
Corporate Governance Reform and Industrial Democracy in Japan

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1. Introduction

One consistent theme in the debate surrounding reform of corporate governance in recent years has been how to include “voices outside the company” in corporate decision-making and monitoring mechanisms. A series of recent revisions to the commercial law has legally enhanced the roles of external auditors and directors, and companies have been quickly adjusting in response. External auditors and directors, however, are selected at meetings of general shareholders, and the “voices outside the company” are essentially the voices of shareholders and investors. Ensuring transparency in corporate management for those outside the company and safeguarding against tyrannical managers are certainly important. If the disclosure of information to shareholders and monitoring by shareholders are important, then disclosing information to employees, those most directly affected by management decisions, and ensuring that their “voices” are reflected in corporate management seem even more important. Are the “voices within the company” adequately reflected in corporate management? Are the voices of employees, whose vocational lives depend on decisions made by management, being ignored? These are crucial questions, and their relevance is becoming more acute to employees who are facing a wave of severe corporate restructuring and reorganization.

This article seeks to address the following questions: What position have employees occupied as members of corporate society? How is their position changing? What issues should labor unions raise on behalf of employees?

2. Corporate Democracy and the Position of Employees in “Corporate Society”

Community-like Characteristic of Japanese Companies

For employees, companies constitute a “corporate society” with a real substance as a social entity rather than simply being an abstract entity — such as a combine of capital as defined under the commercial law. It has been noted that modern Japanese companies, in particular large ones, possess a strong communal character, and their presence as a corporate society is widely felt. Scholars, mainly sociologists, have produced a number of empirical research studies and subsequent theories concerning this issue (Matsushima 1962, Hazama 1964, Dore 1973, and Inagami 1981, for example). From time to time, general observers outside Japan also have noted that a unique feature of Japanese corporations when compared to their counterparts internationally is that they take on communal characteristics similar to local communities as opposed to a function-specific organization. For example, OECD researchers who visited Japan in 1975 reported that the idea of a company as a community had taken root as a social norm within the companies themselves. According to their report, “Both managers and workers regard companies as the single most important social unit, that is, a community,” and “Workers are essentially seen as members of a company rather than a workforce hired for their labor” (OECD 1977). The report noted that this corporate social norm essentially constituted a de-facto fourth pillar supporting Japanese labor-management relations in addition to the “three pillars” of “lifetime employment, seniority-based wages, and enterprise unions.”

Hazama (1996: 112-113) provides general explanations for the formation of a corporate society with a strong communal characteristic in postwar Japan. First, one result of the separation of capital ownership and management caused by the dissolution of the *zaibatsu* (the great family-controlled banking and industrial combines) was that corporate management came to be conducted by employee groups headed by managers promoted from within the company. Second, decisions concerning work conditions were increasingly made within the company, and consequently managers and workers came to share common interests.

Third, labor unions, which were sanctioned after the war, carried out anti-dismissal struggles, and this resulted in the establishment of the practice of long-term employment. The number of long-term stable employees consequently increased, and this made it even easier for companies and workers to share common interests. Fourth, the social gap between managers and workers diminished as more and more managers were promoted from within and status distinctions within the companies were eliminated. Managers and workers came to share a spirit of comradeship and mutual cooperation rather than a sentiment of class antagonism.

Membership in the corporate community, however, is not necessarily open to all employees. It is essentially limited to regular employees who have entered a long-lasting “relationship with the company (*shaen*)” after going through a rite of passage called the company entrance ceremony (*nyushashiki*). Members of the corporate community are expected to make a tacit long-term commitment to their company in exchange for long-term employment and a secure livelihood. Non-regular employees employed on a short-term basis with a limited commitment to their company cannot become a member.

Despite this exclusive character, there is no social or class distinction between white-collar and blue-collar workers within the corporate community as far as regular employees are concerned. Moreover, in general, there is no significant disconnect between senior and entry level; the designations of regular employee, middle-manager, and top-manager are continuously connected by a system of in-house promotions. Most corporate executives, excluding president and chairman, are employee-executives, and they tend to display strong “employee-like” characteristics both in terms of professional duties and compensation (Inagami 2000: 42).

