

# **National Factors and Employment Relations in Japan**

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## *Executive Summary*

A number of changes have occurred in the management of employment relations practices as triggered by the changes in the Japanese national factors—national institutions, labour market, national culture and business and economy. Available Anglo-Saxon literature provides abundant evidence that changes in these national factors in the past had jolted the three prevailing sacred aspects of Japanese employment relations— life-time employment, seniority based system and enterprise-based unions. Realizing this fact, this study attempts to examine the influence of national factors on employment relations practices in Japanese companies.

National institutions, in this study, refer to government rules and regulations, educational system, unions and employers' associations. The government is deregulating its role of protectionism. Educational institutions have played roles to provide cooperative, disciplined and committed manpower. However, there is increasing demand to reform the educational system to support creativity and innovation. In the process of economic development in post-war Japan, the role of trade unions remained highly significant. However, the current rate of unionization is declining due to new developments in internal and external labour markets, changing government policies and declining interest of young recruits to join unions. The role of employers' associations is highly regarded to strengthen relations with unions and government.

Japanese society is recognized as one of the highly cultured societies. The main value system existing in the society is cooperation, collectivism, harmony, respect for seniors and hard-work. They influence the custom, practice, relationship among people in the society and thus have been influencing Japanese work system implicitly. Many believe that Japan's economic miracle in the past is, *inter alia*, due to these national cultural factors that have largely influenced employment relations practices at the company level. However, the review of the past literature provides sufficient evidence that Japanese culture was not very rigid. A number of changes have occurred in the prevailing national culture in the course of development in the Japanese societies.

Labor market is also a form of national institution to influence employment relations. The main characteristics of Japanese labour market are: declining population growth rate, aging workforce, increasing unemployment rate, differences in the participation ratio of the male and female work force and increasing number of NEET (not in employment, education and training) people.

Although Japan faced a number of economic ups and downs in the post-war period, she has secured the position of second largest economy after the USA. She suffered from two oil crises in the 1970s that motivated organizations to invent energy saving products. Her economy took a nosedive with the collapse of bubble economy in the 1990s. Once from the double digit growth in the high growth period she has entered into a deep economic crisis with the effect of two oil crises and the bubble economy. Economists argue that Japan is still facing a recession due to the declining productivity of the economy. Since, Japanese economy and businesses are highly integrated with the global economy, such ups and down are phenomenal in the economy.

In the last three decades, changes have also occurred in the employment relations practices. Though Japanese employment relations system was regarded as the most vital element for the success of Japanese economy, especially during 1970s, many academicians and practitioners raised question marks. In fact, the changes in national factors had jolted the prevailing employment relations practices too.

The impact of developments in national factors seemed to be different in the size, number of employees and sectors of individual company. However, in general, all the above four national factors are influencing the employment relations factors. The government is deregulating prevailing employment relations practices. This has challenged the rights of workforce. With a declining population and quality of labour force, some companies are worrying about the future supply of labour force. With increasing competition in the market, companies are interested to cut operational costs. They gradually increase recruitment of non-regular and part-time workers in the place of regular workers. In fact, the recruitment of employees from among the school and university graduates is declining. In big and medium-sized companies, the seniority-based system is being slowly replaced by a performance-based system. The parallel effect is that the annual increment system is gradually replaced by a performance based system.

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# Chapter 1

## Introduction

This chapter seeks to provide a tentative framework for study following a brief discussion on the general background and purpose of this study. The last three decades have seen changes in prevailing employment relations practices around the world. This chapter provides a summary of the changes that are occurring in the West and in Japan. There will be a brief discussion on Japanese national factors, highlighting the major issues related to employment relations. A framework for study will be presented in the final section of this chapter.

### Background to National Factors and Employment Relations

There is a wealth of literature documenting the fact that management practices are not universal; they are developed and nourished within a specific social context such as institutions on the national level, the nature of the labor market, national culture, the economy and business factors.<sup>1</sup> These factors are also known as national factors or external environmental forces that impact enterprises, leading them to make changes. A number of observers and experts note the importance of national factors when studying country specific employment relations practices.<sup>2 3 4 5 6</sup> More specifically in the case of Japan, many argue that the changes in national factors — such as institutional, cultural, labor market, and economic and business factors — have increasingly influenced the employment relations system.<sup>7 8 9 10 11 12 13 14</sup>

Understanding and expanding the body of knowledge surrounding employment relations requires an integrative perspective that recognizes and incorporates national factors and the specific internal forces of an organization.<sup>15</sup> An integrative perspective makes it easy to examine the relations of varied but dependent external and internal organizational forces.

Lewin's theory of change explains the nature of driving and restraining forces in the change process.<sup>16</sup> As described in change theory, every external threat passes through the internal management system to be integrated in the firm or result.<sup>17</sup> Prior to changes occurring in individual organizations, managers observe threats that pose the survival and prosperity of a firm.<sup>18</sup> Once these are observed, managers begin to interact with the forces inside and outside the organization through the internal management system.

Therefore, to examine the nature of change in employment relations practices, it is important to consider the dynamics of national environmental factors that the firm will likely face, as well as firm specific contingent factors which may have a force of their own.<sup>19</sup> The contingent factors are variables such as the size, age, nature, life cycle stage of an organization, level of technology, and other internally generated policies or “culture” that influence the change process in such a way that any pressure from outside organizations must interact to create an internal change.<sup>20</sup> Contingent factors are the decisive factors that change employment relations practices.

With these caveats in mind, this study aims to examine the changes that are taking place in employment relations practices in Japan, accompanied by changes in national factors. In the case of a specific company, contingent factors are assumed to be the most important in deciding and moderating change.

### **Changes and Developments in Employment Relations Practices<sup>21</sup>**

In the last three decades (particularly between the 1970s and 1990s), there have been significant changes in employment relations practices. These changes are mostly accompanied by increasing pressures in the domestic and international markets to gain a competitive advantage. Many countries in the East and West have been influenced by these pressures, forcing them to rethink traditional employment relations practices.

As cited in human resource (HR) literature specifically written between the 1980s and 1990s, the emergence of new human resource management (HRM) practices in the 1980s followed persistent domestic and international pressure on U.S. industries in the 1970s. Traditional American personnel management<sup>22</sup> and industrial relations systems were challenged by the process of globalization, rapid technological advances, shorter product life-cycles, and changing customer and investor demands.<sup>23</sup> In the 1970s, U.S. industries faced the challenges of under-utilization and unemployment of human resources, adverse union-management relations, low employee motivation and trust in management, hierarchical management, restrictive work practices and, finally, resistance from employees towards changes needed to cope with the competitive environment.<sup>24</sup> Penetration of the U.S. domestic market by foreign competitors and the recession, on the one hand, and the impact of developments in microprocessor technology, on the other, constituted both a threat and an opportunity. In such an environment it was difficult for U.S. companies to compete without continuously improving their performance through slashing costs, innovations in products and processes, and quality production. Prompted by these challenges, since the late 1980s American business has begun to place greater emphasis on the management of human resources to improve productivity and quality, thus becoming competitive internally and externally. As a result, U.S. industries revitalized their human resource practices with an eye to committing human resources to gain the competitive advantage in both domestic and international markets.<sup>25</sup>

