also, participative decision-making may not always be feasible or successful due to the nature of the work or the willingness of the workers. Slow promotions, group decision-making, and life-time employment may not be a good fit with companies operating in cultural, social, and economic environments where those work practices are not the norm.

? Practice Questions

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