In many cases, presidents — who stand at the top of management—were employees before reaching their position through in-house promotions, and it has been noted that they have a firm view of themselves as leaders of employee groups. Although the material is rather dated, a 1986 survey of presidents of major corporations by the Nihon Keizai Shinbunsha¹ asked corporate presidents the following question: “From

¹ Questionnaires were sent to presidents of 163 listed companies and life insurance companies, and 113 provided effective responses (effective response rate: 69.3%).

which group of people do you find it most important to secure support?” The highest proportion (63.2%) responded employees, while corporate executives was the second most frequent answer (18.4%). The great majority of the presidents attached importance to a consensus in their company. Only 11.5 percent chose shareholders, and few chose former executives (corporate elders), important business clients, and major banks with which the company does business (Nihon Keizai Shinbunsha 1987: 95). In fact, there have been cases in which corporate presidents were forced to resign after losing support from their employees. The Mitsukoshi case of 1982 and Okuma Steel Mill case of 1988 are examples from sometime ago, and the drama of the resignation of the president of Snow Brand Milk Products Co. in 2000 in the aftermath of a scandal involving contaminated products is a more recent example.

Enterprise Unions and Corporate Democracy

The community-like characteristic of Japanese corporate society and the long-term employment system upon which it leans, and the management policy characterized as being employee-friendly did not emerge because of the compassion of managers. They are historical products of an intense battle between labor rights and management rights that was fought from the early postwar years to the end of the 1950s.

The first four years after the war was the period of joint management councils when labor rights, supported by the burgeoning radical movement, sometimes overshadowed management rights. It was not rare for joint management councils to play all three functions of collective bargaining, complaints resolution, and production committee, and the influence of labor unions on management and personnel rights was relatively far-reaching. Joint management councils aggressively pursued democratization of companies, including elimination of status distinctions, and made social structures within companies more egalitarian.

This period ended at the close of the 1940s as GHQ shifted its policies, management began to recover some of its strength, and a policy shift within the labor movement developed. The first half of the 1950s saw an intensification of the confrontation between labor and management, the latter of which insisted on the supremacy of management in decision-

making, and very large dismissal disputes frequently broke out. Even though unions were unable to claim victory in most of these disputes, management also suffered considerable losses such as damaged labor-management relations and a decline in workplace morale. Based on these experiences, management and labor gradually came to form an implicit consensus that it was beneficial, and hence rational, for both to avoid dismissals to the extent possible. Moreover, the labor-management consultation system recommended by the Japan Productivity Center when it opened in 1955 gradually spread and took root during the era of high economic growth in the 1960s, laying the foundation for today's labor-management relations based on mutual trust.

Enterprise unions developed out of this process and constituted the mechanism of corporate democracy which is embedded in corporate society. In the same way a company functions as a basic social unit, enterprise unions, which are not self-contained, isolated organizations, constitutes a basic unit of labor organization (Suzuki 2000). The system of industrial democracy in postwar Japan reached its present shape by following a peculiar trajectory: its basic units, labor unions, have been organized into federations at industry, regional, and national levels and are connected to each other through alliances, and industry-specific unions, regional organizations and national centers, each playing various roles outside the company through centralized, multi-layered networks. This shows the potential for the system of corporate democracy to develop openness toward the outside. Fulfilling this potential is what is needed at this present moment.

From the vantage point of today, the proposal for corporate democratization based on a "balance of power among capital, labor and management" by the Corporate Democratization Research Group which was created in 1947 within Keizai Doyukai (the Japan Association of Corporate Executives), was a momentous event. According to the proposal, the principle of stockholder majority rule (which accorded shareholders one vote per stock) as the highest level of corporate decision-making was to be rejected, and in its place a general council represented by capital, labor and management was to be established. Keizai Doyukai found the proposal too radical to adopt and published it only in a form of study group report. Still,

the kernel of Banjo Otsuka's proposal, the chief architect of the proposal, later became reality, that is an ideal form of corporate management in which professional managers administer companies based on the principle of separation of capital and management, (Otsuka 1947). The idea of a "balance of power among capital, labor and management" has never been translated into an institutional form, but balancing the interests of shareholders with those of employees is a major concern of managers in Japanese-style management (Aoki 1984 and The Japan Institute of Labour 2000). Therefore, it can be argued that a condition resembling a balance of power has emerged. However, this balance of power is by no means stable. As the "voices outside the company" emanating mainly from shareholders become louder, it appears that the situation is becoming more fluid, and a period of increased instability seems to be drawing near.

Companies Assign Priority to Employees

Companies have a number of stakeholder groups (interest groups) such as shareholders, creditors, customers, employees, corporate customers, *keiretsu* (affiliated) companies, local communities, and the government. What sort of priority is given to employees relative to these other groups? We can start by examining findings from recent surveys on priorities companies place on different stakeholder groups. Depending on how it is asked or to whom it is asked, this question will generate a wide range of responses. Hence, responses from members of the general public as well as responses from those representing corporate management should be examined.

