

Labor-Management Communication and Labor Condition Determination in Small-and-Medium-Sized Enterprises*

Oh Hak-Soo

The Japan Institute for Labour Policy and Training

I. Purpose and Method of Study

We conducted a questionnaire survey to provide basic facts for recent discussion on the system for determining labor conditions by identifying how labor-management communication and labor conditions are developed in small-and-medium-sized/leading medium-sized enterprises (hereinafter referred to as SMEs). The survey titled, “A Survey on Dialog on Labor Conditions between Labor and Management at SMEs” was mailed to companies with less than 1,000 regular employees. The survey was conducted from July 12, 2006 to September 11, 2006, and was sent to 12,000 companies. The number of valid response was 2,440, and the response rate was 20.3%. We asked company presidents to respond, but in certain companies responses were given by board members and/or supervisors. The ratio of responses given by presidents was 45.4%.

II. Reality of Labor-Management Communication and Labor Condition Determination—In Different Sized Enterprises

First, we will look at some basic facts identified by the survey with simple tabulation and for different sized enterprises (1-9, 10-29, 30-49, 50-99, 100-299, and 300 or more employees). We chose this method in order to include firms with less than 30 employees, as they had rarely been included in this type of survey in the past, and to identify characteristics between different sized SMEs.

* This paper is a summary of JILPT Research Report No. 90, Labor-Management Communication and Labor Condition Determination in Small-and-Medium-Sized Enterprises. Therefore, it includes the research results of a number of authors, but the author is responsible for any errors in the current paper. Please refer to the report for details, <http://www.jil.go.jp/institute/reports/2007/090.htm>.

1. Presidents' Responses

In regards to employment and labor conditions, 65.9% of presidents responded that “it is irrelevant whether a candidate is a new graduate or mid-career worker” when asked about their recruiting strategies. Larger companies showed a higher ratio of preference toward hiring new graduates. As for lifetime employment,¹ 37.0% indicated that they “prefer to continue to maintain lifetime employment in principle,” 34.8% responded that “partial modification of lifetime employment is inevitable,” 11.0% responded that “lifetime employment should undergo fundamental revision,” and 15.0% said “we do not have a lifetime employment system and intend to maintain the status quo” (see Figure 1). The ratio of firms essentially supporting lifetime employment, including those supporting partial modification was upwards of 71.8%. The larger the size of the company was, the higher the ratio was.

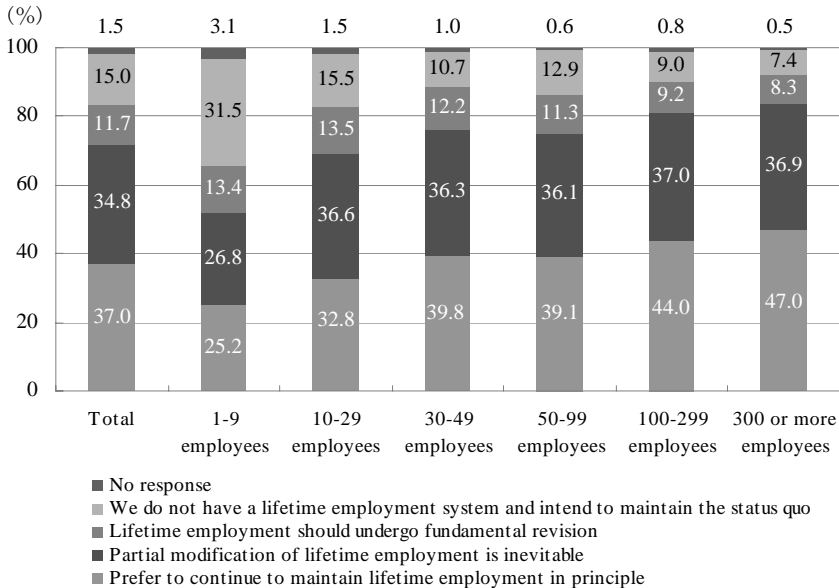
On the other hand, when it came to an age-based remuneration system, more than half of the companies (58.4%) answered that they “would like to make slight modifications based on an employee’s performance and capabilities.” This response was followed by “do not and will never have an age-based remuneration system” (24.1%), “the current system does not reflect the employee’s performance and capabilities and thus needs to undergo fundamental revision” (14.1%), and “would like to continue to maintain an age-based remuneration system in principle” (2.7%).

2. Base Salary Revisions

Let us look at revisions to base salary and lump-sum payments. In 2006, 46% of the companies indicated that they had “increased base salaries,” and 44.5% responded that base salaries were “similar to the previous year.” Only 2.3% answered that they had “decreased base salaries.” When asked if they had considered the results of Toyota Motors’ labor and management negotiations

¹ Recently, other than “lifetime employment” (meaning a lifetime commitment or permanent employment), terminology including “long-term employment system,” “long-term security employment,” “long-term employment practice,” and “long-term employment” is also used. Since “lifetime employment” is the oldest term of the above and it is the best description of Japanese employment practices, and since we would like to draw comparisons to the survey on large companies with 1,000 or more employees conducted in 1999, we decided to use this term in the current survey. For details, please refer to the footnotes for Section 1, Chapter 2, Part II in *The Japan Institute for Labour Policy and Training* (2007b).

Figure 1. Attitude towards lifetime employment



at the time of their revision, 63.7% said they “did not consider it at all,” 24.3% said they “did not consider it much,” indicating that altogether 88.1% of the SMEs did not specifically refer to the Toyota case when adjusting base salaries. Only 7.8% indicated they had considered the Toyota example. As for the factors considered in the determination of base salary revisions, “the company’s business performance” had the highest ratio at 74.7%, followed by “securement and stabilization of the labor force” (36.11%), “maintaining employment” (30.3%), “the going rate” (27.6%), and “employees’ wishes” (10.4%). The larger the company, the more often they cited “securement and stabilization of the labor force,” “maintaining employment,” and “employees’ wishes.” As for the revision of lump-sum payments, 27.0% indicated “increased lump-sum payments (bonuses),” 44.5% said it was “similar to the previous year,” and 11.7% said it “decreased.” Larger companies had higher response ratios for “increased the payment.” What is remarkable here is that the ratio of companies that increased base salaries (46%) was almost double the ratio of those that increased lump-sum payments (27.0%).

