

# *Japan* **Labor Review**

**Volume 4, Number 1, Winter 2007**

**Special Edition**

## **Labor Unions in Japan Today and Challenges in Labor Relations**

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NEXT ISSUE (Spring 2007)

The Spring 2007 issue of the Review will be a special edition devoted to **Future of the  
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## Introduction

### **Labor Unions in Japan Today and Challenges in Labor Relations**

Labor unions in Japan have shown an overall decline. The unionization rate has continuously fallen for 30 years since 1975, reaching 18.7 percent in 2005. A characteristic of Japanese labor unions is that they are organized for each corporation. After Japan lost the war in 1945, the Allied Forces promoted the introduction of labor unions to Japan as part of the democratization effort. As a result, corporate labor unions sprouted. Presently, 90 percent or more of approximately 10 million union members belong to corporate unions. Although the unionization rate has been decreasing for 30 years, the number of union members had been increasing until 1994, and then it began to decline from 1995. As one can see, not only the unionization rate, but also the number of members has dropped notably.

The purpose of this issue of the Japan Labor Review is to examine the role of labor unions in Japanese corporations and to identify the function of labor unions in the future. These five reports discuss the challenges which labor unions are facing, their solutions, and how to re-invigorate labor unions in future.

### **Report by Nakamura: Identifying Issues of Labor Unions in Japan and Examining the Possibility of a Solution**

Nakamura discusses how Japanese labor unions have lost their influence in society and corporations by using statistical data and existing studies; he also examines the possibility of the revival of labor unions. The author points out a decrease in the absolute number of union members and in the voice of labor unions in government decision-making process on policies, and the collapse of *Shunto* (the annual spring labor offensive) which is used to set the wage market. He then asserts that Japanese labor unions are on the decline. There is, though, still the possibility of the revival of unions and the author examines this possibility using a survey conducted by the Research Institute for the Advancement of Living Standards.

Out of non-unionized workers in the survey, 67.9 percent believed that

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unions are important, which is twice as many as those who responded that labor unions are not necessary (32.1 percent). When the former group was asked if they want to join a union, 14.1 percent responded yes, and 18.4 percent said they might join if they were asked to do so. This totals only 32.5 percent. In short, many non-unionized workers feel close to labor unions, but the number of people who want to join unions and actively participate in them remains small.

Nakamura contends that existing labor unions need to improve their system of unionization. The main target of unionization is the older generation, employees for middle and larger size corporations, workers who have a strong understanding of workers' rights, and those who work in a low and unstable labor conditions. Nakamura's report gives direction for labor unions in Japan.

### **Report by Noda: Long-term Recessions Clarify Effect of Labor Unions**

This report examines the effect of Japanese labor unions regarding wage and employment adjustments. Much research conducted in the 1990s was questionable regarding the effect of labor unions on wage increases. However, after Noda analyzed the survey results by the Research Institute for Advancement of Living Standards, it became clear that unlike the 1990s unions are effective in increasing the wages for men. From the mid-1990s to 2003, business conditions for Japanese corporations worsened, causing many to reduce labor conditions. The author points out that unions resisted these cuts and the effect presumably influenced the above results.

Furthermore, by analyzing employment adjustments, Noda discovered a gap in the adjustment speed between corporations with unions and those without unions and that the gap has widened following the financial crisis in 1997. Since the gap in middle size corporations is remarkable, the author concluded that the effect of unions on providing job security is particularly strong when employment conditions worsen.

Noda also points out that comparing the effect of labor unions using simple indicators cause issues. For example, to examine their influence on employment adjustments, one must consider how much they achieved to understand member satisfaction and understanding, such as conditions of voluntary retirement and re-employment support. It is not sufficient to evaluate the effect only by the

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speed of their adjustment. It is important to note the author's point that this should be looked at from multiple perspectives.

### **Report by Honda: The Effect and Importance of Unionizing Part-time Workers**

In order to vitalize labor unions, what we need to tackle immediately is the unionization of part-time workers. Existing studies suggest that the reasons why unionization of part-time workers is delayed are: (a) difficulties in adjusting interests between regular workers and part-time workers; (b) corporate resistance against unionization; (c) part-time workers' reluctance toward union activities; and (d) lack of effort in providing information and promoting interests. Honda examines these points by using survey results from the JILPT. He discovered that unionizing part-time workers is difficult not because of corporate opposition or resistance, but because unions do not side with part-time workers. The author points out that difficulties in adjusting the interests of regular workers and part-time workers prevent unionization.

Honda also suggests that the effect of unionization of part-time workers would be: (a) negotiation ability for the employee becomes stronger; (b) improved relationships between regular and part-time workers; (c) improvement of labor conditions of part-time workers; and (d) development of a wage system for part time workers. The author learned that these effects are more remarkable when the responsibilities of part-time workers become closer to those of full-time workers. His paper is most appropriate for understanding the issues and effects of unionization of part-time workers in Japan.

### **Report by Fujimura: Labor and Management Communication in Japanese Corporations Seem Good, but Issues Remain**

Fujimura discusses how labor and management communication is conducted in Japanese corporations and identifies related issues using the results of the "Survey on Labour-management Communications" conducted by the Ministry of Health, Labour and Welfare. The issues are: (a) there is a gap between corporations and their employees regarding the perception of communications in the office; (b) the number of group communication methods such as informal

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gatherings the at the workplace and labor management negotiation systems have decreased, while the number of individual methods such as employee surveys or self-reports have increased; and (c) the presence of labor unions is less visible in communications between labor unions and management.

Communication between labor and management in Japanese corporations seems to be good at present. It is doubtful, though, if management understands the reality of workers. The author introduces two examples of how labor unions play a significant role in communicating with management and he contends that the revival of labor unions is important for closer communication between labor and management. For labor unions to gain power, not only efforts by the unions are needed, but organizations and people related to the unions should also cooperate. Labor unions in Japan are established on corporate-based unions. The author points out that if top-level people are included in the corporate union, and if they take a stand against management in regards to the company's mid-to long-term vision, it will lead to the stronger competitiveness of Japanese corporations and the healthier development of Japanese society.

### **Report by Mabuchi: Labor Unions Must Engage in Activities that Enlighten Workers on the Effect of Labor Unions**

Mabuchi's report introduces how Japanese have become dissociated from labor unions and examines the reasons why. First, it discusses how Japanese have become reluctant to participate in labor unions and examines the reasons. The most important reason is that their opinions of labor unions has fallen in regards to union effectiveness, reliability, presence, and necessity. As a result, many Japanese feel unions do not provide what workers need and therefore they are no longer necessary. On the other hand, research on the effect of labor unions shows that unions are, in fact, effective. The author concludes that Japanese labor unions should re-examine the current contents and methods of education and public relations with workers and strive to make it easier for workers to understand that unions are helpful in maintaining and improving worker employment and daily life, and therefore that they are necessary.

The author further discusses that Japanese labor unions should not consider the solution for union detachment to be the revival of a pseudo-community by

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forming closer relationships between workers or union members. Instead, they must make workers and union members feel that they have mutual interests and that labor unions are reliable, useful mediums for protecting workers' rights and for pursuing their interests. The author's point is significant when considering the future of labor unions in Japan.

**Hiroyuki Fujimura**

Professor, Hosei University

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# Decline or Revival?: Japanese Labor Unions<sup>1</sup>

*Keisuke Nakamura*

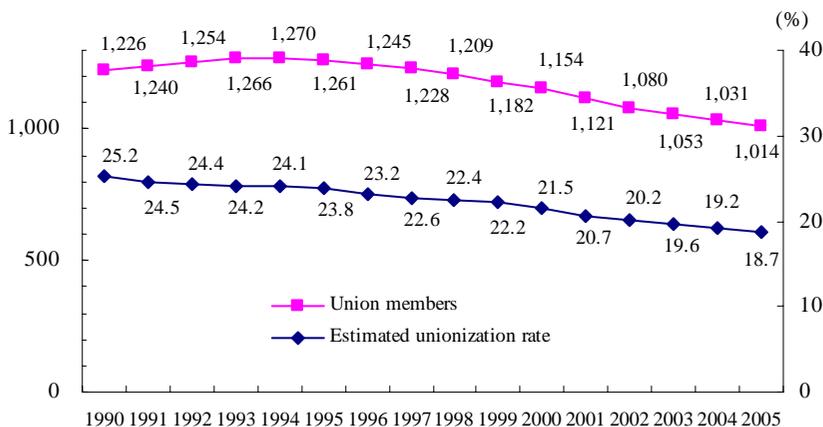
*Professor, Dr., Institute of Social Science, University of Tokyo*

## 1. Signs of Decline

Since the 1990s, there have been signs indicating that Japanese labor unions are on the decline.

First, the number of union members has been showing an absolute decline since 1994 as indicated in Figure 1. It is widely known that the unionization rate has been declining: the rate, which had been 34.3% in 1975, dropped to 18.7% in 2005. However, the following facts are not as widely known. The number of union members has been decreasing after reaching the postwar peak of 12.7 million in 1994. In 2005, the figure dropped to 10.14 million. This means that the number of union members has been declining at the average

**Figure 1. Number of union members and unionization rate**



**Sources:** Ministry of Labour/Ministry of Health, Labour, and Welfare, *Rodo Kumiai Kiso Chosa Hokoku* [Basic Survey on Labor Unions] (the 1993 and 2005 versions). The number of union members is calculated on the basis of single union membership per person (numbers were rounded off to the nearest thousand). The estimated unionization rate is calculated by dividing the number of union members by the number of employees as of June in a given year as indicated in *Rodoryoku Chosa* [Labor Force Survey].

<sup>1</sup> For a more detailed analysis, see Nakamura and Rengo Sogo Seikatsu Kaihatsu Kenkyujo, ed. (2005) which this essay is based on.

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rate of just over 2% each year. Japanese unions have been shrinking since the mid-1990s.

Second, labor unions no longer appear to play a significant role in reducing the turnover rate according to a study which has used data from the mid-1990s (Tsuru 2002, 200-201). In other words, the function of labor unions as the representative of worker interest has been weakened. The role of labor unions has traditionally been understood in the following fashion. Unions can transmit grievances and demands at the workplace level to management. When workers become dissatisfied with their work conditions, the manner in which work is done, management policy, or management style, they can communicate their discontent to their companies via unions without having to leave their jobs. The presence of unions thus leads to a low turnover rate which in turn reduces various costs (Freeman and Medoff 1984). Several studies on the effects of Japanese labor unions also have supported such interpretation (Muramatsu 1984; Nakamura, Sato, and Kamiya 1988, 47-69; Tachibanaki and Rengo Sogo Seikatsu Kaihatsu Kenkyujo 1993, 173-93). However, Tsuru (2002), in a study of effects of unions in 1995, rejects the notion that unions reduce the turnover rate. Since the study examines the time in which Japan was in the middle of the Heisei recession, one could argue that this was a temporary phenomenon. But there is no guarantee that this was indeed the case.

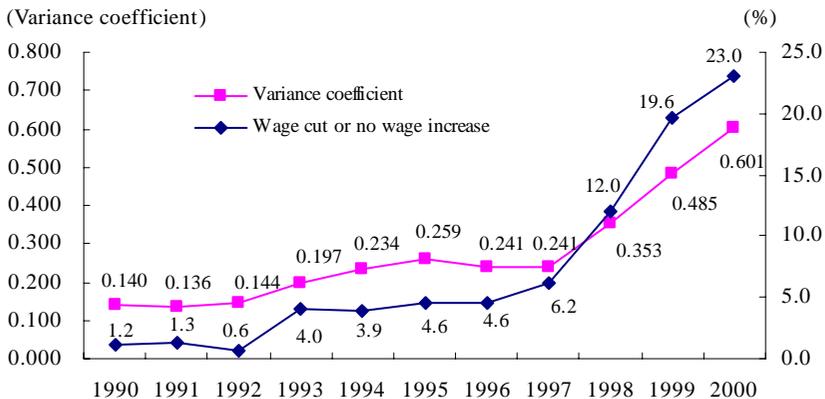
Third, *Shunto*, or the annual spring labor offensive, has collapsed. Wage effects of unions in Japan have never been clearly demonstrated even in studies based on data from the 1980s (Nakamura, Sato, and Kamiya 1988, 29-30; Tachibanaki and Rengo Sogo Seikatsu Kaihatsu Kenkyujo 1993, 195-207). A study based on data from 1992, the time when the Heisei recession began to fully start, has not demonstrated wage effects of unions either (Tsuru 2002, 94-101). However, I did not view this as a problem. There were two reasons for this. First, it is only in the United States where the wage effects of unions become clearly visible. In other nations such as Britain, (West) Germany, Austria, Australia, and Switzerland, unions do not display dramatic wage effects (Blanchflower and Freeman 1992), and Japan is no exception. Second, I attributed the invisibility of wage effects of Japanese unions to *Shunto*'s success. In *Shunto*, unions won wage increases by negotiating with companies. The media would report the results of the negotiations, and socially acceptable de facto wage standards (*seken soba*) would be established. Managers of nonunion companies felt compelled to at least meet such standards. As a

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result, wages of nonunion workers also increased. This was a process where unions alone worked hard while nonunion workers enjoyed the fruits of the unions' labor for free. One can describe *Shunto* as a socially enforced wage-hike mechanism.

However, *Shunto* collapsed in the late 1990s. Figure 2 shows changes in the variance coefficient of average wage increase rates and the proportion of companies with no wage increase (including those which gave wage cuts) between 1990 and 2000. In this figure, the variance coefficient shows how variant wage increase rates are. When the variance coefficient goes up, the variance of wage increase rates also increases. *Shunto* was in essence a collective effort to establish socially acceptable wage standards. Thus, it should have functioned to limit the variance of wage increase rates and lower the variance

**Figure 2. Variance of wage increase rates and proportion of companies without wage increases**



**Sources:** Ministry of Labour, *Shiryō Chin Age no Jittai* [Survey on Wage Increase] (1991-2000) and Ministry of Health, Labour, and Welfare, *Shiryō Chin Age no Jittai* [Survey on Wage Increase] (2001). The variance coefficient here is a quartile variance coefficient which is calculated in the following manner. First, average wage increase rates of companies are grouped into the upper quartile (A), the lower quartile (B), and the median (C). The variance coefficient is computed by the formula  $(A-B)/2C$ . The variance coefficient increases as the difference between A and B widens. “Wage cut or no wage increase” indicates the proportion of companies with wage increases of 0 yen or less. In 1998, the scope of the survey was expanded to include more companies in the service sector. However, data for the same group of companies surveyed in the pre-1998 surveys are used with respect to both the variance coefficient and “wage cut or no wage increase.”

coefficient. Figure 2 clearly demonstrates how *Shunto* has ceased to function as a socially enforced wage-hike mechanism particularly after 1998. The variance coefficient rapidly began to increase after 1998, and the number of companies refusing to give wage increase also began to skyrocket. According to the surveys used for creating Figure 2, the proportion of companies without wage increases was 24.4% in 2001, and the figure rose to 36.1% in 2002.

*Shunto* has collapsed, and the notion of socially acceptable wage standards has disappeared. For this reason, studies on the wage effects of unions began to appear after around 2000 (Hara 2003; Noda 2005).

The absolute decline in the number of union members, the diminished role of unions as the representative of worker interest, and the collapse of *Shunto* are all indications that Japanese unions have begun to decline. However, these are not the only challenges that confront Japanese unions.

## **2. A Formidable Barrier: Policy Participation**

Expanding labor's political participation was one of the goals in the founding of Rengo (the Japanese Trade Union Confederation), the biggest national center of Japanese unions. To paraphrase Omi (1994, 316), the "founding of Minkan Rengo (the Japan Private Sector Trade Union Confederation) in 1987 and Rengo two years later as the entity unifying government and private-sector unions brought to fruition the long-standing campaign for increased policy participation continuing from the Policy Promotion Council and Zenmin Rokyo (the Japanese Private Sector Trade Union Council)". Around the time of Rengo's founding, this campaign achieved a significant measure of success as exemplified by the full implementation of a 40 hour limit on weekly working hours (Nakamura and Miura 2001, 398-455).

However, Rengo's policy participation began to face a serious challenge in the mid-1990s. The challenge came from the Deregulation Subcommittee (the Regulatory Reform Committee from 1998 to 2001 and the Council for Regulatory Reform from 2001 and 2004) established in 1995 (Nakamura and Miura 2001, 455-544; Miura 2005; Nakamura 2006).

Prior to 1995, labor law revision bills were normally submitted to the Diet only after the deliberation council in the Ministry of Labour consisting of public, labor, and management representatives had discussed them and reached some consensus. Rengo in effect participated in the policymaking process in a substantial fashion. However, the initiative over labor law revisions shifted to

the Deregulation Subcommittee in the cabinet (and its successors) in 1995. Now the subcommittee sets agendas and overall direction of revisions first, and then the cabinet approves revision bills including their timetables for introduction to the Diet. Only then are revision bills introduced to the deliberation council. The deliberation council is no longer a forum for discussing and shaping revision bills through consensus; it has become a place for discussing revision bills handed down from above. Much of the power of the deliberation council and Rengo to shape policy has been taken away.

The 1998 revision of the Labor Standards Law (the introduction of the discretionary work system), the 1999 revision of the Worker Dispatching Law (deregulation of worker dispatching with a negative list of work types that need to be regulated), the 2003 revision of the Labor Standards Law (legal stipulation of rules for dismissal), and the 2003 revision of the Worker Dispatching Law (further expansion of the worker dispatching industry) are all representative cases in which Rengo was confronted with a serious challenge.

In each of the cases, representatives of labor and management clashed with each other intensely in the deliberation council. In all cases, Rengo opposed revision while management supported it. In the 1998 and 2003 revisions of the Labor Standards Law and the 2003 revision of the Worker Dispatching Law, the deliberation council could not effect any change to the revision bills. Only in the case of the 1999 Worker Dispatching Law revision, Rengo was able to win an amendment with respect to worker dispatching to production line jobs by resorting to boycotting the council.

Having lost its ability to participate in the policymaking process through the council, the only means left for Rengo was to realize amendments in the Diet. Rengo's only strategy was to prepare alternative revisions and approach sympathetic political parties in order to realize favorable amendments while closely cooperating with the Democratic Party. This strategy paid off in the 1998 and 2003 revisions of the Labor Standards Law and the 1999 revision of the Worker Dispatching Law but did not lead to any substantial amendment in the 2003 revision of the Worker Dispatching Law.

In reality the victories of Rengo in the Diet were of a rather negative and reactive nature because these were not cases where Rengo realized policies it actively supported. Rather, the goal of Rengo's legislative campaign was to reduce the effectiveness of policies which it opposed and limit their negative effects on workers. Rengo was able to achieve success only to that extent.

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The policymaking process in labor policy thus went through a dramatic change in the 1990s. The deliberation council has been displaced from the policymaking process while the cabinet's Deregulation Subcommittee has come to dictate agenda-setting. Rengo has been able to participate in the substantial debate over labor law revisions only through the Diet. Rengo has been pursuing the campaign for increased policy participation, but it is now faced with a challenge.

### **3. One Path to Revival**

Japanese labor unions are faced with a crisis. How can they find a way out of the crisis and move toward revival? First, they must make an earnest effort to expand their organizations. Organizational expansion is necessary in order to counter the decline of unionism, revive the mechanism of *Shunto*, and overcome the challenge to labor's policy participation.

Enterprise unions are the basic constituents of Japanese unions. The fortunes of unionized companies therefore greatly affect the total number of Japanese union members. In other words, the number of union members almost automatically increases when unionized companies are performing well and hiring new employees. By the same token, membership will drop almost automatically when unionized companies are not performing well. According to Nakamura (2005), the continuing decline in union membership in Japan since the mid-1990s is attributable to a major reduction of union members caused by corporate restructuring. On average, about 60,000 workers become union members as a result of unionization of new enterprises each year. However, this increase is hardly sufficient for unions in keeping up with the speed in which they are losing their existing members.

Unions have only two choices if they are to stop the decline in membership and start expanding. One is simply to hope that the Japanese economy will come out of the recession allowing companies to increase employees. In other words, it is to hope for salvation through changes in external circumstances. Another is to intensify their organizing efforts much further. Unions must pursue the strategy below if they are to find a way out of the crisis on their own.

According to Rengo Sogo Seikatsu Kaihatsu Kenkyujyo (2003, 98), 67.9% of 1,072 surveyed nonunion workers replied unions were necessary. 32.1% replied unions were unnecessary. The group that believed unions were

necessary was twice the size of the group that did not. Compared to nonunion workers who do not believe unions are necessary, those who do tend to believe more strongly that unions bring positive benefits to society, companies, and individual union members. These workers are placing high hopes on labor unions.

However, their hopes do not easily translate into actions. Table 1 shows responses of nonunion workers to a question measuring their interest in union membership. 3.2% replied “I want to join” while 10.2% responded “I may join if recruited.” This means only 13.4% showed interest in joining unions. Even among the nonunion workers believing unions are absolutely necessary, only 32.5% – a combination of those who responded “I want to join” (14.1%) and “I may join if recruited” (18.4%) – showed interest in joining.

**Table 1. Interest in union membership among nonunion workers**

	“I want to join”	“I may join if recruited”	“I do not want to join”	“Not sure”	No response	Total
Absolutely necessary	14.1	18.4	17.8	39.9	9.8	100.0 (163)
Somewhat necessary	1.4	11.5	23.4	51.5	12.2	100.0 (565)
Unnecessary	0.9	4.1	39.5	47.4	8.1	100.0 (344)
Total	3.2	10.2	27.7	48.4	10.5	100.0 (1,072)

**Source:** Rengo Sogo Seikatsu Kaihatsu Kenkyujo (2003, 104). There is a significant deviation at the one-percent level between each group (Pearson’s Chi-squared test).

The reason why even nonunion workers who support the idea that unions are necessary hesitate to act is because they are very concerned about what they see as the downside of organizing and joining unions (Nakamura 2005). They are concerned if their “managers might censure” them, their “relationships with others at work might suffer”, or they “might be perceived as having an ideological bias” as a result of becoming a union member. They also believe that they might “have to dedicate a lot of time to union activities”, “be bound by obligations and responsibilities”, and “be mobilized for electoral campaigns.”

Unions will be able to bridge the huge gap between the high expectations nonunion workers have toward unions and the actual behavior of nonunion workers if they approach nonunion workers, provide them with support against possible censure by management, mitigate their misperceptions and fears, and

inform them about the responsibilities that union membership entails.

In reality, however, unions rarely provide such assistance (Nakamura 2005). Out of the 187 enterprise unions that were created between the 1970s and the 1990s in Tokyo, a mere 21.4% were unions that were founded as a result of initiatives taken by labor unions.<sup>2</sup> The remaining 80% or so were founded as a direct result of initiatives by one or more nonunion workers who held grievances over work conditions or management style. Predominant among such grievances are issues related to working hours such as long hours, unpaid overtime, and difficulty in taking day-offs and breaks and issues related to communication between labor and management such as non-disclosure of managerial information and dictatorial managerial styles. Clearly, unions can increase their opportunities for expansion by addressing these grievances of nonunion workers, but they rarely try to reach out to them.

This does not mean that labor unions are not taking any measures to organize at all. Industrial unions, headquarters of national centers, and locals are responsible for carrying out organizing efforts. With respect to locals, the unions that can fully fulfill this responsibility are those with personnel specially in charge of organizing efforts. Table 2 and 3 indicate organizing activities of Tokyo-based 70 locals. As Table 2 clearly shows, unions with personnel for organizing activities are maintaining active organizing campaigns by making a list of nonunion enterprises, approaching managers and workers of nonunion enterprises, and offering consultation concerning unionization.

Table 3 shows results of organizing activities of the 70 unions over the past five years. The unions with organizers have been able to create 4.56 unions and organize 205.3 workers on average over the past years. On the other hand, those without such personnel have only been able to create 0.33 unions and organize 7.15 workers on average. The unions with organizers have had much more success in organizing nonunion workers than those without such personnel.

There is a ray of hope for the revival of unions. The key is to assign personnel for organizing and focus on efforts to organize nonunion workers. Industrial unions have already begun improving their systems for organizing nonunion workers (Nakamura 2001). In the meantime, Local Rengo, Rengo's

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<sup>2</sup> 10.7% were those formed by organizers of industrial unions. 10.7% were those organized by unions of parent companies.

**Table 2. Organizing activities (multiple response)**

	With organizers	Without organizers	Total	Test
None	6.3	9.1	7.1	
Making a list of nonunion enterprises	33.3	27.3	31.4	
Contacting managers and workers of nonunion enterprises	35.4	4.5	25.7	***
Making a list of existing unaffiliated unions	45.8	40.9	44.3	
Contacting existing unaffiliated unions	68.8	54.5	64.3	
Street campaigns and distribution of pamphlets	45.8	36.4	42.9	
Consultation on unionization	64.6	18.2	50.0	***
Inducing workers who come seeking for advice on other matters to organize	39.6	22.7	34.3	
Others	10.4	9.1	10.0	
Unknown	2.1	0.0	1.4	
Total	100.0 (48)	100.0 (22)	100.0 (70)	
Cumulative	343.7	213.6	302.9	

**Source:** Nakamura (2005). \*\*\* indicates that Pearson's Chi-squared test showed a statistically significant deviation at the one-percent level.

**Table 3. Results of efforts to organize nonunion workers**

	Average (unions, persons)	Standard deviation	Number of surveyed unions	F-ratio	
Number of unions	With organizers	4.56	8.35	45	5.318 **
	Without organizers	0.33	0.48		
Number of union members	With organizers	205.3	421.96	44	4.369 **
	Without organizers	7.15	16.2		

**Source:** The same as Table 2.

local centers, are supporting these efforts (Nakamura and Miura 2005).

Unions need to take the following steps. First, they need to improve their systems for organizing workers. Then specially assigned organizers will contact nonunion workers to address their grievances over working hours and labor-management communication. Furthermore, unions will need to support workers against any possible pressure from managers, mitigate their fear and misperception that union membership will negatively affect their relationships with others at work, and inform them of the obligations and responsibilities accompanying union membership.

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#### 4. Targets for Organizing Efforts

One strategy for organizing nonunion workers has been described above. Who are the targets of this strategy? As pointed out, 2/3 of nonunion workers believe that unions are necessary. What are the attributes of these workers? The study by Hara and Sato (2005) has clarified the profile of the targets with its quantitative analysis of data in the Rengo Sogo Seikatsu Kaihatsu Kenkyujo (2003). Some of its findings contradict the conventional wisdom.

Let us look at the individual attributes of the target groups. The older a workers is, the stronger his/her belief in the need for unions will become. Since workers generally increase their influence at the workplace as they get older, it is necessary to win over older workers first. Seniority is the only single attribute that counts. Educational backgrounds and gender do not make any difference. Higher educational backgrounds do not cause workers to distance themselves from unions.

Let us now turn to workplaces, occupations, and forms of employment. Attitudes of workers toward unions are not influenced by which sector they are in. The growth of the service economy is not a cause of the decline in union membership. The number of nonunion workers believing in the necessity of unions will increase with company size. Companies of medium or larger size should be targeted since large companies already have a high organization rate. The blue-collar/white-collar distinction is also a non-factor. The growth of white-collar employment cannot explain the decline in union membership either. Surprisingly, differences in form of employment do not influence attitudes of workers toward unions either. There is no difference between regular workers and non-regular workers such as part-time or dispatched workers in their view on the necessity of labor unions. The diversification in forms of employment is not a cause of the decline of labor unions either.

Let us examine work conditions and work environments. Workers with a low annual income are more likely to support the view that unions are necessary. Nonunion workers who are insecure about their work environment and work conditions are more likely to support such view. Regardless of type of workplace or employment status, workers will strongly believe that unions are necessary as long as they are underpaid and working in an unstable work environment. These workers are waiting for unions to reach out to them.

Let us look at attitudes toward labor unions. Nonunion workers who believe that unions have positive effects upon society, companies, and

individual union members are more likely to hold the view that unions are necessary. Nonunion workers who are concerned about the negative impact of union membership are less likely to support such a view. These are both logical and understandable results. As pointed out already, however, the key is that unions can resolve many of the concerns of nonunion workers about the negative impact of union membership by persuading and providing them with support. These obstacles can be somehow overcome by the persuasion and support provided by unions.

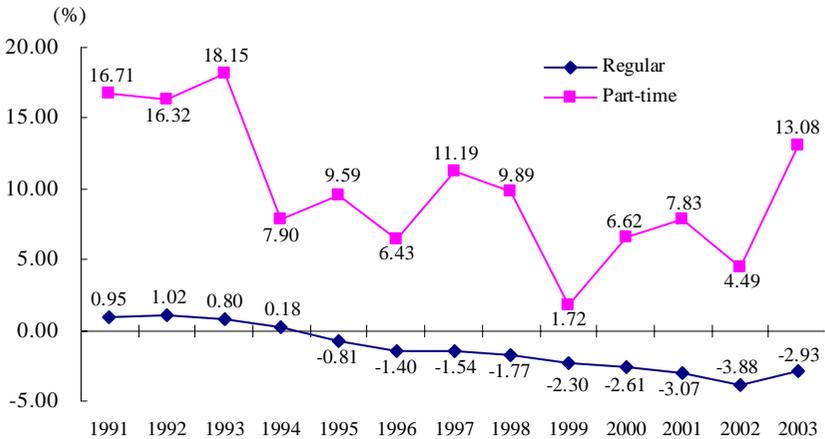
The last issue is how knowledge of workers' rights might make a difference. Nonunion workers who know the legal rights of workers are more likely to believe unions are necessary. Because they understand their rights, these workers can recognize when their rights are violated. Fearing that management might censure them or their relations with others at work might suffer, however, they might hesitate to confront management individually even if their rights are violated. But if they have someone to stand together with them, they might be able to stand up to their managers and communicate their grievances. This is probably why they believe unions are necessary.

Contrary to the conventional wisdom, the growth of the service economy, the increase of white-collar employment, the increasingly high educational backgrounds of workers, and the diversification in forms of employment are not causing nonunion workers to distance themselves from unions. Figure 3 compares the rates of change in the number of unionized regular workers and the number of unionized part-time workers between 1990 and 2003. "Unionized regular workers" in this figure refers to union members who are not part-time workers.

The number of unionized regular workers was showing an increase until 1994, but the rate of increase stayed around 1%. The number has been sliding since 1995. In contrast, the number of unionized part-time workers has been increasing each year. The largest annual rate of increase was 18.15% while the smallest was 1.72%. The number of unionized part-time workers has been increasing at the average rate of 9.99% each year.

Older workers, workers at mid-size or larger companies, and workers with a good grasp of workers' rights are important targets. Those who work in unstable work environments under unfavorable work conditions are also an important target.

**Figure 3. Rates of change in the number of union members:  
Regular workers and part-time workers**



**Sources:** Ministry of Labour, *Rodo Kumiai Kiso Chosa Hokoku* [Basic Survey on Labor Unions] (1993), Ministry of Health, Labour, and Welfare, *Rodo Kumiai Kiso Chosa Hokoku* [Basic Survey on Labor Unions] (2003), and Ministry of Health, Labour, and Welfare website. The number of union members is calculated on the basis of single union membership per person. The number of unionized regular workers is calculated by subtracting the number of unionized part-time workers from the total number of union members. A part-time worker is a worker who works shorter working hours compared to regular workers at a given workplace. Workers who work fewer workdays per week are considered part-time workers even if their daily working hours may be identical to those of regular workers. Workers who are called “part-time workers” or “part-timers” are also considered part-time workers.