It is also important to note that the role of personnel management has changed since the 1980s. Traditionally, its purpose was to manage workers and the work, and it was regarded as a job similar to that of a file clerk, housekeeper, social worker and trouble shooter responsible for pension plans, the employee suggestion system, the employment office and administration of union grievances.<sup>26</sup> Its role was treated as a specialist rather than that of a line manager, such as production and marketing manager, and it was completely separated from strategic management.<sup>27,28</sup> In the eyes of many management groups and professionals in the U.S. and U.K., perennial criticisms have been made of the roles and responsibilities of personnel managers because of the dismal contributions they have made to



organizational performance. Their unremarkable role created a crisis in employee management. A 1979 survey of members of the American Society of Personnel Administration revealed that 77 percent saw their role in the 1980s as having to broaden out into such areas as organizational design, while 93 percent saw a necessity to contribute to strategic decision-making in the organization.<sup>29</sup> In the U.K., some executives began to realize the new roles and responsibilities of the personnel department, such as communications management, quality, team building, problem-solving, and the like.<sup>30</sup> It is now understood that the job of the HRM department is an integral part of the job of every manager, whether he or she is a production manager, sales manager, office manager or hospital administrator.<sup>31</sup>

In recent years, many authors, including Hofstede, Kession and Sparrow, have highly regarded the role that national culture plays in shaping employment relations.<sup>32</sup> Particularly in European and East Asian management literature, the national culture factor is used to examine employment relations practices. Culturists argue that national culture — comprised of customs, mores, values and demographic characteristics often reflected in the laws, rules and regulations of a country — differs from country to country.<sup>33</sup> It has a profound influence on the work system, especially in managing human resources. If social-cultural factors are not recognized in a timely matter, they will be a primary source of institutional resistance to making any sort of change in a company. National culture factors directly impact:<sup>34</sup> a) the complexity of recruitment and selection as well as the development process of employees in the organization; b) attitudes of managers towards HRM practices; c) employee perceptions of particular HRM policies; d) the political motive of selecting certain HR policies; and e) the unique ways of doing things and management logic.

The recent argument is that the new human resource management practices are regarded as being more strategic, involve all managerial personnel, regard people as the most important single asset of the organization, are proactive in their relationships with people and seek to enhance company performance, employee needs and societal wellbeing.<sup>35</sup>

In Japan, employment relations practices have undergone substantial changes, mainly since the two oil crises of the 1970s. Various cost cutting and productivity improvement measures were taken in order to keep companies more competitive; the government deregulated many industries to strengthen the market economy; attitudes toward work from both the workforce and the unions gradually changed; the corporate management system has changed due to shifts in the patterns of ownership. All these have had significant influence on Japanese employment practices in the last three decades.

Concerning unionization in the West, throughout the 1980s, many trade unions lost members. The collective bargaining mechanism was weakened, and measures like flexible work practices, performance-based remuneration systems and direct communication channels between the worker and management have eroded the influence of the unions. Although these anti-union measures were not well welcomed by trade unions at the time,<sup>36</sup> unions have not been able to attract many members with the growth of the service sector. This has resulted in the demise of collective bargaining and the emergence of a non-union

sector in the U.S.<sup>37 38 39 40</sup> where employers offer an array of benefits and participatory mechanisms that have tended to reduce a worker's interest in joining a union.<sup>41</sup> Academicians, researchers and practitioners have explained a negative type of relation between HRM and IR.<sup>42</sup>

In the U.K. the major loss in union membership occurred after the privatization and restructuring reforms carried out by the Conservative Party.<sup>43</sup> In the early 1980s British industries undertook restructuring effects to combat the recession and loss of competitiveness. The anti-union legislation of the Thatcher government encouraged firms to introduce new labor practices and re-order their collective bargaining arrangements.<sup>44 45 46</sup>

In terms of Japan, union membership has declined from 34 percent in 1976 to less than 20 percent in 2003.<sup>47</sup> The main reasons behind this phenomenon are changes in the industrial structure, the growth of the service industry, the increase in the number of part-time workers (only three percent of part-time workers are members of trade unions), and delays in unionizing the service industry and part-time workers.<sup>48</sup>

In sum, the catalyst behind the changes to employment practices are globalization and increasing competition in the domestic and international markets (economy and business environment), regulatory reforms by the government (institutions), increases in the unemployment rate and part-time workforce (labor market), and the influence of national culture.<sup>49</sup> These forces influence the pattern of employment relations.

## **HRM Models**

The preceding section discusses how the concept of this study evolved and the changes underway in employment relations. However, it is necessary to develop a framework in the form of an HRM model to examine changes in Japanese employment relations. In this section we will discuss different HRM models to derive such a framework.

A number of academics and practitioners have contributed greatly to the development of HRM through their models. These models provide a frame of reference from which to select study variables and to proceed for further investigation. The Matching Model developed by Fombrun et al.<sup>50</sup> suggests that people in an organization will be managed according to organizational requirements of quality and effectiveness. The model explains why organizations normally fail. According to this model, when organizations fail to follow appropriate HR activities, they will be beset by inefficiencies. Thus, the critical managerial task is to align the formal structure and the HR systems so that they drive the business strategy of the organization. The Matching Model assumes that a firm's strategy, structure and HRM system are closely interwoven and influenced by economic, political and cultural forces.

The next popular model was the Harvard Model developed in the 1980s. This model, describes the relationships between the interests of various stakeholders in the organization and management objectives.<sup>51</sup> The model assumes that the historical problems of personnel management can only be

solved if general managers develop the philosophy that employees should be involved in and developed by the organization. The major elements of this model are: stakeholder interests, situational factors, policy choices regarding human resource management, human resource outcome and long-term consequences. The model assumes that situational factors (characteristics of business strategy and conditions, management philosophy, task technology, law and social values, etc.) will affect the interest of stakeholders and finally influence HRM policy choices, HR outcomes and long-term consequences.<sup>52</sup>

Another important model is the one developed by Hendry and Pettigrew regarding strategic change and HRM.<sup>53</sup> This model is based on the work of Beer et al. and describes the range of HRM activities and preconditions that govern a firm's employment system. The main concern of this model is to identify and classify key environmental influences on HRM. The implicit but untested hypothesis of this model is that a good fit between environmental forces and a human resource management system will result in the superior performance of a firm.<sup>54</sup> According to this model, the socio-economic context of the firm — such as ownership and control, size and structure, growth path and structure of the industry and its market — affects the inner context, such as business strategy and HRM. The technical context refers to technology in use and available, and the configuration of tasks in the way technology is adopted. The political-legal context affects the selection and need for training in the organization.