The "Survey of Companies concerning Corporate Governance" conducted by Zaimu Sogo Seisaku Kenkyujo (Policy Research Institute, Ministry of Finance) in November 1999 and December 2002 presents the latest data on company priorities.² The respondents are heads of departments in charge of business administration and management. It is reasonable to assume that their opinions more or less represent a consensus

² For the 2002 survey, questionnaires were sent to 2,577 listed companies in December 2002, and effective responses were obtained from 876 (effective response rate: 34%). For the 1999 survey, questionnaires were sent to 2,486 listed companies in November 1999, and effective responses were obtained from 1,219 (effective response rate: 49.0%).

within their companies.

In the 2002 survey, the group that received the highest response rate as an important stakeholder group was “general customers” (50.0%), followed by corporate clients (44.1%), shareholders (31.3%), and employees (28.5%). Compared to the results of the 1999 survey, a marked increase was shown in two groups: general customers (12.1% points increase from 37.9% in 1999) and shareholders (5.8% points increase from 25.5% in 1999). The response for banks with which the company does business, in contrast, dropped dramatically (11.3% points decrease from 27.9% in 1999). The proportion of companies emphasizing employees remained almost flat (27.3% in 1999).

Findings from this survey suggest that an increasing number of companies are moving toward placing emphasis on general customers and shareholders. During the three years since 1999 when the first survey was taken, many general public safety and health scandals have been revealed, such as an accident at an atomic power plant, an explosion at a chemical plant, a food poisoning case, and a cover-up of automobile recalls. Companies have been forced to respond to these scandals, including devising measures to prevent recurrences, and this might explain the increased emphasis on general customers.

What priorities do members of the general public who consume products and services offered by companies and who live in local communities place on each of the stakeholder groups? In 2002, the Japan Institute for Social and Economic Affairs conducted a survey targeting those registered as members of the institute’s social survey network (“The 6th Consumer Survey on ‘Views on Corporations’”).³ To the question, “Which group should companies place the most importance on in the future?,” the overwhelming majority (91%) responded end-users, followed by employees (78.2%) and local communities (49.8%). Shareholders, a combination of individual shareholders (7.6%) and institutional investors (4.7%), received only 12.3% of the responses, lower than business users (17.4%). The majority of the respondents were workers (54.7% were

³ Questionnaires were sent to 4,987 of those registered as members of the social survey network of the Japan Institute for Social and Economic Affairs in November and December of 2002, and 3,753 gave effective responses (effective response rate: 75.3%).

employees, and 6.5% were self-employed or free-lancers), and 38.7 percent were non-workers (unemployed, housewives, students, etc.). Workers and non-workers did not differ greatly in their responses to this question. Many of the non-workers are presumed to be economically dependent on their spouses or parents, and hence share common interests with employees.

It is probably natural for consumers to emphasize the importance of end-users. This parallels the tendency of corporate management to emphasize general customers. The only difference between corporate management and consumers was how they viewed shareholders and employees. Stock investments still occupy a very small place in Japanese family financial assets,⁴ and the majority of consumers do not have any direct stake in the stock market. For them, stable employment is a much more immediate concern. This is probably why they choose the idea that companies should place priority on employees over shareholders. It is reasonable to regard the views of consumers as a reflection of two of their interests —as workers employed by companies and as consumers who have a family and live in local communities. Employees have the potential to bring into companies the perspective of society at large, which places consideration on end-users and local communities.

3 ‘Corporate Society’ Besieged amidst Corporate Restructuring

Restructuring, Corporate Reorganization and Changes in Work and the Workplace

The 1990s is often succinctly referred to as “The Lost Decade.” In terms of business cycle, however, the decade can be divided into three periods: the slump in the first half of the decade (1992-1994), recovery in 1995-1996, and the slump in the second half (the second quarter of 1997-1999). The second slump, triggered by the Hashimoto Cabinet’s policy failure accompanied by the outbreak of the financial crisis in the fall of 1997 and the escalation of deflation, was far more serious than the one in

⁴ According to the Statistics Bureau, the Ministry of Internal Affairs and Communications, *Family Income and Expenditure: Savings and Liabilities 2002*, the proportion of securities in the current savings balance per household is 7.5%.

the first half of the decade. As the business environment continued to deteriorate, large companies that once had been regarded absolutely secure went bankrupt, and drastic employment adjustment measures, such as workforce reductions through voluntary retirement and dismissals, were implemented at a growing number of workplaces. At the same time, major corporate reorganizations including integrations and the closure of businesses and company divisions and the transfers of business occurred.