For unions, these targets are a given. On the other hand, there are targets that unions can work to transform. They are workers who have negative images of union membership and workers who do not have a strong grasp of workers’ rights. Unions can influence the former group by contacting and talking to them directly. With regard to the latter too, unions can improve their understanding by making direct contacts as well as organizing street campaigns. Unions can expand their targets through such efforts.

## 5. Conclusion

Japanese labor unions have been confronted with a crisis since the 1990s. The absolute decline in the number of union members, the diminished

influence of unions as the representative of worker interest, and the collapse of *Shunto* are all signs that Japanese labor unions are beginning to decline. At the same time, Rengo's long-standing campaign for increased policy participation has come to face a major obstacle.

Organizational expansion is one of the ways in which unionism in Japan can be revived. According to the data used in this essay, 2/3 of nonunion workers believe that unions are necessary. These workers are placing great hopes on labor unions. However, their hopes do not easily lead them to take action. Existing unions, such as industrial unions, will first need to improve their systems for organizing and directly contact nonunion workers in order to close the gap between their hopes and behavior.

The targets for unions' organizing efforts have been clearly identified now. The growth of the service economy, the predominance of white-collar employment, the increasingly high educational backgrounds of workers, and the diversification in forms of employment are not causing nonunion workers to distance themselves from unions. Older workers, workers at mid-size or larger companies, workers who hold positive views of unions, and workers who understand their rights as workers are important targets. People who work in unstable work environments under unfavorable work conditions constitute another important target group.

Even with respect to workers who have negative perceptions of union membership and workers with poor understanding of their rights as workers, unions can change their perceptions and raise their level of awareness by directly contacting them.

Using data from the 2001 House of Councilors election, Bessho and Hara (2005) have conducted a quantitative analysis of the influence of union membership on voting behavior. According to this study, union membership increases the probability that a worker will vote. This is so even if factors such as individual attributes and interest in the election are taken into consideration. Even if the possibility of reverse causation that those workers who are more likely to vote belong to unions is considered, the presumed result is the same. Union membership also influences which party a worker is likely to vote for. Here too, union membership increases the probability that a worker will vote for the Democratic Party regardless of individual attributes, political orientation (conservative or progressive), and party the worker supports. Those who support the Democratic Party naturally are more likely to vote for the

Democratic Party. Even if workers are not supporters of the Democratic Party, however, their union membership alone will increase the probability that they will vote for the Democratic Party.

Unions can significantly influence electoral results. By extension, an absolute decline in the number of union members can negatively affect the parties supported by unions. This can in turn magnify the challenge to Rengo's policy participation. In respect to this issue too, unions can overcome the challenge by expanding their organizational base.

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# Effects of Enterprise Labor Unions: Reviewing the Effects on Wages and Employment Adjustment

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## 1. Introduction

This paper is written for the purpose of verifying the effects of labor unions in Japan. Tsuru (2002) presents a noteworthy opinion in his research on Japanese labor unions and industrial relations in recent years. According to Tsuru, Japanese enterprise labor unions provide neither "effects on wages" (increasing wages) nor "effects on voice" (collectively voicing the dissatisfaction of union members with the effect of reducing the rate of those leaving employment). In short, he claims that labor unions do not provide union members with any benefits, but his research seems to be insufficient from the viewpoint of evaluating the effects of labor unions. This paper reviews the effects of labor unions based on Tsuru's ideas, makes empirical analysis of the effects on wages and employment security, and finally provides explanation for the result of the analysis.

Among the issues dealt with by Tsuru, firstly he does not examine the role played by labor unions for the security of worker's employment, which is the most important factor in the activities of labor unions in Japan. It is generally known that labor unions concentrated their efforts on maintaining and improving working conditions and securing employment after World War II. While we must inevitably make an analysis of the relation between the labor union and employment security when speaking about the effects of labor unions, Tsuru's research does not cover this relation between the labor union and employment security. This is due to the fact that his analysis is concentrated on verification of the presence of effects on wages and effects on voice.

Secondly, since Tsuru's relies on a questionnaire survey conducted in 1992 for his conclusion that no effect on wages or voice are provided, and it is not appropriate to claim that labor unions are not effective based on the analysis made at a single point in time, although there is a decreasing trend for the unionization rate. In relation to the effects of labor unions on wages, not only Tsuru but also Tachibanaki and Noda (2000) and Noda (1997) negate the effects on wages for men, presenting mostly negative opinions on the effects of labor unions on wages. These research reports were based on the information obtained in the first half of the 1990s; more recent researches based on information obtained

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after 2000 show different results. Based on the *Chingin Hikiageto no Jittai ni Kansuru Chosa* [Fact-finding survey on pay raise] conducted by the Ministry of Health, Labor and Welfare, Tanaka (2002) examined the results of pay rises in 1991 and 2001 in his recent research, comparing them with and without labor unions, and presented the following conclusion:

While no difference was observed in the amount of pay raise between "with labor union" and "without labor union" in 1991, the disparity in pay raise between with and without labor union increased in 2001, despite the fact that the disparity was minimized at the time in 1991.

Hara (2003) also concluded in her research that effects on wages were present for men based on information obtained in 2002.

Accepting these research reports as they are, it can be said that labor unions have an effect on wages particularly during a period of prolonged recession in an extremely difficult economic environment. Assuming that this is the case, it may be possible to verify the effects of labor unions by evaluating them in an environment that is economically more difficult than 1992, which is the timeframe for Tsuru's research.

Based on hints obtained from the research of Tsuru, a survey was conducted on the effects on wages and effects on employment adjustment. Section 2 introduces empirical analysis in two areas: employment security and wages. Section 3 reviews and discusses whether or not labor unions are effective.

## **2. Assumed Effects of Labor Unions**

### **2.1 Effects on Wages**

A few research reports are available on the effects on wages, notably Tachibanaki and Noda (2000) and Tsuru (2002). Using the model wage of the standard worker obtained from a special survey conducted by JTUC Research Institute for Advancement of Living Standards (the RENGO RIALS), Tachibanaki and Noda (2000) point out that no effects on wages were found for men, while positive effects are found for women.

Tsuru (2002) estimated the wage function based on the data obtained from his survey on workers in the metropolitan area and points out that labor unions do not provide effects on pay increases for both men and women.

These research reports are based on the information obtained in the first half of the 1990s or before, confirming that there is no wage disparity between companies with labor unions (or with unionists) and companies without labor

unions (or workers working for the company without labor unions). So, what about effects of labor unions on wages in more recent years? Analysis is made on the data obtained after 2000.

We analyze the determinants of wage with the information obtained from *Dai 7 kai Kinrosha no Shigoto to Kurashi no Anketo Chosa* [The 7th questionnaire survey on work and life of workers] conducted by the RENGO RIALS in April 2004. The analysis includes 391 samples with regular employees (executives excluded).<sup>1</sup> 190 companies have labor unions and 201 do not. As for the labor union dummy, "1" is given to respondents who answered "Yes" to the question about whether or not a labor union is present where they work and "0" is given to respondents who answered "No." The analysis excludes those who answered that they do not know whether a labor union is present.

The wage is based on the income over the last 12 months; however, this data is provided only in the class value, and therefore the median is used for the wage.

For the size of company, dummies are based on companies with less than 300 employees, with the label 'medium size companies' for those with from 300 to less than 1,000 employees and 'large size companies' for those with 1,000 or more employees. Industry dummy and occupation dummy are also included. Table 1 shows the result of estimate with labor union dummy, 1 indicating with labor union and 0 indicating without labor union. The size of this dummy variable indicates the wage disparity between companies with and without labor unions.

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<sup>1</sup> We analyze the determinants of wage with the information obtained from *Dai 7 kai Kinrosha no Shigoto to Kurashi no Anketo Chosa* [The 7th questionnaire survey on work and life of workers] conducted by JTUC Research Institute for Advancement of Living Standards (the RENGO RIALS) in April 2004. The survey was conducted on workers at private companies in the age range from the 20s to 50s living in the metropolitan Kanto and Kansai areas. Samples were taken based on the sampling criteria, which were created based on the demography of private company workers in the metropolitan Kanto and Kansai areas, using the distribution of gender, age groups and employment types described in *Heisei 14 nen Shokugyo Kozo Kihon Chosa* [The employment status survey 2002.] Based on these sampling criteria, 900 workers were selected by monitors of a survey company living in the metropolitan Kanto and Kansai areas, and self-administered questionnaire sheets were distributed for posting. 900 sheets were distributed and 806 valid responses were received, with the valid response rate being 89.6 percent. 36.0 percent of the total replied that they had a labor union. This data is available from the SSJ Data Archive at the Information Center for Social Science Research on Japan, Institute of Social Science, the University of Tokyo.

**Table 1. Effects of labor unions on wages (coefficients and t value for labor union dummy)**

Men and Women	Men 1	Men 2	Women 1	Women 2
-0.001 (0.044)	0.113 (2.506)	0.191 (2.011)	-0.053 (0.105)	-0.308 (0.400)

**Note:** These are coefficients and t values for labor union dummy for the wage function. t values are in parentheses. For both men and women, 1 indicates the result with no presence of cross term of the labor union dummy and company size dummies, and 2 indicates the result with the presence of cross term.

For the total of men and women, the average wage amounts to 6,665.7 thousand yen with labor union and 4,715.7 thousand yen without. The average wage is higher at companies with labor unions since these are large companies.

For the total of men and women, the labor union dummy is not statistically significant, implying that labor unions do not provide any effects.

Let us now examine the estimate separating men from women, taking a look at the result of estimate for men first. It must be noted that companies with labor unions are large companies, and there is also the possibility that effects of labor unions may differ by the size of company. Therefore, in order to accurately distinguish the effects attributable to size from the effects attributable to labor unions, the estimate is also made including a cross term of company size dummies and labor union dummy. The average wage of men only amounts to 7,059.8 thousand yen with labor union and 5,222.6 thousand yen without. In any case, the labor union dummy is statistically significant and the average wage is 11 to 20 percent higher at companies with labor union.<sup>2</sup>

For women, the average wage amounts to 3,580 thousand yen with labor union and 3,660 thousand yen without. In any case, the labor union dummy is not statistically significant and does not show effects of labor unions for women.<sup>3</sup>

Unlike the analysis of the data obtained in the 1990s, the effects of labor

<sup>2</sup> The result remain the same when adding the cross terms of age, service years, labor union dummy and size dummy. As for the income, also pointed out by Tsuru (2002), the annual income of those who changed their job in the last 12 months may not correspond to the annual income of the current job. To exclude this possibility, analysis was performed excluding those who changed their job in the last 12 months, but the labor union dummy showed statistically significant positive figures.

<sup>3</sup> It must be noted that the number of the sample of women is not large enough when seeing the result.

unions on wage are observed for men.

## 2.2 Effects on Employment Adjustment

### 2.2.1 Analysis of Employment Adjustment Speed between Companies With and Without Labor Unions

Noda (1998, 2002) conducted research on the effects of labor unions on employment adjustment. The partial adjustment model and deficit adjustment model are used in this research. Let us examine the partial adjustment model first. Due to the time required to notify dismissal or the time and cost required for entering/leaving employment, actual employment does not immediately reach the optimal employment that achieves the maximum profit. Therefore, the actual increase/decrease rate of employment can be considered as the partial adjustment model that adjusts the disparity with the maximum increase/decrease rate of employment over several periods.

$$\ln L_t - \ln L_{t-1} = \lambda (\ln L_t^* - \ln L_{t-1}) \quad (1)$$

In the above formula,  $L_t$  is the number of employees of the current period,  $L_{t-1}$  is the number of employees of the previous period and  $L_t^*$  is the optimum number of employees of the current period.  $\lambda$  takes a value between 0 and 1 as the employment adjustment coefficient. When  $\lambda$  is 1, the actual employment corresponds to the optimum employment for the current period. The smaller the value of  $\lambda$ , the more time it takes to adjust to the optimum employment. In this case, the adjustment coefficient is fixed and the employment adjustment occurs in a continuous basis. In this report, annual data is used and therefore the adjustment coefficient of 0.5 requires two years of adjustment to achieve the optimum employment. The larger the adjustment coefficient, the easier it is to vary the employment. On the other hand, the smaller the adjustment coefficient, the more difficult it is to vary the employment, implying that employment is stable. If employment is more stable in companies with labor unions, companies with labor unions should show a smaller adjustment coefficient compared with companies without labor unions.

Next, let us see the deficit adjustment model. From the viewpoint of the adjustment cost, employment adjustment is performed without dismissal or voluntary retirement during periods of surplus or a slight deficit. This is because the personnel cutback, including dismissal and voluntary retirement, is associated with a lump-sum fixed cost, such as a large negotiation cost,

deterioration in employees' morale, reduction in firm-specific skills, and deterioration in company image. On the other hand, let us assume that employment adjustment is performed with dismissal and voluntary retirement during the period of a large deficit. Here, we assume that dismissal occurs during the period  $t$  due to the large deficit in the period  $t$ . At this point, using  $PR_t$  for the profit of the period  $t$ , and  $K$  for the deficit, which represents the criteria of large-scale personnel cutback, such as dismissal, voluntary retirement, the following employment adjustment function is obtained. Where  $\lambda_1$  is the adjustment coefficient for the normal period and  $\lambda_2$  is the adjustment coefficient during the period of deficit.

$$\begin{aligned} \ln L_t - \ln L_{t-1} &= \lambda_1 (\ln L_t^* - \ln L_{t-1}) & PR_t \geq K \\ &= \lambda_2 (\ln L_t^* - \ln L_{t-1}) & PR_t < K \end{aligned} \quad (2)$$

Here, the following shows the optimal number of employees  $L^*$ , which is the employment that maximizes profit of the company.

$$\ln L_t^* = a_1 + a_2 \ln Out + a_3 \ln Wage / P \quad (3)$$

The formula (2) shows that the speed of employment adjustment is faster during a period of large deficit since employment adjustment is performed with dismissal and voluntary retirement. While employment adjustment is not continuous and occurs slowly during the periods of profit or slight deficit, the rate of adjustment increases in the period of large deficit since dismissal and voluntary retirement are used. When  $\lambda_1$  is equal to  $\lambda_2$  in the formula (2), the formula (1) is deduced.

For the estimate of the actual deficit model, assuming that the adjustment coefficient is affected by the deficit, the deficit dummy ( $Akaji$ ) is used as follows.

$$\lambda = \lambda_1 + (\lambda_2 - \lambda_1) * Akaji \quad (4)$$

The formula (1) is substituted with (4) and (3) above for the estimate.  $\lambda_1$  represents the adjustment coefficient of the normal period, and  $\lambda_2 - \lambda_1$  represents the increment of the adjustment coefficient during the deficit period, making the adjustment coefficient of the deficit period  $\lambda_2 (= \lambda_1 + (\lambda_2 - \lambda_1))$ . Where  $Out$  is the production volume,  $Wage$  is the wage and  $P$  is the price of the product. Noda (1998, 2002) estimates these models using information about unlisted companies. Information about unlisted companies is used since

listed companies have a higher rate of unionization, as it is described later, and this information is not appropriate for examining the disparity between companies with and without labor unions.

In his research, Noda (1998) estimates the partial adjustment model with and without labor union and by the size of company. For medium size of companies with 300 employees or more, the adjustment speed is slower for companies with labor unions, indicating that it is more difficult to perform personnel cutback for companies with labor union than those without, and confirming the effects of labor union on employment security.

Noda (2002) makes further analysis on the employment adjustment and effects of labor unions. Koike (1983) and Muramatsu (1986) confirm the empirical rule that "a large scale personnel cutback is performed after a period of a large deficit or after two periods of deficit." Suruga (1997) and Komaki (1998) formulated this empirical rule as a deficit adjustment model to verify the empirical rule using data organized for each company. Noda (2002) estimates the deficit adjustment model with and without labor union and by the size of company. The result is shown in Table 2. The deficit adjustment model fits companies of medium size with 300 employees or more, confirming that the adjustment speed is slower for companies with labor unions in normal periods but it is faster during the periods of deficit. This analysis confirms effects of

**Table 2. Result of estimate of deficit adjustment model by company size**

	Medium		Small	
	With labor union	Without labor union	With labor union	Without labor union
$\lambda_1$	0.179** (2.263)	0.332** (6.462)	0.352** (6.263)	0.330** (5.660)
$\lambda_2 - \lambda$	0.148** (2.276)	0.151 (1.105)	0.039 (0.946)	0.099 (1.276)
$a_2$	0.347** (3.099)	0.458** (8.004)	0.220** (4.097)	0.442** (12.11)
$a_3$	0.028 (0.089)	-0.275* (1.680)	-0.247** (2.406)	-0.620** (6.959)
$AdjR^2$	0.206	0.308	0.342	0.463

**Source:** Noda (2002).

**Note:** The figure in parenthesis is the t value. One asterisk (\*) indicates 10 percent and two asterisks (\*\*) indicate 5 percent statistically significant.

labor unions on employment security since they prevent the companies from cutting back on personnel until their business reaches the critical status of deficit.<sup>4</sup>

Assuming that effects of labor unions on employment security are confirmed in all these researches, economic effects of labor unions "cannot be denied." However, these researches are based on information obtained in the first half of the 1990s and before. Then, is it possible to also see effects of labor union on employment security when employment conditions deteriorated in the second half of the 1990s? Let us examine this question.

The 1990s is often described as the "lost decade." From the viewpoint of the economic cycle, two periods of recession occurred in the decade: the first half of the recession after the collapse of bubble economy (1992-1994) and the second half of the recession associated with financial crisis (1997-1999). As for the employment status, unemployment rapidly increased, particularly after the financial crisis that took place in the period from 1997 to 1998, reaching the five-percent mark in 2001 and reaching 5.4 percent in 2002.

Next, let us examine changes of effects of labor union on employment security during the period in which employment conditions deteriorated. Noda (1998, 2002), as mentioned above, analyzes effects of labor unions for the first half of the recession. Here, let us analyze effects of labor unions on employment security, by performing a similar analysis for the period from 1996 to 2000 including the second half of the recession.

In this paper, the model is estimated using the panel data created from the *Nikkei: Annual Corporation Reports (Unlisted)* published by Nihon Keizai Shimbun. Most of the listed companies have labor unions. The "Unlisted" version mainly consists of small and medium companies, showing a relatively good separation between companies with and without labor union, and it is effective to analyze effects of labor unions. The estimate is made for the period of five years from 1996 to 2000. *Wage* represents the average wage and *P* represents the GDP deflator by industry. *Out* represents the revenue substantiated by the industry-base GDP deflator.

A panel data is created for the companies that present all data for the period of the estimate. The company can be deemed a good company when it has been continuously put in the Nikkei's Annual Corporation Reports for a long period

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<sup>4</sup> A fixed-effect model was used for the estimate.

of time even if it is not listed on the stock exchange. Therefore, our samples may be biased in terms of quality of company.<sup>5</sup> According to Koike (1983) and Muramatsu (1986), the occurrence of dismissal due to deficit varies widely. In our analysis, the deficit dummy is used when deficit occurs even for one period, assuming that employment adjustment occurs in the subsequent period. The estimate is the estimate of GMM.

The value of adjustment coefficient is shown in Table 3. Let us compare the speed of adjustment between companies with and without labor unions. The adjustment coefficient for the normal period is 0.680 for companies with labor union and 0.948 for companies without labor union, indicating that the adjustment speed is slower with the companies with labor union. For the deficit period, the adjustment speed is not statistically significant, both with and without.

Let us analyze based on the size of business: companies with 300 employees or more (medium) and less than 300 (small). For the medium size companies, companies with labor unions rate 0.541 in the normal period and 0.782 in the deficit period, while companies without labor unions rate 0.869 in the normal period and no change in the deficit period. Thus, the adjustment speed is slower for companies with labor union. Medium size companies show a large disparity in the adjustment speed between companies with and without in the normal period. Also, the deficit adjustment model fits only those companies with labor unions.

On the other hand, small companies with labor unions rate 0.799 in the normal period and no change in the deficit period. Companies without labor unions rate 0.951 in the normal period and no change in the deficit period, indicating that the adjustment speed is slower with companies with labor unions.

The speed of employment adjustment differs also between companies with and without labor unions also when examined by the size of company, indicating that it is slower with companies with labor unions for all sizes. Moreover, the deficit adjustment model fits only the companies with labor unions, as was observed by Noda (2002).

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<sup>5</sup> "Annual Corporation Reports" lists different companies every year and not many companies are listed every year for a long period of time. Therefore, companies that are examined in this report substantially differ from those analyzed by Noda (1998, 2002). Also, the analysis should ideally be made by industry but we were not able to gain a sufficient number of samples.

**Table 3. Adjustment coefficient by company size and period**

Adjustment coefficient (1996 - 2000)

	Total for size		Medium companies		Small companies	
	With labor union	Without labor union	With labor union	Without labor union	With labor union	Without labor union
$\lambda_1$	0.680 (5.281)	0.948 (9.902)	0.541 (5.197)	0.869 (9.134)	0.799 (4.875)	0.951 (4.208)
$\lambda_2 - \lambda_1$	×	×	0.241 (1.670)	×	×	×

Adjustment coefficient (1996 - 1997)

	Medium companies		Small companies	
	With labor union	Without labor union	With labor union	Without labor union
$\lambda_1$	0.720 (5.307)	0.746 (3.936)	0.706 (4.725)	0.840 (6.263)
$\lambda_2 - \lambda_1$	×	×	×	×

Adjustment coefficient (1998 - 2000)

	Medium companies		Small companies	
	With labor union	Without labor union	With labor union	Without labor union
$\lambda_1$	0.313 (2.411)	0.929 (2.251)	0.581 (2.113)	0.946 (9.434)
$\lambda_2 - \lambda_1$	0.330 (2.144)	×	0.985 (2.248)	×

**Note:** The upper row indicates the adjustment coefficient and the figure in parenthesis is the t value. The × mark indicates that the figure is not statistically significant.

Next, let us examine changes of the adjustment speed before and after the worsening of employment due to the financial crisis and other factors. The estimate is made for two periods: the period from 1996 to 1997 and the period from 1998 to 2000. Table 3 indicates that the adjustment speed does not change much for the medium size companies in the first half. For small companies, the adjustment speed is slower for the companies with labor unions.

In the second half of the period when the employment status deteriorated, medium companies with labor unions show the change of the adjustment speed

from 0.720 to 0.313, and an increase from no rise to 0.330 in the deficit period—slower than the first half of the period. Companies without labor unions increased the adjustment speed to 0.929. For small companies with labor unions, the adjustment speed slowed down from 0.706 to 0.581 in the normal period while it speeded up in the deficit period. Companies without labor unions increased from 0.840 to 0.946. On comparing companies with and without labor unions in the normal period, there is a large disparity. Also, companies with labor unions increased the adjustment speed in the deficit period.

Medium companies in the period from 1996 to 1997 do not show much difference between with and without labor union, while the disparity enlarges in the period 1998 to 2000. It seems that small companies also increased the disparity between with and without labor union in this period, compared with the normal period.

A general overview by period indicates that medium companies with labor unions show the slowest adjustment speed, presenting a noticeable disparity in the period from 1998 to 2000. It can be said that medium companies with labor unions had relatively stable employment environments compared with other companies. Furthermore, during the period in which the employment conditions deteriorated, the adjustment speed disparity enlarged between with and without labor union. Moreover, notably, the deficit adjustment model fits companies of any size. This indicates that companies with labor unions are not able to perform a large personnel cutback until they have a deficit, which is consistent with the result found by Noda (2002).

### **2.2.2 Personnel Cutback, Labor-management Consultation, Participation in Management**

The above observation confirms that labor unions have the effects of slowing down the employment adjustment speed and that companies with labor unions provide more stable employment than those without. Then, what effects exactly do labor unions have on personnel cutbacks, such as dismissal and voluntary retirement?

Based on the information obtained from the questionnaire survey conducted on labor unions in 1999, Noda (2006) analyzed the influence of labor-management consultation and daily activities of participation in management on dismissal and voluntary retirement. Table 4 shows the result of the analysis.

Explanatory variables are used, by converting the power of voice by labor

**Table 4. Factors determining personnel cutback (Influence of participation in management by employees)**

	Large companies		Small and medium companies	
	(1)	(2)	(1)	(2)
Deficit dummy	0.195 (0.023)	0.082 (0.921)	0.216 (0.043)	0.404 (0.412)
Reduction, closure, introduction of business establishments	-0.071 (0.090)	-0.214 (0.027)	-0.003 (0.945)	0.008 (0.933)
Personnel plan	0.062 (0.105)	0.170 (0.240)	0.031 (0.562)	-0.006 (0.949)
Business plan	0.030 (0.326)	-0.215 (0.049)	0.006 (0.870)	-0.057 (0.019)
Voice to management strategies	0.113 (0.201)	0.577 (0.080)	0.077 (0.511)	0.645 (0.019)
Informal meetings	-0.155 (0.071)	-0.606 (0.044)	-0.099 (0.344)	-0.156 (0.447)
Disclosure of confidential information	0.031 (0.756)	0.371 (0.240)	-0.114 (0.313)	-0.340 (0.161)
Reduction, closure, introduction of business establishments * Deficit dummy		0.263 (0.020)		-0.127 (0.259)
Personnel plan * Deficit dummy		-0.110 (0.461)		0.127 (0.327)
Business plan * Deficit dummy		0.254 (0.030)		0.019 (0.646)
Voice to management strategies * Deficit dummy		-0.751 (0.032)		-0.701 (0.019)
Informal meetings * Deficit dummy		0.463 (0.069)		0.032 (0.883)
Disclosure of confidential information * Deficit dummy		-0.256 (0.403)		0.224 (0.408)
Log likelihood	-56.67	-36.74	-69.58	-63.82

**Source:** Noda (2006).

**Note:** The upper row indicates the marginal effect and the figure in parenthesis is the P value.

union in the labor-management consultation and the daily activities of participation in management. Also, an current deficit dummy is used for the companies that experienced current deficit once or more in the period from 1995 to 1999. Explained variable is the dummy variable indicating the presence of suggestion for dismissal or voluntary retirement in the period from

1995 to 1999 (1 = suggested, 0 = not suggested).<sup>6</sup>

The questionnaire survey included questions on the actual level of the power of voice by the labor union in terms of "reduction, closure, and introduction of business establishments," "business plan (launching new businesses, closing existing businesses)," and "personnel plan." Respondents were asked to select from five levels: "the labor union merely receives an explanation from the management after the action is taken," "the labor union receives explanation from the management before the action is taken," "the labor union may express its opinion or reply to the action," "the labor union may express its opinion and amend the action," and "the labor union is consulted before any action is taken," and the answers were scored from five to one in the order of the power of the voice. The higher the score, the more powerful the voice of the labor union, thus the more advanced in participation in management.

Also, there are dummies such as "voice to the management strategies," "informal meetings of labor-management top executives," and "disclosure of confidential management information to the labor union top members," with assigning "1" to positive answers and "0" to negative answers.

According to the estimate with the probit model, large companies with 1,000 employees or more show negative figures for "reduction, closure, and introduction of business establishments," "business plan" and "informal meetings of labor-management top executives," while the cross term for these variables and current deficit dummy show a positive figure. In other words, the probability of personnel cutback is reduced when labor unions have more power of voice to business plans, such as reduction, closure or introduction of business establishments, or when they have informal meetings between labor-management top executives, while the probability of personnel cutback is increased when current deficit occurs. This result indicates that the attitude of labor unions towards personnel cutbacks turns over depending on whether or not the current deficit occurs, and it seems that the result is consistent with the

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<sup>6</sup> The questionnaire used here is *90 nendai no Rodosha Sanka nikansuru Chosa* [The survey on participation of workers in the 1990s] conducted by the RENGO RIALLS. The survey included a question asking whether or not a suggestion was made, instead of asking whether or not they had voluntary retirement or dismissal. According to the survey, when a suggestion for employment adjustment is made there is a high probability of the action being taken, even when a modification is made. Therefore, when a suggestion for voluntary retirement or dismissal is made, it is understood that the action is performed even when the suggestion was modified.

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deficit adjustment model discussed above. Japanese labor unions are against personnel cutbacks until the company goes into deficit, maintaining a low probability of action, while they take the more practical attitude by collaborating with the company when there is a deficit that poses a risk for the survival of the company.

However, for small and medium companies with less than 1,000 employees, the deficit dummy is a positive figure with statistic significance, while no statistically significant influence is found with the variables for the voice and participation in management, indicating that there is no effect on the voice and participation.

### **3. Explanation of Results**

Effects of labor unions have been examined from two aspects, wage and employment adjustment. Let us now look at the results obtained from empirical research.

For effects on wages, a wage disparity was found between companies with and without labor unions for men. As pointed out by Tanaka (2002) in his research, there is a wage disparity between companies with and without labor unions. This result can lead to a conclusion that effects of labor union appear in particular during a period of prolonged recession in an extremely difficult economic environment. In other words, it can be said that effects of labor unions appear under conditions when working conditions are apt to deteriorate. It is understood that labor unions strongly resist deterioration of working conditions.

There was no disparity in wages between with and without labor unions, probably because Tsuru performed his analysis in 1992, one year after Tanaka (2002) pointed out in 1991 that the disparity was minimized between companies with and without labor unions. Comparison of Tsuru's result with the data obtained after 2000 indicates that effects of labor unions on wages vary depending on the change in the economic environment.

As for employment adjustment, examination by the size of company leads to the following observation: For all company sizes, there is a disparity in the adjustment speed between companies with and without labor unions, and for medium size companies, the deficit adjustment model fits companies with labor unions.

In terms of different periods, the adjustment speed is slower with companies with labor unions for any company size. The disparity in the adjustment speed

is small between with and without labor unions in the period from 1996 and 1997; however, the disparity between with and without labor unions expanded for all sizes in the period from 1998 to 2000 compared with the period before. The adjustment speed is slower for medium size companies with labor unions, generating a noticeably large disparity with other companies. It can be said that the employment environment was relatively stable for medium size companies with labor unions.

There was a disparity in the adjustment speed between with and without labor unions up to 2000, and employment was the most stable with medium size companies with labor unions. From this result, it is difficult to say that there has been a large change in the effects of labor unions on security of employment for employees. The estimate of the adjustment speed by different period confirms that the disparity between companies with and without labor unions grows when the employment condition deteriorates. This disparity is rather large with medium size companies. It indicates that labor union provides more effects on employment when employment conditions deteriorate. Therefore, effects of labor unions on employment security were still present in 2000.

Moreover, the deficit adjustment model fits companies with labor unions for any size in 1998 and later, indicating that it is difficult for companies with labor unions to perform personnel cutback on a large scale such as dismissal and voluntary retirement until they have a deficit and confirming the effects of labor unions on employment security.

Also, according to the analysis made by Noda (2006) on participation in management, labor-management consultation and dismissal, voice of employees and participation in management prevent dismissal, but the probability of dismissal increases in the period of deficit, indicating that it is difficult to cut back on personnel until the company has a deficit.

Comparison of the employment adjustment speeds indicates that it is difficult to say that conventional practice of employment has changed substantially for companies with labor unions, in particular those companies with labor unions with 300 employees or more. The media talk about "collapse of the life-time employment system," giving the impression that regular employees are frequently dismissed and that employment security has been lost, but in reality that is not the case. It is likely that no change has occurred to the conventional method of employment adjustment, in which a variety of

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measures are taken to prevent dismissal according to the conventional rule of long-term employment, and in cases when the situation cannot be handled personnel cutback may take place on a large scale in the form of voluntary retirement.

Rather, the problem is the fact that there is a large disparity in the adjustment speed between companies with and without labor unions in 1998 and later, and that the disparity is enlarging between medium size companies with labor unions and other companies. It indicates that only a portion of workers receive benefits of employment security. Companies without labor unions do not show effects on employment security and small companies with labor unions show limited effects.