Although the above model remained popular for quite a long time as a way to explain the relationship between environmental factors, contingent factors and HRM practices at the firm level, the main problem has yet to be solved. In the main, the models fail to describe the linkage between HRM practices and outcome. They only explain that when various sub-systems, including the HRM sub-system, are aligned and support each other, there is a good chance that a firm will perform superbly. In other words, traditionally, personnel management was a more descriptive phenomenon and it was difficult to identify the contribution of HR to organization performance and profit. This may be why interest in personnel management has declined over the years. According to Guest, HRM policy and practice can be linked to organizational performance.<sup>55</sup> He notes that, "It is possible to develop theories of alignment, explaining a series of linkages to performance, both at the broader level of strategy and at the more specific level of HRM practices. Starting with the latter, the expectancy theory of motivation provides a possible basis for developing a more coherent rationale for the link between HRM practices and performance." Guest has taken the Harvard Model and explains it by defining four policy goals for HRM and performance linkage which are strategic integration, high commitment, high quality and flexibility. This theory says human resources "matter more" than other enthusiastic linkages and assumes that improved performance is achieved by the people in the organization. Any theory of linkage should explicitly build on this. The arguments by Guest suggest that it is important to link HR practices and outcomes, and the behavior of management and workers.

Brewster argues that the cultures of countries differ according to continent, and thus there is no universal approach to managing HRM.<sup>56</sup> He states that a universal paradigm is dominant in the U.S. and widely

used in other countries too. The universal paradigm assumes that “What is good for the USA is also good for other countries,” by allowing for the environment outside the context of HRM. Contrary to the universal paradigm of HRM, the contextual paradigm assumes the closeness of contextual factors, such as national culture, ownership structure, and the role of the state and trade union organizations in business strategy, HR strategy and HR practices.<sup>57</sup> It further shows that “In a simplistic form, the business strategy, HR strategy and HR practices are located within an external environment of national culture, power systems, legislation, education, employee representation ... The organization and its human resource strategies are practices which in turn interact with and are part of that environment.”<sup>58</sup>

The HRM model developed by Jackson and Schuler describes how to manage human resources in changing external environmental conditions.<sup>59</sup> Environmental conditions are customers, laws and regulations, political and economic trends, national cultures, technology, industry and supplier, and competitors and potential alliance partners. All these factors condition the management of human resources. They further explain sense-making and decision-making and argue that managers have to make sense when developing corporate strategy in order to compete in the market. Toward this end, they have to interpret the environment and select and prioritize objectives. This model clearly states the importance of understanding environment forces in order to understand the changes taking place in human resources and to make appropriate decisions.

To sum up, except for a few universalistic assumptions, the models described above indicated that HRM practices in any specific country are determined by the interaction of internal and external environmental factors, including the behavior of management and the people working inside organizations.

### **Why Another Study in Japanese Employment Relations**

This study seeks to examine Japanese national factors and employment relations. Whereas national factors include national institutions, national culture, the labor market and economy, and the business environment, the three sacred pillars of employment relations are lifetime employment, seniority-based reward and promotion, and enterprise-based unions. There have been many studies about Japanese employment relations, and it is difficult to justify this kind of research repeatedly. A number of questions can be raised as to why another work in the same area is necessary. Why are only four national factors selected for the study? What was the basis for selecting these four factors? Are these factors exclusive in nature? Since Japan is a developed country, its employment relations factor is obviously associated with international economic and political changes. Why not consider international factors, such as the trend toward globalization, the war in Iraq, the recent U.S. elections, the decreasing value of the dollar as compared to the yen, etc. The researcher feels it is necessary to find the answer to these questions before entering into real employment relations issues.

In the past, there have been a number of studies on Japanese employment relations undertaken from different perspectives. Since it is difficult to discuss all these studies, some important works are briefly

named here. In the past, researchers and observers followed different approaches when examining Japanese employment relation practices. Many anthropologists, including Abegglen (1958), Okochi (1958), Nakamaya (1975), and Nakame (1970), have examined Japanese employment relations from a cultural perspective. Those who used a descriptive analysis (a kind of deductive analysis that relies on solid theoretical concepts such as market competition and the labor market) have been Livine (1958), Cook (1966), Shirai (1965), Shirai, Shimada (1978) and others. Taira (1970), Kuratani (1973), Hashimoto (1979), Tan (1980), Shimada (1974, 1981), and Takezawa (1968) are among those who employed the functional approach in their studies. The work of Dore and the study conducted by the OECD in 1977 are examples of studies of Japanese employment relations from a neo-culturist point of view.

The first reason for choosing to research this topic again is because a number of Japanese and non-Japanese observers have indicated the importance of examining national factors to understand employment relations. These include Whitley (1992), Jackson and Schuler (1995), Hoefstede (1993) Morishima (1995), Yamanouchi and Okazaki (1997), Lincoln and Nakata (1995), Sano (1993), Brewster (1999), Budhwar and Debrah (2001), Porter, Takeuchi and Sakakibara (2000), Keeley (2001), Kono and Klegg (2001), and Hanami (2004). These observers broadly mention national institutions, the labor market, national culture and the economic and business environment to discuss employment relations. Many previous studies have been conducted on individual companies as well. However, none have used these four factors simultaneously to examine employment relations on an individual company basis. Therefore, this researcher was attracted to the idea of working on Japanese national factors and employment relations to describe the collective impact of national factors on company-level employment relations practices. It is important to note that the four factors mentioned above are not exclusive in nature; they are interrelated.

The second factor motivating this researcher was the book *Human Resource Management in Developing Countries* published in 2001, which includes chapters on human resource management in 13 developing Asian and African countries focusing on national factors and human resource management. This researcher had the opportunity to contribute a chapter to this book examining the national factors influencing Nepalese human resource management.<sup>60</sup> Since the book turned out to be a useful work for understanding human resource management in a specific country, the researcher decided to use a similar approach to study Japanese employment relations.

In the current study, international factors are considered to the extent they support the discussion on national factors. When examining the influence of the economy and business environment on employment relations, the competition that Japanese companies face on the international level is highlighted.

## **National Factors Influencing Japanese Employment Relations**

During World War II the economy of Japan was virtually destroyed. Since that time, it has been transformed into the second biggest economic power after the United States, having incorporated new ideas, transformed its older institutions, and accommodated to alien and often distasteful modes.<sup>61</sup> Its willingness to embrace state activism and an egalitarian and participatory system of labor-management relations led Japan to socio-economic superiority.<sup>62</sup> The government remained vigilant and supportive in the development of national level policies, rules and regulations relating to national economy and labor, initiating a number of policy measures to reform institutions in the postwar era. At the same time, restructuring was being carried out in employment relations practices. Between 1955 and 1970 the growth rate reached 10 percent per annum, the highest ever.<sup>63</sup>

Japan follows a market economy similar to that found in Western advanced capitalist countries such as the U.S. and U.K. Competitiveness is the main characteristic of the Japanese economy and enterprises in both the domestic and international markets. This has made the Japanese economy gain a competitive advantage and it developed as a model of competition for other countries too. Due to the success of the Japanese economy and enterprises in the late 1960s and the early 1970s, before the first oil crisis in 1973, many believed that the Japanese model of economic development and corporate management could contribute to the development of many other nations, including developing countries.<sup>64 65 66</sup> It has been observed that the management models used by Japan can be adapted and adopted by many other countries.<sup>67</sup>

However, it is important not to forget that behind the success stories there were difficult times for the Japanese economy. It has faced two oil crises, in 1973 and 1979, which influenced its ship building, steel and chemical industries. Just after the Plaza Accord in 1985, the country suffered a recession accompanied by an appreciation in the value of yen. With the bursting of the bubble economy, the Japanese economy faced another economic crisis in 1991. All of these events resulted in huge employment adjustments at the company level. Companies faced enormous pressure to rationalize office work, redesign white-collar workplaces and jobs and to become more efficient with the same amount of compensation.<sup>68 69</sup> However, amidst these difficulties, Japanese companies implemented successful changes cautiously. While introducing changes, they always tried to establish a postwar consensus and legitimacy surrounding employment practices and industrial relations that has given Japanese firms a highly stable and supportive domestic and international business environment.