As for the method of asking employees’ opinions on adjusting base salaries, the ratio of “meetings with managers” was 24.7%, “business and performance

Figure 2. Method of asking employees' opinions on base salary revisions



review meetings with employees” was 12.3%, “meeting with labor unions” was 10.5%, “meeting with supervisors” was 4.9%, “meeting with labor management consultation organizations” was 4.1%, “meeting with employee groups such as employee social groups” was 3.9%, and “non-business related meetings with employees” was 3.1% (see Figure 2). The ratio of companies that “do not specifically ask employees’ opinions” on revisions was 35.9%. This response had higher ratios among smaller companies.

3. Working Regulations

In the Japanese Labor Standards Act, if companies with 10 or more employees create or modify their working regulations, it is stipulated that they must submit the regulations to the Labor Standards Inspection Office. In doing so, they must include employee feedback. When asked about changes in working regulations since 1990, 73.6% of the companies responded that they had “changed the regulations,” 20.0% responded that they “did not change the regulations” and 5.0% answered “there are no working regulations.” While getting feedback from employees is stipulated in the law when changing working regulations, 41.4% answered that “management created the

regulations based on employees' day-to-day opinions," followed by they were "created by employees who are supposedly employee representatives" (17.3%), "we do not have written feedback from employees" (15.9%), the regulations were "created by employee representatives who were selected via election or with the confidence of employees" (10.8%), and they were "created by a labor union organized by a majority of employees (majority union)" (7.6%).

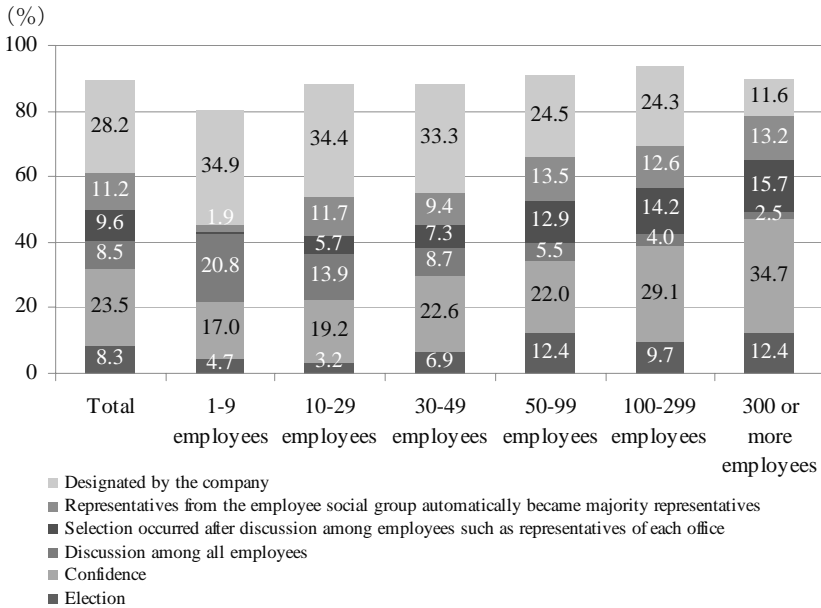
4. 36 Agreement

When companies have their employees work overtime or on holidays, they need to conclude a written agreement (36 Agreement) with a majority union or with representatives of a majority of employees, and submit the agreement to the Labor Standards Inspection Office. In asking who the employee representatives are in the conclusion of a 36 Agreement, 60.1% responded "representatives of a majority of employees (majority representative)," and 11.4% responded "a labor union organized by a majority of employees (majority union)," while 22.4% answered that "they don't have a 36 Agreement." On the selection method of majority representatives in concluding a 36 Agreement, the ratio of those indicating it was "designated by the company" was 28.2%, followed by "confidence" (23.5%), "representatives from the employee social group automatically became majority representatives" (11.2%), and "selection occurred after discussion among employees such as representatives of each office" (9.6%). Smaller companies showed a higher ratio of the response, "designated by management" (see Figure 3).

5. Dealing with Management Crises

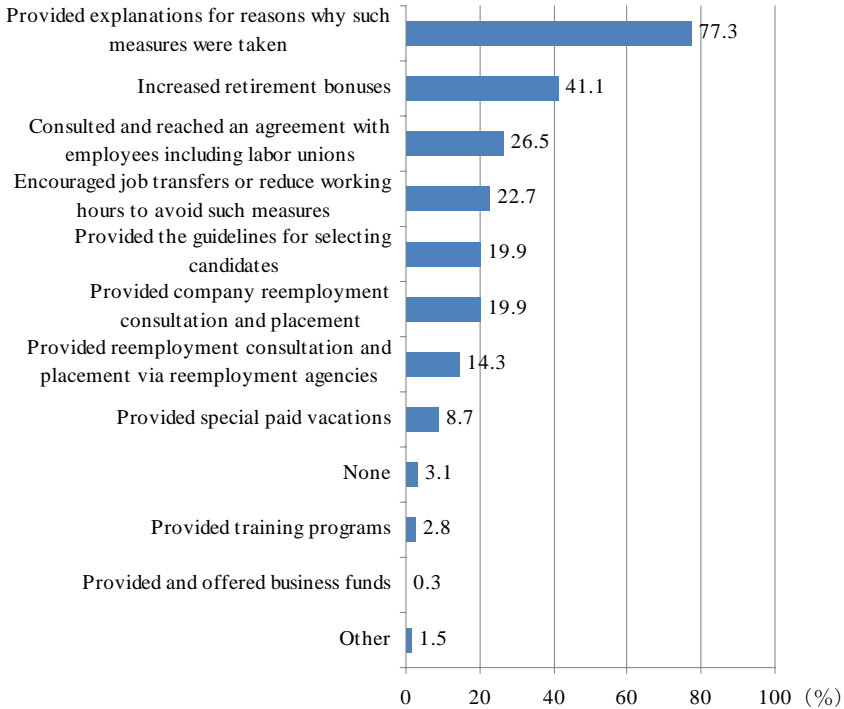
Among the responding companies, 53.1% indicated that since 1990 they had "experienced a management crisis" caused by waning business performance, and 45.6% answered they "have not experienced a management crisis." Although more than half of the companies faced management crises, larger companies had fewer such experiences. The most common employment adjustment policy taken in the face of a management crisis was "limiting new recruitment" (34.9%), followed by "limiting wage increases" (34.4%), "reducing lump-sum payments" (32.4%), "lowering salaries" (27.1%), "reducing/closing unprofitable divisions or closing offices" (24.9%), and "limiting overtime" (20.5%).