Consequently, effects of labor unions on employment security are valid only for regular employees in large or medium size companies, and other workers do not receive benefits.

#### **4. Conclusion**

Economic effects of labor unions are examined above, with attention to the effects on wages and employment security. Effects on wages are confirmed for men. Effects of labor unions on wages vary substantially depending on the economic environment. Labor unions resist the worsening of working conditions when the economic environment deteriorates.

As for the employment adjustment, there is a disparity in the adjustment speeds between companies with and without labor unions and the disparity enlarged after the financial crisis of 1997. The disparity is noticeable particularly with medium size companies. The disparity in the employment adjustment speed appears more noticeably when the employment conditions deteriorate, and this implies that labor unions provide more apparent effects on employment security under such conditions. It can be said that the effects of labor unions on employment security are still present. The problem is the disparity in the employment adjustment speed between companies with and without labor unions, and that the disparity in the adjustment speed is enlarging between the medium size companies with labor unions and other companies, particularly in 1998 on.

In addition to those discussed in this paper, there are a variety of other effects of labor unions. For example, in terms of employment adjustment, we must consider the extent to which labor unions achieved satisfaction for union

members or solid conditions, including conditions of voluntary retirement or assistance for re-employment at the time of personnel cutback. Mere examination of the adjustment speed is not sufficient to evaluate these effects of labor unions. These points should be discussed further on another occasion.

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# **Shift of Part-time Workers to the Mainstream Workforce and Union Organizing Activities of Labor Unions in Japan**

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## **1. Introduction**

This paper explores issues of labor unions related to the union organizing of part-time workers, who constitute the majority of the workforce outside of regular employees, at a time when employment styles are diversifying. One of the characteristics of part-time workers observed recently in Japan is that part-time workers are making a shift in their status from the auxiliary workforce to the mainstream workforce (a shift to the mainstream workforce). Instead of examining only the union organizing of part-time workers, this paper also focuses on its relationship to the shift of part-time workers to the mainstream workforce. With this shift, labor unions are required to organize part-time workers, but they are not necessarily making a good progress. It is not that labor unions have no significance for part-time workers. On the contrary, labor unions have an important role to play with respect to part-time work. This paper positively evaluates the role of labor unions in part-time work and clarifies the issues associated with labor unions.

This paper is composed of the following sections. Section 2 discusses the meaning of the shift of part-time workers to the mainstream workforce and clarifies the reason why labor unions are required to organize them. Section 3 focuses on the reasons why part-time workers are not organize and discusses the difficulties of organizing them. Section 4 examines the effects of organizing part-time workers and evaluates labor unions. Lastly, future issues of labor unions are summarized based on the analysis.

## **2. Shift of Part-time Workers to the Mainstream Workforce and Labor Unions**

### **(1) Shift of Part-time Workers to the Mainstream Workforce**

The shift of part-time workers to the mainstream workforce can be divided into two different categories: quantitative shift and qualitative shift. Let us start with the quantitative shift. In Japan, as a result of an increase in the number of part-time workers, the term "shift to part-time workers" became popular. For example, an increase of part-time workers is notable in the wholesale, retail

and restaurant industries, which are the principal employers of part-time workers, with part-time workers consisting of 46.8 percent of the total number of employees and making up 28.9 percent of the total working time of all employees.<sup>1</sup> This shift of part-time workers on the macro basis only indicates quantitative expansion, while the quantitative shift to the mainstream workforce implies not only quantitative expansion but also an increase in the importance of labor provided by part-time workers. With an increase of part-time workers at workplaces or with a reduction of regular employees, part-time workers are playing a more important role in business organizations. Relying heavily on part-time workers, business organizations cannot exist without them, and for this reason, part-time workers can now be considered as the mainstream workforce. For example, family restaurant chains did not start with the quantitative shift of part-time workers to the mainstream workforce as they had as many or more regular employees than part-time workers, but today, they only have one or two regular employees in each location with the rest consisting of part-time workers. Accordingly, part-time workers are playing a more important role at their workplaces.

It is not only the quantitative shift of part-timer workers to the mainstream workforce that businesses are promoting. The shift of part-time workers to the mainstream workforce also has a qualitative aspect. Qualitative shift to the mainstream workforce signifies that tasks of part-time workers and their capabilities are becoming closer to those of regular employees. For example, in supermarkets, part-time workers are now in charge of merchandising in the fresh food section, which was once handled only by regular employees. In general merchandise stores, part-time workers are in charge of floor layout and face-to-face selling in the garment section.<sup>2</sup> Some part-time workers are also in positions to manage other part-time workers. These kinds of phenomena are more often identified with the term "mainstream," and therefore, the "shift to the mainstream" is sometimes used only to indicate qualitative shift of part-time workers to the mainstream workforce. As described above, however, the

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<sup>1</sup> Honda (2004). Information on the number of employment is based on the "Employment Status Survey" published by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, and information on the working hours is based on "Monthly Labour Survey" published by the Ministry of Health, Labour and Welfare. Both from the statistics in 2002.

<sup>2</sup> See Honda (2002a). For details of the situation in chain stores, see Honda (2002b).

mainstream workforce also implies the quantitative shift at workplaces, and therefore, quantitative and qualitative shifts must be distinguished.

## **(2) Reaction of Labor Unions to the Shift of Part-time Workers to the Mainstream Workforce**

Labor unions are required to react to the shift of part-time workers to the mainstream workforce. Let us say that a shift of part-time workers to the mainstream is occurring at a certain workplace. Again, we will distinguish between the quantitative and qualitative shift of part-time workers to the mainstream. The effects of the shift, moreover, will be felt not only within that workplace but will go beyond it. Labor unions will also be affected.

As for the quantitative shift of part-time workers to the mainstream, the number of part-time workers at this workplace, which was small at the outset, grows to surpass that of regular employees. If there is a labor union within this company, it would no longer be considered as representing the workers since the majority of the workers are not organized. In concluding an agreement on a modified working time system, checkoff or overtime work (including work on holidays) or in changing working conditions through a change in the work rules or labor collective agreement, the question will arise as to whether the interest of part-time workers is taken into consideration. The labor union would not be able to ignore any sense of inequity that might arise at the workplace as a result of union activities that exclude part-time workers.

Let us now see how the qualitative shift is progressing. Part-time workers will begin to take over important jobs from regular employees. As this advances further, the workplace will potentially be managed to some extent by part-time workers. The question will arise on how the union can maintain bargaining power against the management. For example, when the labor union decides to go on a strike, part-time workers will become the key in determining whether or not the union will be able to exercise the bargaining power against the management by threatening a decline in productivity through restriction on labor supply.

Thus, the shift of part-timers to the mainstream will make the labor union behave differently from the past when its activities mainly involved regular employees. One of the major actions that the labor union is required to take is to include part-time workers as members of the labor union, in other words, union organizing.

### 3. Difficulties of Unionizing Part-time Workers

Although the shift of part-time workers will promote their union organizing, such union organizing has not been successful in Japan. In other words, it is assumed that labor unions have not sufficiently responded to the shift.

So, why are part-time workers not organized by labor unions? Previous research points out that it is difficult to coordinate between regular employees and part-time workers, the management resists against union organizing, part-time workers are not positive about union activities, unions are lacking in their efforts to provide information on and generate interest in the unions, and so on.<sup>3</sup> There might also be a problem with how regular employees perceive part-time workers.

Here, let us examine the difficulties of organizing part-time workers from recent surveys. The reference used here is "*Pato Taima no Soshikikani Kansuru Chosa* [Survey on union organizing of part-time workers]" (hereinafter called the "JILPT Survey."<sup>4</sup> In the JILPT Survey, the labor unions that have not organized part-time workers are asked the reasons why part-time workers are not organized, in a multiple-answer format. Using the result of the survey as summarized in Table 1, let us examine the difficulties of organizing part-time workers. The reasons mentioned included "Unable to communicate to part-time workers the advantages of being a union member," "Part-time workers are indifferent to the labor union," "It is difficult to coordinate between the interests of regular employees and part-time workers," "Do not have the know-how to organize part-time workers," "It is difficult to improve the working conditions of part-time workers," "There are no leaders among part-time workers," and so on.

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<sup>3</sup> Sato (1988), Tokyo Toritsu Rodo Kenkyusho (2001), Zensen Domei (1991), Kim (2001), Sato and Hara (2005).

<sup>4</sup> The survey was conducted on the head offices, branch offices and part-time officials of five industry-based unions: UI Zensen Domei (The Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers' Unions), Japanese Federation of Co-op Labor Unions, Japan Federation of Service & Tourism Industries Workers' Unions, Japan Federation of Service and Distributive Workers Unions, and Federation of All Japan Foods and Tobacco Workers' Unions. The questionnaire was processed as follows: Head offices (453 sent and 143 collected with 31.6-percent response rate), branch offices (3,210 sent and 204 collected with 6.4-percent response rate), and part-time officials (966 sent and 86 collected with 8.9-percent response rate). The questionnaire sheets were sent by mail, and the questionnaire was conducted during the period from January 24 to February 20, 2005. The results of the survey are summarized by the Japan Institute for Labour Policy and Training (2006).

**Table 1. Reasons for not organizing part-time workers  
(multiple answers allowed)**

	(%)
Unable to communicate to part-time workers the advantages of being a union member	43.9
Part-time workers are indifferent to the labor union	36.4
It is difficult to coordinate between the interests of regular employees and part-time workers	33.3
Do not have the know-how to organize part-time workers	28.8
It is difficult to improve the working conditions of part-time workers	21.1
There are no leaders among part-time workers	21.1
Do not have the resources of organizing part-time workers	15.2
The management is strongly opposed to the union organizing activities	10.6
Some regular employees are opposed to union organizing of part-time workers	7.6
Lack of guidance and support from the higher labor organizations	3
Organizing part-time workers will hurt the financial condition of the union	1.5
Expectation on the role of laws and regulations to provide the solutions	1.5
No answer	1.5

**Source:** JILPT Survey. All information the charts hereinafter are based on this survey.

**Note 1:** n = 66

**Note 2:** Others 9.1%.

Among these answers, the answers of indifference of part-time workers and lack of leaders among part-time workers imply that the problem lies on the side of part-time workers. Details are not known why part-time workers are indifferent, but if they are truly indifferent without hostility or resignation toward the labor union, then the labor union needs to make efforts to promote itself. If hostility or resignation is behind the indifference, the labor union needs to positively avoid generating such hostility or resignation. Also, it is difficult to think that leaders will emerge among part-time workers who are excluded in their workplace by the labor union, and even if they do, such leaders are very much likely to oppose the labor union. However it seems on the surface, the problems are not just caused by part-time workers but are also the problems of the labor union.

Among other reasons, problems such as "unable to communicate the advantages," "difficulty in coordinating interests" and "difficulty in improving the working conditions of part-time workers" are in fact problems that need to

be solved by union organizing of part-time workers. When they answer that they "Do not have the know-how to organize part-time workers," does it mean that they have given up organizing workers, which is the top priority activity that make up the foundation of labor unions?

Previous researches indicate that reasons for the difficulty in organizing part-time workers are complex.<sup>5</sup> If we take a look at some of the minor reasons given in the JILPT Survey, it is noteworthy that the reason "The management is strongly opposed to the union organizing activities" is not a major reason for being unable to organize part-time workers. The management's disagreement would be a major impediment for labor unions to organize part-time workers, but it seems that the reasons for the difficulty in organizing part-time workers are based on other factors.

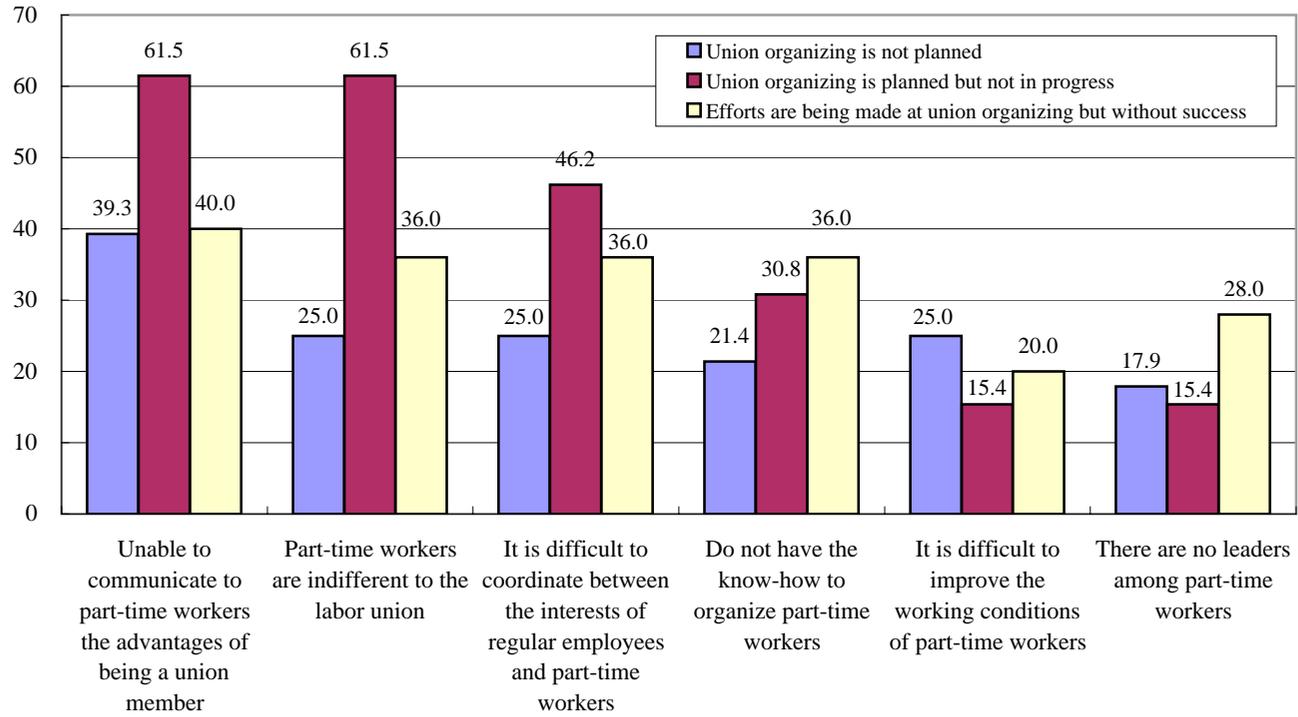
Not many respondents choose the reason "Do not have the resources of organizing part-time workers." There are much fewer respondents selecting the reasons "Some regular employees are opposed to union organizing of part-time workers," "Lack of guidance and support from the higher labor organizations," "Organizing part-time workers will hurt the financial condition of the union" and "Expectation on the role of laws and regulation to provide the solutions." Even if there is inconsistency of interest with regular employees, they are not likely to express straightforward opposition to the extent that will prevent union organizing of part-time workers. The issue of organizing part-time workers is also less to do with the external factors of the guidance and support provided by higher labor organizations, but more to do with how it is dealt with within the individual labor unions. There are views that express concerns that the financial condition of labor unions may be endangered if part-time workers join the labor union since their fees are often set at a lower value than that paid by regular employees, but this is nevertheless a minor reason for not organizing part-time workers. And not many expect laws and regulations, instead of union organizing, to solve the problem of part-time workers.

While we say part-time workers are not organized, there are different stages of union organizing for each labor union. Let us look at this in more detail. Figure 1 shows the different stages of union organizing in relation to six reasons (reasons given by more than 20 percent of the respondents) given as to why part-time workers are not unionized. It shows three different stages: (1)

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<sup>5</sup> For example, Tokyo Toritsu Rodo Kenkyusho (2001).

**Fig 1. Reasons for not organizing part-time workers**  
(answers with 20% or more, for different stages of union organizing)



Union organizing is not planned, (2) Union organizing is planned but not in progress, and (3) Efforts are being made at union organizing but without success.

The sample size is too small for a detailed analysis, but the major trends are clear. That is, for the reasons cited by many, "Union organizing is not planned" is very close to "Efforts are being made at unionization but without success" in terms of the response ratio. It is important to note a slightly higher ratio of responses for "Union organizing is planned but not in progress." To be specific, labor unions that say "Union organizing is planned but not in progress" often give such reasons as "Unable to communicate to part-time workers the advantages of being a union member," "Part-time workers are indifferent to the labor union," "It is difficult to coordinate between the interest of regular employees and part-time workers," and so on. These labor unions see the difficulties of union organizing, such as gaining the understanding of part-time workers on the advantages of being a member, part-time workers' indifference to labor unions, and coordination of interest with regular employees, before they actually face the difficulties. It is the labor unions that say "Union organizing is planned but not in progress" that are most affected by factors hindering the union organizing of part-time workers.

More importantly, these problems that hinder union organizing of part-time workers are not necessarily solved after union organizing actually takes place. Table 2 shows answers given by the labor unions that have organized part-time workers about issues that they face after union organizing. Labor unions that have "No particular issues" after the union organizing of part-time workers constitute less than 1 percent. Almost all labor unions point out that they face certain issues after the union organizing of part-time workers. These issues include "Raising part-time workers' interest in union activities," "Having part-time workers feel the effects of union organizing," "Training part-time workers to become union leaders," "Coordinating the interests of regular employees and part-time workers regarding working conditions," "Promoting closer communication between regular employees and part-time workers," and so on.<sup>6</sup> There are common issues before and after union organizing.

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<sup>6</sup> In addition to unionization, Oh (2004) focuses on a system for reflecting the opinions of part-time workers. Here, it is important to note that, even if a system is established to reflect the opinions of part-time workers, such issues as the extent to which such a system is used and how effective such a system is will remain. According to Kanai (2006), the level of involvement of part-time union members in union activities is

**Table 2. Issues after union organizing of part-time workers  
(multiple answers allowed)**

	(%)
Raising part-time workers' interest in union activities	69.5
Having part-time workers feel the effect of union organizing	49.2
Training part-time workers to become union leaders	48.3
Coordinating the interests of regular employees and part-time workers regarding working conditions	39.8
Promoting closer communication between regular employees and part-time workers	39.8
Increasing union organizing of part-time workers	34.7
Carrying out union activities by taking into consideration non-member workers in addition to part-time workers	22.5
No particular issues	0.8
No answer	8.5

**Note 1:** n = 118

**Note 2:** Others 1.7%.

There is other evidence indicating that various issues remain after the union organizing of part-time workers. Table 3 shows one way in which the labor unions that have organized part-time workers have evaluated the organizing activities. For improvements made in the relationship between regular employees and part-time workers, there is about an equal number of positive answers and answers with doubt about the effects of union organizing (both between 30 and 40 percent). Not many deny the effects of union organizing, but it shows that organizing part-time workers does not solve all the problems that existed before union organizing.

The above observations suggest that the reasons mentioned by the labor unions that have not organized part-time workers and particularly those that have plans to organize them but have not taken any action are issues that cannot be solved simply by organizing part-time workers. These are issues that need to be properly addressed even after union organizing. Could it be that the labor unions that have not organized part-time workers know this and are not organizing them to avoid addressing the various issues that will continue to

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generally lower than that of regular employees, when minor differences in the process of union organizing associated with the methods of organizing of part-time workers and the like are excluded.

exist after union organizing?

**Table 3. Answers to the question "Relationship improved between regular employees and part-time workers after union organizing"**

	(%)
Yes	11
Probably yes	23.7
Neither yes nor no	40
Probably no	0.8
No	11
No response	12.7
Total	100

In any case, recent surveys indicate that opposition or resistance of the management is not the definitive reason for the difficulty in organizing part-time workers. Also, it is not part-time workers but labor unions that potentially have the problems. At present, labor unions are possibly avoiding approaching part-time workers and addressing the issues that they will need to deal with continuously before and after union organizing. There is probably a wide range of reasons for labor unions to avoid this, but one of the underlying reasons, it is believed, is the difficulty in coordinating the interests of regular employees and part-time workers.

#### **4. Effects of Union Organizing of Part-time Workers**

##### **(1) Self-evaluation of Labor Unions on Union Organizing of Part-time Workers**

Union organizing of part-time workers does not solve all the issues related to part-time workers, and union organizing is not the final objective of labor unions. Therefore, we need a viewpoint from which to consider the effects of organizing part-time workers. To be specific, let us examine how labor unions evaluate union organizing of part-time workers and whether or not union organizing of part-time workers has any effect on improving the working conditions of part-time workers.

The JILPT Survey includes questions on how labor unions evaluate union organizing of part-time workers. The questionnaire provides five levels of evaluation for each question, and the respondents must select just one for each

question. For the answers to the questions, five points are given to the answer "Yes," four points to "Probably yes," three points to "Neither yes nor no," two points to "Probably no," and one point to "No." The points are added up for the evaluation on union organizing of part-time workers. In this method of calculation, one is the minimum point and five is the maximum, indicating that the higher the points, the higher the evaluation of the labor unions, and three points or below indicates negative evaluation.

Before taking a look at how union organizing is evaluated in each question, we calculate the total points of ten questions on the evaluation of union organizing. The minimum total of points is 10 and the maximum 50. Table 4 shows the total points on the evaluation of union organizing by industry and by type of shift to the mainstream. The total points are in the range of between 34 and 37, which indicate that when we look at the responses to the 10 questions, the labor unions with organized part-time workers do not give low ratings in their evaluation of union organizing. By industry, the retail industry gives a slightly higher rating than other industries, but otherwise the differences are minimal between industries and by type of shift to the mainstream workforce. However, when we add up the ratings on individual questions by industry and by type of shift to the mainstream workforce, we can observe certain characteristics as shown on Table 5.<sup>7</sup>

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<sup>7</sup> The shift to the mainstream workforce is categorized into different groups, based on the JILPT Survey. The quantitative shift of part-time workers to the mainstream workforce is defined, based on the number of part-time workers compared with three years ago (increased/reduced). To be specific, the questionnaire includes questions about the number of part-time workers, excluding students on part-time, and respondents must select one item among "1. Increased by 30 percent or more," "2. Increased by 10 to 20 percent," "3. No change," "4. Reduced by 10 to 20 percent," "5. Reduced by 30 percent or more," and "6. No part-time workers either now or three years ago." The responses of item 6 and no responses are excluded. Those selecting items 1 or 2 are defined as "having made a quantitative shift," and those selecting items 3, 4 or 5 are defined as "not having made a quantitative shift." For the qualitative shift of part-time workers, the respondents must select one among "1. Almost all part-time workers perform simple, fixed work," "2. The majority of part-time workers perform simple, fixed work, but some perform work that is not simple or fixed (administration, management, sophisticated professional work, work that requires decision making)," "3. Half of part-time workers perform simple, fixed work, and another half perform work that is not simple or fixed," "4. The majority of part-time workers perform work that is not simple or fixed," "5. Almost all part-time workers perform work that is not simple or fixed," "6. Not known to the head office." The responses of item 6 and no answer are excluded. Those selecting item 1 are defined as "not having made a qualitative shift," and those selecting items 2, 3, 4 or 5 are defined as "having made a qualitative shift."

**Table 4. Total points on the evaluation of union organizing of part-time workers (by industry, by type of shift to the mainstream)**

		Total point
Industries	Manufacturing (n=6)	35.7
	Retail (n=61)	37.9
	Others (n=17)	34.2
Types of shift to the mainstream	Without quantitative shift (n=22)	37.3
	With quantitative shift (n=49)	37.4
	Without qualitative shift (n=30)	35.7
	With qualitative shift (n=54)	37.7

**Note:** The calculation excludes no-answer responses.

Firstly, the highest points are given to "It allows us to reflect the opinions of part-time workers in the activities of the labor union." As it has been suggested in the analysis of the questionnaire survey on issues that may arise after union organizing, there is still a need to make a further progress in reflecting the opinions of part-time workers. On the other hand, the lowest points are given to "We are able to maintain the working conditions of regular employees." The points on "Higher retention rate of part-time workers" and "Higher productivity of part-time workers" are also above three points. As it has been noted above, some unions undertook union organizing of part-time workers with the purpose of improving the retention rate of part-time workers or their productivity. The present survey on the evaluation after union organizing indicates the effectiveness of activities performed by such advanced labor unions.

By industry, the retail industry, which gave a slightly higher point on the total evaluation of union organizing, has higher points on individual questions as well. In the retail industry, the following items had four points or more: "We are able to continue to represent the employees at the workplace," "Improved the working conditions of part-time workers," "Reorganization of the wage system of part-time workers," and "It allows us to reflect the opinions of part-time workers in the activities of the labor union." On the other hand, in the manufacturing industry and other industries, only two items and one item had four points or higher, respectively.

By type of the shift to the mainstream workforce, there is no significant

**Table 5. Evaluation on union organizing of part-time workers (by industry, by type of shift to the mainstream)**

	Industries			Types of shift to the mainstream			
	Manufacturing (n=6)	Retail (n=61)	Others (n=17)	Without quantitative shift (n=22)	With quantitative shift (n=49)	Without qualitative shift (n=30)	With qualitative shift (n=54)
Improved the negotiating power against the management	3.67	3.93	3.47	3.68	3.94	3.60	3.94
We are able to continue to represent the employees at the workplace	4.17	4.08	3.94	4.09	4.04	3.90	4.15
We are able to maintain the working conditions of regular employees	3.00	2.92	2.59	3.05	2.71	2.83	2.87
Improved relationship between regular employees and part-time workers	3.50	3.62	3.47	3.55	3.59	3.53	3.61
Improved the retention of part-time workers	3.50	3.46	2.94	3.50	3.35	3.37	3.35
Improved the productivity of part-time workers	3.50	3.44	3.24	3.27	3.51	3.37	3.43
Improved the working conditions of part-time workers	4.00	4.25	3.65	4.14	4.12	3.93	4.20
Reorganization of the wage system of part-time workers	3.17	4.13	3.53	4.05	3.98	3.77	4.04
It allows us to reflect the opinions of part-time workers in the activities of the labor union	3.83	4.30	4.00	4.32	4.29	4.03	4.30
Enhanced union activities	3.33	3.79	3.41	3.68	3.84	3.37	3.85

**Note:** The calculation excludes no-answer responses.

difference in the evaluation between unions that have and that have not made a quantitative shift. It can be noted that the labor unions with quantitative shift to the mainstream workforce did not give low ratings on such items as "We are able to continue to represent the employees at the workplace," "Improved relationship between regular employees and part-time workers," and "Improved the working conditions of part-time workers." This indicates that union organizing of part-time workers is effective to a certain extent in the unions' representation of employees and in maintaining the organizational order of the workplace, which are required of labor unions that make a quantitative shift of part-time workers to the mainstream workforce.

On the other hand, the labor unions with the qualitative shift give higher ratings on union organizing of part-time workers. Except for the lowest points given to the item "We are able to maintain the working conditions of regular employees," which are at about the same level as those of the labor unions without the qualitative shift, the labor unions with the qualitative shift had higher ratings for all other items than the labor unions without the qualitative shift. Naturally, the unions with the qualitative shift give higher ratings on such items as "Improved the negotiating power against the management," "Improved relationship between regular employees and part-time workers," "Improved the working conditions of part-time workers," and "Reorganization of the wage system of part-time workers." It seems that labor unions are responding effectively to meet what is required of unions that make the qualitative shift of part-time workers to the mainstream workforce.

## **(2) Labor Union Activity to Improve Working Conditions of Part-time Workers**

Let us now examine the activities for improving the working conditions of part-time workers. In the JILPT Survey, the degree of formality is used to assess activities of labor unions in improving working conditions. In the questionnaire, formality is classified into 3 levels on 12 items. For evaluation, two points are given to "Considered as an item of formal negotiation/discussion with the management," one point to "Not considered as an item of formal negotiation/discussion with the management, but information/opinions are informally exchanged," and zero point to "No activities in particular." For all of 12 items, the maximum points are 24, and the minimum 0.

Table 6 shows the distribution of points on the 12 items on improvement of

working conditions. Labor unions with a score of 0 made up 10.8 percent. If we look at the percentages for every five points, labor unions are slightly more concentrated in the score range between 5 and 9 points and between 15 and 19 points with 29.0 percent and 22.6 percent, respectively. There are also 8.6 percent of unions with a score of 20 points or above. This shows that there is a wide range of labor unions, from those that are not engaged in any activities for improving the working conditions of part-time workers to those that are working eagerly in such activities.

**Table 6. Distribution of points on improvement of working conditions**

0 point	10.8%
1 to 4 points	11.8%
5 to 9 points	29.0%
10 to 14 points	17.2%
15 to 19 points	22.6%
20 points and above	8.6%
Total	100%

**Note:** The calculation excludes no-answer responses.

Thus, the average total points are calculated by industry and by type of shift to the mainstream in Table 7. By industry, the retail industry has the highest points at 13.49, followed by other industries with 11.71 points and the manufacturing industry with the lowest points of 7.33. By type of shift to the mainstream, labor unions with the shift have higher total points. Labor unions with quantitative and qualitative shifts have 13.58 points and 13.74 points, respectively, which are 3 points higher than labor unions without quantitative shift (10.67 points) and without qualitative shift (10.37 points). This implies that labor unions are responding to the requirements of improving the working conditions of part-time workers, which is necessitated by the shift of part-time workers to the mainstream workforce. In particular, the retail industry, in which such need is strongly felt, is making active efforts in meeting this need.

Here, let us examine the individual efforts made in greater detail on Table 8. By industry, the retail industry, which had the highest total points, also has high points on individual activities. With the exception of the item on the promotion of part-time workers to the status of regular employees, the retail industry has

**Table 7. Total points on activities for improving the working conditions of part-time workers (by industry, by type of shift)**

		Total point
Industries	Manufacturing (n=15)	7.33
	Retail (n=78)	13.49
	Others (n=21)	11.71
Types of shift to the mainstream	Without quantitative shift (n=30)	10.67
	With quantitative shift (n=66)	13.58
	Without qualitative shift (n=43)	10.37
	With qualitative shift (n=70)	13.74

**Note:** The calculation excludes no-answer responses.

higher points for all individual activities compared with manufacturing and other industries. For 9 out of 12 activities, the retail industry has a score of 1 point or higher. In the order of points, these include "Increase of hourly wages" (1.55), "Introduction/improvement of the evaluation system" (1.46), "Introduction/increase of periodical pay raise" (1.35), "Introduction/increase of bonus payment" (1.33), "Improvement in holidays" (1.20), "Continuation of employment" (1.15), "Optimization of working hours" (1.13), "Introduction/improvement of the qualification system" (1.04), and "Promotion to regular employees" (1.00), showing that they are conducting a wide range of activities in improving working conditions. In particular, they are vigorously engaged in activities related to hourly wages, evaluation system, periodical pay raise, and bonus payment. Meanwhile, the retail industry has relatively higher points for "Change of tasks" (0.94) and "Division of work with regular employees" (0.82), when compared with other industries. Although the scores are still below one point, the unions in the retail industry are very close to having informal talks with the management. They are also motivated about improving the work of part-time workers, including setting the range of work and changing tasks for part-time workers.