In fact, there are a number of changes that have taken place in Japanese national factors in the pre- and postwar period. With these changes, as discussed above, Japanese employment relations have also been influenced. Below is a brief review of the national factors influencing Japanese employment relations practices.

**National Institutions:** The first important national factor selected for this study is Japanese institutions. The term “institution” is vague and includes “a custom, practice, relationship or behavioural pattern of importance in the life of a community or society.”<sup>70</sup> Based on this definition, four important institutional categories were identified for the purpose of this study: government institutions, educational and vocational training institutes, trade unions and employer associations. The main reason for referring to these four institutions as “important institutions” is that many research studies — including publications from the Japan Institution of Labor Policy and Training (JILPT) and the Japan Business Federation (JBF) — has highlighted these institutions as influencing labor policies and employment relations most frequently.

To introduce changes in the workplace, the government frequently changes and introduces national level policies, rules and regulations, and observes the social, economic and business changes taking place. With the changes in the international monetary system and the two oil crises, Japan’s economy was badly shaken. However, the government has managed to maintain a relatively strong economic performance among advanced nations by adopting effective macroeconomic policies. Similarly, there have been changes to a number of employment policies and labor related regulations, having a huge impact on the current employment relations system. In fact, government institutions are highly vigilant in always maintaining social and economic order to cope with domestic and international environmental changes. For example, recently, under the concept of “free, fair and global,” the government initiated radical and proactive reform measures to attract foreign investors. It is gradually improving the prevailing corporate laws, bankruptcy laws and accounting principles. These changes are also attempts to attract foreign investment in Japan.<sup>71</sup> With the growth of foreign investment in Japan, competition is expected to increase in both domestic and foreign markets. However, to take advantage of these developments, Japanese enterprises have to renew their efforts to help themselves in order to remain more competitive in the future.<sup>72</sup> Such a renewal process will certainly impact current employment relations practices. However, the response of individual companies to these government-inspired institutional measures has not yet been studied. In addition, it is important to know the extent to which Japanese governmental institutions regulate individual companies and what impact this has on their autonomy.

The second institution influencing employment relations on the company level is trade unions, and their activities. As described earlier in this chapter, the rate of unionization in Japan is declining. With the growth of service industries and corresponding decline in the number of manufacturing industries, the unionization rate has fallen. Furthermore, the increase of the non-regular workforce — of which only three percent are union members — has also contributed to the decline in union membership.<sup>73</sup> From the employers’ side, there are arguments that since the wage level in Japan is high compared to Western industrialized countries, there is a need to improve the egalitarian wage increase and to seek a new role to strengthen union-management relations.<sup>74</sup> The government policy institution JILPT has also indicated that

in today's austere economic climate in which wage increases are becoming difficult, unions are shifting from their formal policy of wage increases to maintaining job security.<sup>75</sup> Employers are moving toward wage reductions, such as reconsidering annual wage increases, wage cuts and postponement of wage increases.<sup>76</sup> This has brought the wage determination mechanism at the firm level — i.e. the *shunto* — to a significant turning point. But from preliminary observations, it is not clear to what degree these developments are occurring in individual companies. This study examines unionization trends on the individual company level.

Educational institutions are the third important institution. This category includes schools, universities and centers for vocational training, which help to produce qualified and needed manpower. Educational institutions are the driving force behind Japan's economic development and have contributed enormously to the industrial development of the country. They are the major sources of recruitment and development of human resources. However, with increasing competition in the market, there is a shortage of trained and creative manpower.<sup>77 78</sup> It has been argued that since multi-skilled manpower is developed through in-house training programs that, it remained much less effective to develop specialists who are particularly needed in poorly performing industries.<sup>79</sup> Porter et.al. stated that Japan's method of education — based solely on rote memory — is no longer sufficient to make its companies competitive. They further suggested that the country “place emphasis on creative problem solving, measure student skills, respond to student preferences, and move away from a totally uniform curriculum set by the Ministry of Education.”<sup>80</sup> Moreover, the current education system has not sufficiently succeeded in producing leaders with a vision and cultivating human ingenuity.<sup>81</sup> These may be the reasons why a mismatch between job openings and jobseekers is increasing. Almost three-quarters of the people out of work are unemployed due to a mismatch between jobs openings and jobseekers.<sup>82</sup>

As demands to review the current educational system increased, the government also realized it was necessary to improve the educational system in order to graduate people who are “independent and creative.” The current emphasis is on improving the quality of university education. It is hoped that by making them more competitive, new graduates will have the skill to cope with the challenges that enterprises currently face.

In Japan, a large number of institutions are providing both general (general courses, short-term courses and technical courses) and advanced (special courses, applied courses, short special courses and short-applied course) training. It is thought that companies and employers' association will take the initiative to train their manpower by awarding subsidies, disseminating information and providing consulting services.<sup>83</sup> With these caveats in mind, it is still important to find the origins, at the company level, of why educated people are not independent and creative and why there is mismatch in the demand and supply of an educated workforce. Moreover, it is also important to know from the companies to what extent they are taking initiatives to provide career development opportunities through vocational training



for their employees. Researching this will help to examine relations between educational institutions and employment relations on the company level.

Another institution related to this study is employers' associations. The Japan Business Federation (*Nippon Keidanren*), with a membership of 1,623 companies, is the main employers' association. Its main mission is to achieve a private sector-led, vital and affluent Japanese economy and society. To achieve this, the Federation will demonstrate its leadership and set a path for the country. It influences its member's behavior through the "Charter of Corporate Behavior" and the "Global Environment Charter."<sup>84</sup>

The former defines the social responsibility of the member companies; the latter is more concerned with protecting the global environment and provides guidelines for members to follow. Recently, the Federation also released "Japan 2025—Envisioning a Vibrant, Attractive Nation in the Twenty-First Century."<sup>85</sup> In this vision paper three distinct policies related to the economy, social structures and international relations are explained.<sup>86</sup> Obviously, these charters and vision papers are well-prepared documents that the Federation published to provide guidance to individual companies, and they expect all members to comply. It is beyond the scope of this study to examine whether or not member companies are following these directives and fulfilling the expectations of the Federation. This study mainly attempts to examine the extent to which the Federation is supportive in the implementation of these charters and vision papers, and the response of member companies. Finally, this study will also examine how these actions are influencing employment relations practices at the firm level.