Corporate reorganization is not a new phenomenon. The repeated changes in the industrial structure in postwar Japan amount to — at least in respect to the corporate side of the story — a history of corporate reorganization. However, the corporate reorganization that is currently unfolding is quite different in that it is taking place in the context of efforts to adapt to a “difficult time,” an unprecedented period of external challenges as international competition intensifies and the contraction of the domestic market amidst prolonged economic stagnation.

In particular, the current corporate reorganization is affecting employment not due to readjustment resulting from business expansion but rather as a minus-sum game of business contraction. A survey by RENGO-RIALS (RENGO Research Institute for Advancement of Living Standard) asked RENGO-affiliated branch leaders at the workplace level about recent changes in their workplace and work.⁵ The results present a picture in which employee morale is increasingly deteriorating: workplaces are undermanned, and work is becoming more grueling; workers’ satisfaction with wages and promotions is diminishing while their trust in their companies is on the decline (RENGO-RIALS 2003a).

In the survey, union branch leaders were asked for their views on changes taking place in the type of work employees were performing and how their company treated them and the attitude of union members. In respect to changes in work, a high proportion of the respondents selected “I agree” for the following statements: the amount of the work is increasing (94.6%), the scope of the work has expanded (92.6%), better

⁵ The “Questionnaire on Changes in Corporate Organizations and Workplaces”: For the survey of union chapter officers, questionnaires were sent to 900 union officers at the workplace level via Rengo-affiliated industry-specific unions in October and November 2002, and 498 returned effective responses (effective response rate: 55.3%).

quality is being demanded (80.6%), assignments involving joint projects with other divisions are increasing (60.6%), additional knowledge and skills are required to handle the work (90.3%), professional responsibility is increasing (88.7%), and work is more severely monitored and controlled (85.2%). The overall picture is that work is becoming more challenging and stressful.

Concerning changes in treatment, a high proportion of the respondents chose “I agree” for work performance is being emphasized more in determining wages (74.6%), wage gaps are developing among employees with similar educational back grounds and service lengths (66.1%), and employees are promoted to a given position at increasingly different ages (75.5%).

Concerning employee perceptions, a large proportion of the union branch leaders felt that dissatisfaction concerning employment is increasing (73.8%). Between 70 to 80 percent disagreed that satisfaction with wages is increasing, satisfaction with promotions is increasing, trust in companies is increasing, professional morale is increasing, and personnel evaluations are receiving wider acceptance. Trust in companies, acceptance of personal evaluations, professional morale, satisfaction with wages and promotions are showing a downward trend in the workplace today.

Some surveys have already noted that the level of employee trust in their company has been wavering amidst corporate restructuring caused by the Heisei recession (for example, Kuwahara and RENGO-RIALS eds. 1997), and this tendency appears to be becoming even more salient. According to the “Survey on Corporate Employee Benefits/Welfare Systems” conducted by the Japan Institute of Life Insurance in 2002, one out of every four employees responded that he/she was “unable to trust the company.” Particularly at companies with 300 or more employees implementing a wide range of personnel cost reduction measures covering employment, wages, retirement allowances and employee benefits and welfare, unable to trust (30.5%) overwhelmed able to trust (28.6%) (The Japan Institute of Life Insurance 2003). The decline of trust in leading and large companies, which have been providing relatively “good employment opportunities” and hence contributing to the formation of the social norm

of mutual trust between companies and employees, can be seen as a symbol of the upheaval of Japanese “corporate society.”

4. Management Crisis and the “Voice” of Labor Unions

Worker Participation in the 1990s

How have labor unions, which represent employee interests, responded to the escalation of the crisis in “corporate society?” Let us examine the findings of the “Survey on Worker Participation in the 1990s” conducted by RENGO-RIALS which investigated the extent to which labor unions participated in corporate management and had a say in management crises.⁶

Firstly, when looking at the current situation of labor union participation in management via labor-management consultations, it appears that a framework for frequent labor-management exchange and labor-management relations based on mutual trust, which became entrenched after the 1970s, is still basically maintained.