Figure 3. Selection method of majority representatives when concluding a 36 Agreement



As for employment adjustment policies that reduce the workforce directly, 15.3% of companies indicated they carried out “dismissal,” followed by those who “solicited voluntary retirement” (13.4%) and “encouraged retirement through a voluntary early retirement program” (6.4%). The ratio for the response, “dismissal” was lower among larger companies, whereas the ratios for the responses, “solicited voluntary retirement” and “encouraged retirement through a voluntary early retirement program” tended to be high among these firms. As for measures taken at the time of such personnel reductions, 77.3% of respondents indicated that they “provided explanations for reasons why such measures were taken,” followed by those who “increased retirement bonuses” (41.1%), “consulted and reached an agreement with employees including labor unions” (26.5%), “encouraged job transfers or reduced working hours to avoid such measures” (22.7%), “provided the guidelines for selecting candidates” (19.9%), and “provided company reemployment consultation and placement” (19.9%) (See Figure 4). The ratio of regular employees who left their companies due to personnel reduction totaled 18.6%

Figure 4. Measures taken in conjunction with dismissal, voluntary retirement, and early retirement



of all regular employees, with the ratio of regular employees leaving their companies tending to be higher among smaller companies.

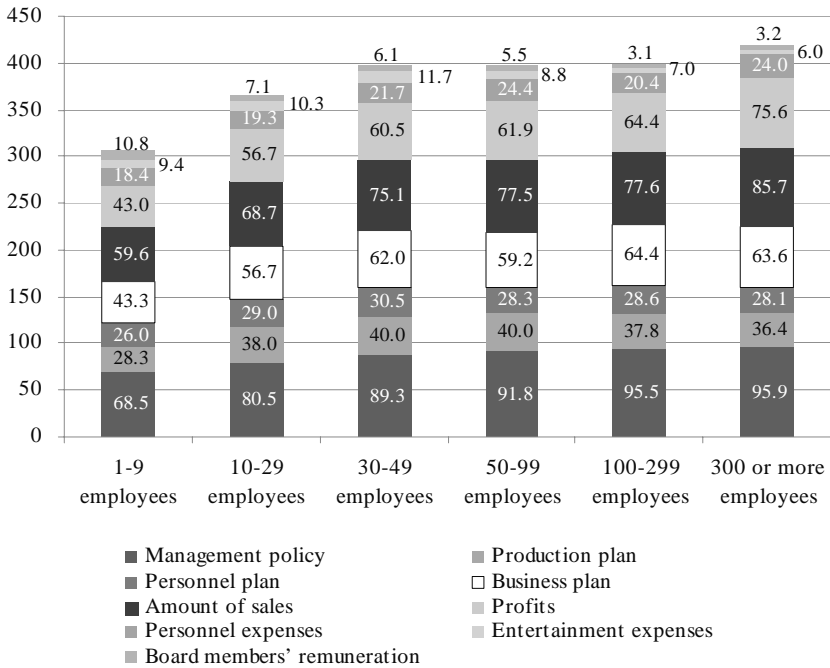
6. Labor-Management Communication

Regarding management information provided by companies to their general employees, as an indicator of labor-management communication, “management policy” enjoyed the highest ratio at 85.7%, followed by “amount of sales” (72.6%), “profits” (58.8%), “business plan” (57.5%), “production plan” (36.7%), “personnel plan” (28.2%), “personnel expenses” (21.2%), “entertainment expenses” (9.1%), and “remuneration of board members such as presidents” (6.2%). Larger firms tended to have higher ratios regarding the provision of such information. More specifically, there are generally no significant differences in the degrees of disclosing management information

among companies with 30-49, 50-99, and 100-299 employees. The total number of ratios of companies indicating that they disclosed each item of management information were 396.9, 397.4, and 398.8, respectively, with the ratios rising by roughly one point as the company size grew larger. There were no other significant differences. Companies with 300-999 employees had the highest ratio of disclosing management information; the total for all of their items was 418.5, which was approximately 20 points higher than companies with 30-299 employees. This discrepancy is caused by the fact that companies with 300-999 employees show a 10 point lead in the disclosure of both sales and profits. On the other hand, companies with 1-9 and 10-29 employees differ significantly from larger companies. In companies with 10-29 employees, the total ratio for all the items was 366.3, which was approximately 30 points lower than that of companies with 30-49 employees. In companies with 1-9 employees, the total ratio for all the items was 307.3, which was approximately 60 points lower than that of companies with 10-29 employees. Overall, small companies with 29 or less employees have a lower ratio of providing of management information to general employees, which raises the concern about whether or not such companies could obtain sufficient cooperation from their general employees regarding business management. On the other hand, compared to larger firms, companies with 29 or less and 30-49 employees have a higher ratio of disclosing management information regarding board members' remuneration or entertainment expenses, both of which have the lowest disclosure ratio (see Figure 5). This may indicate that the discrepancy in the ratio of management information disclosure between different sized firms may be due to an insufficient communication system or lack of awareness of such a need, and not due to a preference for withholding management information from general employees.