**National Culture:** The society in which we grow up, are educated and in which we experience different forms of social relations will influence our work culture. Since the term "national culture" has a vague connotation, it should be conceptualized to specify the social group to which it is applied.<sup>87</sup> National culture is an important factor shaping employment relations practices,<sup>88</sup> that directly or indirectly influences work related cultures, e.g., how people communicate, react and socialize; the influence and pressure within a work group; the relations between subordinates and superiors; and the many other behaviors which guide managers and workers in an organizational setting.<sup>89</sup> Furthermore, the influence of national culture on an employment relationship becomes clear when one can show that actors (workers, managers, customers and other stakeholders) in their day-to-day activities draw upon the rules that are specific to their culture.<sup>90</sup> Japanese work-related cultures are inherited from the society, religion and widely held values and beliefs. Because national culture is the source for company-based, work-related rules and regulations, it is necessary to examine how rules and regulations in Japanese enterprises emerged and have changed, and to examine how these activities are influencing employment relations on the company level.

***The Labor Market:*** Complications can be seen in the Japanese labor market as evidenced by a declining birthrate, an aging working population and rising unemployment. The annual population growth rate is declining. A population which was increasing at a rate of 1.77 percent in the prewar period has gradually slowed down to less than one percent due to decreases in both the birth and death rates. It is estimated that the population will peak in 2006 and then decline for the first time in history.<sup>91</sup> With an aging population and the corresponding decline in the number of working people, there are concerns about matters such as a slow-down in economic growth, and the increasing burden to support both the old and young.<sup>92</sup>

Statistics reveal that during the high economic growth period of the 1950s and the 1960s, the unemployment rate stood at nearly one percent. With the subsequent impact of the two oil crises, the Plaza Accord and the bursting of the economic bubble, unemployment reached a record high of 5.4 percent. Following these events, many employers undertook cost-cutting measures and implemented employment adjustment programs, greatly influencing prevailing employment relations practices. Employers began to restrict overtime, reassign staff and even offered incentives for early retirement. Consequently, the rate of unemployment grew, characterized by periods of unemployment for longer than a year, there was a declining job-to-applicants ratio for new graduates, a large number of graduates were quitting their jobs, and school graduates lacked vocational skills and experience.<sup>93</sup>

With the structural changes that are taking place in Japanese industries, the ratio of non-regular workers (part-time, temporary, causal and dispatched) reached 27.5 percent of all workers.<sup>94</sup> While the labor force is declining, the labor force ratio (the labor force population ratio) remains stable. In 1960, the labor force ratio was 69.2 percent, which then declined to 62.9 percent in 1976 after the first oil crisis. However it has remained at around a stable 62 percent (75.7 percent for males and 49.2 percent for females) for some time.<sup>95</sup> Considering the reality of the Japanese labor market, this study will examine the influence of labor market characteristics on employment relations practices on the company level.

***The Economy and Business Environment:*** The Japanese economy is the second strongest in the world after the U.S. However, since the collapse of the bubble economy, the economy continues to be very weak.<sup>96</sup> Since 1997, the economy experienced a number of downturns, such as an increase in the consumption tax aimed at fiscal reconstruction, reduced public demand, an Asian crisis, and the insolvency of major financial institutions.<sup>97</sup> Even after the government implemented a number of policy measures, the economy has been in the doldrums for the more than 10 years, failing to turn to an early recovery. In relation to other OECD countries, the economy's performance has been disappointing. The per capita GDP declined markedly, from 84 percent of the U.S. level in the mid-90s to 75 percent today.<sup>98</sup> The chief economist and head of the economics department at the OECD warns that the Japanese economy is at risk of its fourth recession since the collapse of the bubble.<sup>99</sup> OECD experts suggest that to turn this situation around it is imperative to undertake structural reforms. Such reforms should be directed towards revitalizing and increasing competitiveness in the service and manufacturing sectors. Moreover,

in the meantime, a number of foreign companies have been gradually entering and acquiring Japanese companies. The likely result will be greater emphasis on profitability, a greater willingness to abandon unprofitable products and businesses, paying more attention to performance indicators, more transparent financial reporting, and improved corporate governance.<sup>100</sup> All these are directed towards winning competitive advantage in the domestic and international markets and are likely to occur when individual companies attempt to improve productivity and competitiveness in the area of high value-added products. Furthermore, it is important to examine to what extent both the service and manufacturing sectors are revitalizing their competitive capacity and the impact those efforts have on employment relations practices on the company level.

### **Emerging Employment Relations Issues**

Robert Guillain<sup>101</sup>, is a French journalist who has described Japan's rise from the ashes of war to become the third largest economy in the world. He praises the role that Japan's traditional pattern of employment relations — characterized by sacrifice from both employers and workers for the sake of the enterprises, long-term employment practices and enterprise-based unions — has played. It was during the 1970s and 1980s that Japanese employment relations practices received significant attention and became popular worldwide. The three sacred treasures of Japanese-style management<sup>102</sup> — lifetime employment, seniority-based promotion and wage system, and enterprise-based unions — represent an integrated model of employment relations that attracted many scholars and practitioners from developed and developing countries, including the U.S., Western Europe, Canada, Latin America and South Asia.<sup>103</sup> The three sacred employment relations practices are also the philosophy of Japanese enterprises, based on the ideas of people-oriented management and a long-term vision, which contributed to favorable relations between labor and management and also favor a long-term approach toward planning and human resource development.<sup>104</sup> Indeed, they are observed as a mechanism in which both managers and employees can develop their knowledge and abilities within the company with the feeling of security that long-term stable employment gives them.<sup>105</sup>

However, recent works by a few Japanese authors, including Hanami and Morishima, have highlighted some important employment relations issues. They agree that the Japanese employment relations model is a subject of debate as the economy has continued to suffer two decades of persistent difficulties.<sup>106</sup> In a paper presented to the IIR Fifth Regional Congress in Seoul, Hanami argued that the current Japanese style of management will not be able to cope with the changing circumstances and therefore needs to be revised and even rejected.<sup>107</sup> Employers have also realized that the business climate is changing and, therefore, employment relations in Japan, which were basically internalized,<sup>108</sup> are in transition and in need of high-cost structural reform in the future.<sup>109</sup> They have also suggested that future reforms should take into account “market economics with a human face”.<sup>110</sup> Some companies have already started to externalize their employment relations to compete in the market by reforming prevailing recruitment and

evaluation practices.<sup>111</sup> However, for any reform or restructuring to be meaningful, it should go beyond individual firms.<sup>112</sup> Although the government has undertaken a number of policy measures to deregulate employment relations practices, it still exerts pressure to regulate terms and conditions of employment.<sup>113</sup> In line with the above discussion, after reviewing previous studies by noted Japanese and overseas authors, and based on information and facts published by Japanese institutions, observations on current employment relations issues can be found in works by Morishima, Sano, Kono, Japan Institute for Labour Policy and Training, Burkett and Hart-Landsberg, Lincoln and Nakata, and the Ministry of Health, Labour and Welfare.<sup>114 115 116 117 118 119 120 121 122 123</sup>

***Lifetime Employment:*** Employment practices in Japan are becoming more strategic, specifically focusing on cost-cutting measures. Debates centering on reform of the lifetime employment system have appeared as pressures from the 15-year recession continue, labor costs increase as employees age, and with the growing number of employees who cannot adjust to rapidly developing new technology, typified by information technology.<sup>124</sup> Employers are limiting the number of people they employ with a lifetime contract and are increasingly interested in adopting the so-called “employment portfolio approach,” which offers the most appropriate combination of employment types.<sup>125</sup>