For individual activities by type of shift of part-time workers to the mainstream workforce, labor unions with the shift have higher points than those without. In particular, labor unions with quantitative shift have higher points for "Increase of hourly wages" (1.46), "Introduction/increase of bonus payment" (1.41) and "Introduction/improvement of the evaluation system" (1.39). Labor unions with qualitative shift also have higher points for "Increase

**Table 8. Total point on activities for improving the working conditions of part-time workers  
(by industry, by type of shift)**

	Industries			Types of shift to the mainstream			
	Manufacturing (n=15)	Retail (n=78)	Others (n=21)	Without quantitative shift (n=30)	With quantitative shift (n=66)	Without qualitative shift (n=43)	With qualitative shift (n=70)
Increase of hourly wages	1.07	1.55	1.19	1.38	1.46	1.33	1.50
Introduction/increase of periodical pay raise	0.60	1.35	1.00	1.13	1.25	0.98	1.33
Introduction/increase of bonus payment	0.93	1.33	1.19	1.16	1.41	1.09	1.37
Introduction/increase of retirement allowance	0.47	0.90	0.43	0.68	0.83	0.74	0.79
Introduction/improvement of the evaluation system	0.53	1.46	1.24	1.18	1.39	1.09	1.46
Introduction/improvement of the qualification system	0.40	1.04	0.95	0.74	1.07	0.70	1.09
Optimization of working hours	0.53	1.13	1.05	0.86	1.07	0.81	1.19
Improvement in holidays	0.53	1.20	1.00	0.91	1.91	0.82	1.25
Promotion to regular employees	0.67	1.00	1.29	0.94	1.09	0.80	1.16
Division of work with regular employees	0.67	0.82	0.62	0.65	0.84	0.70	0.81
Change of tasks	0.40	0.94	0.71	0.65	0.99	0.65	0.95
Continuation of employment	0.53	1.15	1.05	0.91	1.16	0.79	1.22

**Note:** The calculation excludes no-answer responses.

of hourly wages" (1.50), "Introduction/improvement of the evaluation system" (1.46)" and "Introduction/increase of bonus payment" (1.37). In response to the shift of part-time workers to the mainstream workforce, labor unions are working on improving part-time workers' working conditions with a particular emphasis on wages.

### **(3) Activities Related to Wages**

Based on the results of the JILPT Survey, it is evident that labor unions focus on wages in their activities to improve the working conditions of part-time workers. Therefore, let us now concentrate our analysis on the wage system. The JILPT Survey presents four types of wage systems as shown below and asks questions on the current wage systems of part-time workers and on the wage systems that labor unions aim to introduce as part of their policy.

1. Providing part-time workers with a wage system that is different from that of regular employees and treating all part-time workers almost equally (collective wage system of part-time workers)
2. Providing part-time workers with a wage system that is different from that of regular employees and treating individual part-time workers differently based on their skills, etc. (individual wage system of part-time workers)
3. Minimize the wage gap between regular employees and part-time workers if they are doing the same work (equilibrium wage system)
4. The same wage system for both regular employees and part-time workers (integrated wage system)

Table 9 shows the result of cross tabulation between the current and future wage systems of part-time workers. For the current wage system, the "individual wage system of part-time workers" has the highest percentage at 65.7 percent. It is followed by the "collective wage system of part-time workers" (29.4 percent). Individual treatment is already more widespread than collective treatment of part-time workers. The percentage is small for the "equilibrium wage system" and "integrated wage system," indicating that these systems are still exceptional.

Labor unions that selected the "individual wage system of part-time workers" for the current wage system, which make up the majority, can be divided into

**Table 9. Cross table between the current wage system and future wage system**

		Future wage system				
		Collective wage system of part-time workers	Individual wage system of part-time workers	Equilibrium wage system	Integrated wage system	Total
Current wage system	Collective wage system of part-time workers (n=30; 29.4%)	16.7	40	40	3.3	100
	Individual wage system of part-time workers (n=67; 65.7%)	3	46.3	47.8	3	100
	Equilibrium wage system (n=4; 3.9%)	0	0	50	50	100
	Integrated wage system (n=1; 1.0%)	0	0	0	100	100
	Total (n=102; 100%)	6.9	42.2	45.1	5.9	100

**Note:** The calculation excludes no-answer responses.

two groups with respect to their future actions: one group sticking with their current system (46.3 percent) and the other moving toward the "equilibrium wage system" (47.8 percent). Among the labor unions that selected the "collective wage system of part-time workers" for the current system, not many are willing to stick with their current system (16.7 percent), and many aim at moving toward the "individual wage system of part-time workers" (40.0 percent) or "equilibrium wage system" (40.0 percent). But only a few labor unions wish to move toward the "integrated wage system." A small number of labor unions that selected the "equilibrium wage system" or "integrated wage system" for the current system do not intend to go back to conventional wage systems for part-time workers.

Let us examine in more detail how they are moving from current to future wage systems for part-time workers. Instead of collectively managing part-time workers in the conventional way, there is a trend toward the individual management style and further to a management style that clearly takes into consideration the regular employees. Focusing on this point, let us conduct a quantitative analysis by calling the "collective wage system of part-time workers" as Stage 1, the "individual wage system of part-time workers" as Stage 2, "equilibrium wage system" as Stage 3, and "integrated wage system" as Stage 4.

Table 10 shows the result of calculation of the stages of the current and future wage systems, by industry and by type of shift to the mainstream. With regard to the stages of the current wage system, other industries (2.05) are slightly more advanced toward the "equilibrium wage system," and they are followed by the retail industry (1.75). The table indicates that the manufacturing industry still remains somewhere between the "collective wage system of part-time workers" and "individual wage system of part-time workers." For the stages of the future wage system, on the other hand, the retail industry (2.63) has the highest points, indicating that it is positively moving forward beyond the "individual wage system of part-time workers" and toward the "equilibrium wage system." The manufacturing industry (2.00) is aiming to reach the stage of the "individual wage system of part-time workers." The other industries (2.29) also aim to reach the stage of the "equilibrium wage system" but are not as motivated as the retail industry.

By type of shift to the mainstream, the labor unions with quantitative shift (1.83) are more advanced than those without (1.69), and the labor unions with

**Table 10. Stages of the current and future wage systems of part-time workers (by industry, by type of shift)**

		Stage point	
		Current	Future
Industries	Manufacturing	1.53	2.00
	Retail	1.75	2.63
	Others	2.05	2.29
Types of shift to the mainstream	Without quantitative shift	1.69	2.23
	With quantitative shift	1.83	2.54
	Without qualitative shift	1.67	2.26
	With qualitative shift	1.84	2.65

qualitative shift (1.84) are further ahead than those without (1.67). For the future wage system of part-time workers, even the labor unions without quantitative shift (2.23) and those without qualitative shift (2.26) are motivated in reorganizing the wage systems. They are, however, slightly less committed than the labor unions with quantitative shift (2.54) and those with qualitative shift (2.64). Anyhow, labor unions are showing their commitment toward the future wage system as a result of the quantitative and qualitative shift of part-time workers to the mainstream workforce. Their target, however, has not yet been set at the stage of the "equilibrium wage system."

#### **(4) Analysis by Union Organizing of Part-time Workers**

Let us examine whether union organizing of part-time workers contributes to activities for improving the working conditions of part-time workers and to the change of wage systems for the future. We compare labor unions with organized part-time workers and those that have not unionized part-time workers on the efforts made in improving the working conditions of part-time workers.

Table 11 shows that the labor unions with organized part-time workers have much higher total points (15.10) than those that have not organized part-time workers (3.74). As for individual activities, while the labor unions with organized part-time workers have a low of no less than 0.90 and have a high of 1.75, the labor unions that have not organized part-time workers have points as low as 0 and a high of not more than 0.59, showing a large gap between the

workers. The labor unions with organized part-time workers are at a more advanced stage (1.81) than those that have not organized part-time workers for the current wage system of part-time workers as well as for the future wage system (2.59). Clearly, the labor unions with organized part-time workers have a well-organized wage system and are also more advanced with respect to the future target.<sup>8</sup>

**Table 12. Stages of the current and future wage systems of part-time workers (by union organizing of part-time workers)**

	Stage point	
	Current	Future
Labor unions with organized part-time workers	1.81	2.59
Labor unions without organized part-time workers	1.57	2.17

**Note:** The calculation excludes no-answer responses.

**(5) Summary of the Analysis of the Survey**

On the evaluation of union organizing, the labor unions with organized part-time workers recognize the effect of union organizing on improving the retention of part-time workers and their productivity. These reasons often drive labor unions to organize part-time workers. Improvement of the retention and productivity of part-time workers can be considered essentially as part of the duties of the management as part-time workers make the shift to the mainstream workforce. If that is the case, labor unions can be regarded as having functions to monitor the management’s response to the shift of part-time workers to the mainstream workforce or to respond to the shift on behalf of the management.

Judging from the calculation of points representing the labor unions’ activities for improving the working conditions of part-time workers, we see on the whole that there is a wide range of labor unions, from those that are not engaged in any activity to those that are extremely active in their commitment. Labor unions in the retail industry and labor unions of the companies in which quantitative and qualitative shift of part-time workers to the mainstream

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<sup>8</sup> A sample analysis based on materials provided by labor unions also indicates that the labor unions with organized part-time workers tend to have individualized wage systems, implying that the presence of labor unions has an effect on improving the wage systems of part-time workers. See Honda (2002a).

two. Although the labor unions that have not organized part-time workers are also engaged in activities for improving the working conditions of part-time workers, the level of their activities is nowhere near that of labor unions with organized part-time workers. Based on these results, the expectation that improvement will be made in the working conditions of part-time workers at companies that have no labor unions is mere illusion.

**Table 11. Activities for improving the working conditions of part-time workers (by union organizing)**

		Labor unions with organized part-time workers	Labor unions without organized part-time workers
Total point		15.10	3.74
Individual point	Increase of hourly wage	1.75	0.37
	Introduction/increase of periodical pay raise	1.50	0.19
	Introduction/increase of bonus payment	1.57	0.23
	Introduction/increase of retirement allowance	0.97	0.14
	Introduction/improvement of the evaluation system	1.53	0.59
	Introduction/improvement of the qualification system	1.11	0.33
	Optimization of working hours	1.26	0.32
	Improvement in holidays	1.33	0.32
	Promotion to regular employees	1.16	0.54
	Division of work with regular employees	0.90	0.33
	Change of tasks	1.00	0.32
	Continuation of employment	1.29	0.29

**Note 1:** The total points are the average of the labor union totals and may not match the total of all individual items.

**Note 2:** The calculation excludes no-answer responses.

Table 12 shows the stages of the wage system of the labor unions with organized part-time workers and those that have not organized part-time

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workforce is occurring are actively involved in activities for improving the working conditions of part-time workers. Labor unions in the retail industry are also eager in individual activities, promoting improvements in the working conditions of part-time workers in a wide range of areas. Labor unions of the companies in which the quantitative and qualitative shift of part-time workers to the mainstream workforce is progressing are engaged in individual activities with a particular focus on issues related to wages.

If we focus on the wage system of part-time workers within the context of activities for improving the working conditions of part-time workers, the "individual wage system" is currently more widespread than the "collective wage system." As for the future wage system, labor unions in the retail industry show the strongest interest in going beyond the "individual wage system" and moving toward the "equilibrium wage system." Labor unions that are at more advanced stages in the quantitative and qualitative shift of part-time workers to the mainstream workforce are not only more advanced with regard to the current wage system, but are also more active with respect to the future wage system.

When we look at labor unions that have and that have not organized part-time workers, labor unions with organized part-time workers are more active than those that have not organized part-time workers in both general and individual activities for improving the working conditions of part-time workers. Also, labor unions with organized part-time workers are more advanced with respect to the current wage system and are also eager to improve the wage system in the future. While labor unions recognize the value of the union organizing of part-time workers, labor unions should also be recognized for their achievement in improving the working conditions of part-time workers.

## **5. Conclusion**

According to the analysis of the questionnaire survey, union organizing of part-time workers is necessitated by the shift of part-time workers to the mainstream workforce. In addition, union organizing of part-time workers proves to be an effective factor in advancing activities for improving the working conditions of part-time workers. Based on these observations, we can draw the following implications for union organizing of part-time workers.

Firstly, the role of labor unions should not be underrated even if progress is not made in union organizing of part-time workers. In relation to the shift of

part-time workers to the mainstream workforce, labor unions not only respond to the needs that arise as a result of the shift, but also monitor the activities of the management to see if it is also responding to needs that arise as a result of the shift. In some cases, labor unions respond to those needs on behalf of the management. If so, it is the labor unions that hold the key to bringing about an appropriate shift of part-time workers to the mainstream workforce. The labor unions have an important role to play.

Secondly, the analysis of the union organizing process of part-time workers indicates that the labor and management have common interests, such as in improving the retention rate and productivity of part-time workers. To realize union organizing, it seems effective for the labor and management to clarify the advantages and disadvantages of union organizing of part-time workers and then arrive at a common understanding. It will probably be the labor unions that will take the initiative in the formation of this common understanding by convincing the management about the advantages of organizing part-time workers.

Thirdly, if part-time workers are organized, the next step in forming the appropriate shift to the mainstream workforce is to increase the involvement of part-time workers in labor unions as labor unions start to take on full-scale activities for improving the working conditions of part-time workers. Then the question will be how to encourage part-time workers to join the labor union and how to collect and reflect their opinions on the union activities. In short, the shift of part-time workers to the mainstream gives pressure to labor unions to organize part-time workers, but after union organizing is realized, the involvement of part-time workers will be required. From this viewpoint, the mutual relationship between the shift of part-time workers to the mainstream and labor unions will continue.

The above three points all require positive reevaluation on the role of labor unions. The most important issue for labor unions will not only be to accept the advancement of the shift of part-time workers to the mainstream workforce, but also to review, without being bound to the conventional union principles, labor unions' functions and activities as they take on the central role in the appropriate shift of part-time workers to the mainstream. Starting from this viewpoint, repeated discussions will clarify the significance of labor unions in relation to part-time work and activate labor unions.

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# Current Situation of and Issues in Labor-management Communication

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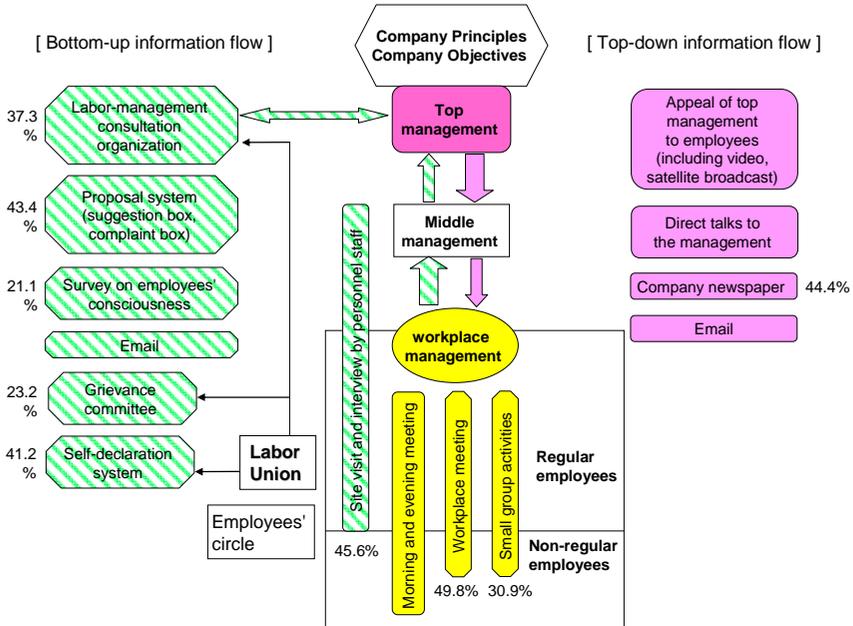
## 1. Purpose of the Paper and Framework of Analysis

The purpose of this paper is to identify the situation of information sharing between labor unions and management in Japanese companies and to find out what type of issues are found in labor-management communication. Japan is known to have built a stable relationship between labor and management. Top management and labor unions actively share information to contribute to the improvement of the companies' competitiveness. What form does communication between labor and management take now? What is good about their communication system and what issues do they have? To answer these questions, reference can be made to the "Roshi Komyunikeshon Chosa [Survey on Labor-management Communication]," conducted by the Ministry of Health, Labour and Welfare.

Figure 1 shows the framework used to analyze labor-management communication. This figure can be divided into three parts. The right side of the figure shows how information on the company principles and management ideas is conveyed to the workers. Information flows top down for this. In practice, various communication methods are used, such as (1) direct appeal of the management to its workers via company-wide meeting and video/ in-house broadcasting, (2) direct talk with the management, (3) information via company newspaper, and (4) email messages on intranet in the company.

The lower half in the middle of the figure indicates communication that takes place in the workplace. Workers are more attentive to what happens in their workplace and they very often get information on the company through managers directly above them in the workplace. Various types of communication take place in the workplace: (1) formal and informal meetings such as daily morning and evening meetings, (2) workplace meetings, and (3) small group activities. These types of information exchange often include non-regular employees. In particular, meetings may include part-time workers who are shifted to the mainstream workforce, contract employees in charge of important jobs and employees dispatched from other companies, since they are indispensable for operation of the workplace.

**Figure 1. Structure of labor-management communication**



**Note:** The figures shown here indicates the percentage of companies that replied "Yes" to the "Survey on Labor-management Communication 2004."

The left side of the figure, indicates a bottom up flow of information. A few types of mechanisms are available to convey information from the workplace directly to the top management. Information can be directly conveyed to the top management via the labor-management conference system, the proposal system (suggestion box, complaint box, etc.) and email. Recently, more companies are allowing direct emails to be sent to the president. Whether or not the president actually reads all the email messages depends on the circumstances in each company, however, having such a mechanism of direct contact with the management is effective to some degree in implementing good communication. Although the survey on employees' consciousness is restricted due to the fact that it is based on a specific format of questionnaire, it can be used as an alternative to the above three methods for directly conveying employee ideas to the top management.

As means of conveying employee opinion to top and senior management, the grievance committee and self-declaration system are available. By going

through messages that are posted with the grievance committee, one can learn what employees are dissatisfied with and what issues are present in the workplace. The self-declaration system provides a means of gaining access to the positive sentiment of employees. In addition to the above two, human resource personnel can have site visits and interviews with individuals to learn about the sentiment of employees. Casual talk is also important as a means of collecting information since the essence of problems in the workplace can be hidden in offhand remarks made during such talk.

Consequently, many different routes are available for expanding labor-management communication. The question is how effectively these routes work in implementation. This issue is reviewed in the next section.

## **2. Current Situation of Labor-management Communication**

### **(1) Subject of Analysis and Source of Information**

It is not possible to examine all the routes described in Figure 1 due to limitations of data and space. Using the "Roshi Komyunikeshon Chosa [Survey on Labor-management Communication]" conducted every five years by the Ministry of Health, Labour and Welfare, three routes that can be analyzed are examined: (a) workplace meetings, (b) grievance committee, and (c) labor-management consultation mechanisms.

The first "Survey on Labor-management Communication" was conducted in 1972, the second survey in 1977, the third survey in 1984, and then every five years after that. Company surveys and individual surveys are both available, making it possible to see how companies see the situation and what ideas individuals have. In this paper, the latest 2004 survey is mainly used and other past surveys are used from time to time for comparison. When comparing the past survey results, care is required since the survey was conducted on companies with 50 employees or more up to 1994 but changed to 30 employees or more from 1999 on.

### **(2) General Situations**

#### **Importance and Evaluation of Communication**

In the 2004 survey, companies were asked how important labor-management communication was. 88.8 percent of the companies replied "important," 10.4 percent "neither important nor not important" and 0.9 percent "not important." This question was used for surveys from 1999 onwards, and in 1999 86.2

percent of the companies replied it was "important" (21.2 percent "very important," 20.0 percent "relatively important," and 45.0 percent "important"). Importance has improved since 3.7 percent of the companies replied "not important" in the 1999 survey.

For the evaluation of communication, 61.6 percent replied "good" (16.6 percent "very good" and 45.0 percent "relatively good"), 31.6 percent "neither good nor bad," and 6.7 percent "bad" (6.3 percent "relatively bad" and 0.4 percent "very bad"). When "bad" is subtracted from "good," the evaluation is higher in larger companies (72.6 for companies with 5,000 employees or more, while 38.2 for companies with 30 to 49 employees), and there is a clear difference between companies with labor unions (76.1) and without (44.0).

A similar question is also given to individuals. In the total average, 44.0 percent of the individuals replied "good," 40.1 percent "neither good nor bad," and 15.9 percent "bad." Compared with companies, more "bad" responses came from individuals. Table 1 shows the evaluation of good performance compared with the 1999 survey for each attribute and the following points can be observed. (a) More women replied positively, while men decreased, (b) compared with regular employees, more part-time workers replied positively, but the number of part-time workers who replied positively decreased by approximately 5 points in 2004, (c) the higher the job position, the higher the evaluation of communication performance but the number of department/section managers that replied positively decreased in 2004, (d) production and physical workers

**Table 1. Comparison of evaluation by attribute between two surveys**

(Gender)	2004	1999	(Job type)	2004	1999
Men	29.0	34.9	Office workers	29.7	27.2
Women	26.3	17.7	Technical/Research	20.4	28.5
(Employment type)			Production/Physical	20.0	34.8
Regular employees	27.8	28.7	Sales/Services	37.4	29.3
Part-timers	32.7	37.7	Others	25.2	25.5
(Job title)			(Service years)		
Department manager or higher	44.1	49.0	Less than 1 year	39.2	39.6
Section manager	35.0	42.3	1 - 5 years	32.8	25.6
No job title	22.9	23.0	5 - 10 years	14.4	20.9
Total average	28.1	29.2	10 - 20 years	25.7	28.2
			20 years or more	39.3	41.7

**Note:** In the 1999 survey, "divisional manager or higher" and "department manager" were used for job titles. This table shows the figure for the "department manager."

decreased by 14.8 points and technical and research workers decreased by 8.1 points, and (e) those who had either many or few years in service were positive while those who had worked between 5 to 10 years gave the lowest evaluation.

Among all this, it is remarkable to see the reduction by 14.8 points for production and physical workers. The reduction of technical and research workers is not small either. It is possible that the lowered evaluation for jobs in manufacturing industries may be due to the increase of non-regular employees, either dispatched or contracted, and the reduction of the unionization ratio of labor unions. This is an important item needing further clarification in the future.

### **Important Items**

Important items for labor-management communication include, ordered by percentage, (1) personal relationships in the workplace: 66.4 percent, (2) daily improvement at work: 63.1 percent, (3) improvement of work environment: 50.4 percent, (4) working conditions such as wages and working hours: 43.8 percent, (5) education and training: 40.7 percent, (6) welfare, cultural, sports and leisure activities: 34.2 percent, (7) management information, planning, organizational change, new product/service development: 32.8 percent, and (8) human resource management (positioning, dispatch, promotion, retirement system): 31.2 percent. On the other hand, the survey on individuals also shows personal relationships in the workplace (60.5 percent) in first place, but it is followed by working conditions such as wages and working hours (50.9 percent), daily improvement at work (41.0 percent), and improvement of work environment (37.7 percent). In fifth position is human resource management (positioning, dispatch, promotion, retirement system) (30.8 percent), and in sixth is welfare, cultural, sports and leisure activities (20.7 percent), followed by education and training, management information, planning, organizational change, new product/service development (19.0 percent).

This shows that the important items for companies are slightly different from those for individuals. Employees find it important to have better communication for working conditions and human resource management, while companies find communication important for improvements of daily work and work environment. It is natural for individuals to have an interest in their own treatment and therefore, this difference is certainly understood. However, we must note that companies ranked information on business operation at a lower

position.

The 2004 survey clearly shows that 96.8 percent of the companies inform their employees of the business performance and management plans and policies. As means of communication, they (1) use the occasions in which all employees are present (morning meeting, etc.) to give information (68.6 percent), (2) give information only to people who are in specific job positions (64.6 percent), and (3) use company newspaper and notice boards (51.5 percent). As it has been pointed out in section 1, the top management must consistently inform its employees of the company policy and objectives of their activities to bind all together as a force. It is said that general employees do not easily grasp information such as the company policy and objectives even when they are repeatedly told. The top management explains business performance but they do not know to what extent employees understand. The author finds a problem in the fact that items such as business performance are not recognized as important items for communication. Correlation between business performance and this item, if it is analyzed, may generate an interesting result.

### **(3) Workplace Meetings**

#### **Participants**

It seems that workplace meetings play an important role in having good communication in the workplace, as it is indicated in Figure 1. In the 2004 survey, 49.8 percent of the companies replied they "have workplace meetings." In comparison to the past surveys, the figure gradually decreased from 55.3 percent in 1999 to 69.8 percent in 1994 and 68.0 percent in 1989. It has decreased by some 20 points in ten years. Although companies with labor unions have a higher percentage of having workplace meetings, their figure has still decreased from 70.5 percent to 56.9 percent in ten years. In the last ten years, there has been an increase in the number of non-regular employees such as part-time workers, contract employees, and dispatched workers and there has also been a change in the way to work, such as reduced frequency of meeting all workers in the same place at the same time. These facts may be indicated in these figures.

The 1999 survey, which includes a detailed survey on attendees, shows 58.8 percent of companies had all members attending and 35.0 percent of them had representatives only in the meeting. Of the companies that had all members attending, 35.9 percent of them had attendance by part-time workers (calculated

based on those that had workplace meetings attending by all members as 100 percent). Calculation using this result indicates that only 11.7 percent of all companies had workplace meetings with attendance by part-time workers. The 2004 survey shows a reduction in the number of companies that had workplace meetings, and therefore it is assumed that the number of workplace meetings with attendance by part-time workers is further reduced. To have a consensus of members working in the same workplace, an alternative method to workplace meetings must be used but it cannot be identified from the survey on labor-management communication.

### **Items Discussed**

The most popular items discussed during the workplace meetings include items related to daily work operations (86.5 percent), items related to safety and health (64.0 percent), items related to business policy, production, sales and other plans (54.7 percent), items related to education and training (39.2 percent), items related to welfare (36.8 percent). Although it is difficult to compare numbers with the past survey since respondents were asked to select up to two items from the list, three items always remain at the top: daily work operations, safety and health, and management policy. We must note that management policy as well as daily work operations is discussed in the workplace meetings. If workplace managers talk about and explain management policy and plans outside of occasions when all employees are present, or in the company newspaper and notice board, employees will gain a better understanding.

### **Achievements of Workplace Meetings**

Let us look at the evaluation of workplace meetings by companies that organize such meetings. Table 2 summarizes the results of four surveys since 1989. "Improved business operation," "Improved working environment" and "Better personal relationships in the workplace" are always the top three achievements made by workplace meetings. In the beginning of this section, important items for labor-management communication were discussed and those items correspond to this result. It can be assumed that organization of workplace meetings improves labor-management communication.

Table 2 also indicates that in the 2004 survey 18.1 percent of the companies selected the item "Better retention of employees." "Workplace meetings provide

every employee with more information on company management and give them opportunities to speak on their own issues. This result reminds us of the situation described in Hirschman's "Exit/Voice Model".

**Table 2. Chronological changes of achievements by workplace meetings**  
(%)

	2004	1999	1994	1989
Improved business operation	65.1	68.9	61.2	60.6
Improved working environment	60.7	36.8	39.3	39.7
Better personal relationships in the workplace	59.5	47.5	40.4	53.1
Improved productivity	33.0	19.2	21.5	20.8
Better retention of employees	18.1	10.1	8.5	6.7
Others	5.9	3.7	1.9	0.8

**Note:** Multiple answers were allowed for every year asking the respondents to select "up to two main items" while for the 2004 survey respondents were asked to select "all that fit." Thus, the result of the 2004 survey cannot be simply compared with other years.

#### **(4) Grievance Procedure**

##### **Necessity and Method of Grievance Procedure**

It is desirable to have a method to solve problems that employees face in relation to their treatment or daily operation in the workplace. In the 2004 survey, new questions were introduced to ask the necessity of grievance procedure. As a result, 84.2 percent of companies replied that it was necessary. Furthermore, the 2004 survey also included the question "Where and how should the grievance procedure be performed?" The answers include, in order of the frequency, consultation with the manager directly above (66.9 percent), talking to the human resource manager (40.3 percent), workplace meetings (35.4 percent), self-declaration system (35.4 percent), grievance committee (23.6 percent), labor-management consultation mechanism (21.7 percent), talking to the workers' representative (19.0 percent), collective negotiation (5.0 percent), and others (4.1 percent).

The best way to solve the problems that occur in the workplace is to have them solved by consulting the manager directly above. This is difficult, however, when the manager directly above is the source of the problem and if the problem is related to the human resource system it is faster to talk to the human resource manager. It is convincing that many of them answered for consulting the manager directly above or the human resource manager. The items of "workplace

meetings" and "self-declaration system" share the third position from the top but they have different roles to play. Workplace meetings are more suitable for problems related to operation of the workplace and personal relationships. On the other hand, the self-declaration system is used to explore the possibility of getting out of unsatisfactory conditions by requesting a transfer of position. It can be a negative way to solve the problem but it works well as a means of solving unsatisfactory conditions.

Higher expectation is given to the grievance procedure and labor-management consultation mechanism when the company has a labor union. Comparing those with and without labor unions, 37.8 percent are "with" and 16.2 percent are "without" for the grievance committee, with 44.0 percent and 10.2 percent respectively for the labor-management consultation mechanism. When the company has a labor union, grievance procedure or the labor-management consultation mechanism work as neutral bodies and are presumably recognized with high credibility by employees.

### **Complaints Reported**

Close to 90 percent of the companies replied that the grievance committee is necessary, while such organization is actually provided only by 23.2 percent of the companies. This ratio has not changed from the past (25.2 percent in 1999, 20.3 percent in 1994 and 29.2 percent in 1989). Comparing the ratio of establishment of the grievance committee by size of the company, the larger the company the higher the ratio of establishment. The organization is established by 65.9 percent of the companies with 5,000 employees or more, decreasing to 38.1 percent with 1,000 to 4,999 employees, 27.6 percent with 300 to 999 employees, 17.6 percent with 100 to 299 employees, 11.8 percent with 50 to 99 employees, and 6.7 percent with 30 to 49 employees. Small companies may have other methods to solve problems without a formal grievance committee since people know each other very well.

Let us see what complaints are reported. In the 2004 survey, the top of the list of complaints was issues related to daily work operations (61.4 percent), followed by issues related to wages and working hours (47.5 percent), issues related to personal relationships (46.7 percent), issues related to human resource management (positioning, dispatch, pay raise, promotion, retirement system) (33.2 percent), issues related to safety and health (31.0 percent), issues related to education and training (21.2 percent), issues related to gender discrimination

and sexual harassment (18.7 percent), issues related to welfare (16.1 percent), and others (3.3 percent). Although the number cannot be directly compared since respondents were asked to select "up to three items" from the list in the 1999 survey and before, the top three items are always operation of daily work, working conditions and personal relationship. These items are considered important for labor-management communication. Dissatisfaction is generated in relation to these items only because employees are highly interested in these and it indicates that importance must be placed on communication of these items to improve labor-management communication.

Questions were also asked on grievance procedure in the survey on individuals. 13.7 percent of them reported complaints and discontent during the period surveyed, and the most popular complaint was issues related to operation of daily work (48.2 percent). The second popular complaint was issues related to working conditions (45.7 percent), followed by issues related to human resource management (41.5 percent), and issues related to personal relationships (22.6 percent), showing more complains and discontent related to human resource management compared with the survey on companies. Most people reported their complaint and discontent to the "manager directly above" (77.8 percent), followed with a large gap by "through the labor union" (15.1 percent) and "self-declaration system" (10.2 percent).

Reporting to the manager directly above is the easiest way of stating complaint or discontent, however, 86.3 percent did not report complaint or discontent and 31.9 percent of them did not report because "it does not solve any problem" (calculating those who did not report complaint or discontent as 100 percent). 10.6 percent of them did not report because "no formal route is available for complaint or discontent." Some employees have no complaint or discontent, however in the 2004 survey on individuals, 45.0 percent of them had complaint or discontent but did not report it.<sup>1</sup> It can be said that there is a demand for creating a route to easily solve complaint or discontent.