Employee groups such as "employee social groups" are one of employees' leaders in labor-management communication. Approximately half of the respondents (49.1%) indicated they "have such groups." As regards the content of their activities, "social activities such as recreation" totaled 83.0%, followed by "mutual aid activities including congratulatory or condolence payments or loans" (61.2%), "discussing labor conditions such as wage revision, working hours, and benefit packages with management" (22.8%), "handling employees' complaints" (16.0%), and "discussing production plans and management policies with management" (10.2%). Larger companies had a higher response

Figure 5. Ratio of disclosing management information by company size



ratio for “discussing labor condition such as wage revision, working hours, and benefit packages with management.”

We asked the respondents their opinions on labor unions. As for “labor unions are useful for understanding general employees’ wishes and requests,” 50.9% gave positive responses (“I agree” and “I somewhat agree”), exceeding negative responses (“I do not agree” and “I somewhat disagree”), which totaled 37.5%. With regard to “labor unions are useful for communicating management’s wishes to general employees,” 46.3% responded positively and 41.7% responded negatively, both of which were very similar ratios. On the “necessity of unions,” however, 62.0% responded negatively, largely exceeding the ratio of positive responses (27.7%). This may be partially due to a company’s opinion that “we can understand general employees’ wishes and requests without a labor union” (positive responses: 75.8%). On the other hand, larger firms had higher ratios of recognizing a labor union’s active role.

As for the number of the responding companies with labor unions, 13.2%

indicated having “one union,” 1.6% had “two or more unions,” and 0.5% had “no union, but some employees are members of amalgamated unions,” totaling only 15.3%; 80.6% of companies responded that they “do not currently have unions and have not had them in the past.” The average “ratio of labor union members within the company,” including part time employees was 65.5%.

7. Personnel and Labor Management Systems and Difficulties in Management

With respect to personnel and labor management systems introduced by SMEs, a “retirement bonus system” had the highest ratio (80.3%), followed by a “bonus system” (73.3%), “wage table” (67.4%), “employment extension/reemployment system” (58.2%), “regular salary increase system” (49.2%), “qualification system” (42.6%), “performance review system” (37.6%), “disclosing the performance review outcome to the reviewed employee” (25.8%), “training for performance reviewers”(18.7%), and “complaint handling” (14.6%). Larger firms tended to have higher ratios of introducing such systems, regardless of the type of system. As for wage gaps due to performance review systems in companies that introduced such systems, with the standard annual salary of mid-career employees set as 100, the average highest salary was 123.1, and the average lowest was 81.4, a discrepancy of approximately 20% both above and below the standard salary of mid-career employees.

8. Management of Nonpermanent Employees

Only 17.2% of companies indicated that they “increased” the initial hourly wages of part time employees in 2006, while an insignificant 1.4% “decreased” it. Meanwhile, 56.1% indicated that their wages were kept “similar to the previous year.” As regards the method of revising the initial hourly wages, “only the management decided” had the highest ratio (66.9%), followed by “decided after discussing it with the employees”(19.1%).

III. Types of Employee Groups and their Function in SMEs

In Japan, there are various employee groups in companies besides labor unions. We will examine their functions and differences from labor unions.

First, we divided employee initiative groups into four based on the

existence/non-existence of a labor union and employee group, and their characteristics: (i) “labor union type” (14.9%) with established labor union, (ii) “social group type” (32.3%), in which they exclusively carry out social activities such as recreation, mutual assistance activities including congratulatory or condolence payments or loans, and handling employees’ complaints, (iii) “discussion group type” (8.8%), in which they discuss labor conditions with management, i.e., wage revision, work hours, holidays, vacations, benefit package, production plan, and management policies, and (iv) “non-organization type” (44.1%), without a union or employee group. The results of the analysis based on the four groups are as follows:

First, as for the function of information communication, especially in terms of quantity (i.e. the amount of information), every indicator showed the highest score in discussion group *type*, followed by labor union type, social group type, and non-organization type in that order. The discussion group type conveyed more information to general employees than the labor union type.

Second, regarding the function of collecting opinions, we could see the same characteristics both in basic salary revisions and lump-sum payment revisions. Quantitatively, the discussion group type had the highest score, followed by the labor union type and social group type. The non-organization type had the lowest score.

Third, when looking at the performance of these employee initiative groups in terms of (i) communication, (ii) employment, and (iii) business performance, the discussion group type characteristically had a higher score than other types in total and individual evaluation in communication. As for performance on employment, based on the indicator for introduction of a human resource management system, the labor union type had the highest score, followed by the discussion group type, social group type, and non-organization type which had the lowest score. It indicated that the labor union type and discussion group type had introduced various systems. This superior performance of the labor union type can also be observed in the employment indicator, and the performances showed by indicators for the ratio of voluntary retirement, average years of service of regular employees, and wage increases were also better than those of other types. This illustrates that companies with labor unions have a higher impact on employment.

In terms of the effect of employee initiative groups’ negotiations, firstly, having a labor union did lead to wage increases, whereas neither the discussion

group type nor social group type showed any remarkable influence. Labor unions had a greater influence on wage negotiations than employee groups. Secondly, both labor unions and employee groups proved effective in reducing the turnover ratio. Thirdly, it was confirmed that the longer it took for a new graduate to become a full-fledged employee, the lower the turnover ratio. Therefore, promoting internalization by developing skills over the long term could result in a lower turnover ratio.

IV. Human Resource Management and Labor Condition Determination in SMEs

1. Lifetime Employment and Human Resource Management in SMEs

Lifetime employment is thought to have the closest bearing on human resource management and labor condition determination in Japan. We divided companies' opinions on lifetime employment into four key types and conducted basic cross tabulation. The four types are: (i) prefer to continue to maintain lifetime employment in principle ("maintaining type," 37%), (ii) partial modification of lifetime employment is inevitable ("modification type," 32.8%), (iii) lifetime employment should undergo fundamental revision ("revision type," 11.7%), and (iv) we do not have a lifetime employment system and intend to maintain the status quo ("negative type," 15%).