In the past, large-sized companies<sup>126</sup> recruited employees directly from schools and colleges and trained them inside the company as a way to attain long-term sustained services. Currently, they are recruiting mid-career and non-regular workers. To counter challenges brought on by frequently changing technology and to minimize long-term training costs, employers are seeking mid-career workers whose readymade skills and abilities can immediately be put to use.<sup>127</sup> Similarly, the closing down of mid- and small-sized industries after severe economic dislocation caused by two oil crises and the bursting of the bubble burst, the number of middle-aged employees who continue to work only at one company has dropped due to resignations for personal reasons, company bankruptcy or business closings.<sup>128</sup> Available statistics reveal that the percentage of part time workers increased from 10 percent in 1980 to 22.8 percent in 2001, and the percentage of mid-career recruits remained at 8.8 percent out of all employees hired in 2002. At the same time, the roles and responsibilities of the non-regular workforce are gradually changing. It was generally believed that part-time workers had short-term contracts at blue-collar type jobs, known as the flexible employment group. On the contrary, they are now engaged in both specialized jobs, such as designing, and are providing training, in addition to being placed in flexible areas of responsibility.<sup>129</sup> Amid these developments two important issues have emerged. The first is to consider the factors that influence a company’s employment choices. The second is to find out if individual companies plan to change prevailing employment policies.

**Seniority-based Promotion and Reward Practices:** Seniority-based promotion and reward practices in Japanese companies are closely tied to the lifetime employment system. As described earlier, due to increasing competition in the domestic and global markets, large-sized companies are engaged in cost-cutting measures. Instead of giving lifetime contracts, they are now showing interest in appointing non-regular workers. At the same time, employers are also realizing that the seniority-based wage system is unsustainable, and are considering reevaluating Japanese-style management and employment practices. Employers argue that against the background of intensified competition in the domestic and global markets, it is difficult to increase wages based on a seniority system.<sup>130</sup>

There is evidence that the rate of average wage increases is gradually declining in proportion to an employee's age compared to past practices. The recent trend in wage rate increases by age group shows that the rate of increase in real wages is lower as workers get older, indicating that more enterprises are reexamining the seniority-based system.

Employers argue that the existing wage systems have left enterprises unable to respond flexibly to changes. They advocate that the seniority based practice made the cost of labor administration rigid and resulted in high wage levels.<sup>131</sup> To avoid these problems, employers are looking to implement a relatively flexible wage system. They are interested in introducing flexible wage practices that allow them to pay less money for a less qualified workforce and provide attractive pay for a well-qualified workforce. Consequently, some organizations have already introduced flexible practices.

With the above arguments regarding the difficulties imposed by practices based on seniority, some revealing issues emerge at the company level. For example, has change really taken place in prevailing wage systems on the company level? What factors mainly lead to change? How are wages paid under the new system? Is there a reliable system for performance evaluation? What benefits do employers accrue from the prevailing wage determination system? Are employees really satisfied with a performance-based system?

**Enterprise-based Unions:** Enterprise-based unions remained very internalized in and supportive to Japanese companies. They mostly cover the regular workforce, excluding large sections of the non-regular workforce. Statistics show that as of June 30, 2003, there were 63,955 enterprise-based labor unions in Japan. The estimated unionization rate is 19.6 percent, about 10.53 million members out of a total employed workforce of around 53.73 million.<sup>132</sup> However, the unionization rate of non-regular workers is only three percent.<sup>133</sup> At the time when the number of regular workers is declining and the number of non-regular workers is rising, this situation may pose a direct threat to the unionization process. The practice of wage determination in Japan is called the *shunto* (the spring wage offensive). During the era of rapid economic growth, the *shunto* was popularly seen as effective in substantially raising wages. However, in the last few years the *shunto* has not been that very successful in achieving sizable wage increases. Since enterprises are forced to increase their work efficiency by cutting costs to compete in the

global market, employers are not willing to raise the current level of wages every year as they did in the past. Instead of increasing wages, some have already introduced a performance-based compensation system to cope with the need to cut costs and enhance productivity and performance. The emerging situation has been forcing unions to rethink their future roles

Company-level disputes, which climbed steeply after the oil crises in the 1970s, declined in large companies as labor relations matured and the number of unions declined. Recently available information shows that in companies with 1,000 to 4,999 employees, the dispute rate marked a low of 3.2 percent. As a result, the number of workdays lost due to strikes or other disputes is declining.

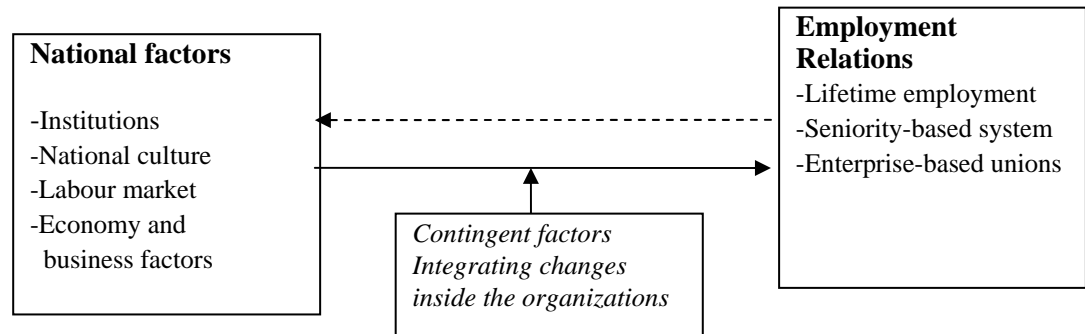
To increase communications between labor and management, a joint consultation practice has widely been implemented in the recent years. Issues regarding workplace environment, employment personnel administration and wages are discussed through the committee. This practice prevails not only in companies with union representation, but also in non-unionized companies where joint consultation is regarded as a more effective tool to deal with the above issues.

With these caveats in mind, it is important to examine why union membership is declining on the individual company level. Are Japanese companies seeking more autonomy in employment relations decisions, similar to that which exists in the West as described in Chapter 1? Have there been disputes in the last three years? If yes, what were the reasons? What do individual companies think? How successful has joint management consultation been on the company level in communicating problems related to working conditions?

### **Framework of the Study**

From the above discussion, it is obvious that there is sufficient evidence to suggest that employee relations in Japan are undergoing changes due to shifts in various national factors and internal organizational changes that have influenced the external context. The theoretical framework of this study is based on the assumption that Japanese managers receive input from national factors to shape or reshape their organizational culture which ultimately affects the choice of employee relations practices. Therefore, the focus of this study is to describe national factors and examine human resource related changes that are taking place on the firm level. A functional cum descriptive model for the study of Japanese human resource management and industrial relations is developed and presented below (see Figure 1.1).

**Figure: 1.1 National Factors Influencing Employment Relations in Japan**



Note: The straight line arrow shows direct relations between national factors and employment relations whereas dotted line arrow shows the effect of company level employment relations on national factors overtime. However, the main focus of this study on straight line relations.