As for labor-management discussions, over 80 percent of the unions responded that they had a standing labor-management consultation system to discuss management policy and managerial measures in which 80 to 90 percent of important management-related issues, including those involving corporate strategy, were discussed. More than half of the unions responded that they were actively involved in presenting opinions and responses on occasion, presenting opinions and having company plans revised on occasion, and being consulted on implementation for matters such as management policy, production plans, personnel plans, business operation plans, change in the corporate organizational structure, and contraction, closure, and initiation of businesses. Only a few responded that they were passively involved by being informed by companies about decisions either in advance or after the fact. On the other hand, the majority of unions responded that budgetary plans, finance plans, investment plans, sales plans and introduction of new technologies, were not items for discussion or that the unions were just informed either in advance or after the fact.

⁶ Questionnaires were sent to 1,196 large and mid-size unions via RENGO-affiliated industry-specific unions in the private sector during December 1999 and January 2000, and 639 returned effective responses (effective response rate: 53.4%).

What is noteworthy is that many unions are active in expressing their opinions not only concerning matters directly related to employment but also management policy and business plans based on it.

Labor-management consultation meetings took place rather frequently (7.3 times a year on average), and corporate officers in charge of labor matters attended every meeting at most companies. Officers in charge of accounting and finance at three-quarters of the companies and presidents at a little over one-half attended almost every meeting. Clearly, the labor-management consultation system is regarded as the formal mechanism for important discussions between labor and management at many companies. Outside of this formal mechanism, there are also frequent informal working-level exchanges of information between labor and management, with 34 percent of the unions answering that they hold such exchanges frequently, and 38.7 percent said that they hold such exchanges sometimes. Over 70 percent of the unions maintained such exchanges frequently. The frequency of exchange between a given union and management is related to the union's ability to voice its opinions vis-à-vis management. When we divide the unions into three categories according to their ability to voice their opinions (high, medium and low) at labor-management consultation meetings, we find that the proportion of those holding working-level labor-management exchanges frequently is larger for the unions with more power to voice opinions than those with fewer exchanges. Moreover, unions without a labor-management consultation system held informal information exchanges even less frequently than those in the low category.

As revealed by a survey conducted by Labor Research Center in the early 1990s, since the second half of the 1970s a wide variety of activities, in addition to frequent working-level exchanges, have been instituted as ways for workers to regularly participate in management (Inagami ed. 1995). Using the same question employed in this survey, the 2001 survey by RENGO-RIALS asked what enterprise unions were doing to participate in management. The largest proportion of respondents answered yes to the statement, "Top union leaders receive disclosure of classified information concerning management" (63.2%), followed by "We have an effective say in management strategy" (50.1%) and "We hold regular informal meetings at the top level" (44.6%). About 40 percent answered in the affirmative to

“We essentially represent opinions of middle-managers” and “Union members can own company stock.” The proportion of those who answered “yes” to the statement “We have regular informal meetings at the top level” was 20 percentage points lower than in the Labor Research Center survey (64.0%), but the two surveys otherwise produced nearly identical results. Looking at the relationship between participating in management and ability to voice opinions, we find that unions with a greater ability to voice opinions tended to answer “yes” for all of the activities listed in the question. In particular, nearly all unions in the “high” category responded affirmatively to “Top union leaders receive disclosure of classified information concerning management” (81.3%), “We have an effective say concerning management strategy” (72.3%) and “Unions make proposals concerning management” (80.1%). Unions with no labor-management consultation system answered in the affirmative fewer times than those in the “low” category. Unions with no labor-management consultation system do not actively participate in management.

From the results mentioned above, it becomes clear that there exists a mutually complementary relationship among the institutionalization of a labor-management consultation system, the ability of unions to speak out actively in the system, and regular exchanges of information and avenues to participate in management. It is important to note that the degree to which unions are seen as critical partners of management is linked to the trust given to them by management, demonstrated through disclosure of classified information.

Corporate Rebuilding/Personnel Rationalization Plans and the “Voice” of Labor Unions

The above survey on “Worker Participation in the 1990s” by RENGO-RIALS was conducted when the Japanese economy was bouncing back — after bottoming out in January in 1999 — from a serious recession, which had generated a minus growth in FY1998. It was a short period of recovery. However, few could sense that a recovery was actually taking place, and drastic employment adjustment measures were still being implemented at many companies. Nearly three-quarters of the unions were presented with corporate rebuilding and personnel rationalization

proposals of one sort by management during the five years before the survey (FY1994-1998). Almost all unions (over 90%) representing workers at companies whose balance had been in the red for more than two years during that five-year period responded that they had been approached with restructuring plans. Moreover, even at companies with no deficit, over 60 percent of the unions were approached with some sort of restructuring plans. It is apparent that corporate restructuring affected nearly all of the unions responding to the survey.