### **Solving Complaints**

It is important to see how a complaint is solved after it is reported. Table 3

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<sup>1</sup> Calculated assuming that 86.3 percent of the individuals did not report complaint or discontent and 47.9 percent of individuals did not report because they did not have any complaint or discontent. Calculation:  $86.3\% \times (100\% - 47.9\%) = 44.96\%$

shows a comparison of the status in solving complaints. 40 percent of people answered "many of them are solved in practice" in 2004 and 1989, while it was only slightly higher than 20 percent in 1999 and 1994. Looking at the chronological changes of "many complaints are not solved," it implies the probability of reaching solutions becomes higher when the economy is better. Further examination is required here.

In the survey on individuals, questions were also asked for consequences after reporting complaint and discontent. 48.2 percent replied "not satisfied with the result." This reply ratio has not changed since 1989. It was 48.6 percent in 1989, 42.6 percent in 1994 and 41.7 percent in 1999. On the other hand, 20.2 percent replied "satisfied with the result," also marking the same percentage for other three surveys. The management believes that their employees are satisfied with the results of the grievance procedure, but employees are not necessarily satisfied in reality. This result implies the difficulty of the grievance procedure.

**Table 3. Chronological changes of solving complaints**

(%)

	2004	1999	1994	1989
Many of them are satisfied through talks	47.4	65.3	65.5	51.7
Many of them are solved in practice	44.0	20.3	22.5	43.0
Many complaints are not solved	3.4	8.1	5.3	3.3
Others	4.0	6.2	6.7	0.9

### **(5) Labor-management Consultation Meetings**

#### **Status of Establishment and Method of Election**

Labor-management consultation meetings have been playing an important role in labor-management communication. As shown in Figure 1, they provide opportunities for direct exchanges of information between the top management and representatives of workers, making it possible for them to share information that is otherwise left untouched if the normal route of the organization is used. From this aspect they must be an effective source of information for the top management but the use of this mechanism is in the decline as far as can be seen with the "Survey on Labor-management Communication." In the first survey in 1972, over 60 percent had the mechanism, while it decreased to 58.1 percent in 1989, 55.7 percent in 1994, 41.8 percent in 1999 and 37.3 percent in

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2004. 85.0 percent of the companies with labor unions had the labor-management consultation mechanism in 2004, but in companies without labor unions this ratio declined after every survey (38.7 percent in 1989, 17.1 percent in 1999 and 15.0 percent in 2004).

For 57.9 percent of the companies, labor union representatives act as worker representatives for the labor-management consultation mechanism. This ratio was 65.6 percent in 1999, 65.1 percent in 1994 and 58.5 percent in 1989. The ratio of electing representatives by mutual vote (including labor union members) was 40.0 percent in 2004, 32.6 percent in 1999, 35.4 percent in 1994 and 34.3 percent in 1989. With the reduction of union participation, less companies have their labor-management consultation mechanism represented exclusively by labor union representatives and mutual voting is used more to elect the representatives. This trend is also seen in the companies with labor unions. In 1994, 91.4 percent of the companies with labor unions had labor union representatives acting for the workers representatives. However, it went down to 88.6 percent in 1999 and 78.9 percent in 2004. The faded presence of the labor union also affected the election of representatives for the labor-management consultation mechanism.

### **Agenda**

Let us see what is discussed by the labor-management consultation mechanism. According to the 2004 survey, over 80 percent of the companies had the following seven items for their agenda: (1) working hours and holidays: 92.6 percent, (2) change of working style: 88.3 percent, (3) safety and health at the workplace: 88.2 percent, (4) welfare: 87.4 percent, (5) wages and allowances: 86.3 percent, (6) holidays for child raising and elderly care: 81.3 percent, (7) severance pay and retirement criteria: 80.1 percent. Comparing with 1999, two items (holidays for child raising and elderly care, and severance pay and retirement criteria) are added to those over 80 percent and the ratio of other items over 80 percent taken to the agenda also increased. Despite the reduction in the number of companies with the labor-management consultation mechanism, labor-management communication has become more intense in the companies that have the labor-management consultation mechanism.

This is also indicated by the increased number of companies that include management policy in the agenda compared with 1994. In 1994, 53.7 percent of the companies took this subject in their agenda and it went up to 76.0 percent in

1999 and 71.1 percent in 2004. Although there was a reduction of five points from 1999 to 2004, the percentage increased almost 20 points compared with 1994. The fact that business policy is discussed with the labor-management consultation mechanism presumably provides a means of gathering the force of employees in achieving business objectives. In fact, among the achievements obtained by the labor-management consultation, which are discussed later, "Employees are more interested in operation of the company" marked 43.0 percent. Seriously engaged in labor-management consultation, these companies are probably obtaining one of the conditions required to enhance their competitiveness (concentration of the force of employees).

### **Achievements from Labor-management Consultation**

To the question whether or not achievements were made with the labor-management consultation, 61.3 percent of the companies replied "Made achievements" and only 3.3 percent "Made no achievements" (the rest, 35.4 percent, replied "Neither yes nor no"). The ratio of the companies that replied "Made achievements," 63.0 percent in 1999, 69.7 percent in 1994 and 66.2 percent in 1989, remains almost constant throughout the surveys, considering the size of companies (50 employees or more before 1999 and 30 employees or more in 1999 and later).

Then, what achievements did they make specifically? Table 4 summarizes achievements made by labor-management consultation for four different periods. Since respondents were asked differently in selecting answers for the surveys up to 1999 from 2004, the numerical figures cannot be directly compared but the top response remains improved communication with the labor union. Although respondents were asked to select all that fit in 2004, the figures are lower than those in 1999. It is possibly related to the fading presence of the labor union.

In addition, labor-management consultation is evaluated for readjustment of the working environment and improved operation of company activities. The top management of companies finds it positive to the operation of their companies to have a direct exchange of information between the top management and the representatives using the labor-management consultation mechanism. In the survey on individuals, individuals were asked the extent of details that they know of contents of the discussion that took place in the labor-management consultation mechanism. In the total average, 43.6 percent of

**Table 4. Chronological changes of achievements by labor-management consultations**

(%)

	2004	1999	1994	1989
Improved communication with the labor union	53.2	63.9	64.0	59.9
Useful for rearrangement of working environment	48.9	33.9	35.2	36.3
Employees are more interested in operation of the company	43.0	25.5	29.7	22.6
Improved operation of company activities	35.7	41.0	36.0	43.2
Higher satisfaction of employees for work	17.8	8.3	9.2	14.9
Others	5.4	7.3	0.8	0.6

**Note:** Multiple answers were allowed for every year asking the respondents to select "up to two items" while for the 2004 survey respondents were asked to select "all that fit." Thus, the result of the 2004 survey cannot be simply compared with other years.

them replied that they know the contents "well" and 45.1 percent "partially." Only 11.3 percent replied "very little." The higher the job position, the higher the degree of recognition. However, of the individuals that were not in the managerial position, only 14.7 percent replied "very little" and 33.3 percent of them replied "well." It indicates that employees also have a certain degree of knowledge on what is discussed in the consultation. For one of the future research subjects, it is important to see the difference in the business performance between companies with and without the labor-management consultation mechanism.

#### **(6) Methods of Communication Being Considered**

At the end of this section, let us look at the methods of communication being considered. Table 5 summarizes the results of surveys on individuals for 2004 and 1994 and those for companies for 2004, 1999 and 1994. For the 1999 survey, the results for individuals are not available since this question was not included in that year.

For the chronological changes in the consciousness of individuals, the first and second positions are taken by "workplace meetings" and "survey on employees' consciousness", and other items also remain in the same positions without much change. In terms of the ratio, however, there is a noticeable reduction in the workplace meeting (50.2 percent in 1994 to 36.6 percent in 2004) and the labor-management consultation mechanism (41.6 percent to 27

percent respectively). The ratio of selection is also reduced generally. Adding all items, the ratio is 236.6 percent in 2004 and it is 255.8 percent in 1994. Considering that two items were reduced for the 1994 survey, the figure is relatively much smaller in 2004. Communication between workers and management may be affected by a feeling of helplessness.

**Table 5. Chronological changes in methods of communication being considered**

	Individuals 2004	Individuals 1994	Companies 2004	Companies 1999	Companies 1994
Workplace meeting	② 36.6	① 50.2	① 57.2	① 53.7	① 55.7
Self-declaration	⑦ 19.3	⑥ 25.6	② 37.8	② 30.2	⑤ 35.7
Site visit and interview by human resource personnel	④ 23.8	—	③ 36.3	⑧ 19.5	—
Survey on employees' consciousness	① 43.3	② 42.0	④ 34.8	④ 24.4	⑥ 26.0
Proposal system	⑥ 21.2	⑤ 27.3	⑤ 28.2	⑥ 20.5	② 48.1
Labor-management consultation organization	③ 27.0	③ 41.6	⑥ 23.1	③ 28.8	③ 42.3
Company newspaper	⑨ 9.9	⑦ 16.1	⑦ 21.1	⑨ 12.0	⑦ 22.7
Employees' organizations	⑧ 15.4	—	⑧ 20.8	⑦ 20.3	—
Small group activities	⑩ 9.2	⑧ 15.9	⑨ 17.7	⑤ 21.9	④ 36.5
Grievance committee	⑤ 23.7	④ 31.4	⑩ 17.2	⑩ 10.2	⑧ 14.7
Others	⑪ 7.2	⑨ 5.7	⑪ 5.6	⑪ 7.8	⑨ 5.1

Note: In the 1999 survey on companies, respondents were asked to select "up to three main items" from the list. In 2004 and 1994 on the other hand, respondents were asked to select "all that fit."

Let us now look at the surveys on companies. Considering the method of selection used, it is appropriate to compare 2004 and 1994. The positions are changed for four items: the self-declaration system (from 5th in 1994 to 2nd in 2004), the proposal system (from 2nd to 5th respectively), the labor-management consultation mechanism (from 3rd to 6th respectively), and small group activities (from 4th to 9th respectively). The ratio is changed substantially for three items: the proposal system (from 48.1 percent in 1994 to 28.2 percent in 2004), the labor-management consultation mechanism (from 42.3 percent to 23.1 percent respectively), and small group activities (from 36.5 percent to 17.7

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percent respectively), while the survey on employees' consciousness increased from 26.0 percent to 34.8 percent. This result indicates that the method of communication has been changing from a collective style to an individual style. Individualistic human resource management has been developed in the last ten years and it is possible that this management style is also affecting labor-management communication.

### **(7) Summary of This Section**

In this section the current situation of the labor-management communication has been analyzed using the result of the recently published 2004 survey on labor-management communication. As a result, the following points are made clear.

- (a) Close to 90 percent of the companies consider that labor-management communication is important and companies believe that they have good communication in general. Employees, on the other hand, do not think it is as good as companies believe.
- (b) Both companies and individuals place the most importance on "personal relationship at the workplace" for communication. The second item and below differ between the two, indicating differences in their recognition.
- (c) Approximately half of the companies have workplace meetings, but it decreased by some 20 percent in ten years. In the workplace meeting, their three main discussion topics are operation of daily work, safety and health, and management policy. As for the achievements of the workplace meeting, they point out three items: improved business operation, improved working environment and better personal relationships in the workplace.
- (d) 84.2 percent of the companies replied that the grievance committee is necessary, while such committee is actually provided only by 23.2 percent of the companies. The larger the company the higher the ratio of establishment of the committee. The three most popular complaints are daily work operations, working conditions and personal relationships.
- (e) Only 13.7 percent of individuals actually reported complaint or discontent to their companies, and 45.0 percent of them did not while they had either complaint or discontent. Complaint and discontent of individuals are more concentrated on personal relationships compared with those of companies. And most individuals reported their complaint and discontent to the "manager directly above."

- (f) As for solutions to complaints, the management believes that their employees are satisfied with the result of grievance procedure, but employees are not necessarily satisfied in reality.
- (g) The number of companies that established the labor-management consultation mechanism is on the decrease, down to 37.3 percent in 2004. The representative of workers for this mechanism was traditionally selected from the representative of labor union, but in 2004, 40.0 percent of them represented by those who were selected by mutual vote with workers (including labor union members).
- (h) The ratio of agenda increased in the companies with the labor-management consultation mechanism, indicating that labor-management communication has become more intense. More than 60 percent of the companies claim that they had achievements with labor-management consultation, believing that they had positive effects in every aspect for the operation of their companies. According to the survey on individuals, relatively a large number of individuals know what is discussed in the labor-management consultation.
- (i) For methods of communication to be considered, individuals point out the survey on employees' consciousness and workplace meeting, while companies point out the workplace meeting, self-declaration system, and site visit and interview by human resource personnel. It seems that the method of communication has been changing from a collective style to an individual style.

### **3. Issues of Labor-management Communication**

#### **Reviewing the Role of Labor Unions**

In the previous section, it has been pointed out that the presence of labor unions is fading in the labor-management communication. The union participation ratio was reduced to 18.7 percent as of June 2005, showing no sign of stopping its decline since 1975. There are an increasing number of labor unions that do not represent the majority of workers due to that fact that part-time workers and other non-regular employees are not unionized even when the company has a labor union. For communication in the company, some point out that it is not realistic to depend on the labor union.

A close look at the survey on labor-management communication, however, indicates that labor-management communication is better in the companies with

labor unions. For example, 80.1 percent of the companies with labor union claim that they have good communication, while 52.2 percent of the companies without labor unions claim the same, 30 points lower than the former. As for the grievance procedure, 46.8 percent of the companies with labor union have their committee, while it is 11.0 percent for those without labor unions. The presence of a labor union does improve the quality of communication.

Consequently, the largest issue in improving labor-management communication is to review the role of labor unions again. The situation does not improve just by criticizing that "The labor union is to blame for the falling union participation rate and its weakness." Over 90 percent of the labor unions, in terms of the number of both unions and union members, are company-based unions in Japan. It is a general practice to select union leaders from the employees and it is affected by the situation of the company. The presence of a labor union within the company also gives benefits to the top management. In fact, placing importance on the presence of the labor union, the top management takes special care in their human resource management to allow the union to play a sound role as an organization to talk to. This does not imply a "company-manipulated union." The management takes care in human resource management to have the right people for the labor union because they want union representatives to say "Something is wrong" to the management when something is actually wrong at the workplace.

The presence of a labor union improves the quality of labor-management communication and it often provides a positive effect to the operation of company. Here, we see examples of the labor unions of Ajinomoto and Shiseido.<sup>2</sup> The labor union of Ajinomoto tries to collect real voices of the workplace and to give them directly to the top management. The labor union of Shiseido, on the other hand, placed importance on the voice of sales staff working in the field and requested the top management for reform of the sales method.

### **Giving Real Intentions in the Workplace to the Top Management**

In the food industry, special care is taken not only in the manufacturing

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<sup>2</sup> Both cases are based on the interviews conducted by the author. For details of activities conducted by the labor union of Shiseido, see the following web site:  
URL:<http://www.kpcnet.or.jp/e-union/iincho/shiseido-roso.htm>

process but also for all compliance required since their products feed people. The labor union of Ajinomoto launched the campaign called "A-Program" starting from 2002 to improve and intensify the mechanism to check the management for "Sound Development of the Ajinomoto Group," making suggestions to the company. It is not a simple questionnaire, but it is part of a problem solving program and it has a mechanism to identify the person who submits the suggestion.

In the preparation stage of the A-Program, there was a hot debate among the union leaders for whether the suggestion should have the name identified or whether it should be made anonymous. If it was made anonymous, the location of the problem could not be identified and the labor union would not be able to do anything. The labor union was ready to handle the problem once it was reported, and therefore they decided to have a name and asked union members to seriously collect information. In the beginning, the labor union was not sure if union members would give their real voice back. The quality of information that can be collected depends on the credibility of the union leaders. Having doubt that the information may go to the management through the union leaders, workers would not give their real voice. For the union leaders it was a very strict baptism of fire.

When the A-Program started, however, they received various information on the actual situations from different workplaces. For example, there was a question "Is the Ajinomoto Group heading for the right direction with the three-year management plan?" Respondents were asked to select one of five levels for evaluation and to write the reason why they thought so. From the information received, they discovered that people did things in the workplace that were totally different from what the management was telling. By summarizing such information, they discussed with the management in the labor-management consultation meeting or asked the labor administration staff to confirm the information.

The A-Program is packed with information from real voices that the management would not be able to collect otherwise and it serves the purpose of enhancing the operation of business. Enhanced operation of business improves the company performance and it eventually benefits members of the labor union. In fact, Ajinomoto Co., Inc. makes a good performance.

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## **Achieving a Sound Sales Method**

Another example is the case of Shiseido where the sales method was renovated by a proposal made by the labor union. It was in a meeting held to determine the requests to be submitted to the annual spring offensive in 1998. It was started by a woman from the central committee who stood up and complained about the actual situation of the sales field. "To have a high number of the sales for the six-month period, we force retailers to take our products and we get products returned in the next month. Retailers do not like this practice. I do not think we have a bright future for Shiseido, if we keep on going like this. The union leaders should know the problem we have in the field of sales," she said. Consequently, the union leaders examined the situation in the sales field and found this forceful sales practice everywhere. Such a sales system also affects production, research and development. The R&D department is forced to send out new products and the production department manufactures their products using overtime and holiday work.

To demand the top management to correct the sales system, the labor union, based on the idea that the union itself must change, did not demand any increase in the average pay value for the annual spring offensive of 1999 and submitted a "zero increase request" with the intention to talk about achieving sound sales practices. The management was still indurate and persisted that "there was no forceful sales practice."

The labor union leaders determinedly submitted the "zero increase request" again for the annual spring offensive of 2000 to still try to talk to the management. A big change occurred in October 2000. Forceful sales increased more than before in September that year and a huge amount of products were returned in October. The labor union leaders sent 100 sheets of urgent questionnaires to union branch offices to examine the situation of sales practice and they received 172 sheets back. The response was filled with all the difficulties found in the sales field. The management did not receive real voices through its official channel. Therefore, they asked the labor union for information received with questionnaires. Working with the management, the labor union made and executed a plan to achieve sound sales practices.

Without the labor union, Shiseido would have continued their forceful sales and might have gradually lost their competitiveness. The company performance was recovered without falling behind only because the labor union leaders urged the management for a reform by obtaining information on the actual

situation and demonstrating their solid determination. It is a good example of close labor-management communication that enhanced the quality of company operation.

#### **4. Summary - Direction of Solution**

Fostering a sound labor union leads to better labor-management communication, as it is indicated by two examples described in the previous section. For the labor union to obtain strength, it needs not only their own efforts but also collaboration of organizations and people around it. Labor unions are based on company-based organizations in Japan. By providing company-based labor unions with good resources and allowing them to talk to the management at an equal level as the management for the mid-and-long-term perspective, Japanese companies will improve their competitive power and it will help Japanese society to proceed with sound development. This topic will be discussed on another different occasion.

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# How Labor Unions Are Perceived by Members and Union Disassociation in Japan\*

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## Summary

This paper describes how Japanese are dissociating from labor unions and examines the reasons why. This paper first describes how Japanese are gradually shifting away from being actively involved in labor unions, and second, it examines the factors behind this trend. It is thought that human relationships in Japan have become partial, formalized, and distant, but such changes are not determining factors in the disassociation from labor unions. This paper identifies how the Japanese perception of labor unions has changed and how the Japanese appreciation of unions has fallen regarding union effectiveness, reliability, existence, and necessity. Subsequently, this paper hypothesizes that employees no longer feel labor unions provide for their needs and therefore they no longer perceive them as necessary. In spite of these perceptions, labor unions have proven to be effective according to studies on the effects of unions. Thus, this paper concludes that labor unions in Japan must reexamine their existing approaches to education and public relations with employees regarding their activities and that they must somehow convey the message that they are indeed necessary and effective in preserving and improving the workplace and livelihood of employees.

## Background

It has been known for a while that Japanese workers are disassociating themselves from labor unions. According to Akihiro Ishikawa, the indifference toward labor unions by young workers in particular began prior to 1970 (Ishikawa 1975, 114). In recent surveys of members of the Japanese Electrical Electronic & Information Union and the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions, their disassociation from the unions was identified as problematic (Japanese Electrical Electronic & Information Union 2000, 17; Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers Unions 2002, 89-91). There are

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\* This report is a revision of Mabuchi (2006).

various possible reasons why workers do not actively participate in unions. This report focuses on worker attitudes, particularly how they view relationships with others in the workplace and how they perceive unions.

The data referenced in this report are national opinion polls based on random sampling methods and surveys of labor union members which were conducted by major industrial organizations in Japan.

The former includes (1) “Nihonjin no Kokuminsei Chousa [Survey on national characteristics of Japanese]” by the Institute of Statistical Mathematics (hereafter referred to as the “ISM survey”), (2) *Nihonjin no Ishiki Chosa* [Survey on value orientation of Japanese] by NHK (Japan Broadcasting Corporation) Broadcasting Culture Research Institute (hereafter referred to as the “NHK survey”), (3) *Yomiuri Shimibun Zenkoku Yoron Chosa* [Yomiuri Shimibun Poll] by The Opinion Poll Division of the Tokyo Head Office of the Yomiuri Shimibun (hereafter referred to as the “Yomiuri poll”), and (4) *Roshi Komyunikeshon Chosa—Kojin Chosa* [Survey of labor-management communications—Individual Survey] by the Ministry of Labour. The latter includes surveys of union members regularly conducted by the Japanese Electrical Electronic & Information Union, the Japanese Federation of Iron and Steel Workers Unions, and the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and the Allied Industries Workers Unions.

There are valid reasons for using opinion polls as well as union member surveys. Examining worker disassociation from unions requires long-term data with identical questions, options, and survey methods. However, examination of various surveys of union members conducted by Japanese labor unions showed that were only a few survey items that meet these criteria, which is why opinion polls were selected as the next-best choice. Of course, the published results of the opinion polls do not show if the respondents are union members and they are not categorized by whether or not the respondents are workers. It should be noted that the results of the opinion polls (i.e. the NHK survey, the ISM survey, and the Yomiuri poll) examined in this paper are data collected from Japanese men and women 20 years or older.<sup>1</sup>

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<sup>1</sup> Ratio of workers is approximately 60 percent in the NHK survey and approximately 65 percent in the ISM survey.

## 1. Disassociation of Japanese Worker from Labor Unions

Figure 1 summarizes the chronological trends in organizing and flexing collective action of Japanese in the workplace, community, and politics in the NHK survey.

The survey questions listed below investigate organizing and flexing collective action at the workplace. The responses for, “We create labor unions together and participate in activities toward better labor conditions” show a long-term trend of worker disassociation from unions.

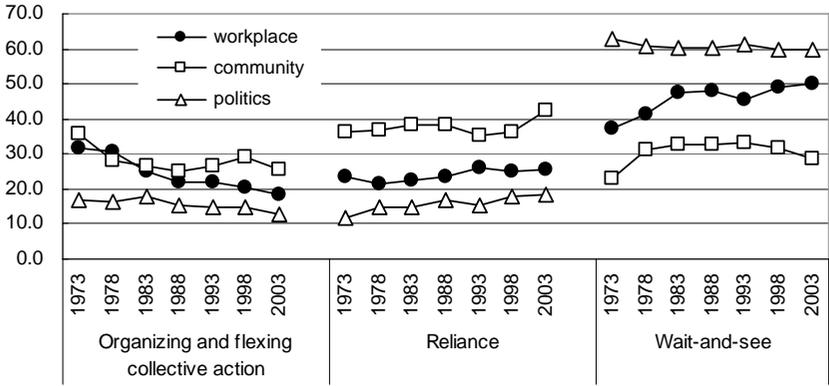
**Question 18 (Workplace):** Suppose you are hired by a recently established company. If, after a while, workers begin to have strong complaints regarding labor conditions such as wages and working hours, what would you do? Please choose from the following options:

1. Since it is my new workplace and labor conditions will probably improve little by little, I will just wait and see how things go. [Wait-and-see]
2. I will ask my boss to improve the labor conditions. [Reliance]
3. I will create a labor union with others and work for better labor conditions. [Action]
4. Others
5. Don't know, No response

Figure 1 clearly shows that those who choose to join a labor union as a solution to workplace issues was 31.5 percent in 1973, declining to 18.2 percent in 2003. (● in the figure indicates [Action])

On the one hand, organizing and flexing collective action in the community gives a different perspective. The NHK survey asks, “If there is a pollution problem that would harm your daily life, what would you do?” In response to this, the ratio of respondents who selected “I will call for a public movement to solve the problem,” which indicates an aggressive attitude equivalent to the organization of a labor union in the workplace, increased continuously from 1993 to 1998 although it had decreased from 1973 to 1988. This ratio showed a slight decline in 2003, but the number of those who preferred to “wait and see” did not increase as observed in workplace issue question; after 1998 there was also an increase in the number of respondents who selected “I will ask local influential people, city officials, or representatives to solve the problem.” The ratio of those who said they would instigate a public movement was 25.5

**Figure 1. Chronological trends of organizing and flexing collective action in the workplace, community, and politics (%)**



**Note:** Created by the author using the NHK Broadcasting Culture Research Institute (2003, 61, 66, 68).

percent in 2003, which is 7.3 percentage points higher than the 18.2 percent who gave the equivalent response for the workplace (“Will create a labor union”). This shows that Japanese are clearly more assertive in tackling community issues rather than labor issues, although this aggressiveness is not extreme.

For questions in the workplace, the ratio of the most passive approach, “Will wait and see”, increased, reaching 50.2 percent in 2003 compared to 37.2 percent in 1973 (● in figure indicates [Wait-and-see]). The response “Will ask my boss,” which is between passiveness and aggressiveness was 23.6 percent in 1973, and staying in the 20 percent range at 25.5 percent in 2003. (● in figure indicates [Reliance]).

These survey results included non-workers, since it does not publish the data from workers only. Still, it is clear that disassociation from unions has been increasing continuously since 1973. These results also indicate that people are disengaging themselves from labor union activities, but not from organizational activities overall.

**2. Partial, Formalized, and Distant Relationships in Japan**

How have Japanese begun to disassociate themselves from labor unions? It has been often pointed out that human relationships in the Japanese workplace have become distant. Most labor unions in Japan are corporate unions, and many

major companies have unions with a union shop system, which means that workplace relationships reflect labor unions. Therefore, one can hypothesize that distant relationships in the Japanese workplace have caused workers to disassociate themselves from labor unions.

**Hypothesis 1:** Distant relationships in the workplace → Disassociation from unions in corporate union system

If this hypothesis is true, we can assume that distant relationships in the community could cause an indifference towards organized public movements in the community. As it was discussed in the previous section, the ratio of the willingness to create a labor union is lower than that of the willingness to initiate a public movement. Therefore, one could assume that human relationships in the workplace have become more distant than those in the community, however; when the ways Japanese actually perceive relationships in the workplace and in the community are compared, this assumption, as well as Hypothesis 1, is contradicted—this point will be investigated in greater detail below.

The first question to be examined is if one would choose a company with a good salary or a family-like ambience. Table 1 summarizes the chronological trend of the responses to this question in the ISM survey.<sup>2</sup>

**Table 1. Popular types of company for Japanese (%)**

	Good salary	Family-like ambience	Others	Don't know
1973	21	74	1	4
1978	18	78	1	3
1993	30	65	1	4
1998	34	62	1	3
2003	44	53	1	3

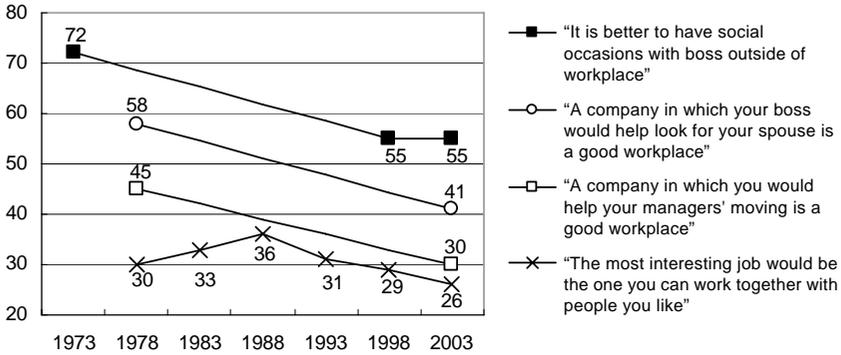
**Note:** Created by the author using the Institute of Statistical Mathematics (2004, 74).

In 1973, a “family-like ambience” accounted for 74 percent of the responses, while “good salary” was only 21 percent; however, “family-like ambience” has declined continuously since 1993, dropping to 53 percent in 2003. On the other hand, “good salary” has shown a definite increase, reaching 44 percent in 2003.

<sup>2</sup> This item was not included in surveys conducted in 1983 and 1988.

Figure 2 shows the number of people who value good relationships with their colleagues and managers.

**Figure 2. Changes in relationships in the workplace (%)**



**Note:** Created by the author using the Institute of Statistical Mathematics (2004, 73, 75, 76, 103).

The number of respondents saying that it was better to have social activities with one's managers outside the workplace was 72 percent in 1973, but this number decreased to 55 percent in 1988 and 2003. In 1978, the number of respondents saying a company in which they would help their managers moves is a good workplace was 58 percent, but this dropped to 41 percent by 2003. Also in 1978, 45 percent of the respondents said a company in which their manager would help them look for a spouse was a good workplace, but only 30 percent said so in 2003. The percentage of respondents saying the most interesting job for them would be one where they could work with people they liked reached its peak in 1988 at 36 percent, but this has since declined continuously, dropping to 26 percent in 2003.

These results show that relationships in the workplace are weakening. For many Japanese, the workplace is not a "commune" where workers share the same interests and work in a friendly atmosphere, but it has become a place where individual workers are there to earn a wage.

The NHK survey seems to indicate this as well. Figure 3 shows the chronological trend of responses from 1973 to 2003 on preferable relationships in the workplace, community, and relatives. Below are several of the questions from the survey (NHK Broadcasting Culture Research Institute 2003, 59, 61,

65):

**Question 17** (Relationships: Workplace): Which type of relationship do you prefer with your colleagues? Choose your response from the list:

1. Confined to work only [Formal relation]
2. Chatting and being social after work [Partial relation]
3. Frequently consulting and helping each other [Comprehensive relation]
4. Other
5. Don't know, no response

**Question 31** (Relationships: Neighborhood): The following list describes different types of relations with neighbors. Which type of relationship do you prefer with your neighbors? Choose your response from the list, regardless of your actual relationship with your neighbors:

1. Greet when meeting each other [Formal relation]
2. Occasional informal chatting [Partial relation]
3. Frequently consulting and helping each other [Comprehensive relation]
4. Other
5. Don't know, no response

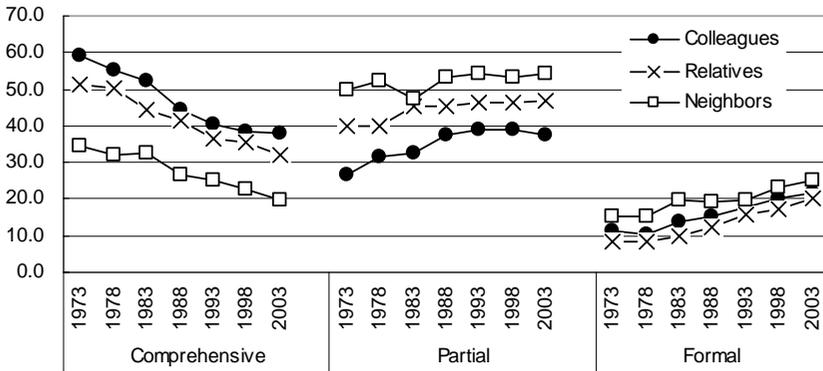
**Question 9** (Relationships: Relatives): Which type of relationship do you prefer with your relatives? Choose your response from the list:

1. Practice basic greetings and other basic obligations [Formal relation]
2. Visit each other informally [Partial relation]
3. Frequently consulting and helping each other [Comprehensive relation]
4. Other
5. Don't know, no response

As Figure 3 shows, the percentages indicate that comprehensive relationships in the workplace, among relatives, and in the community are declining, while partial and formal relationships are increasing. From 1973 to 2003, the largest decrease in comprehensive relationships was observed among “colleagues,” falling 21.6 percentage points; “Relatives” dropped 19.0 percentage points, and “neighbors” fell 14.9 percentage points.