The model presented above assumes the following:

1. Major changes are taking place within Japanese national factors — such as national culture, institutions, the labor market and business environment — and these are influencing employment relations on the enterprise level.
2. Prevailing employment relations practices regarding lifetime employment, pay and evaluation, and enterprise-based unions are being challenged due to changes in external and internal (contingent) forces.
3. Contingent factors, e.g. size, interest of managers and stakeholders, enterprise level strategy, etc., are expected to exert influence resulting in changes to the prevailing employment relations system. These factors should be examined more specifically on the enterprise level.

Whereas national institutions refer to the government and other institutions related to politics, unionism, production and services, education at the central and local level, etc., national cultures comprise common assumptions and beliefs, the meaning of work and values in a society. The third important factor, the labor market, is comprised of population trends and other demographic features influencing employment dimensions. Finally, economic and business environments include the economic situation and competition, globalization, technological changes, etc. Internal factors are more contingent in nature and include a firm's structure, size, lifecycle stages, business strategies and human resource strategies. In the above model, contingent factors are more firm specific and will influence decisions on whether or not to

change. In other words, the change process depends on various factors such as the interest of stakeholders, competition strategy, the size of an enterprise, etc. The straight line arrow above shows how, in the time to come dependent national factors, contingent factors and employment relations practice are. Whereas dotted line explains the reverse effect of employment relations practices on national factors overtime. In other words, when a manager resists change, it also causes problems in national factors, e.g. to compete in the domestic and global market.

### **Study Approach, Companies and Checklist Used for the Study**

This study follows a case study design where descriptions on emerging patterns of employment relations will be examined in two Japanese companies. Based on the above assumptions, changes are described mainly in terms of lifetime employment, the seniority-based promotion and compensation systems, and enterprise-level unions.

### **Summary**

Kurt Lewin's change theory clearly explains that every threat emerging from external factors passes through the internal management system for its final integration. Therefore, to understand change in employment relations practices it is imperative to consider the changes in environmental pressures that the enterprise is likely to face. Internally generated policies or "cultures" of the enterprise will also have a certain force of their own which facilitates the integration process. From the review of past and current Japanese management literature, it appears that employment relations practices are undergoing substantial changes due to changes in national factors. This study assumes that a new pattern of employment relations is emerging in Japan from the interaction of national factors and the internal management system. More specifically, changes are occurring in the three sacred tenets of employment relations — lifetime employment, the seniority-based evaluation system and enterprise-level unions.

From earlier discussions it appears that previously both national factors and employment relations practices had undergone many changes. At the same time, many national factors worked to shape and reshape employment relations practices on the company level. Realizing this, the next four chapters will take up a brief discussion of each factor to see how national factors are changing and exerting pressure on employment relations practices on the company level.

Some historical references to the Tokugawa and Meiji periods are made to make it clear how Japanese history itself has reinforced national factors to initiate change in Japanese organizations. However, it is not within the scope of this study to link these historical references to explain each and every dimension of current employment relations practices.



## Notes:

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<sup>20</sup> Budhwar, P.S and Debrah, op. cit.

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- <sup>21</sup> This section is based on available literature published in the U.S. and U.K.
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- <sup>57</sup> Ibid., pp. 213-218.
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- <sup>69</sup> Morishima, M. "Changes in White-Collar Employment from the Employee's Perspective," *Japan Labour Bulletin*, September 2003.
- <sup>70</sup> The American Heritage Dictionary.
- <sup>71</sup> U.S.-Japan Economic Partnership for Growth. *United States-Japan Investment Initiatives 2004 Report*, June 2004.
- <sup>72</sup> Ibid., p. 2.
- <sup>73</sup> JILPT, op.cit.
- <sup>74</sup> JBF, op. cit.
- <sup>75</sup> JILPT, op.cit., p. 70.
- <sup>76</sup> Ibid.
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- <sup>80</sup> Ibid. p. 144.
- <sup>81</sup> Kobayashi, S., op.cit., p. 283.
- <sup>82</sup> JILPT, op.cit.
- <sup>83</sup> Ibid. p. 94.
- <sup>84</sup> <http://www.keidanren.or.jp/>
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- <sup>90</sup> Ibid.
- <sup>91</sup> JILPT, op.cit.
- <sup>92</sup> JILPT, ibid., p. 10.

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- <sup>93</sup> JBF, op.cit., p. 12.
- <sup>94</sup> JILPT, op.cit., p. 18.
- <sup>95</sup> Ibid. p. 14.
- <sup>96</sup> Ibid.
- <sup>97</sup> Ibid.
- <sup>98</sup> Tokyo Chamber of Commerce and Industry, op.cit.
- <sup>99</sup> Ibid., p. 4.
- <sup>100</sup> Porter et al., op.cit.
- <sup>101</sup> Guillain, R. *Japon, Troisième Grand*, Paris: Editions du Seuil, 1969.
- <sup>102</sup> JILPT, op.cit., p. 6.
- <sup>103</sup> Vogel, E.F., op.cit.
- <sup>104</sup> Japanese Employers Federation, op.cit.
- <sup>105</sup> JILPT, op.cit., p. 6.
- <sup>106</sup> Hanami, T. “The Changing Labour Market, Industrial Relations and Labour Policy,” Paper presented at Fifth Regional IIR Congress, 2004.
- <sup>107</sup> Ibid.
- <sup>108</sup> This refers to the internalized market system in Japan where a company recruits fresh graduates and trains them for potentially any kind of job. If new skills are needed due to changes in product mix, employees are retrained. Similarly, wages are internalized based on the seniority-based system and since company-based unions are the popular form of unions in Japan, which mostly work in cooperation with management, they are also a part of the internalized labor market.
- <sup>109</sup> JBF, op.cit.
- <sup>110</sup> Japan Federation of Employers’ Association. “The Current State of Labour Relations,” adopted from <http://www.jil.go.jp/eSituation/Problems.htm>.
- <sup>111</sup> These companies follow their employment practices based on changes in market forces.
- <sup>112</sup> Morishima, M., 1995, op.cit.
- <sup>113</sup> Araki, op.cit., pp. 48-58.
- <sup>114</sup> Morishima, M., 1995, ibid.
- <sup>115</sup> Morishima, M. “Pay Practices in Japanese Organizations: Changes and Non-Changes,” *Japan Labour Bulletin*, April 1, 2002.
- <sup>116</sup> Sano, Y., op.cit.
- <sup>117</sup> Kono, T. and Clegg, S., op.cit.
- <sup>118</sup> Japan Institute of Labour. *Japan Labour Bulletin*, 41(7), July 2002.
- <sup>119</sup> Adopted from Burkett, P. and Hart-Landsberg, op.cit.
- <sup>120</sup> Lincoln, J.R. and Nakata, Y. op.cit., p. 50.

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<sup>121</sup> The Japanese Ministry of Labour and Health. *The 2000 White Paper on Labour: A Summary of the Analysis*, 39(3), September 1, 2000.

<sup>122</sup> JILPT, op.cit.

<sup>123</sup> Yamanouchi, T. and Okayaki-ward, L. "Key Issues in HRM in Japan," in S. Tyson (ed.) *The Practice of Human Resource Strategy*, London: Pitman Publishing, 1997.

<sup>124</sup> JILPT, op. cit., p. 28.

<sup>125</sup> JBF, op.cit., p. 33.