As a result of the cross tabulation, firstly, we found out that companies that thought highly of lifetime employment essentially had higher ratios of supporting an age-based remuneration system, and thus had higher ratios of increasing basic wages in 2006.

Secondly, as for labor-management communication, companies that thought highly of lifetime employment seemed to have higher ratios of creating management policies that incorporated the wishes and requests of general employees. Degrees of labor-management communication and employees' cooperation in business management tended to be greater in companies that were more in favor of lifetime employment. Similarly, those companies had a more positive opinion on labor unions and on the need to have labor unions.

Thirdly, when business performance of SMEs declined, the lifetime-employment-oriented companies made more efforts to avoid dismissal of their employees. Those companies generally have experienced fewer

management crises due to declining performance since 1990, but they were more willing to conduct various employment adjustments. They seemed to try to alleviate any effect on their employees. The lifetime-employment-oriented companies had lower ratios of employees who had retired due to downsizing by using measures that encouraged retirement, including dismissal, voluntary retirement, and preferential early retirement program, and eventually secured more jobs.

Fourthly, the more in favor of lifetime employment the companies were, the more positively they introduced the human resource management systems such as the regular wage increase system. There were significant differences between “maintaining type” and “negative type” on introduction of the regular wage increase system, bonus/retirement bonus system, and performance review system.

Fifthly, the lifetime-employment-oriented companies currently have more favorable business performance. As with the current profits in and after 1990, the business performance in the “revision type” companies was much worse than that in the “negative type” companies.

2. Introduction of Systems for Determining Labor Conditions and Their Roles and Functions in SMEs

We examined how systems and schemes that determine labor conditions are introduced, by company size, by case with/without employee groups, and by type of relations companies have with other companies regarding their capital. Next, in terms of existence/non-existence of systems and schemes and determination of labor conditions, we examined the relation between existence/non-existence of a regular wage increase system and actual state of wage revision as well as the relation between existence/non-existence of a bonus system and actual state of lump-sum payments. As a result, the companies with the regular wage increase system were more likely to raise the salary and likewise, the companies with the bonus system tended to provide lump-sum payment. Without these systems, many companies were not willing to offer pay rise or lump-sum payment even if their business performance was favorable. From these two examples above, we can see that existence of systems and schemes leads to improvement of the working environment enhancing transparency, fairness and stability in the determination of labor conditions.

We also saw the relationship between the introduction of systems and schemes and employees' morale because we assumed, as a result of the above, that they were probably related. Results showed that the companies that regarded their employees' morale to be high had more willingly introduced various systems including systems for performance review in particular, than those that regarded their employees' morale to be low. Similarly, looking at the relation with the turnover ratio, we found that the companies with a good retention rate of their employees had more positively introduced the various systems and schemes compared with the companies with low retention rate.

3. Factors in Wage Revisions at SMEs

In 2006, we divided the companies into 6 groups based on base salary and bonus revision data. The 6 groups are: (i) increased both base salaries and bonuses (24.5%), (ii) increased base salaries and maintained bonuses at about the same level as the previous year (24.1%), (iii) increased base salaries and decreased bonuses (5.1%), (iv) maintained base salaries at about the same level as the previous year and increased bonuses (8.8%), (v) maintained base salaries and bonuses at about the same level as in the previous year (28.8%), and (vi) maintained base salaries at about the same level as in the previous year and decreased bonuses (8.4%).

We examined what factors determined their respective decisions. Particularly, we focused our analysis on (ii) and (iv) to compare whether or not the firms had increased base salaries or bonuses. As a result, we discovered that these measures were conducted in order to secure the labor force in the former case, and to benefit employees with good performance in the latter case. Companies with positive policies towards age-based remuneration systems tended to allocate their profits to base salaries, and those with negative policies tended to do so to bonuses.

Furthermore, 40.5% of companies with failing business performance increased either base salaries or bonuses. What were the causes of the increase? They cited "hiring regular employees (new graduates)," "hiring regular employees (mid career recruitment)," and "low retention rate" as human resource management issues. Thus, it is assumed that they increased base salaries to resolve the issue of low retention rate, and to facilitate a smooth hiring of regular employees. The companies may also have considered employees' wishes or a labor union's requests for pay rise. Then, what made

some companies to increase bonuses in spite of bad business performance? In case (iv), a relatively large percentage of the companies, in which the presidents were more likely to be placed by parent companies, cited the parents companies' policy as the reason for the wage revision. That is to say, some companies increased the bonuses despite the poor performance considering their relationship with the parents companies.

V. Cutbacks and Labor-Management Relations in SMEs

We analyzed how labor unions and employee groups had influence on the selection and determination of employment adjustment policies and on the measures adopted for such selection and determination. The results clearly indicated that labor unions had superiority in this regard and employee groups' roles were limited. Employee groups and labor unions differ essentially in whether or not they can protect workers' interests in collective bargaining in the context of right of dispute. The analysis results indicate that they have essential differences in selecting dismissal, voluntary retirement, or early retirement in restructuring, and as regards the measures adopted at the time of restructuring. Therefore, it is not feasible to consider employee groups as de facto labor unions.

VI. Employee Participation in Determining Labor Conditions as Required by Law

In Japan, the ratio of labor unions has been steadily decreasing, and in 2007 fell to 18.1%. Under these circumstances, what is important is how to gather workers' opinions and have them reflected in management. We consider this question in this section. To state the conclusion first, it is necessary to legislate an employee representative system by evoking basic constitutional rules and paying attention to adjustments in labor union function. In doing so, it is also important to construct feasible systems in SMEs. If systems are not actually used, despite being stipulated, then the system will have hollowing effect. This has also happened in other countries, and it should not be ignored. It goes without saying that the system should not impair labor conditions within SMEs. Depending on the content of rule, it is important to increase the effectiveness by considering system application and content design for each

company size.