To the Japanese, in the areas of workplace, community, and relatives, the ideal types of relationships have become partial, casual, and formal. The figure,

**Figure 3. Ideal relationships (%)**



**Note:** Created by the author using the NHK Broadcasting Culture Research Institute (2003, 59, 61, 65).

however, shows that relationships in the workplace have always been valued more highly than those within the community. In short, although relationships at work have not necessarily become weaker than those in the community, labor unions still receive less support than public movements.

Thus, it can be concluded that the factors leading to disassociation from labor unions are not human relationships. In the next section we will examine how workers perceive labor unions and what the factors may be.

### 3. The Perception of Labor Unions by Their Members

If union members believe that union activities are fully systemized and provide a social function, it is natural that there would be many members who believe they do not need to be actively involved in the union; subsequently, one can hypothesize that their disassociation from the union is a “free rider” issue.

**Hypothesis 2:** Systemization of labor unions → “Free rider” disassociation from unions

If Hypothesis 2 were true, then workers would highly value union activities and a large proportion of the union members would acknowledge the need for the union; unions would have a *raison d’etre* in the eyes of the workers.

On the other hand, it can be hypothesized that, contrary to Hypothesis 2, since the number of union members who think labor unions do not help improve or preserve their own work conditions or society has increased, the number of

union members who do not want to actively participate in their union has also increased.

**Hypothesis 3: Dysfunction of Labor Unions → Decreased Willingness to Participate → Disassociation from Unions**

If Hypothesis 3 is true, the appreciation of union members of their labor union would show a declining trend and the number of those who acknowledge the necessity of labor unions would decrease; furthermore, workers would no longer think labor unions had a reason to exist as an organization.

The following sections of this report investigate which hypothesis, Hypothesis 2 or 3, is the better founded.

### **3-1. Perceptions of the Effectiveness of Labor Unions**

#### **(1) Perceptions Based on National Opinion Polls**

How many people believe that labor unions are useful for workers? How has this number changed over time? The results of these questions from several national opinion polls, the Yomiuri poll, the survey of the Japanese Electrical Electronic & Information Union survey, and the survey of the Japanese Federation of Iron and Steel Workers Unions, are shown below.

The poll by The Yomiuri Shimbun newspaper asked questions about the image of major corporations, government, and labor unions (Prime Minister's Office of Cabinet Public Relations, ed 1981, 539f; 1986, 501; 1991, 526f). According to the poll, the image of labor unions as being “useful” fell below 20 percent from 1979 to 1984 and remained at the same level in 1989. The image of being “not useful” also decreased from 1979 to 1984, showing further a decline in 1989 to approximately 10 percent. This indicates that the effectiveness of labor unions has become less impressive and that their presence has become less visible.<sup>3</sup>

#### **(2) Perceptions by Members of the Japanese Electrical, Electronic & Information Union**

According to the survey conducted by the Japanese Electrical, Electronic & Information Union of its members in 1994, 68.5 percent of the respondents said the union was useful in improving labor conditions, etc. (16.0 percent responded, “Yes,” and 52.5 percent responded, “Probably”); 26.6 percent said

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<sup>3</sup> Less presence of unions will be discussed in the next section.

the union was not useful. This shows that the perception by the majority is positive; however, most of the responses were “Probably,” and therefore indicates only a passive positiveness (Japanese Electrical Electronic & Information Union 1995, 195).

### **(3) Perceptions by Members of the Japanese Federation of Iron and Steel Workers Union**

According to the survey of the Japanese Federation of Iron and Steel Workers Union, in 1996, only 14.2 percent of the respondents said the union played a major role in improving labor conditions, in 2000, this figure was 14.3 percent.<sup>4</sup> In 1992, the percentage of respondents who thought the union performed its social role, together with the combination of the responses above and thought the union had a certain level of influence, was 77.1 percent, but this fell to 60.6 percent in 1996 and to 59.9 percent in 2000. This decline indicates that the number of the union members who think the union contributes to the improvement of labor conditions has been declining gradually. As Table 2 shows, the number of union members who value the influence of the union on social welfare and volunteerism, community issues, and on the demand for policies and systems, increased from 1996 to 2000.<sup>5</sup> As previously discussed, however, the workplace has become merely a “place to earn a wage,” and the perception by workers that the union is ineffective at improving their labor conditions must have a significant influence on their disassociation from the labor union.

**Table 2. Perceptions of the union by men/technical union members of the Japanese Federation of Iron and Steel Workers (%)**

	1992	1996	2000
Improvement of labor conditions such as wages or work hours	77.1	60.6	59.9
Demand for policies and systems	51.7	36.9	41.1
Suggestions for policies on industry and corporate management	—	33.3	37.5
Statement and action for politics	34.8	24.7	28.9
Commitment to community issue	49.6	36.5	44.8
Social welfare and volunteering	42.7	32.3	48.5

**Source:** Japanese Federation of Iron and Steel Workers Unions (2001, 115).

<sup>4</sup> The result of 1992 survey is unclear.

<sup>5</sup> Described in Chapter 8 and Chapter 9 of Nakamura and Research Institute for Advancement of Living Standards, ed. (2006).

### 3-2. Trust in Labor Unions

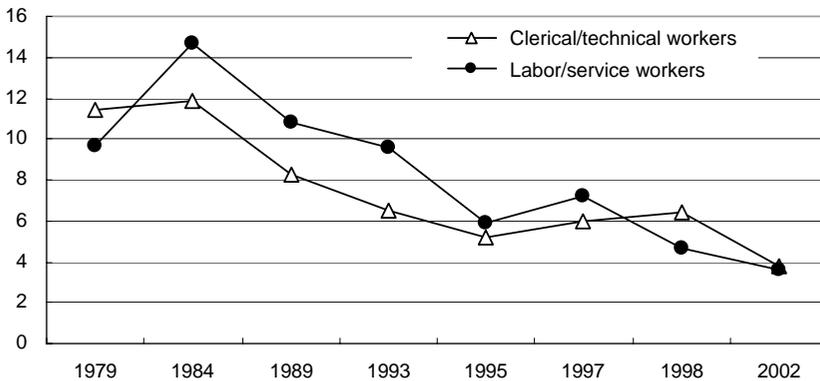
#### (1) National Opinion Poll Results

The Yomiuri Poll included questions on trust and distrust of labor unions and ten or more other types of groups and public organizations. Figure 4 shows the transition of trust of labor unions by clerical/technical workers and labor/service workers.<sup>6</sup>

Figure 4 shows that the percentage of labor unions thought to be a reliable group or organization is consistently low, and it is declining further; however, at least until 1989, the number of those who distrust unions did not increase; it actually decreased.

When asked separately about the image of labor unions, the percentage of respondents who said “Don’t know” or did not give a response dropped from 31.3 percent in 1979 to 27.9 percent in 1984, then rose to 32.3 percent in 1989. This means that the sense of trust rose and distrust fell between 1979 and 1984, but from 1984 to 1989, the awareness of labor unions became less visible, indicating that more people found it difficult to judge if they could or could not trust unions.

**Figure 4. Trust of labor unions (%)**



**Note 1:** Created by the Author using the Yomiuri Poll (Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimibun, n.d.) conducted by the Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimibun.

**Note 2:** Received permission from the Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimibun for quoting the results.

<sup>6</sup> Questions regarding distrust are included only until 1989.

## **(2) Trust in Labor Unions by Japanese Electrical Electronic & Information Union Members**

The survey conducted by the Japanese Electrical Electronic & Information Union on its members in 1994 included questions on the reliability of unions. When asked if the union could be relied upon when one was subjected to a poor job transfer, 27.4 percent said “Yes,” while 56.5 percent answered “No.” In the face of job layoffs or corporate restructuring, 29.5 percent said they could rely on the union for protection, but 53.8 percent said they could not. This indicates that at least more than half of the union members do not believe the union can be relied on regarding job transfers and employment adjustment issues.

### **3-3. Presence of Labor Unions**

The Yomiuri Poll asked respondents to identify organizations which are strongly related to their daily lives. The organizations included labor unions, medical institutions, universities, JR (formerly Japan National Railway), the Self Defense Force, courts, the National Diet, city offices, major corporations, and the Japan Agricultural Cooperative. Although unfortunately this question was included only in the 1984 and 1989 surveys, it is useful in this investigation because it provides one of the few resources that directly identify the Japanese awareness of labor unions.

The ratio of respondents who said labor unions were strongly related to their daily lives was 13.1 percent in 1984, decreasing to 10.7 percent in 1989. For both years, approximately only 10 percent believed unions were strongly related to their lives, and the trend was decreasing. Over the five-year period from 1984 to 1989, the number of males comprising the responses above dropped from 19.7 percent to 15.2 percent, females dipped from 8.0 percent to 6.9 percent. (Opinion Poll Division of Tokyo Head Office of Yomiuri Shimbun, no date).

Table 3 summarizes the results for both years by age grouped in five-year brackets. The ratio of respondents that said labor unions were strongly related to their lives decreased for all age groups, except for the late 30s group, which showed 1.7 percent increase.

A breakdown of the declining trend for this response by job type over the 1984-1989 period shows the decline in Management/Professional, Clerical/Technical, and Labor/Service groups. The Clerical/Technical group was 24.6 percent in 1984, but fell to 20.0 percent in 1989; the Labor/Service group was

**Table 3. Trend of respondents saying labor unions were strongly related to their lives by age group (%)**

	Early (20s)	Late (20s)	Early (30s)	Late (30s)	Early (40s)	Late (40s)	Early (50s)	Late (50s)	60s	Older than 70
1984	19.7	20.3	16.5	12.8	15.0	17.7	10.2	11.1	3.5	4.1
1989	18.9	16.4	10.2	14.5	13.0	15.8	8.6	8.9	2.4	3.7
Increase and Decrease	-0.8	-3.9	-6.3	1.7	-2.0	-1.9	-1.6	-2.2	-1.1	-0.4

**Note 1:** Created by the author using the Yomiuri Poll (Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimbun, n.d.) conducted by the Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimbun.

**Note 2:** Received permission from the Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimbun for quoting the results.

25.2 percent in 1984, dropping to 20.2 percent in 1989. Other job groups showed neither an increase or decrease (Mabuchi 2004).

This data shows that workers do not have a clear image or awareness of labor unions in Japan.

### 3-4. Awareness of the Need for Labor Unions

This section examines how Japanese workers perceive the need for labor unions. One of the few national surveys asking this question is the survey on labor-management communication by the Ministry of Health, Labour and Welfare. The surveys in 1989 and 1994 questioned only workers whose workplace did not have a labor union. The survey in 1999, however, asked all workers and it did not provide separate statistics split on the presence or non-presence of a labor union. Since chronological comparison is not possible with this data, estimates were conducted based on several assumptions. In 1999, the number of workers who responded that labor unions were absolutely necessary with union-employers was estimated to be 57.7 percent at most (7,159,666 people)(Table 4).<sup>7</sup>

According to *Soshiki Rodosha no Kumiai Ishiki Seiji Ishiki ni Kansuru Chousa* [Survey of Opinions of Organized Workers on Unions and Politics] conducted by the Labour Research Council in 1964, 86 percent responded, “Labor unions are absolutely necessary,” 12 percent responded, “It is better to

<sup>7</sup> Refer to Mabuchi (2006) and Mabuchi (2004) for details.

**Table 4. Cross table of “with/without labor unions” and “necessity of labor unions”: Estimation in 1999**

With/without Unions	Absolutely necessary	It is better to have labor unions	Doesn't matter	It is better not to have labor unions	Unknown	Total
No	0.0% (0)	41.1% (3,787,774)	49.5% (4,564,017)	9.4% (865,216)	0.0% (0)	42.1% (9,217,007)
Yes	57.7% (7,159,666)	41.3% (5,123,955)	0.0% (0)	0.0% (0)	1.0% (129,782)	56.7% (12,413,404)
Unknown	33.1% (86,960)	41.2% (108,240)	21.1% (55,433)	4.0% (10,509)	0.6% (1,576)	1.2% (262,718)
Total	33.1% (7,246,625)	41.2% (9,019,969)	21.1% (4,619,450)	4.0% (875,725)	0.6% (131,359)	100.0% (21,893,128)

**Note:** Number in parenthesis under the percentage is number of people. The total column is the actual value by the Policy Planning and Research Department, Minister's Secretariat, Ministry of Labour (2000, 104). Other numbers in italics are the authors' estimation by maximizing the cells with gray shadow, based on the author's hypothesis.

have labor unions,” and the total of those who responded, “Doesn't matter,” “It is better not to have labor unions,” and “Don't want to have it” shared only 1 percent (Ishikawa 1975, 98f). Therefore, the number of union members who believe that unions are “Absolutely necessary” is estimated to have decreased at least 28.3 percentage points (= 86 – 57.7 percent) over the 35 years from 1964 to 1999.

This number, however, is a minimum estimate of the decrease in people's perception of the need for unions. In conducting this estimate, it was assumed that those workers with unions did not believe that “It is better not to have labor union.” This hypothesis is clearly extreme, and the actual number of those who believe that labor unions are “absolutely necessary” has probably decreased drastically.

If workers regard labor unions as ineffective, unreliable, and without a presence, it is natural that they do not feel the unions are necessary. It is also self-explanatory that workers would not want to actively participate in labor unions when they have such an image. Therefore, Japanese workers' disassociation from labor unions must derive from the fact that workers do not value union activities.

### 3-5. Satisfaction for Labor Union

Last, this section examines union members' satisfaction with labor unions in major industrial organizations.

Figures 5 and 6 show the trends of satisfaction level with unions for male and female union members of the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions, the Japanese Electrical Electronic & Information Union, and the Japanese Federation of Iron and Steel Workers Unions.

The results for males show that "Satisfied" (the total of "very satisfied" and "satisfied") has increased slightly for the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions since 1980. "Satisfied" largely decreased between 1984 and 1989 for the Japanese Electrical Electronic & Information Union, showing a modest recovery afterwards.<sup>8</sup> "Satisfied" decreased between 1984 and 1996 for the Japanese Federation of Iron and Steel Workers Unions, showing a jagged trend.<sup>9</sup>

The results for females show that "Satisfied" in the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions increased from 1980 to 1991, but stagnated towards 1996, and slightly decreased in 2001. Similar to the results for males, "Satisfied" decreased dramatically between 1984 and 1989 for the Japanese Electrical Electronic & Information Union, and slowly recovered afterwards. "Satisfied" increased from 1984 to 1988 for the Japanese Federation of Iron and Steel Workers Unions, but decreased in 1996, and then remained level until 2001.

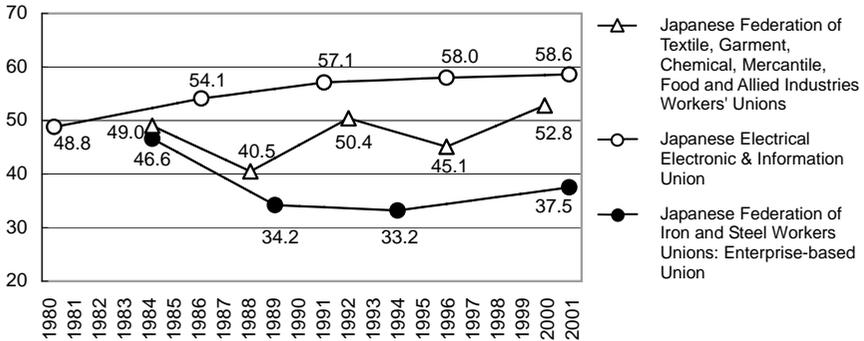
These figures indicate that the satisfaction levels with labor unions are different for each union. The ratio of union members who were satisfied with each union between 1996 and 2001 increased or held steady.

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<sup>8</sup> The survey of the Japanese Electrical Electronic & Information Union is a 5-scale rating with "Yes and No" in the middle, thus we should note that when comparing with the surveys of the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions or the Japanese Federation of Iron and Steel Workers Unions with 4-scale rating, ratio of "satisfaction: total" is somewhat lower. Same is true for the female data as well.

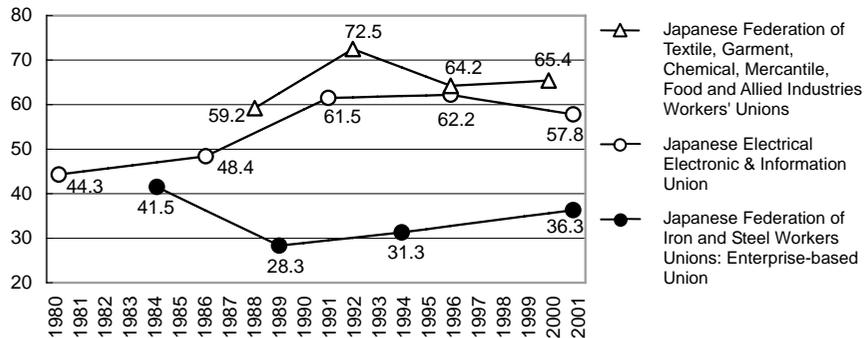
<sup>9</sup> According to the survey report of the Japanese Federation of Iron and Steel Workers Unions, the year when "Satisfied" decreased was the year of their employment adjustment and wage revision, resulted in a strong influence on the survey. (Japanese Federation of Iron and Steel Workers Unions 1997, 84).

**Figure 5. Chronological trend of the level of satisfaction with labor union activities (Males, %)**



**Note:** Created by the author using the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions (1987, 41ff; 2002, 85), Japanese Electrical Electronic & Information Union (2000, 97), Japanese Federation of Iron and Steel Workers Unions (2001, 107).

**Figure 6. Chronological trend of the level of satisfaction with labor union activities (Females, %)**



**Note:** Created by the author using the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions (1987, 41ff; 2002, 85), Japanese Electrical Electronic & Information Union (2000, 97), Japanese Federation of Iron and Steel Workers Unions (2002, 47).

This paper examined how Japanese workers perceive unions from various aspects. It was confirmed that a negative perception has increased in terms of labor unions' usefulness, reliability, presence, and necessity. On the other hand, the satisfaction level with unions is surprisingly not negative. This seems to be

contradictory, but it does make sense because the level of expectation of unions by their members is lower.

## **Conclusion**

The appreciation of unions by Japanese workers has declined in terms of unions' usefulness, reliability, presence, and necessity.<sup>10</sup> Worker detachment from unions is probably derived from the fact that workers do not value labor unions anymore.

However, according to Tomohiko Noda, who analyzed the effects of labor unions on wages and employment assurance, companies with unions have higher wages and a slower pace of employment adjustments than those without (Noda 2006). Objectively speaking, labor unions are useful for workers. This means that workers perceive unions as useless, unnecessary organizations because they are unaware of their effect or role.

Therefore, it is difficult to support Hypothesis 2 which says detachment is from free riding on the systemization of unions. On the other hand, Hypothesis 3, which says the dysfunction of labor unions has caused a decreased willingness to participate and thus results in detachment from unions, can be supported only in a workers' subjective world, since the effect of labor unions are objectively real.

The decline in appreciation of the usefulness, necessity, and presence of labor unions is probably caused by the fact that the role of labor unions is vague for union members, workers, and the public at large. The decrease in trust of labor unions could be a reflection of the fact that the system of listening to workers and union members is not fully functioning. In fact, according to the surveys by the Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions and the Japanese Electrical Electronic & Information Union, one of the three major factors that union members cited as reasons for union detachment was "Do not know the unions' role" (Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers' Unions 2002, 89-91; Japanese Electrical Electronic & Information Union 2000, 170). According to the former survey,

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<sup>10</sup> This paper examined that not all of the workers have negative perception. It is important to note this and it is necessary to examine variety of perceptions (Mabuchi 2002). This will be an issue to be addressed in the future.

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union members believe that two major factors of being a good union are “Respecting union members’ needs and opinions” and “Strong negotiation skills for wages and other conditions” (Japanese Federation of Textile, Garment, Chemical, Mercantile, Food and Allied Industries Workers’ Unions 2002, 91-92).

Needless to say, a vicious circle develops when a worker does not know the role of a union and does not participate in a union because of that lack of knowledge. Meanwhile, attempts to plan events for union members, to make relationships among members stronger, and to make unions a friendlier place in the hopes of increasing interest in unions would be far from solution.

In the past, young workers in Japan who moved to urban areas from the extremely close relationships of their families and communities, formed a pseudo-community at workplace and were supported by it. Such comprehensive relationships in the workplace were necessary for young workers who lived alone and away from their family; it was also an ideal model. However, the current weak relationships in the workplace indicate that such close relationships are no longer necessary for workers, as shown in section 2. Overall, weak relationships in Japan are clearly a long-term trend and it is futile for labor unions to try to buck this trend; attempting to do so could probably have a reverse effect and make workers to resent the union.

Japanese labor unions should not consider the solution for union detachment to be the revival of a pseudo-community by forming closer relationships between workers or union members. Instead, they need to make workers and union members feel that they have mutual interests and that labor unions are reliable, useful mediums for protecting worker rights and for pursuing their interests. To solve detachment from unions, it is most important to provide education and awareness for workers so that they easily understand that unions are actually useful for maintaining and improving their lives.

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<sup>11</sup> The survey reports by labor unions quoted in this paper were provided by the Labour Research Councils. Some of the reports were available thanks to the Research Institute for Advancement of Living Standards. The results of the Yomiuri poll were provided by the Opinion Poll Division of the Tokyo Head Office of The Yomiuri Shimibun. The latest report on value orientation of Japanese was provided by the NHK Broadcasting Culture Research Institute. The latest report on Japanese national character was provided by Professor Yoshiyuki Sakamoto of the Institute of Statistical Mathematics. Useful input in interpreting data was provided by members of the Research Committee of the Current Challenges of Labor Unions of the Research Institute for Advancement of Living Standards. Hereby the author would like to tender his acknowledgement to all of the above.

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# Changes in Industrial Relations and the Ideal Legal System

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## Introduction

Based on the social trends of post-industrialization and globalization, industrial relations are changing substantially around the world thus making it necessary to drastically revise and employment labor laws that regulate industrial relations. Even if we look only at Japanese labor and employment laws, we can see the following swift changes that have been made:

- Introduction of the discretionary labor system for those engaged in planning-related work by the amendment of the Labor Standard Law (1998)
- Liberalization, in principle, of the worker dispatch business and private job-placement business by the amendment of the Worker Dispatch Law and Employment Security Law (1999)
- The Law on Promoting the Resolution of Individual Labor Disputes to establish a system for providing support in solving employment disputes (2001)
- The Law for Promoting the Measures to Support Fostering of the Next Generation to promote support of child raising (2003)
- The Labor Tribunal Law to introduce the labor judgment system for solution of employment disputes (2004)
- Amendment of the Law Concerning Stabilization of Employment of Older Persons to provide employment security measures for workers up to the age of 65 (2004)
- Amendment of the Equal Employment Opportunity Law to prohibit indirect discrimination (2006)

Various studies are also conducted, including examination of ideal employment contract law for the purpose of expressly providing legal rules in relation to employment contracts and the possible reform of laws related to working hours to introduce the autonomous system of working hours. It is considered that employment contract law and laws related to working hours

need to be reorganized to prepare the working environment to allow people to realize diverse working styles with a sense of security and satisfaction, and to address issues related to diversified employment styles, the increasing incidents of employment disputes, an increasing number of people working long hours, etc. along with a decrease in the labor force due to an aging population and declining birthrate. For example, these studies include examination of the establishment of: (1) rules to collectively change working conditions by revising working rules, in light of the fact that working conditions are determined by the working rules in Japan, and (2) the system to allow white-collar workers to adopt an autonomous working style from the viewpoint of allowing those who aspire for self-realization to exercise their full potential and those who are engaged in the kind of work that warrants them to adopt such a working style, under a relaxed-type of control to ensure a fulfilling professional and personal life while maintaining their health and further exercising their potential.

Such a drastic change in labor and employment laws can be seen not only in Japan, but also in advanced countries to some degree. Labor and employment laws were supposedly designed for "indefinite, full-time, collective, dependent workers" who were positioned at the center of the industrialized society in the period from the 19th to 20th century, and it provided the State with facilities to establish blanket codes. Recent social changes, however, made conventional labor and employment laws dysfunctional, thus prompting a drastic reform of the labor and employment law system.

In 2005, the Japan Institute for Labour Policy and Training conducted a study on the "Change in Industrial Relations and Ideals of the Legal System."<sup>1</sup>

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<sup>1</sup> The research result is summarized in the JILPT Research Report No. 55 "Change in Industrial Relations and Ideals of the Legal System." The researchers in charge: Yuichiro Mizumachi (Associate Professor, Institute of Social Science, University of Tokyo), Shigeki Uno (Associate Professor, Institute of Social Science, University of Tokyo), Naofumi Nakamura (Associate Professor, Institute of Social Science, University of Tokyo), Takashi Iida (Associate Professor, Faculty of Law, Seikei University), Kaoko Okuda (Associate Professor, Faculty of Welfare Sociology, Kyoto Prefectural University), Yoko Hashimoto (Professor, Faculty of Law, Gakushuin University), Yumiko Kuwamura (Research Associate, Faculty of Law, University of Tokyo), Chikako Kanchi (Doctoral Course, University of Tokyo Graduate Schools for Law and Politics), Tamako Hasegawa (Special Researcher, Japan Society for the Promotion of Science), Shunichi Uemura (Research Director, the Japan Institute for Labour Policy and Training), Satoko Hotta (Research Associate, Institute of Social Science, University of Tokyo), Junko Hirasawa (Researcher, the Japan Institute for Labour

In this study we observed changes, including background factors, in industrial relations and labor and employment laws that were brought about in major countries to adapt to changes in social and economic structures. We then analyzed the findings from the viewpoint of comparison, legal and political philosophy, labor history, law and economics. In addition, we also conducted a fact-finding survey on Japanese companies in this study and attempted to propose a new labor and employment law model (a basic framework) that can broadly adapt to changes in industrial relations. This report is based on the above study and contains additional observations.

## 1. Research Method

Based on the research studies conducted in various academic fields, the trend of labor and employment laws in different countries, the actual condition of industrial relations in companies in Japan, etc., we set the following two hypotheses for this research.

[Hypothesis 1]

Decision-making level: Decentralization is emphasized more these days for negotiation and communication in industrial relations.

[Hypothesis 2]

Decision-making process: In reality, collective negotiation and communication are emphasized more than individual negotiation and communication. Collective negotiation and communication tend to place emphasis not only on the decision made by the majority, but also on opinions expressed by minorities.

Decentralization, referred to in the above Hypothesis 1, implies a wide concept including not only the shift from centralization to decentralization at the level of labor-management negotiation and consultation (for example, the shift of labor-management negotiation from the industry level to the company/workplace level), but also the shift from centralized decision-making and codes set by law to flexible decision-making through negotiation between individuals. "Collective negotiation and communication," referred to in the above Hypothesis 2, implies a diversified concept including not only collective negotiations and labor-management consultations between labor and management, but also such

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organizations represented by employees under the law as business committees, workplace committees, and labor-management committees, as well as complaint handling, dispute settlement, information collection and provision systems, etc. Using this wide concept and dynamically comparing and analyzing a variety of events, we are able to capture the whole that may seem to consist of individual sporadic events and to understand its relative meaning. Furthermore, we will aim to deduce important policy implications from the comparison and analysis.

Based on the two hypotheses, we conducted our analysis and observation in this research in the following three core areas.

Firstly, to clarify the theoretical meaning of the two hypotheses, observations are made on issues related to changes in industrial relations from the viewpoint of multiple academic fields covering law, political philosophy, labor history, and law and economics. It is designed to examine the theoretical foundation for the new legal system from multiple viewpoints and identify specific issues that require verification.

Secondly, we analyze the trend of industrial relations as well as labor and employment law in other countries to verify the two hypotheses, examining various systems that exist in each country. We selected France, Germany, Britain, the United States of America and Japan for this research. In our observations, we tried to analyze the trends with careful consideration given to differences in the historical background and social foundation of each country by using interviews and other methods to collect information on the actual issues that each country faces and their reform programs. In this way, we tried to identify the specific model and institutional framework of a legal system that can respond to changes in the industrial relations.

Thirdly, we analyzed the situation of industrial relations of Japanese companies and verified the validity and significance of the two hypotheses in regards to them. The formulation of a new legal system requires understanding of the actual conditions of Japanese companies to which the law is applied, solving the problems identified, and ensuring the affinity of the new legal system to actual conditions. During the survey in particular, we conducted repeated interviews and careful analysis of six companies selected to ensure diversity with respect to their size and whether or not they had a labor union, the number of labor unions, nature of their business, and so forth.

Based on the analysis and observations from the three different viewpoints described above, we attempted to theoretically deduce a new model of labor

and employment law that can respond to the changes.

## **2. Observations from the Viewpoint of Legal and Political Philosophy, Labor History, Law and Economics**

### **(1) Observations from the Viewpoint of Legal Philosophy**

From the viewpoint of law, implications and issues of the two hypotheses are identified through two legal approaches proposed within the context of recent social changes. One is the "proceduralization of law"<sup>2</sup> mainly proposed in European countries, and the other is the "structural approach"<sup>3</sup> proposed in the United States of America. In short, for the first hypothesis (decision-making level), decentralized negotiation and communication by the parties concerned is important, based on (1) the viewpoint that "procedural reason" is given emphasis as a new reason that supports legitimacy in an increasingly complex and uncertain society, and (2) the viewpoint of "economic efficiency" that

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<sup>2</sup> In the proceduralization of law, a priori establishment of practical and abstract codes is avoided, but discussions in the negotiation are flexible in terms of space, contents and time, showing its rationality in the process (procedure) of recognizing and solving problems. There are two cores in the institutionalization of a model of procedural regulation. The first core is establishment of obligations for the parties concerned. For example, these obligations may include (1) obligation to publish information widely to people concerned, (2) obligation to conduct open negotiation, (3) obligation to exhibit and explain the plan on how to solve the problems, including the scenario of what effect the plan will have, and (4) obligation to conduct an investigation and evaluation after the decision is made. The second core is the provision of institutional measures and resources to support and guide the parties concerned to recognize and solve problems. For example, (1) control by the court to check whether or not rational procedure is taken by the parties concerned, (2) support provided by specialists or special organizations to help the parties concerned to correctly recognize increasingly complicated and diversified problems and to design a scenario for solving these problems, and (3) financial support using public funds to ensure that the consequence of proceduralization is not affected by the financial capacity of the parties concerned.