The proposed corporate restructuring and personnel rationalization plans included a wide range of specific measures. The most frequently cited in the survey was curb on new hiring (64.7%), followed by permanent and temporary transfers (52.7%) and closure and incorporation of business establishments and stores (48.4%). Other relatively common measures were the introduction of new personnel policies such as performance-based wages (45.2%), curb on wage increases (41.8%), reassignment (41.5%), and curb on overtime (41.5%). Employment adjustment measures traditionally used to avoid dismissals were relatively predominant. However, it is important to note that one-third of the companies proposed voluntary retirement (33.8%) even though dismissals was cited by few unions (1.5%). In particular, voluntary retirement was proposed at nearly 60 percent of the companies running a deficit for over two periods. Wage cuts were not very prevalent (10.5%), but the proportion of companies that proposed reductions in lump sum payments was considerable (31.3%). Nearly one-half of the companies proposed closures and mergers of business establishments as a part of their corporate rebuilding plans through selection and concentration. Similarly, one-fourth proposed corporate splits (25.9%).

As described above, management pushed very harsh restructuring plans. How did labor unions respond? Almost all answered that they entered into discussions and negotiations with management before the plans were implemented (91.6%). Nearly 80 percent drafted their own plan in response to management's, and close to two-thirds said that to some extent their plans were adopted with 14.5 percent being received by management while 50.3 percent were received with some modifications. Moreover, over two-thirds managed to revise management's plans (8.8%

saw their proposals result in a major revision and 59.3% in a partial revision). Unions with greater ability to voice opinions occupied a large proportion of those unions which drafted their own plans, succeeded in having their plans accepted by management, and succeeded in revising management plans. Nearly 60 percent of the unions (59.7%) evaluated the results of their negotiations with management as being successful in protecting work conditions and employment.

Naturally, these evaluations will be criticized as merely self-indulgent, as the union officials were evaluating their own work, and. Therefore it is also necessary to objectively evaluate the union proposed revisions. These are issues that need to be addressed in the future. However, one thing is certain — enterprise unions did actively try to make their “voices” heard and get involved in the decision-making process during the period of drastic corporate restructuring in the second half of the 1990s.

5. Reform Agendas toward Regeneration and Development of Industrial Democracy

Self-reforming Enterprise Unions and Developing a Basic Framework for Labor Participation in Management

Japan’s industrial democracy now stands at a crossroads. The estimated unionization rate in 2002 was 20.2 percent, with the rate in the private sector already dipping below the 20 percent line (17.5%). In terms of actual numbers, union membership fell below 11 million standing at 10,801,000, that is 412,000 fewer than in 2001 (Ministry of Health, Labour and Welfare, *Rodo Kumiai Kiso Chosa* [Basic Survey on Labour Unions], 2002). The rate of establishment of a labor-management consultation system, the main mechanism supporting employee participation in management in Japan, in businesses with a union has remained in the 80 percent range, but the overall rate has been on a downward trajectory because the rate of establishment of a labor-management consultation system for businesses without a union is dropping.⁷ Democracy in “corporate society” is currently facing a crisis. In the end, the crisis can be

⁷ According to the Ministry of Health, Labour, and Welfare’s “Roshi Komyunikeshon Chosa” (Survey on Labour-Management Communication), the rate of establishment of a labor management-

overcome only if labor unions, which created the system of corporate democracy that exists today, take initiatives on their own.

There are some major issues that must be considered when discussing the self-reform of enterprise unions (Suzuki 2000). First, before being able to increase their influence in managerial decision-making policies, unions must reinforce their strength, policy and action to force management to recognize their presence as a partner in an effort to create a management structure based on discussion and consensus. Second, in light of the increase of non-regular employees, such as part-time and dispatched workers, it is necessary for unions to work even harder to ensure they receive fair treatment in corporate society while actively working to unionize them. Third, it is necessary to consider a mechanism in which the interests of middle managers will also be heard. Developing a mechanism which includes the “voice” of middle-managers, who play important roles in the consensus formation at companies, has a strategic importance as well. Fourth, it is necessary to strengthen efforts such as negotiations and consultations at the corporate group-level in light of corporate group management through corporate splits and creations of subsidiaries and shift to management based on consolidated account statements. Fifth, it is necessary to develop a more robust response to corporate reorganizations, such as creating holding companies and corporate mergers, while beginning to establish new rules on labor-managerial relations.