In the survey, we investigated changes in working regulations, and the true picture of employee representatives and their role in concluding a 36 Agreement, and further examined them against the provisions of the Labor Standards Act. The results indicated that only 20% of the companies clearly complied with Paragraph 1, Article 90 of the Labor Standards Act² in their method of creating an employees' opinion statement when working regulations were modified. On the other hand, the most common response regarding the selection method of employee representative in a 36 Agreement was "designation by the company." This means that there are many SMEs that have not materialized the group agreement and participation stipulated in the Labor Standards Act. This tendency is stronger in companies with fewer regular employees.

In both cases illustrated above, companies with labor unions implemented the laws more appropriately than did those without unions. Of course, the existence of a labor union does not necessarily guarantee adherence to the laws. As for methods of creating the opinion statement when changing working regulations, for example, less than half of companies with labor unions clearly complied with Paragraph 1, Article 90 of the Labor Standards Act, and not a few companies failed to create such a statement at all.

Paragraph 1, Article 90 of the Labor Standards Act only obligates employers to ask the opinions of their employees, and does not require them to consult with workers in this regard. Regarding adjustments to any discrepancies in the opinions of labor and management, "there was no difference with employees' opinions" had the highest ratio of just under 40%. On the other hand, "did not make specific adjustments" came to 20%, which is a significant figure. As far as the initiative for adjustment of labor and management opinions was concerned, the management took the lead in many cases, which may cast some doubt on whether or not the management really satisfied the employees in changing working regulations. In fact, however, when the management was asked regarding how much degree the employees

² "In drawing up or changing the rules of employment, the employer shall ask the opinion of either a labor union organized by a majority of the workers at the workplace concerned (in the case that such labor union is organized), or a person representing a majority of the workers (in the case that such labor union is not organized)."

were assumed to be satisfied with changing working regulations, the response showed a high self-evaluation of the management for the employees' satisfactions at 83.3% on average.

Companies, with lower averages of this satisfaction level, that "did not create a statement at all" did not necessarily tend to recognize the recruitment and stabilization of employees or labor-management communication as issues, despite high ratios of voluntary retirement of their employees. It is difficult to motivate this type of employer to voluntarily listen to employees' collective opinions and have them reflected on labor conditions. On the other hand, if companies with majority unions "created the statement based on their employees' day-to-day opinions" because they simply did not know about Paragraph 1, Article 90 of Labor Standards Act, the situation could be improved by educating them about the regulation.

VII. Conclusion: Exploring Labor-Management Communication and Employee Representative System in SMEs

In this section, we will discuss political implications concerning the issue based on above the chapters 1 through 6 and Chapter 3³ in JILPT (2007a). An employee representative system ("labor and management committee system" in the original text) was included in a study group report for drafting a labor contract bill,⁴ although it was omitted in the actual bill, which in the ordinary diet session in 2007 was carried over to the next session. Employee representative system is an important topic in considering future labor administration.

The current survey is to understand the true picture of labor-management communication and determination of labor condition in SMEs, and not to examine the introduction of an employee representative system. Therefore, full-fledged political implications for the employee representative system cannot be drawn from the current survey. We would like to present the reality of labor-management communication and determination of labor conditions as a future reference for the employee representative system, and aim to provide

³ The chapter is a part written on the results of A Survey on Dialog on Labor Conditions between Labor and Management at SMEs, which was used in the previous sections of this paper.

⁴ Ministry of Health, Labour and Welfare (2005).

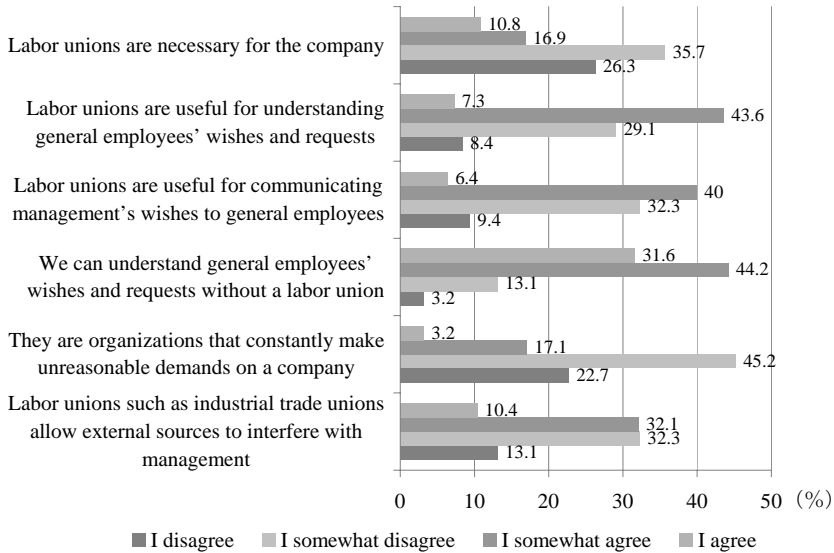
materials for examining such systems.

1. Reality and Challenges of Labor-Management Communication

Let us look at SMEs' opinions on labor-management communication. Approximately 70% responded positively that "general employees' opinions and voices are well communicated" (69.2%), and "management's policies are well communicated to general employees" (66.2%). Approximately 60% responded that "we are prepared for communication with employees" (61.1%). This means that SMEs' labor-management communication is generally good.