<sup>3</sup> It is proposed by Susan Sturm (Columbia University) in the United State of America and others. Firstly, importance is placed on the procedure that is used to solve specific problems that occur in the workplace, instead of the distinct practical rules defined by the law or courts. In particular, it is important to verify that the process of (1) collection and sharing of related information, (2) discovery and recognition of the problems, (3) establishment of a system to effectively solve the problems, (4) practice of problem solving, and (5) evaluation and rediscovery of problems is functioning effectively. Secondly, multiple entities are associated with each other and go beyond the existing framework to radically solve these problems. Three entities are involved in solving them: the court, workplace and mediator, and it is important that these entities interact with each other to reach a comprehensive solution.

efficiently solves today's complex, deep-rooted problems and generates profits. Here, collective decision making is not totally rejected; however, the issue is how to segregate decentralized decision-making from collective decision-making and how to strike a balance between the two. For the second hypothesis (decision-making process), the collective, contextual decision-making process that also takes into consideration the views and interests of minorities rather than individualized negotiation and decision-making is important based on (1) the viewpoint of arriving at a new reason (procedural reason) through free discussion from multiple viewpoints and coordination of those viewpoints, and (2) the viewpoint of listening to workers' true feelings to address their dissatisfaction and problems and raise their motivation. However, these two approaches do not always correspond with each other with respect to the practical design of the legal system.

## **(2) Observations from the Viewpoint of Political Philosophy**

From the perspective of political philosophy, we examined the changes in industrial relations in the context of the reorganization of intermediate groups and "something social."<sup>4</sup> The changes can be summarized as follows. After the bourgeois revolution, individuals were almost dispersed and then reorganized into "welfare states" with the help of the technology called "social insurance". However, these states are once again losing their basis (social solidarity) due to the diversification and individualization of risk after the 1970s. Today, these "intermediate organizations" (labor-management negotiations, local governments, NGOs, NPOs, families, etc.) commonly play an important role in many countries in providing different individuals with many social bonds while adapting to the diversification of individuals. In relation to the two hypotheses, decentralization on the decision-making level (Hypothesis 1) is considered as a natural move to respond more precisely to the individualization and diversification of society. As for the decision-making process (Hypothesis 2); (1) the most valuable social right in today's society is the right to have social bonds, but this right cannot be realized through individual negotiations that lack social relation. (2) Social relation is there to better realize the rights of the individuals who belong to that society, and instead of simply giving priority to the majority, a greater

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<sup>4</sup> The "intermediate group" is a collection of groups in general that exist between the state and individuals, and the "something social" is the principle by which individuals are organized into society.

emphasis should be given to the views of diverse minorities in the decision-making process.

### **(3) Observations from the Viewpoint of Labor History**

From the viewpoint of labor history, we examined the industrial relations in Japan starting from its origins and tried to identify the historical premises of today's labor-management negotiations. In particular, we identified three stages of changes in industrial relations in Japan: a change from indirect management to direct management in the period before and after the Japanese-Russo War,<sup>5</sup> establishment of the factory committee (an informal labor-management meeting system) after the First World War,<sup>6</sup> and introduction of company labor unions that unionized both white and blue collar workers after the Second World War. Industrial relations in Japan that formed through historical events are characterized by: (1) the fact that the origin of "decentralized" relations was already formed by different companies before the war, (2) the labor unions that were established and grew in number after the war based on the foundation

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<sup>5</sup> In the workplace of the large heavy industry business before the Sino-Japanese War (1894-95), the foreman contract system was generally used, with which a cooperative group consisting of 7 to 15 workers was organized and controlled under the foreman. The foreman contract system, from the employer's perspective, was an indirect way to control workers, and it was a suitable way to administer a group of workers based on the premises of the system of apprenticeship of craftsmen. After the Sino-Japanese War, however, industrialization increased the demand for workers, and the craftsmen apprenticeship system faded, moving toward the introduction of individual-based contract and piece-rate wage systems. Since the period before and after the Russo-Japanese War (1904-05), management began to promote higher retention of workers in their company by improving the in-house welfare programs and in-house training programs. Furthermore, some managers abandoned the contract system and introduced the efficiency wage system, thus changing the direct administration.

<sup>6</sup> In the period after the First World War, industrial disputes frequently occurred for the right of collective bargaining. Meanwhile, management proposed the establishment of a factory committee as an alternative means to refuse collective bargaining with companywide labor unions. The factory committee acted as an organization to facilitate communication with workers through workers' representatives and attempted to resolve the complaints and dissatisfaction of worker by substituting the functions of labor unions. As a result of interaction with the factory committee, management successfully detached workers from companywide labor unions. In the 1920s, large industries protected themselves from the invasion of companywide labor unions by establishing factory committees or other labor-management communication organizations, and developed policies to promote long-term employment, establish skills training facilities, generalize the periodic pay raise system, and introduce the retirement age and severance pay system.

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built before the war took the form of labor unions of factory workers and office workers, but regular employees were unionized exclusively, and (3) historically, workers' organizations in Japan were reorganized through the initiatives of employers, which meant that the views of individual workers were weak vis-à-vis the ideology of the family that ran the business (absorbed into the family that runs the business). To describe this in relation to our two hypotheses above, it can be said that industrial relations are established in Japan by encompassing the idea of decentralization (though through conciliation and organization by the employer) (Hypothesis 1), and that traditionally collective decision-making is emphasized (however, non-regular employees are not included, and as for regular employees, there is a tendency that the views of individual employees are sometimes overlooked).

#### **(4) Observations from the Viewpoint of Law and Economics**

From the viewpoint of law and economics, we attempted to identify the guidelines for establishing a system by theoretically integrating "decentralization" and "collectivization." According to observations, it was indicated that: (1) in a society with diversified values and preferences the "decentralized" method of negotiation and decision-making is preferred since it offers refined and diversified selections (Oates' decentralization theorem), and that (2) the "collective" method of negotiation and decision-making is advantageous for the kind of negotiation that will increase the interest of both parties through labor-management collaboration (cooperative surplus), improving the efficiency of negotiations through the participation of repeat players and reducing the cost of negotiations and management (negotiation cost). As for the correlation between "decentralization" and "collectivization," "collective" functions are fully exercised only when an appropriate level of "decentralized" negotiation is set. Specifically, when the nature of the agenda has bearing on the interest of a large number of workers (public property), negotiations should be conducted in a place where there is authority for decision-making (for example, at the workplace level for matters that are to be decided in the workplace). Further, to support decentralized and collective negotiation in the legal system, we found that it was important: (1) to press companies to promote independent and flexible negotiations, (2) to oblige the parties concerned to engage in honest bargaining and make information available to prevent any inefficiency that might arise from uncooperative behavior (strategic behavior) on the part of

negotiating parties, (3) to establish a system to provide workers with practical help in case unionization or negotiations do not proceed successfully, and (4) to establish a system to supplement information distribution that might be lost due to decentralization (an information network through dedicated mediators, etc.).

### **3. Comparison of Laws**

#### **(1) France**

In France, there existed traditionally the culture of collectivization where working conditions were determined by detailed provisions of the law and by collective agreements in each industry. However, since the 1980s in particular, "decentralization" has progressed (Hypothesis 1). It consists of two major shifts: (1) a shift from blanket regulations of the law to flexible regulations of collective negotiations, and (2) another shift from industry-level negotiations to company-level negotiations. Decentralization, however, has not occurred in every aspect in a one-way direction. In the course of decentralization, however, law and industry-based agreements define the basic objectives and direction and the framework of regulations in many cases, and decentralized negotiations give concrete form to the regulations or supplement them. The basic rights of workers' health and safety may also not be infringed upon by decentralization. For the decision-making process (Hypothesis 2), "collectivization" is emphasized, disallowing opt-out of laws and regulations by individual agreement. To enhance the legitimacy of collective agreements, the Law of 2004 introduced the "Majority Rule" (the rule in which the representative labor unions that gained the majority are entitled to refuse application of collective agreements concluded by minority labor unions or in which acknowledgment is granted for application of collective agreements concluded by the majority labor unions). The basis or premise of this system, however, guarantees the participation of minorities in regards to the procedures as: (1) collective bargaining is conducted with all representative labor unions including minorities sitting at the same table and (2) the proportional representation system is used for the election of employee representatives to works council or other organizations, which facilitates the election of minorities. The system also substantially respects the rights and interests of minorities as (1) collective agreements that have been concluded are applied equally to all workers including those in minority groups and (2) it guarantees that the basic rights of workers and areas related to personal matters

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are not infringed by the majority decision.

## **(2) Germany**

In Germany, there have traditionally been two layers of industrial relations: one of labor unions organized outside the company at the industry level and the other of works councils organized within companies. Since the 1980s, decentralization has been in progress at the decision-making level in terms of: (1) the authorization of works council agreements with the use of open clauses of industry collective agreements and (2) an increase in the number of collective agreements targeting specific companies (in addition, legal provision that are open to collective agreements are also increasing) (Hypothesis 1). However, this "decentralization" is carried out based on collective agreements at the industry level, and decentralization is not currently permitted beyond the boundary of the direction and framework established at the collective level (for example, the "Alliance for Jobs" at the company level is not legally permitted). Furthermore, collective agreements are directly bound by the equality principle based on fundamental laws, and works council agreements are subject to examination by the court regarding fairness (suitability, congruence), while opposing decentralized decision-making does not have a binding force. In the decision-making process (Hypothesis 2), "collectivization" is still emphasized in consideration of the weak positions of individual workers, and the effectiveness of individual agreements that fall below the criteria set by legal provisions, collective agreements, or works council agreements are not recognized (the same is true with people who have obtained a higher education or possess qualifications). In collective decision-making, consideration for the opinions and interests of minorities is legally institutionalized in the form of voluntary participation (freedom of participation) and the guarantee of equal rights in collective agreements, and also in an election system based on proportional representation and other institutional guarantees reflecting diverse interests as well as examination by courts of the fairness of works council agreements.

## **(3) Britain**

In Britain, there existed a tradition of the collective laissez-faire principle mainly in industry-level collective negotiations and collective agreements, which was justified by the agreement of individuals on its binding power (contract).

Since the 1980s, as the rigidity of collective negotiation was pointed out and the rights of labor unions were legally restricted, industry-level collective negotiation declined, and in its place a number of laws were established to give rights to individual workers. On the decision-making level (Hypothesis 1), this can be viewed as a move to "collectivization" in the sense that industry-based collective agreements transformed into national blanket codes. Today, however, some point out that the collective decision-making system without intermediate groups is dysfunctional. It indicates that it is difficult to actually guarantee the rights of individuals (ensure effectiveness) with only a legal guarantee, unless a collective foundation and support are provided. Thus, the current Labour Party government is attempting to form two collective channels from the viewpoint of ensuring efficiency and fairness. One of the channels is the promotion of collective negotiation by labor unions, and the other is the establishment of systems of information provision and consultation within companies. Although how much influence these collective channels will come to have is not yet known, it can be seen as a move towards institutional re-"decentralization." In the decision-making process (Hypothesis 2), the emphasis is on the individuals as, for example, they may individually agree to implement the deregulation (opt-out) of working hours. There are also legislations and theories to build up collective channels. These collective channels are designed to ensure the interests and participation of minorities, since the binding force of collective agreements is based on the agreement of individual workers and representatives in the system for the provision of information and consultation are elected through direct election by all employees.

#### **(4) United State of America**

In the U.S., industrial relations were formed based on collective negotiations and collective agreements under the collective negotiation system established in the 1930s. Since the 1960s, however, labor unions have gradually declined, and instead a number of laws have been established to directly secure the rights of individual workers. This can be interpreted as "collectivization" on the decision-making level (Hypothesis 1). More recently, however, it has been pointed out that rights of individuals are difficult to implement with a legal guarantee unless collective support is provided, and that it is not possible to solve or prevent increasingly complicated problems in practice. Under these situations, recent court rulings and legislations have placed emphasis on the

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collective process in identifying and solving problems, and such arrangements have actually been introduced into some advanced companies. In this regard, there are moves toward "decentralization." In particular, this move is more advanced for such regulations as anti-discrimination, occupational health and safety, and working hours, for which the basic objectives, principles and framework are defined by law with use of the decentralized process for practical implementation. In the decision-making process (Hypothesis 2), the traditional framework of collective bargaining is one of exclusive negotiation by representatives of the majority where "collective" decision-making by the "majority" holds sway. Some people theoretically claim that this system does not reflect the increasingly diverse opinions and interests of workers. To refute this, the new process of in-house collective problem solving allows minorities to be directly involved in the process, and their views and interests are considered (the level of fairness and effectiveness are considered to be key in legal evaluation).

#### **4. Japan**

##### **(1) Statutory Law and Case Law**

In Japan, there existed two decision-making levels: one of collective decision-making and establishment of order by the State, and the other of decentralized decision-making through labor-management relations in each company. Since the late 1980s, however, there has been a move toward "decentralization" with a legal shift from blanket regulations of the State to flexible decision-making at the company level (Hypothesis 1). In terms of the statutory law, this move toward decentralization can be observed over a wide area, including regulations on working hours, occupational health and safety, the period of accepting dispatched workers, the range of senior workers subject to continued employment, utilization of woman workers, support for parents raising children, and remuneration for employee's inventions. With case law, however, the move is not consistent.

As an example of statutory law, the working hours system is described below. In a series of amendments of the Labor Standard Law starting from 1987, the system of flexible working hours was introduced and expanded (working hour averaging system, flexible working hours system, discretionary working system). (i) While working hours are defined either weekly (40 hours) or daily (8 hours) as a general rule, the period exceeding these basic units of working

hours is averaged in the working hours system. The amendment of 1987 introduced two types of working hour averaging systems: for a period within three months and for a period in the unit of a week. The amendment of 1998 provided the working hour averaging system for a period within a month on the condition that labor-management agreements are made either with the labor union representing the majority of workers at the workplace or the representative of the majority of workers in the workplace. (ii) The flexible working hours system allows workers to select the starting and finishing time of their work. The amendment of 1987 provided this system on the condition that the labor-management agreement is made either with the majority labor union or representative of the majority of workers. (iii) The discretionary working hours system allows workers to work at their own discretion, and they are paid for predetermined hours regardless of their actual working hours. The amendment of 1987 provided this system to those who are engaged in research, information processing, designing and certain other types of professional work on the condition that labor-management agreements are made either with the majority labor union or representative of the majority of workers (discretionary working system for professional work). Furthermore, the amendment of 1998 provided this system to workers engaged in planning in the head office of a company or other workplaces where important decisions are made on the operation of business on the condition that resolutions are made by the labor-management committee consisting of workers and management (the system of discretionary labor for those engaged in planning-related work). The half of the labor-management committees are appointed by either the majority labor union or the majority representatives. In 2003, the system of discretionary labor for those engaged in planning-related work was expanded outside the head office, and the requirement for the resolution of labor-management was also changed from "unanimous" to "four fifths of the committee or more." In the decentralized decision-making process (Hypothesis 2), the current law does not allow for individual agreements on the deregulation (opt-out) of working hours, which is observed in Britain, and "collectivization" is emphasized when establishing exceptions in the laws and regulations.

While case law emphasizes the collective communication and agreement with the majority labor union (legal principle for modification of work rules),<sup>7</sup>

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<sup>7</sup> To summarize the moves made by decisions of the Supreme Court in determination

there are court rulings that do not establish a clear distinction between collective negotiation and individual negotiation (for example, the legal principles for dismissal due to business necessity<sup>8</sup> and for job transfers).<sup>9</sup> With regard to the consideration of the opinions and interests of minorities in collective

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of rationality in changing the employment rules, the Supreme Court places importance on the procedural element of agreements by the majority unions, but: (1) it denies rationality in the relationship with the workers in question even when there is agreement of the majority unions, if "considerable disadvantages" are imposed on specific workers (thus overthrowing the presumption of rationality), and (2) it approves rationality even when there is opposition by the majority unions, if (the court finds that) the workers do not receive large disadvantages in practice in relation to the requirement for change and/or social suitability (giving priority to the practical element in this respect).

<sup>8</sup> As for dismissal due to business necessity, examples of court ruling show the formation and establishment of a legal principle, in which the dismissal is annulled for abuse of the right of dismissal if "four requirements" are not met. The "four requirements" are: (1) requirement to reduce personnel (due to an unavoidable situation in which personnel must be reduced for the rational operation of business), (2) efforts to avoid dismissal (making efforts to avoid dismissal by reducing overtime, refraining from new recruitment, transferring/ dispatching excess personnel, not hiring or dismissing non-regular employees, temporary suspension, or by offering a voluntary retirement program, etc.), (3) rationale for the selection of people (setting and applying rational and fair criteria objectively when selecting people to dismiss), and (4) appropriateness of procedure (sincere consultation for the explanation and agreement of requirements, time, size and method of dismissal to labor unions and workers). Recent examples of court ruling show cases in which importance is placed on the procedural elements, while a more comprehensive view is given for judgment. Firstly, there is a change that strict "requirements" considered before are now considered as relative "elements," to make comprehensive and relative determination depending on the specific situations. Secondly, there is another change that among factors (requirements) that are used for determination, the procedural factors are considered more important as much as the extent that the substantial factors are reduced.

<sup>9</sup> Many Japanese companies periodically transfer their employees (changing job descriptions and moving working places) to form skillful workers within their companies and maintain employment. As for the order of transfer by employers, a legal principle has been established with restriction by contract and restriction of abuse of rights. Consequently, first, for the employer to give effective order of transfer, his right to order the transfer must be based on employment contracts such as employment agreements and working rules. Second, even if the employer is given the right to order the transfer, the execution of his right is restricted by the principle of abuse of right. On the other hand, more recent examples of court rulings show that a certain consideration is required for the employer to show before he can give an order of transfer. Firstly, in the process of examining the employer to check for any breach of duty of consideration or any abuse of right, appropriateness is considered for the procedure in which the transfer is reached as a conclusion. Secondly, while appropriateness of the procedure varies depending on the case, considerations are taken when the employer, not only simply asking individual workers for their situations, but also if he explained specific reasons and the treatment of transfer to the worker, if he sincerely negotiated with labor unions in a serious manner, etc.

communication, labor-management agreements that are based on the Labor Standard Law and the system of the labor-management committee place emphasis on the labor union that has organized the majority of employees at a company (if there is such a labor union), and the opinions and interests of minorities are not considered<sup>10</sup>.

## (2) Situation in Japanese Companies

We examined the actual conditions of industrial relations of Japanese companies to verify the validity and significance of the two hypotheses in Japanese companies. To be specific, we surveyed preceding research studies on labor-management communication in Japan, and based on this survey, we conducted a case study of six companies, the automobile manufacturer *A*, railway company *B*, general retailer *C*, textile retailer *D*, information company *E* and specialized construction company *F*, to find out the actual conditions on the channels of communication between workers and management and the decision-making process, and to make observations based on the two hypotheses.

All companies are in the process of revising and reinforcing their labor-management communication. Based on the idea that the enhancement of labor-management communication is indispensable to address changes and to stabilize and improve corporate performance, they are attempting to establish and develop multilayered communication channels and otherwise substantiate those channels.

From the viewpoint of the levels of communication (Hypothesis 1), it can be said, based on the two aspects discussed below, that the emphasis is generally on "decentralized" communication.

Firstly, practical channels of communication are provided for discussions and proposals at the levels of blocks, departments, stores and workplaces, and

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<sup>10</sup> In the revision of the laws concerning working hours, there has been an expansion of the system using labor-management agreements with the majority representatives, in addition to reorganization of the election procedure. The requirements in electing the majority representative was based on the rules of interpretation provided by the Ministry of Labor until the 1998 amendment of the Labor Standard Law, which now provides requirements in the rules of practice and also bans disadvantageous practice of the majority representatives. However, the majority representative is only required that he/she should not be in the supervisory or administrative position and that he/she should be elected by the procedure of vote, hand raising or other method, exhibiting a clear statement to indicate that it is the election for a person who makes agreements that are provided by law.

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workers are making their voices heard through these channels. This takes place regardless of the type or size of business, or of whether or not there is a labor union within the company. In addition to the institutionalized channels of communication, senior officers and managers in the field pick up information on a daily basis. Secondly, with regard to collective labor-management relations, more emphasis is put on a flexible style of communication over collective bargaining and other formal modes of negotiations and consultations. For example, in Company *A*, instead of collective bargaining, theme-based meetings play a more important role when determining actual working conditions. In Company *C*, opinions are exchanged frankly during the periodical labor-management meeting, which is held before a case is brought before the central labor-management committee, and the director in charge (director in charge of personnel) makes decisions on the case that can be handled within his authority. Based on the long history of relationships of trust built between workers and management, both companies are in the process of decentralization to flexibly address increasingly diverse themes.

There are, however, moves that are not going in the direction of decentralization. Company *B* used a field consultation system, which caused confusion in the workplace due to excessive decentralization, and now maintains collective labor-management relations in branch offices and above. Company *A* conducted an annual spring negotiation to discuss the direction of the improvement of working conditions with the purpose of enhancing its competitive power company-wide. Company *D* provides a wide range of authority to each retail store, but also tries to provide each store with company-wide propositions on working conditions with the aim of sustained business growth.

Let us also examine their communication process (Hypothesis 2). Regarding this, "collective" communication is important, while the importance of the role of "individual" communication with, for example, one's boss, is also increasing.

The type of "collective" communication varies from that done through labor unions to that initiated by the company, and from that which is institutionalized to that which is not institutionalized. Based on the idea that "collective" communication is more efficient and fair and that a higher degree of commitment is achieved through "collective" discussions, there is a trend to give more emphasis to "collective" communication. If we categorize the contents of such communication, when there is a labor union in the company,

opportunities for periodic labor-management meeting to discuss labor related issues, such as working conditions and the working environment, are guaranteed. On the other hand, when there is no labor union in the company and the company has thoroughly implemented the ability principle, there generally tends to be more interest in business and management strategies, and the response to labor related issues tends to lag. Institutionalized mechanisms have advantages in that they promote a stable, smooth response, while non-institutionalized mechanisms have other advantages in that they provide more opportunities for open discussions with people concerned. In addition to these collective processes, separate channels of communication are also provided through contacts with workers' superiors to gather personal complaints and proposals from individuals. External third-party organizations are hardly used to verify the fairness of the collective process or to provide support for problem solving.

Also, we should consider whether the opinions and interests of minorities are considered in collective communication? In negotiations and consultations with labor unions, issues related to non-unionist management personnel, non-regular employees or minority unionists are often not discussed, and communications tend to revolve around the majority. On the other hand, Company *C* rapidly unionized non-regular employees, who were not unionists before, and the interests of the non-regular employees are now taken into consideration in negotiations. There are still issues, such as the need to establish a system that better reflects the voices of community employees and to implement more open dialogue. In contrast, three other companies that do not have a labor union provide all employees with opportunities to participate and speak out. Company *F* places the highest priority on general meetings and invites not only its employees but also everyone concerned including self-employed craftsmen. Building strong contact between the president, management and craftsmen and sharing information, this company uses their general meeting in creating a practical place to speak out. As companies *D* and *E* are large firms, general meetings of all of the companies' employees are not a practical place for the employees to speak out, but the meetings are used by the management to convey their messages and for sharing visions. In addition to that meeting, both companies provide other opportunities for employees to participate and speak out, creating an environment for everyone to speak and discuss openly within individual groups. There are still problems such as how to address those who do not want to participate in the discussion and difficulty in collecting

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opinions on working conditions.

## **5. Summary and Proposed Model**

### **(1) "Decentralization" on the Decision-making Level**

We theoretically substantiated "decentralization" on the decision-making level and found that it is a major trend in terms of comparative law as well.

The process of decision-making through decentralized communication proves to be a preferable method. From the viewpoint of law (legal philosophy), it provides an opportunity for the practice of a new reason (procedural reason) in recognizing and solving complicated problems. From the viewpoint of political philosophy, it works as one of the "intermediate organizations" that incorporates diversification of individuals and provide social bonds to individuals. From the viewpoint of law and economics, it is one of the ways to provide a more precise response to diversified values and preferences. In comparing laws, we have confirmed that there is a shift from collective decision-making provided by law to negotiations and decision-making by the parties concerned, and that the levels of labor-management negotiation are being decentralized (in France and Germany where collective negotiation has been traditionally practiced, and this move is legally approved).

Decentralization, however, has not made progress with respect to all problems and issues. Even with the progress of decentralization, decisions on the basic objectives, direction, and framework are often made at the collective level (France, Germany, and the U.S.A.), and infringement by decentralization of the basic rights of workers, such as equal rights and rights to protect their health and safety, is prohibited. From the viewpoint of law and economics, it is noteworthy that in promoting decentralized negotiations it is effective to increase the intimidatory values in case the negotiation fails.

As regards to Japan, decentralized industrial relations are already implemented at the company level with a particular emphasis on flexible communication at the workplace. Also in terms of legislation, moves to place emphasis on flexible decision-making by labor and management can be observed. Historically, workers' organizations in Japan were reorganized and unionized through the initiatives of employers, which meant that the views of individual workers were weak vis-à-vis the ideology of the family that ran the business. Here, Hypothesis 2 is used to examine specific ideals of decentralized communication.

## (2) Decision-making Process

In the decision-making process, there are many theories as well as moves to place more emphasis on "collective" decision-making than on "individual" decision-making, pointing out the importance of considering and respecting the opinions and interests of the "minorities."

To begin with, in the history of labor-management relations in Japan emphasis was placed on the process of collective decision-making with a particular focus on regular employees. Today in Japan, companies that have a labor union tend to place more importance on unionists and particularly regular employees who are not in managerial positions (some companies promote unionization of non-regular employees and take into consideration the interests of these workers in their union activities, but ensuring more open dialogue remains a challenge for the future). On the other hand, other companies (three companies in the survey) that do not have a labor union provide all employees with the opportunities to participate and speak out, regardless of whether the employees belong to the majority or minority, and to gather and reflect diverse opinions; however, those companies tend to have difficulty in gathering opinions that are related to labor issues such as working conditions. In terms of law, the emphasis is on the decisions of the union that represents the majority of workers at a company (a person representing the majority of workers if there is no such labor union) in the process of decentralization under the law (this position has not been established in case law).

In terms of comparative law, on the other hand, there are moves to emphasize collectivization because individual workers lack negotiating power and due to the ineffectiveness in realizing rights without collective support (collectivization has traditionally been emphasized in France and Germany, while its importance is been recognized in the U.S. and Britain). At the same time, the systems are designed so that decisions are not simply based on the majority but that the opinions and interests of minorities are also taken into consideration. Roughly there are two forms of this: firstly, by providing procedures to promote the participation and reflection of the opinions of minorities (open collective bargaining (France)), election of employee representatives based on proportional representation to facilitate the representation of minorities (France, Germany, Britain), and a problem solving process open to minorities (U.S.A., etc.). Secondly, there is a guarantee on the protection of practical basic rights, which cannot be infringed upon even by the majority decision (France, Germany).

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These moves can be substantiated theoretically. From the viewpoint of law (legal philosophy), coordination is required, including coordination of the views and interests of minorities, in recognizing and solving complicated problems. From the viewpoint of political philosophy, social bonds and relations are needed in today's society for the purpose of better realizing the rights of individuals who belong to that society, and priority should not be given simply to the opinions of the majority. From the viewpoint of law and economics, setting an appropriate level of decentralized negotiation is a condition for fully achieving collective functions (efficiency). To be concrete, negotiation should preferably be conducted in the place where the authority of decision-making rests, if many items on the agenda involve the interests of workers (however, if there is a large variation in opinions when forming a collective opinion, there is a risk that inefficiency that surpasses savings in the negotiation cost may be generated).

### **(3) A New Model of Labor and Employment Law**

A new model of labor and employment law derived from the above observations is shown below.

Firstly, a "decentralized" legal system needs to be established, placing emphasis on flexible negotiations and decision-making through social negotiations, instead of uniform standards and regulations based on law and precedents. As for the method to achieve this: (1) after regulations are established as legal standards, they can be lifted if the decentralized process of negotiation and decision-making is practiced (the same method as practiced in the relationship between the current Labor Standard Law and labor-management agreements and committees), and (2) if considerations and preventive measures are sufficiently provided based on decentralized negotiation and decision-making on the obligations and responsibilities of employers established in the precedents, the responsibilities of the employers can be exempted. To promote an appropriate process of decentralized negotiation, it is important to set higher levels of regulations and responsibilities that are applied to cases where negotiations are not carried out appropriately. As the premise and basis of decentralization, the basic objectives, direction, and framework of the system as well as the guarantee on the basic rights of workers must be centrally determined.

Secondly, the process of decentralized negotiation must be designed for the purpose of collectivization and be able to reflect the opinions and interests of minorities. To be concrete, possible approaches include, for example: (1) legally

institutionalizing the election system of members who will serve in the organization that represent employees based on proportional representation (as France and Germany), and (2) (instead of establishing the legal system described in (1)) legally promoting open negotiations carried out appropriately in light of the nature of the issues by labor, management, and other parties concerned (with use of legal sanctions if negotiations are not conducted properly). The approach (1) is suitable for the first method of decentralization (decentralization of the Labor Standard Law, etc.) and approach (2) is suitable for the second method of decentralization (responsibilities of employers and its exemption by case law, etc.). These approaches have both advantages and disadvantages. Approach (1) has an advantage in that institutional guarantee is provided for opinions to be reflected proportionately including those of the minorities, but it has a disadvantage in that the institution may become hardened or the negotiation process may become just a formality and lose its meaning. On the other hand, approach (2) has an advantage in that negotiations can be performed flexibly depending on the nature and situation of the issues in question, but there are concerns of the risk that it may not truly reflect the opinions and interests of the minorities, it may have difficulties capturing the opinions of those who do not voluntarily participate in the negotiations, and it may fail to provide workers with the opportunity to voice their real opinions on working conditions under the procedure managed by the initiative of the employer. To minimize the disadvantages of either approach, the basic rule must be defined to promote decentralized and collective negotiation and decision-making that takes into consideration the opinions of minorities as well, by keeping the procedures open to minorities, by conducting honest negotiation and providing sufficient information for substantial negotiation, by legally clarifying legal sanction (or removing legal preference) in case proper negotiations are not conducted, and by establishing public institutions that swiftly investigate whether or not the procedure is fair and order relief measures where necessary. The government and external specialists (NPOs, etc.) should establish a system to support decentralized negotiation by building an information network to facilitate the distribution of information required to investigate and resolve these problems, and should examine and support negotiations conducted by the parties concerned.

## **Business Strategy and Human Resource Management in Japanese Companies Today**

### **Extract from JILPT Research Project "Comprehensive Analysis of Corporate Strategy and Personnel Treatment System"**

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#### **Introduction**

Since the beginning of the 1990s, we have seen major changes in traditional Japanese employment practice, which has been characterized by life-long employment, seniority system (seniority-based wage/promotion) and industry-based labor unions. There has been a decline in life-long employment and the seniority system, which have been replaced with the rapidly emerging "Seikashugi" (Performance-based Evaluation and Pay System, hereinafter called the "PEP"). Three social factors form the background for these changes.

The first factor is the extended recession after the collapse of the bubble economy (economic factor). Due to deterioration of performance during the prolonged recession, beginning in the late 1990s businesses quickly introduced restructuring efforts, downsizing their resources. Japanese companies had traditionally placed importance on the concept of life-long employment, but "employment" was no longer an untouchable, sacred area.

The second factor is the pressure of labor costs associated with the baby boomers (demographic factor). Labor cost rapidly increased in those companies that maintained the seniority-based wage system as the baby boomer generation reached their 40s and 50s. Compared with other generations, the number of births in this group was high, particularly among the baby boomers born in the period between 1947 and 1949. According to Yoshio Higuchi and the Policy Research Institute of the Ministry of Finance (2004), the baby boomer workers are characterized by (1) a higher than average level of education, (2) their position at the peak area of the seniority wage curve, and (3) their long years of service, compared with other generations.

The third factor is the change in the corporate governance structure (financial/institutional factor). As one of the noticeable changes that occurred in the late 1990s, the interests of shareholders received more attention. Strongly influenced by major banks, previously Japanese companies focused attention on their

employees under the practice of long-term employment. When companies began to focus instead on shareholders' interests and aim at short-term gains in their business operations, their employment portfolio<sup>1</sup> changed based on the viewpoint of cost reduction, introducing PEP, limited-term employment agreement and the use of short-term contract employees.