However, there is a limit to how much individual enterprise unions can do. The “voices within the company” in “corporate society” must be translated into the “voices of society.” This is why RENGU and its

consultation system in businesses with 50 or more employees was 58.1% in 1989, 55.7% in 1994, and 51.0% in 1999. Comparing the rate of establishment between businesses with a union and those without a union (both businesses with 50 or more employees), the rate for businesses with a union was 77.8% in 1989 and 80.7% in 1994; the rate for businesses without a union was 38.7% in 1989 and 31.6% in 1994. The 1999 survey expanded its target to include businesses with more than 30 employees, and it presents only the overall rate of establishment in respect to those businesses with 50 or more employees. Therefore, it is impossible to chronologically compare changes in the rate of establishment for businesses with a union and those without a union from 1989 to 1999. However, the rate of establishment for businesses with a union in 1999 had increased since 1994 (84.8%), and therefore, the decrease in the overall rate can be presumed to be a result of a drop in the rate for businesses without a union. The rate of establishment for businesses with 30 or more employees without a union was merely 17.1%.

affiliated industry-specific unions are dedicated to developing of a basic institutional framework in which the voices of employees can be represented in management decision-making.

During the debate over the series of bills concerning corporate restructuring and revisions to the commercial law, RENGO called for establishing the right of employees to access information, be consulted, and participate in decision-making, and engaged in forming public opinion and parliamentary lobbying. In respect to corporate governance reform, RENGO has been stressing that in order to develop healthy industrial and corporate structures it is important to establish a system to air the opinions of workers. RENGO proposes that representatives of labor unions or employees be included as members of corporate auditing committees (RENGO 2003). It has also been advocating the creation of legislation concerning labor-management consultation and drafted the “Summary Outline of the Worker Representation Bill (Draft)” (RENGO 2001). The draft bill proposes instituting a “majority representation system” in which a “labor union to which the majority of workers at a workplace belong or a person representing the majority of workers at a workplace” is designated to conclude labor-management agreements and conduct consultations and exchange of opinions with management. The bill also contains a proposal for a “Japanese-style employee representation system” in which enterprise unions and employee representation systems function in a mutually complementary fashion.

Possibilities for Reforming ‘Corporate Society’

To realize the demands of RENGO as outlined above, labor unions must go back to the basics and must on their own make an effort to change the status quo. Even if a new law is created, it will not function unless unions actually try. In fact, there are some clues indicating how labor unions might be able to play an active role in the reform of “corporate society” responding employees’ opinions. This article concludes with a discussion of three examples as it is important, I believe, to recognize that possible seeds for future reform are emerging in the midst of the challenging reality.

The first example relates to how labor unions might participate in creating mechanisms concerning corporate social responsibility inside

companies. Opening the system of corporate democracy based enterprise unions to elements outside the company has been an important outstanding agenda item in the self-reform of enterprise unions. An exclusive and self-contained community cannot be accepted by society without making changes. In fact, the lack of safeguarding mechanisms to protect against management abuse within companies has been identified as a major problem in the series of corporate scandals in recent years. According to a recent survey of how union members view antisocial behavior and accounting rule violations committed by companies,⁸ most union members (69.8%) found antisocial behavior unacceptable, and only a small minority (10.9%) responded that they sympathize because these were done to protect the interests of the company. When asked how they would respond if they discovered their company was committing antisocial acts or accounting rule violations, the greatest percentage answered they would make an effort inside the company to stop the unethical behavior (43.8%), a substantial percentage (31.5%) answered they would consult with a labor union, while only a few (7.4%) said they would ignore what was going on. The results must be viewed with a grain of salt as the survey contains a bias; the respondents, who were union members approached via labor unions, might not have revealed their true sentiments. Still, it is difficult to deny the existence of union members who are deeply concerned about the social responsibility of companies and hope to see labor unions become actively involved in this issue. Several unions — such as the Japan Council of Metal Workers' Unions, the Japanese Federation of Textile, Chemical, Food, Commercial, Service, and the General Workers' Unions — have established a policy demanding that companies be socially responsible and have begun to take action. Enterprise unions also are getting involved in creating organizations related to corporate social responsibility or are participating in corporate compliance committees (IMF-JC 2003). Employees are always in the frontline and watch what is happening at the