However, there are issues regarding specific methods and leaders of labor-management communication. Firstly, only 49.1% of respondents said their companies have employee groups such as "employee social groups." Employee groups whose activities include "negotiation on labor condition such as wage revisions, working hours, and benefit packages with management" (22.8%) or "discussion on production plans and management policies with management" (10.2%) totaled only 33.0%. Secondly, as for collecting employees' opinions at the time of revising base salary, which reflects well the state of labor-management communication, only 38.8% of companies ask employees' opinions via meetings with those in supervisory positions and below. The remaining 35.9% stated that they "do not specifically ask employees' opinions," and in cases when they did, 24.7% admitted to only having "meetings with managers and above." Thirdly, regarding preparation of an opinion statement when modifying working regulations, only 35.7% indicated that it was created by a majority union or employee representatives, and 41.4% responded that "management created the opinion statement based on employees' day-to-day opinions." Fourthly, when concluding a 36 Agreement, 23.8% of employee majority representatives were in positions above the manager/director level. On electing representatives, only 49.9% of the respondents indicated that they elect representatives via election, confidence, or discussion, and the remaining 39.4% responded that "representatives from the employee social group automatically became majority representatives" (11.2%), or "they were designated by the company" (28.2%). As these specific aspects of labor-management communication indicate, there are a few problems as regards employees' communication representatives and the way employees' opinions are reflected, in spite of companies' belief that labor-management communication is generally good.

Figure 6. Presidents' opinions on labor unions



Many presidents from the responding companies believe that “management should be conducted with sufficient understanding of general employees’ wishes and requests” (72.6%). In order for this to materialize effectively, the above issues must be resolved.

2. Necessity of Employee Representative System

What can be done to address the labor-management communication issues mentioned above? One would expect labor unions, which are organized and acting under the three rights of labor, to play a role. We will first need to consider employers’ opinions about labor unions. SMEs do not necessarily think labor unions as “organizations that constantly make unreasonable demands on a company” (67.9%) or “organizations that allow external sources to intervene in management” (45.4%). Rather, they see labor unions positively: “labor unions are useful for understanding general employees’ wishes and requests” (50.9%) and “labor unions are useful for communicating management policies to general employees” (46.3%).⁵

⁵ Percentages in parenthesis are a total of responses in Figure 6, “I somewhat disagree” and “I disagree,” and “I agree” and “I somewhat agree” respectively.

Generally, one could say that approximately half of Japanese SMEs have a neutral opinion of labor unions; neither exceedingly positive nor negative.⁶ On the other hand, only 27.7% think that “labor unions are necessary for the company” and the remaining 62.0% feel otherwise. Labor unions are basically voluntary groups of workers and thus, unionization should not be determined by what the companies think of labor unions. In reality, however, 63.4% of labor unions have concluded union-shop contracts with companies in Japan,⁷ and therefore, unionization might not proceed smoothly without the understanding of companies on labor unions.

Judging from SMEs’ opinions of labor unions, unionization under union-shop contracts, the steadily declining ratio of labor unions,⁸ and the low ratio of labor unions in SMEs (14.8% in the current survey), we can say that it is not realistic to regard the labor union as the only organization to take the initiative in labor-management communication. While respecting labor unions organized under the Constitution and the basic labor rights provided in the Labor Union Act, there is a need to create organizations that will assist in labor-management communication. One of the options is the employee representative system.⁹

3. Employee Representative System

(1) Relationship with Labor Unions

Labor unions are voluntary organizations based on Article 28 of the

and “I disagree,” and “I agree” and “I somewhat agree” respectively.

⁶ According to a survey regarding new labor unions organized in the late 1990s, the actions of companies toward unionization included: “management was not involved” (non-involvement type, 35.0%), “management supported unionization” (supportive type, 27.2%), and “management persuaded the main union organizers not to form a union” (prevention type, approximately 26.7% = overlapping response total 53.4% × 1/2) (Oh 2000). Since “supportive type” and “prevention type” are approximately the same and the rest was “non-involvement type,” one could conclude that Japanese firms have neutral opinions on the formation of labor unions.

⁷ Ministry of Health, Labour and Welfare (2003) Survey Report on the Actual Status of Labor Union.

⁸ The unionization rate has steadily declined: 55.8% in 1949, 35.6% in 1955, 34.8% in 1965, 34.4% in 1975, 28.9% in 1985, 23.8% in 1995 and 18.2% in 2006. Ministry of Health, Labour and Welfare (2006), Basic Survey of Labor Unions.

⁹ See JILPT (2007b), Part III, Chapter 1 for necessity of the employee representative system and issues regarding the employee representative system.

Constitution¹⁰ and Labor Union Act, and their legitimate activities are ensured by law. Therefore, the employee representative system should not daunt or inhibit labor unions' legitimate activities. Furthermore, as identified in JILPT (2007b), Part II, Chapter 3, labor unions, for all practical purposes, have superiority over employee groups when it comes to decision-making on corporate employment reductions and the measures taken at such times.¹¹ From the point of view of worker protection, the employee representative system should be considered in ways that it ensures the legitimacy and priority of labor unions.

(2) Significance of Employee Representative System and Its Relationship with Employee Groups

Because we did not ask respondents any direct questions on the necessity and significance of the employee representative system in the current survey, we cannot identify companies' views on how the employee representative system should be. We believe that the employee representative system will definitely have certain characteristics of employee groups. We will make an assumption regarding the significance of the employee representative system based on the current survey items on employee groups. According to the current survey, 49.1% of the responding companies have employee groups such as "employee social groups." Among employee groups, those with "social activities such as recreation" (social-type group) and "mutual assistance activities including congratulatory or condolence payments or loans" had high ratios of 83.0% and 61.2% respectively. Other groups were committed to "handling employees' complaints" (16.0%), "discussing production plans and management policies with management" (10.2%), and "negotiating labor conditions such as wage revisions, working hours, and benefit packages with management" ("discussion type employee group") (22.8%). As specifically analyzed in JILPT (2007b), Part II, Chapter 1, compared to the "social type group" and "non-organization type" without any employee groups or labor unions, those companies with "discussion type groups" performed better as regards information communication, introduction of human resource

¹⁰ "The right of workers to organize and to bargain and act collectively is guaranteed."

¹¹ Refer to JILPT (2007b), Part II, Chapter 1 for companies with "discussion type" employee groups demonstrating higher performance than those with labor unions.

management systems, and reduction of the turnover ratio. In light of the effectiveness of “discussion type groups,” it is important to capitalize on their advantages when introducing the employee representative system. There are a number of issues to be examined, such as the way of selecting employee representatives and the roles to be played by the employee representative system, but one option may be to regard existing “discussion type groups” as a type of the employee representative system.