In addition to the social factors noted above, companies have their own internal factors that incite change. In their business activities, companies determine long-term and mid-term policies for achieving their goals—this is the so-called 'business strategy'. It would appear that business strategies have a major effect the human resource management of companies. However, many researchers working on labor issues ignore the importance of the correlation between business strategy and human resource management.

In the research project "Comprehensive Analysis of Corporate Strategy and Personnel Treatment System" conducted by JILPT (the Japan Institute for Labor Policy and Training), in which the author participates, we are attempting to clarify the mechanism of how changes in the business strategy or corporate governance by companies influence their human resource management (hereinafter called the "HRM")<sup>2</sup>. In this report we introduce some of the results

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<sup>1</sup> The Japan Federation of Employers' Association (1995) categorizes the employment portfolio in three groups: (1) long-term skill-building group (employment agreement with no limited term; with pay raise, severance pay and pension; in core positions, including management, career positions and technical personnel; some 20 percent of all), (2) highly-skilled professional group (employment with limited term; with no pay raise, no severance pay or pension; professionals (planning, sales, research/development, etc.), (3) flexible employment group (employment with limited term; with no pay raise, severance pay or pension; general, technical and sales staff). It is advocated that these groups be used flexibly in companies.

<sup>2</sup> We already summarized the points of the research project in the *JILPT Research Report No. 7 : Identification of Issues for Research on Corporate Strategies and Personnel Treatment Systems* [in Japanese] (May 2004). Later, based on the result of the survey "General Survey on Business Strategy and Human Resource Management" (hereinafter called the "Company Survey") conducted among people in charge of human resource management for companies in Japan with 200 employees or more as of November 2004, we published a report in the *JILPT Research Report No. 33: Transforming Human Resource Management and Governance/Corporate Strategies* [in Japanese] (June 2005). In addition, based on the result of the questionnaire survey "Survey on Career Design in the New Age and Human Resource Management Evaluation" (hereinafter called the "Employee Survey") conducted on workers in the period between February and April 2005, we published the *JILPT Research Report No. 49: Workers' State of Mind in the Transition Period* [in Japanese] (April 2006). Based on the above three research reports, we summarized the general result in the

obtained from the analysis work of the research project, including (1) correlation between business strategy and HRM and (2) correlation between HRM and corporate performance.

## **1. Business Strategy, HRM and Corporate Performance**

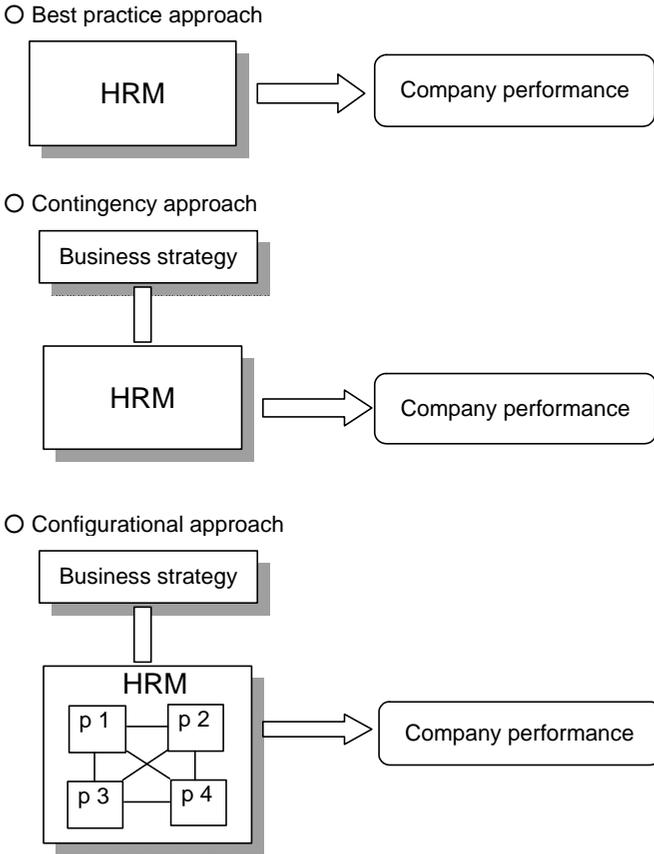
Starting from the late 1990s, many Japanese companies began to adopt the PEP. According to our Company Survey, 57 percent of companies adopted the PEP. What is the reason for the PEP being adopted to this extent? One of the possible reasons is that "Introduction of the PEP improves the productivity of workers with the consequence of improvements in company performance," an idea that was promoted by advertisements in the mass media and human resource consultancy in the late 1990s. In reality, however, no scientific verification had been made until recently for the correlation between the PEP and company performance. In the late 1990s, the PEP was propagated only by the expectation that the idea might be effective.

Then, does the PEP really improve company performance? Some claim that HRM practice constitutes only part of the activities that companies perform for their business management. From this viewpoint, the introduction of the PEP provides limited influence on the company performance. In the theory of the "Strategic Human Resource Management (SHRM)", workers (human resources) and HRM practices are considered resources or tools used to achieve competitive advantage. From the viewpoint of assuming this idea, the PEP is one of the tools that may improve company performance.

In the traditional SHRM theory, the correlation of three elements, namely, "business strategy, HRM and company performance," is explained by different approaches that can be roughly divided into three groups: (1) Best Practice Approach, (2) Contingency Approach and (3) Configurational Approach. According to Iwade (2002), "The approach (1) assumes the existence of 'the best HR practice,' including business strategy, which is universally suitable to any situation or organization due to correlation between HRM and company performance. The approach (2) takes importance on the consistency between business strategy and HRM, based on the idea of 'external/vertical fit,' assuming that HRM must be consistent with other aspects to make HRM effective in

improving company performance [some parts omitted]. The approach (3) seeks for 'the best bundle/configuration' of HRM practices for an 'internal/horizontal fit' based on the systematic synergy interacting different HRM practices, also considering the contingency approach in terms of consistency between business strategy and HRM at the same time [some parts omitted]."<sup>3</sup> (See Figure 1.)

**Figure 1. Categorization of Strategic Human Resource Management Theory**



**Source:** Iwade (2002), 69. The notes of the original figure reads, "Reference to McMahan et al. (1999) but modified by the author."

<sup>3</sup> Iwade (2002), 67-68.

Based on the above categorization, it is clear that the theory of "introduction of the PEP will improve/reduce company performance" is related to only part of the correlation among business strategy, HRM and company performance. In reality, the consistency between HRM and business strategy and the synergetic effect between HRM practices also need to be taken into account. Even when the introduction of the PEP proves have a be positive influence on the company performance, it is difficult to determine if the performance is improved only by the introduction of the PEP or if it is achieved through interaction of the PEP and other practices and strategies. In order to prove that the PEP is the best practice,<sup>4</sup> complicated verification processes are required, and a vast volume of data needs to be analyzed to confirm the interaction. With the limited volume of data obtained through the survey, we can analyze only a specific part of the correlation of HRM, business strategy and company performance. In this report, therefore, we attempt to (1) clarify the direct relationship between the PEP and company performance and then (2) indicate the correlation of business strategy, HRM and company performance.

We have obtained the following data from our research on the relationship between the PEP and company performance (see Table 1).

In the early stage of our analysis, objective quantitative data was not available for the company performance. Alternatively, we used the following method to understand the changes made in the company performance. First, we asked respondents to the survey—people in charge of human resource management—to select one of the patterns that best fitted the trend of their company performance, in relation to the changes that occurred in the company performance in the five-year period from 1999 to 2004. Respondents were asked to select one of the seven predefined patterns (upward, high and stable, downward to upward, large fluctuation, upward to downward, low and stable, downward).<sup>5</sup> Logistic regression analysis was performed, using the dependent

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<sup>4</sup> As typified by Pfeffer (1994), the existing body of research on the SHRM theory often indicates that the best practice forms part of the measure to enhance commitment of workers in one way or another. In this report, the PEP is considered as "the best practice" literally meaning the "best universal practice." Note, therefore, that the interpretation used in this report is somewhat different from those used in the preceding researches on the SHRM theory. For details, refer to Iwade, *ibid.*, 86.

<sup>5</sup> The upward trend indicates the situation in which the performance continuously increases with time. The high and stable trend indicates the situation in which the performance remains at a high level. The downward to upward trend indicates the

**Table 1. Verification on PEP and company performance**

Data used	Analysis 1	Analysis 2
Verification issue	Whether or not the company with the PEP performed well in the period from 1999 to 2004	Whether or not the company performed well when introducing the PEP in the period from 1999 to 2004
Result	Companies with the PEP are more likely to perform well than those that did not introduce the PEP.	Companies that introduced the PEP in recent years (between 1999 and 2004) are more likely to have "good company performance" than those that introduced the system before 1999.
Type of improvement of company performance	We asked the human resource personnel to select one of seven patterns that best describes the change made in the company performance in the past five years. We used a dummy variable defined as "a company that performed well" when the company performance indicates one of the three patterns, (1) upward, (2) high and stable and (3) downward to upward.	
Number of cases examined	1,214	1,214
Method	Logistic regression analysis	

**Note:** For details see JILPT (2004, 163-66).

variable "company that performed well dummy" as a dummy variable that indicates selection of three types of changes, (1) upward, (2) high and stable and (3) downward to upward. Therefore, the company performance is not a quantitative variable but it is qualitative variable reflecting the objective view of the personnel staff. As a result, some may criticize this analysis for containing bias and error. Such criticism, however, can be countered with the following two arguments: Firstly, acquisition of company performance data is somewhat restricted in reality, and appropriate data may not be obtained. Apart from the indexes that listed companies are obliged to publish, it is basically at the discretion of companies to determine which indexes to publish. Secondly, objective indexes that appropriately reflect company performance are not always available. While sales volume provides solid information as an objective fact, profits may vary depending on the way they are handled in the

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situation in which the performance once declined but began to increase again. The large fluctuation trend indicates the situation in which the performance frequently moves up and down. The upward to downward trend indicates the situation in which the performance increased at one point but then began to decline. The low and stable trend indicates the situation in which the performance remains at a low level. The downward trend indicates the situation in which the performance continuously declines over time.

accounting process. Consequently, it is highly probable that subjective evaluation of the personnel staff working in the company provides the most true and accurate picture of changes of the company. Therefore, the result shown in Table 1 is not completely irrelevant. To respond to the possible criticism described above, however, we also used and examined the quantitative company performance data as in this report.

The procedure is summarized below. Firstly, we collated the company performance information collected by a private inquiry organization with the information collected in our survey. The company performance data consist of sales, profits, total assets and shareholders' equity in the years 1999 and 2004. Later, ROA and ROE were calculated. However, information on the total assets and shareholders' equity (including ROA and ROE) was obtained only for less than 40 percent of all those surveyed. Therefore, to increase the number of samples for the analysis, sales was selected as the index, and we calculated the change in the sales per employee and used it in our analysis.

## **2. Direct Relationship between PEP and Company Performance**

Quantitative data on company performance are used to verify the influence of introduction of the PEP on the company performance. For the dependent variable, we used the rate of change in the sales per employee in the years 1999 and 2004. The following procedure was used for calculation: The sales per employee of the year 2004 were divided by the sales per employee of the year 1999 and logarithmic transformation was applied. The independent variable is the dummy variable that indicates that it is the company that introduced the PEP, and the control variables include the number of regular employees (after logarithmic transformation) and industry (manufacturing industry as the reference group). Table 2 shows the result of multiple linear regression analysis (OLS), indicating that the introduction of the PEP has a statistically-significant positive influence on the company performance (rate of change in sales per employee) at the level of five percent. Considering the low value of the coefficient of determination, it is difficult to define that the PEP is the best practice. However, despite the fact that the company performance is affected by other factors, we emphasize that the PEP has a positive influence on the company performance when it is introduced.

**Table 2. Analysis using the rate of change in the sales per employee (2004/1999) as a dependent variable (OLS)**

	Unstandardization factor	Standard error	Significance probability	Significance level
Company with the PEP	0.054	0.027	0.045	*
Construction	-0.155	0.052	0.003	***
Information & communication	0.102	0.059	0.086	
Transportation	0.029	0.049	0.554	
Wholesale & retail	0.073	0.040	0.069	
Finance and insurance	-0.159	0.056	0.004	**
Services	0.079	0.041	0.050	
Other industries (except manufacturing)	0.146	0.074	0.047	*
Logarithm for regular employees	-0.011	0.021	0.605	
Coefficient	0.038	0.027	0.156	

**Note:** \*\*\* p<0.001. \*\* p<0.01. \* p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee.

N = 1146. Adjusted R<sup>2</sup> = 0.029. Significance probability of the ANOVA (analysis of variance) = 0.00

The result of this analysis does not indicate whether the company performance improved after the PEP was introduced, or if the PEP was introduced to a company that already performed well; nor does it accurately identify the cause-and-effect relationship. This is because no perfect conditions can be obtained unless we create a situation in which two groups of companies are prepared and the PEP is introduced to one of them to monitor the change in the company performance with all other conditions remaining constant. However, by controlling the company performance at the time before the introduction of the PEP, it is at least possible to compare those companies that introduced the PEP with those that did not, and to see whether the companies that introduced the PEP generated better performance than the others or not. Consequently, the following method was used: Multiple regression analysis is used to see the influence, by looking at the rate of change in sales between 1999 and 2004 and controlling the sales per employee of the company performance in 1999. The analysis included two groups of companies, one that introduced the PEP in 2000 or later and the other that did not introduce it before the end of the second half of 2004, which was the time of the survey.

The dependent variable is the rate of change in the sales per employee from 1999 to 2004, the independent variable is the dummy variable that indicates the companies that introduced the PEP in 2000 or later, and the control

variables are the sales per employee (logarithm), industry type and the number of employees (logarithm) in 1999. The result of the multiple regression analysis (see Table 3) shows that a company that introduced the PEP in 2000 or later has a statistically- significant positive influence at the level of 0.1 percent. In short, it indicates that the company performance improved for the companies that introduced the PEP in 2000 or later, compared with those that did not, when the company performance in 1999 is the control.

**Table 3. Multiple regression analysis using the rate of change in the sales per employee (2004/1999) as a dependent variable (OLS)**

Companies that introduced the PEP in 2000 or later and those that did not

	Unstandardi- zation factor	Standard error	Significance probability	Significance level
Companies that introduced the PEP in 2000 or later	0.118	0.029	0.000	***
Rate of change in the sales per employee in 1999 (log)	-0.205	0.015	0.000	***
Construction	-0.028	0.056	0.623	
Information & communication	0.022	0.065	0.738	
Transportation	-0.085	0.054	0.116	
Wholesale & retail	0.152	0.043	0.000	***
Finance and insurance	-0.235	0.059	0.000	***
Services	-0.121	0.045	0.007	**
Other industries (except manufacturing)	-0.047	0.080	0.551	
Logarithm for regular employees	0.038	0.023	0.094	
Coefficient	2.278	0.162	0.000	**

**Note:** \*\*\* p<0.001. \*\* p<0.01. \* p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee.  
 N = 917. Adjusted R<sup>2</sup> = 0.206. Significance probability of the ANOVA (analysis of variance)= 0.00

### 3. Business Strategy, HRM and Corporate Performance

In this section, another variable is added to see the correlation of business strategy, HRM and company performance. According to Porter (1980), strategies center around three types: cost leadership strategy, differentiation strategy and focus strategy. Since our survey data do not provide any information on the method of focus or the extent of focus applied by companies, in the analysis described below we limited business strategies of companies to only

two types—the cost leadership and differentiation strategies.

For the companies that selected both (1) development of new technology/product and (2) differentiation of competitive service/product as their business strategy in the survey questions on business strategy, a dummy variable is used to indicate that these companies are applying the differentiation strategy. The companies that selected the reduction of product/service price are considered as applying the cost leadership strategy. As a result, the differentiation strategy is used by 35 percent of the total number of companies, and the cost leadership strategy by 41 percent.

In addition, to take into consideration HRM practices that may fit into the business strategy, dummy variables are used for the following four practices: (1) introduction of the PEP, (2) emphasis on education and training of all employees, (3) emphasis on education and training for selected employees only and (4) use of non-regular employees and external work forces.<sup>6</sup> Table 4 shows the result of multiple regression analysis, using the independent variables, including the variables related to the business strategy and to HRM practices. Although the value of determination coefficient is small, the dummy variable indicating non-regular employees and external work forces is the only variable that has a statistically-significant positive influence on the rate of change in the sales per employee. In this model, in which HRM practices, except the business strategy and PEP, are controlled, the PEP does not have a statistically-significant influence. Other HRM practices and the business strategy do not have a statistically-significant influence either. In other words, when strategies and HRM practices are controlled, non-regular employees and external work forces contributed to the improvements made by the companies surveyed in the period of five years since 1999.

However, we have two questions to answer here: The first question is how the use of non-regular employees and external work forces contributed to the improvement of the company performance, and the second is whether we can really be sure that none of the business strategies or HRM practices fit into or

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<sup>6</sup> The company is categorized in group (2) when it "provided education and training to improve capability of all employees" (53.1 percent) as part of their key human resource practices in the last five years, in group (3) when it "provided education and training to only selected employees" (37.3 percent), and in group (4) when it put importance on "use of non-regular employees and external work forces" with an increase of non-regular employees by 10 percent or more in the last five years (27.4 percent).

**Table 4. Analysis using the rate of change in the sales per employee (2004/1999) as a dependent variable (OLS)**

	Unstandardi- zation factor	Standard error	Significance probability	Significance level
Selective education & training	0.030	0.028	0.284	
Use of non-regular employees	0.072	0.031	0.018	*
Differentiation strategy	0.003	0.030	0.930	
Cost strategy	0.052	0.028	0.063	
Construction	-0.136	0.053	0.011	*
Information & communication	0.122	0.060	0.042	*
Transportation	0.036	0.050	0.470	
Wholesale & retail	0.083	0.041	0.043	*
Finance and insurance	-0.147	0.057	0.010	*
Services	0.091	0.041	0.028	*
Other industries (except manufacturing)	0.166	0.074	0.025	*
Logarithm for regular employees	-0.015	0.021	0.467	
Coefficient	0.178	0.073	0.014	

Note: \*\*\* p<0.001. \*\* p<0.01. \* p<0.05.

N = 1146. Adjusted R<sup>2</sup> = 0.035. Significance probability of the ANOVA (analysis of variance) = 0.00

are consistent with the PEP.

For the first question, after examining multiple models by replacing the independent variable, we found one model that had statistical significance for multiple variables of strategies and practices.

Looking at Table 5, two strategies—the use of non-regular employees and external work forces and cost leadership—are statistically-significant independent variables. Although the value of determination coefficient is small, both have a statistically-significant influence on the company performance. From this result, it is possible that the company promoted the use of non-regular employees and external work forces when applying the cost leadership strategy. While the use of non-regular employees and external work forces may include the use of highly- skilled external professionals, the contribution made in the period between 1999 and 2004 was based on another pattern, which was focused on cost- reduction orientation with the use of non-regular employees and external work forces.

**Table 5. Cost leadership strategy, use of non-regular employees and external work forces and rate of change in the sales per employee (OLS)**

	Unstandardization factor	Standard error	Significance probability	Significance level
Use of non-regular employees and external work forces	0.077	0.030	0.011	*
Cost strategy	0.058	0.027	0.035	*
Construction	-0.134	0.052	0.011	*
Information & communication	0.132	0.059	0.026	*
Transportation	0.032	0.049	0.512	
Wholesale & retail	0.087	0.040	0.030	*
Finance and insurance	-0.154	0.056	0.006	**
Services	0.087	0.041	0.031	*
Other industries (except manufacturing)	0.172	0.074	0.020	*
Logarithm for regular employees	-0.008	0.021	0.687	
Coefficient	0.208	0.071	0.003	

**Note:** \*\*\* p<0.001. \*\* p<0.01. \* p<0.05. Logarithmic transformation applied for the rate of change in the sales per employee.  
N = 1146. Adjusted R<sup>2</sup> = 0.035. Significance probability of the ANOVA (analysis of variance) = 0.00

#### **4. Fitness of PEP, Business Strategy and HRM Practice**

In general, companies use new HRM practices, such as the PEP, based on a certain business strategy, while simultaneously developing other HRM practices to manage human resources required for their business operation. In this section, we analyze, without considering the influence on the company performance, the correlation of the PEP, business strategy and HRM practice, which is the second question posed in the previous section.

Firstly, to find out the type of business strategies and HRM practices used by the companies that introduced the PEP, the following logistic regression analysis is presented, in which the dependent variable consists of a dummy variable that indicates the status of introduction of the PEP (see Table 6). As noted above, among the business strategies, the differentiation strategy had a statistically-significant positive influence on the introduction of the PEP. Among the HRM practices, selective education and training had a statistically-significant positive influence. As for the odds for companies that introduced the PEP, the number of companies that applied the differentiation strategy is 1.6 times higher than that of companies that did not. As for the

companies that introduced the PEP, the number of companies that introduced the selective education and training is 1.3 times higher than that of companies that did not. In other words, there is consistency both in the relationship between the PEP and differentiation strategy, and also between the PEP and selective education and training practice. Considering this result as characteristics of the company that introduces the PEP, we can assume that some kind of interaction is generated from the simultaneous execution of the PEP, differentiation strategy and selective education and training. In particular, it is possible that they are used systematically in a mutually reinforcing way.<sup>7</sup>

**Table 6. Logistic regression analysis using the PEP as the dependent variable**

	Unstandardization factor	Standard error	Significance probability	Odds	Significance level
Differentiation strategy	0.477	0.132	0.000	1.611	***
Cost strategy	0.050	0.124	0.685	1.052	
Education & training to all	0.088	0.118	0.456	1.092	
Selective education & training	0.302	0.123	0.014	1.353	*
Use of non-regular employees	0.111	0.134	0.406	1.118	
Construction	0.553	0.248	0.026	1.738	*
Information & communication	0.627	0.280	0.025	1.872	*
Transportation	-0.148	0.211	0.483	0.862	
Wholesale & retail	0.469	0.183	0.010	1.598	*
Finance and insurance	-0.226	0.251	0.369	0.798	
Services	-0.062	0.174	0.721	0.940	
Other industries (except manufacturing)	0.686	0.352	0.052	1.985	
Logarithm for regular employees	0.325	0.089	0.000	1.384	***
Coefficient	-0.418	0.155	0.007	0.658	

**Note:** \*\*\* p<0.001. \*\* p<0.01. \* p<0.05. N=1280. Significance probability for omnibus verification of the model coefficient = 0.000.  
 Cox & Snell R<sup>2</sup> = 0.05, Nagelkerke R<sup>2</sup> = 0.07. Significance probability of Hosmer and Lemeshow verification = 0.36.

<sup>7</sup> According to this logistic regression analysis, (1) the rate of introduction of the PEP is the highest in the information and communication industry, followed by construction and wholesale and retail industries, and (2) the larger the company (number of regular employees), the higher the rate of introduction of the PEP.

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The idea that these strategies and HRM practices work in a bundle or as a system is discussed by Arthur (1992) and MacDuffie (1995), the main advocates of the configuration approach in the SHRM theory described above. In the same way as it is discovered in this report, Arthur (1992) used the result of the survey conducted at steel works and pointed out that organization of HRM (cost reduction industrial relation system) was preferred, aiming at cost reduction, in promoting the cost leadership strategy.

## **5. Two Trends among Modern Japanese Companies: Business Strategy and HRM**

In this section, we will consider the mechanism of interaction between the two sets of ideas—the differentiation strategy and the PEP, and the PEP and the selective education and training. In this report, a company is defined as selecting the differentiation strategy if it has selected both (1) development of new technology/product and (2) differentiation of competitive service/product. The manufacturing industry, for example, must ensure good human resources to develop new technology or a new product. To do that, they need to introduce a practice with high incentives in their human resource system, such as the PEP. From this point of view, it is highly probable that the PEP contributes to the differentiation strategy.

To this end, the following consideration can be made for the PEP and the selective education and training: In addition to obtaining good human resources with a highly incentive system of larger wages, it is likely that companies that introduce the PEP also invest in the concentrated education and training programs for a selected group of people who have potential to generate and increase the competitive power of the company. In other words, it is conceivable that companies are both "buying" and "building up" good human resources as the source of their competitive power. Furthermore, it is possible that synergetic effects are generated (and companies expect such effects to be generated) from the set of the PEP and the selective education and training, which interact with each other to create a positive influence.

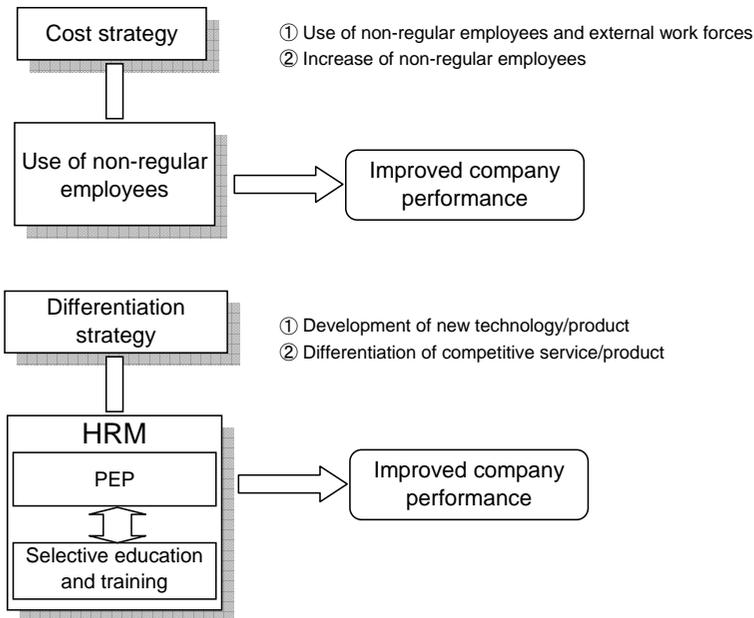
While companies attempt to achieve an advantageous position over their competition by using the differentiation strategy, the set of the PEP and the selective education and training is implemented in the human resource management, creating an interactive influence of the strategy and human resource measures and consequently maintaining the competitive power. This

scenario seems quite convincing.

To summarize our analysis on the business strategy and human resource measures, two broad trends are broadly identified (see Figure 2). For the business strategy of Japanese companies, we assume two strategies—the cost leadership strategy and the differentiation strategy. Companies that apply the cost leadership strategy use non-regular employees and external work forces in their human resource management, which serves to reduce cost. Since there is a limit in how far cost competition can go, companies may not be able to continue the cost leadership strategy in the long term. For the short term, however, this method may provide advantages over other companies, and in fact the analysis of our survey data tells us that it contributes to improvement of the company performance.

On the other hand, companies that apply the differentiation strategy ensure good human resources through introduction of the PEP. Also, companies that introduce the PEP tend to provide concentrated education and training to a select group of

**Figure 2. Two patterns of business strategy and HRM practice**



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competent people. It is possible that synergetic effects are obtained through an interactive influence among the differentiation strategy, the PEP, and the selective education and training that is congruous with the PEP. Although the set comprising of the differentiation strategy, PEP and selective education and training did not show a statistically-significant correlation to the company performance, as a system it may have some logic for improving the company performance in the long term.

## **Conclusion**

Traditionally, business strategy and human resource management were handled separately. Analysis of the survey data, however, reveals that in Japanese companies today there is a strong organic linkage between the business strategy and human resource management. Also, this result provides us with a labor policy implication.

Needless to say, the demand and supply balance of the labor market was determined by factors of the demand side and the supply side. The demand forecast, however, was made based on relatively short-term changes in the recruitment behavior of companies or based on the time-series macro data such as changes in the number of people entering/leaving companies and the employment rate of non-regular workers. The analysis in this report, however, indicates that Japanese companies today apply human resource management that fits the business strategy. This implies that a change in the long-term demand of the labor market can be explained mostly by the business strategy of companies. It is very important to understand the business strategy of companies in forecasting the changes in the labor market. Information will make an important contribution to planning and drafting of labor policies, and the viewpoint of future surveys and researches should be widened to include corporate business strategies in addition to human resource management.

Another finding in this report is that the company performance is improved by application of the cost leadership strategy and the use of non-regular employees and external work forces. It is difficult to forecast the extent to which companies are able to compete with each other over cost. As long as competition continues, however, the use of non-regular employees and external work forces will be further advanced. The "White Paper on the Labor Economy" of 2006, published by the Ministry of Health, Labor and Welfare, points out that the number of non-regular employees will most likely increase

further in the future. One of the important problems that drew attention recently in Japan is the large economic gap between regular workers and non-regular workers. As was pointed out by the analysis in this report, such a gap is actually generated within the context of corporate management behavior, and further careful observation is required.

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## JILPT Research Activities

### ***Research Report***

The findings of research activities undertaken by JILPT are compiled into Research Reports (in Japanese). Below is a list of the reports published from August to October 2006. The complete text in Japanese of these reports can be accessed from the JILPT website. We are currently working on uploading abstract of the report in English onto the JILPT website as well.

- No.67 *Comparative Legal Research on the Legal Concept of the “Worker”* (October 2006)
- No.68 *Transition of Diversifying Employment: 1994-2003* (September 2006)
- No.69 *Labor Market Reform in Germany: Evaluation and Prospects* (October 2006)
- No.70 *Report on the Analysis of the Issues Related to Diverse Working Styles: Comprehensive Analysis of Data Taken from the “General Survey on the Working Styles of the Japanese”* (September 2006)
- No.71 *Research on the Interconnection of Policy Challenges Related to Urban Employment* (October 2006)

\* JILPT website: URL: <http://www.jil.go.jp/english/index.html>

### ***Northeast Asia Labour Forum***

On October 26, 2006, the Japan Institute for Labour Policy and Training (JILPT) cosponsored, with the Chinese Academy of Labour and Social Security (CLASS) and the Korea Labor Institute (KLI), the 5th Northeast Asia Labour Forum in Gyeongju, South Korea. The three labor institutes hold a forum once every year with a common theme and present their research results, aiming at promoting mutual understanding among the three countries and raising the standard of research. The latest forum focused on the theme, “Changes to Paradigm in Economic Growth and Employment.”

The research papers presented by the three parties at the forum are shown below. The papers (in full text) are available on the website of the JILPT.

JILPT

Minoru Ito (Research Director), *Effect of Globalization, IT and Technological Innovation on Employment Structure*

Hirokazu Fujii (Research Director), *Employment Policy Response to External Factors (Globalization, IT Revolution, Etc.): Based on the Interim Report "Future Employment Strategy" of the Japan Institute for Labour Policy and Training*

Korea

Jaeho Keum (Director-General, KLI), *Changes in the Environment and Driving Force of Economic Growth and Employment: Case of South Korea*

Insoo Jeong (Senior Research Fellow, KLI), *Current State of Regional Labor Markets in South Korea and Policy Challenges*

China

Jun You (Director-General, Institute of Labour Studies), *Relation between China's Economic Growth and Increase in Employment*

Yiming Zhang (Associate Professor, CALSS), *Research on Changes in Employment during Economic Growth: Case of Chengdu, Sichuan Province, China*

Apology and correction

Please see the following corrections in Volume 3, No. 4 of The Japan Labor Review (Autumn 2006). We sincerely apologize for any inconvenience this may have caused.

1. The name of the author appears as *Koichi Fujii* on p.117. The correct name is *Hirokazu Fujii*.
2. The same author's name on the title page and in the table of contents should be corrected accordingly.
3. The name of the professor in Footnote 2 on p.117 appears as *Michio Higuchi*; the correct name is *Yoshio Higuchi*.

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