⁸ Gendai Sogo Kenkyu Shudan and The Ohara Institute for Social Research, "21 Seiki 'Rodo Kumiai ni Mirai wa Aruka' Anketo Chosa" (Twentieth-first Century Survey: Do Labor Unions Have A Future?). Surveys were sent to 2,200 union members via 14 industry-specific unions affiliated with Gendai Sogo Kenkyu Shudan in November-December, 2002, and effective responses were obtained from 1,265 (effective response rate: 57.5%); the report of the survey was published by the Ohara Institute for Social Research in 2003.

low end of the corporate structure; they have the ability to speak out against management's claims because they know what is actually going on in their company. This is why some managers might be hesitant to allow workers to participate in corporate management. By actively making their "voices" heard and representing the voice of employees who demand realization of social justice within their company, labor unions will be able to not only advance corporate reform but also establish their presence as a social force.

The second example concerns responding to the issue of equal treatment for non-regular employees, now constituting over 30 percent of the workforce. The postwar labor union movement started with the demand, "Accept us as full members of corporate society," and now it is probably non-regular employees who hold this demand more ardently than any other groups. Translating their demand is of course a duty of labor unions. In addition, history shows that such an act will greatly strengthen labor unions. The unionization rate of part-time workers was a mere 2.7 percent as of 2002, but both the unionization rate and numbers of non-regular employees who are union members are gradually increasing while overall union membership has been dramatically declining. According to an estimate by RENGO, during the two-year period between October 2001 and September 2003, the member of industry-specific unions affiliated with RENGO increased about 260,000, and one-third of the increase was attributed to newly unionized part-time workers. It is important to step up efforts to unionize non-regular workers. Moreover, unions are making an effort, albeit slowly, to consult with companies over wage and personnel systems for non-regular employees. According to one study, at companies where such consultations do take place, management tends to make an effort to achieve balanced treatment between regular and part-time employees more so than at companies where unions do not take any action or are merely informed about company decisions (RENGO-RIALS 2003b). Labor unions should strive to collectively represent the views concerning equity of all employees, including non-regular employees. This will lead to an expansion and enhancement of the network of solidarity.

The third example concerns workers' views on labor unions, and here can be seen the possibility that labor unions might be able to increase their

influence. Many workers expect labor unions to play meaningful social roles, and a substantial portion are ready to respond to a call to join a union.

RENGO-RIALS sponsored a survey in 2003 entitled “Survey on Labor Unions”⁹ which asked workers, including non-union members, residing in metropolitan Tokyo, greater Kansai, and government ordinance cities about their image of labor unions and expectations concerning their roles. More than 20 percent (21.6%) responded that labor unions are absolutely necessary while 49.7 percent said that unions are somewhat necessary, i.e. more than 70 percent believe that labor unions are necessary.

Moreover, many workers hope that the presence of labor unions will help improve rights, work conditions, and the welfare of workers. In terms of the benefits to society as a whole, they cite protection of workers’ rights (73.8%), improvement of work conditions (50.1%), more gender equity over employment opportunities (24.4%), and closing the gaps in work conditions among different industries and companies (20.4%). Improvement in employee benefits, the welfare system and the work environment (53.6%), inclusion of employee opinions in corporate management (48.8%), reduction of unfair personnel evaluations (24.3%), curb on personnel reductions (23.1%), more gender equity over employment opportunities (20.9%) and maintenance of corporate ethics (15.2%) were noted as benefits for unionized workers.

Clearly, many workers see labor unions as a necessity. They believe that labor unions can bring many positive benefits and expect labor unions to engage in many activities. Moreover, 13.2 percent of non-unionized workers are willing to join labor unions (would like to join at 3.2% and would consider joining at 10.2%). Examined by employment type, 13.4 percent of regular employees and over 20 percent (22.4%) of contract and dispatched workers are willing to join. About 10 percent (9.7%) of part-time and casual workers also are willing to join. Significantly, nearly one-third of those who believe labor unions are absolutely necessary want to join a union.

⁹ In April, 2003, Questionnaires were sent to 2,000 workers at private companies residing in the Tokyo Metropolitan area and Government Ordinance Cities across Japan, and 1,693 effective responses were obtained (effective response rate 84.7%).

Perhaps, these three examples only amount to a very modest first step and a potential that is only latent. However, only by taking the first small step forward and fulfilling such latent potential will unions be able to change the status quo. What is demanded from labor unions now is a leadership that seeks out an opportunity for future development in the midst of a crisis. That opportunity is manifesting itself; it can be found in the desire for security and stability of vocational life amidst the upheaval that exists in corporate society.

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