(3) Organization and Role of Employee Representative System

In the employee representative system, if there is no majority union in labor-management agreements/consultations or hearing of opinions for concluding a 36 Agreement or changing working regulations, employee representatives are expected, more or less, to play an intermittent role in concluding agreements and responding hearings as the employee majority representatives. In the current survey, however, it was identified that many presidents of SMEs (72.6%) believe that “management should be conducted with sufficient understanding of general employees’ wishes and requests,” as mentioned earlier, and thus, it would be more desirable to introduce the employee representative system in ways that it fulfills such a notion. This is because companies that consider their employees’ wishes and requests more seriously tend to disclose management information to general employees more positively, to communicate with them more effectively and to get more corporation in management from their employees. Furthermore, such companies have consistently improved their business performance since 1990 without experiencing a management crisis due to deterioration in performance.¹² There are various ways of uncovering wishes or requests of general employees, and if the company expects the effects stated above, it would be preferable that the main body to take charge of labor-management communications is set on a permanent basis.

If we are to consider the employee representative system as one of the labor-management communication systems, how should the employee representatives be selected? In the current survey, we asked about the way of selecting majority representatives for concluding a 36 Agreement and found out that only 49.9% of the majority representatives were selected in the

¹² Refer to the section written by the author in JILPT (2007a).

election by vote of confidence, through discussions among all employees or through discussions among representatives of each division, all of which are supposedly democratic processes stipulated by law. Among other 39.4% of the majority representatives, some were designated by companies, or in some cases the representatives of employees social groups were automatically posted to the positions. By company size, more than half of the companies with 50 or more employees selected the majority representatives through the democratic process. In introducing the employee representative system, it is necessary to discuss what the proper democratic process should be in representative selection, and so far, the results of the current survey show that the companies with 50 or more employees are likely to ensure the democratic process in representative selection.

There is another fact that was clarified in the course of examining the selection of representatives. With regards to the method of creating an employees' opinion statement when changing working regulations, in the companies that answered "the opinion statement were created by employee representatives who were selected in an election or by vote of confidence by employees," the degree of employees' satisfaction, which was supposed by their company, with the outcome of modification of working regulations was higher than in those responded that "the management created the regulations based on employees' day-to-day opinions" or "the majority union created the statements."¹³ Therefore, even in the case where "a supplemental employee system" which prescribes that the employee representative system will not be introduced in the company with a majority union is chosen, selecting representatives of the majority union in the election or by vote of confident involving all employees is one of the options in order that the majority union assumes the role of employees representatives and enhance employees' sense of satisfaction.

In considering the role of employee representative system, on the premise of priority of Article 28 of Constitution and Labor Union Act as we previously mentioned, it should be as similar as that of "discussion type group"¹⁴ of employees, and that will eventually facilitate the labor-management

¹³ For details, refer to Chapter 2, Part III of JILPT (2007b).

¹⁴ For superiority of "discussion-type employee group" compared to other types of employee groups, refer to Chapter 1, Part II of JILPT(2007b).

communications.

Lastly, we would like to mention effectiveness as the most important factor in thinking of the employee representative system. Without effectiveness, any outstanding employee representative system is insignificant. It is imperative that the ideas be made realistic and acceptable to labor and management, and it is also important to introduce employee representative system ahead in companies that are ready to do so. Judging from an example of the way of selecting employee representatives for a 36 Agreement as described earlier, it was in the companies with 50 or more employees that more than half of the companies implemented a democratic selection, and this is worth bearing in mind. Also, the implementation of an employee representative system does not necessarily guarantee that the expected objective will be achieved. This is obvious when you see the case of creating employee opinion statement for a 36 Agreement or modifications of working regulations, as described above. What is most important is to take a mid-long term and phased approach for more desirable employee representative system by referring to its objectives and implementation statuses and by improving the system and its current conditions.

References

- The Japan Institute for Labour Policy and Training (JILPT). 2006. *Chusho Kigyo ni okeru Roshi Kankei to Rodo Joken Kettei Sisutem no Jittai* [Reality of labor-management relations and systems determining labor conditions at small and medium sized enterprises]. Reference Series, no.16. Tokyo: The Japan Institute for Labour Policy and Training.
- . 2007a. *Rodo Joken Kettei Sisutemu no Genjo to Hokosei: Shudanteki Hatsugen Kiko no Seibi, Kyoka ni mukete* [Current situation and its direction of system determining labor conditions: Improving and strengthening the system for voicing group opinion]. Project Research Series, no. 2. Tokyo: The Japan Institute for Labour Policy and Training.
- . 2007b. *Chusho Kigyo ni okeru Roshi Comyunikeshon to Rodo Joken Kettei* [Labor-management communication and Determination of Working Conditions in small-and-medium-sized enterprises]. JILPT Research Report, no. 90. Tokyo: The Japan Institute for Labour Policy and Training.
- Ministry of Health, Labour and Welfare. 2003. *Rodo Kumiai Jittai Chosa Hokoku* (Survey on Status of Labour Unions). Issued by Statistics and Information

- Department, Minister's Secretariat, Ministry of Health, Labour and Welfare.
- . 2005. "Kongo no Rodo Keiyaku Hosei no Arikata ni kansuru Kenkyukai" Hokokusho [Report of "study group on future labor contract regulations"].
- . 2006. Rodo Kumiai Kiso Chosa (Basic Survey on Labor Unions). Issued by Statistics and Information Department, Minister's Secretariat, Ministry of Health, Labour and Welfare.
- Oh, Hak-Soo. 2000. Rodo kumiai kessei to roshi kankei, kigyo keiei [The formation of unions and the effects on labor-management relations and corporate management]. *The Japanese Journal of Labour Studies* 42, no.12.