<sup>126</sup> In Japan, companies employing more than 299 employees with an investment of more than 100 million yen are regarded as large-sized organizations.

<sup>127</sup> JILPT, op.cit., p. 33.

<sup>128</sup> JILPT, ibid. p. 28.

<sup>129</sup> Morishima, M., 2002, op.cit.

<sup>130</sup> JBF, op.cit.

<sup>131</sup> Ibid. p.38.

<sup>132</sup> JILPT, op.cit.

<sup>133</sup> Ibid.

## Chapter 2

### National Institutions

National institutions influence employment relations practices. This study on national institutions includes descriptions of the government's role and its employment-related regulations and policies, unionization trends, the role of employers' associations, and educational development in Japan. The chapter briefly explains the development of private and public institutions in the pre- and post-war eras. Although the labor market is also regarded as a strong national-level institution, it will be discussed under a separate chapter. In order to understand the trend of developments of national institutions, a brief historical background of each institution will be briefly presented.

#### Historical Development

It is believed that Japanese people did not gain the restless ambition and energy that attracted Western countries all of a sudden.<sup>1</sup> Throughout their history, they have shown a gift for rapidly assimilating new ideas and practices, boldness in executing large projects and, above all, a trained and frequently exercised capacity for organization.<sup>2</sup> Their institutions are featured in the historical developments of their society. The study of historical events explains how their family system and long-maintained feudal discipline in their society contributed greatly to the growth and development of current institutions.<sup>3</sup> Beck and Beck argue:

“If the modern institutions of Japan have their roots in the country's traditional past, as many of them seem to be, one would expect to unearth evidence of those roots in the Tokugawa period. And in fact, many elements of modern Japan's employment system do appear to be prefigured in the hierarchically structured class system of Tokugawa.”<sup>4</sup>

In the 16<sup>th</sup> century, the prolonged civil wars had established the House of Tokugawa as shogun (1600-1868).<sup>5</sup> The victory allowed Ieyasu<sup>6</sup> to rearrange the political map of Japan. Ieyasu established a political structure called the *bakuhau* (*shogunate* and domains) system in which the Tokugawa Shogunate directly controlled Edo<sup>7</sup> and the heartland of the country while the *daimyo* (classified on the basis of their loyalty to the Tokugawa) governed the 250 or so domains (*han*).<sup>8</sup> The Shogun was the *de jure* head of state. The social structure was feudal by balancing the *daimyo* domains.

The *shogunate* devoted great attention to the maintenance and control of the imperial institutions. The form of government instituted by them was a military dictatorship known as *bakufu* and the institutions were hierarchic and rigid. The rest of the country was governed by lords with a considerable degree of autonomy.<sup>9</sup> The retainers of the lords and shogun formed an “estate” known as samurai.<sup>10</sup> They were a

privileged military class and differed widely from others who had power and wealth in society.

Tokugawa classified society in hierarchies: warrior, farmer, artisan and merchant.<sup>11</sup> Merchants belonged to the lower status. They used to recruit young children as apprentices and the head of the merchant house expected that the apprentices would grow to become adults with whom he could share some of his own work in the future.<sup>12</sup>

On January 3, 1868, armies of several *han* from the south-west of Japan entered Kyoto and announced the establishment of direct rule by the Meiji Emperor, marking the beginning of the Meiji era (1868-1912).<sup>13</sup>

<sup>14</sup> The main political institution of Meiji Japan was the Grand Council of State (*dajokan*), established as a supreme political authority. It worked as a central deliberative body consisting of three state ministers and seven councillors. The body had direct access to the Emperor. Heads of various government ministries often served as councillors, so that by the end of 1881, real power was in the hands of a virtual oligarchy.<sup>15</sup> Upon the promulgation of the constitution of 1889, the oligarch voluntarily announced their intention to remain independent of party politics.

The slogan of the new leadership was *fukuku kyohei* (enrich the country and strengthen the military).<sup>16</sup>

The slogan provided further impetus for the government to reform and strengthen most social, political and economic institutions in conjunction with Western countries. Subsequently, the merchant families of the Tokugawa period emerged as the big merchant houses of Japan.<sup>17</sup> The government institutions remained very supportive in laying the foundation for rapid industrialization.<sup>18</sup> The samurai played a vital role in the rise of entrepreneurship. They had a sense of public consciousness, a concern for public welfare, and carried a strong nationalistic spirit.<sup>19</sup>

A number of institutions were established during the regime. In 1872, the government issued The National Bank Act.<sup>20</sup> The Act allowed other banks to issue transferable shares with limited liability and thus was considered to be the first governmental step in establishing a joint-stock company system. During 1876-79, 148 banks were established.<sup>21</sup> In 1882, the Bank of Japan was established and a number of institutions came into existence, including commercial banks, joint-stock companies in trading, textiles, paper, and railroad, shipping and marine insurance.<sup>22</sup>

The country adopted the constitution in 1889, opening the way for parliamentary democracy. The constitution granted the right to form voluntary associations. At the instigation of the government, some voluntary institutions were formed to associate the business community and labor. Political parties had begun to be organized by former government leaders or by ex-bureaucrats.

The Commercial Law enacted in 1893 made joint-stock companies even more advantageous by allowing them to be established without government permission. With these developments, altogether there were 4,254 joint-stock companies in 1900. Railways were the big business houses. Seven of the 10 joint stock companies were railroad enterprises.<sup>23</sup> San'yo and Kyushu railways made progress in separate management and ownership and in appointing career managers to the higher managerial levels. Departmentalization began in railways companies. Railway executives were appointed either from among



government officials or through lateral transfer from within different railway companies.

It was due to the willingness of the government that Japan achieved industrial progress and built up sufficient military power to defeat China in 1895 and Russia in 1905, and to annex Korea in 1910, emerging as a major imperialist power in East Asia.<sup>24</sup>

The Meiji era ended in 1912 and was followed by the Taisho period (1912-26). This period was marked by Japan's acceptance as a major power, a period of party government also known as Taisho Democracy.<sup>25</sup> Until the Taisho political crisis of 1912-13, the oligarchs coordinated the decision-making process behind closed curtains through the vehicle of an informal extra-constitutional council and through their position as Privy Councillors.<sup>26</sup> World War I started (1914-18) just two years after Taisho assumed power. During his reign, the main concern was to strengthen various institutions to solve urgent post-war financial, industrial and social crises.<sup>27</sup> However, in the early months of 1915, it became clear that the country was enjoying economic prosperity. New enterprises were established in many branches of industry and existing enterprises were enlarged.<sup>28</sup>

The Showa era began in 1926 and around this time, Japan further sought to strengthen its military institutions and accumulate greater power.

After the formation of Imperial Rule Assistance Association (IRAA) in 1940, all institutions, including political parties and labor unions, were forced to dissolve and called on to join the IRAA. The members of the Association were forced to be loyal to the Emperor and to be nationalistic. The members of the Association were dependant on the government and followed the nationalistic mob at the time. The members received resources that were used to prepare the country for war and, as a result, the IRAA was not so popular due to its poor image in society. However, it is believed that there are still remnants of these traditional attitudes among poor performing institutions (agriculture and some small businesses that depend on government subsidies) who need to remain loyal to the government.

## **Post-war Institutional Development**

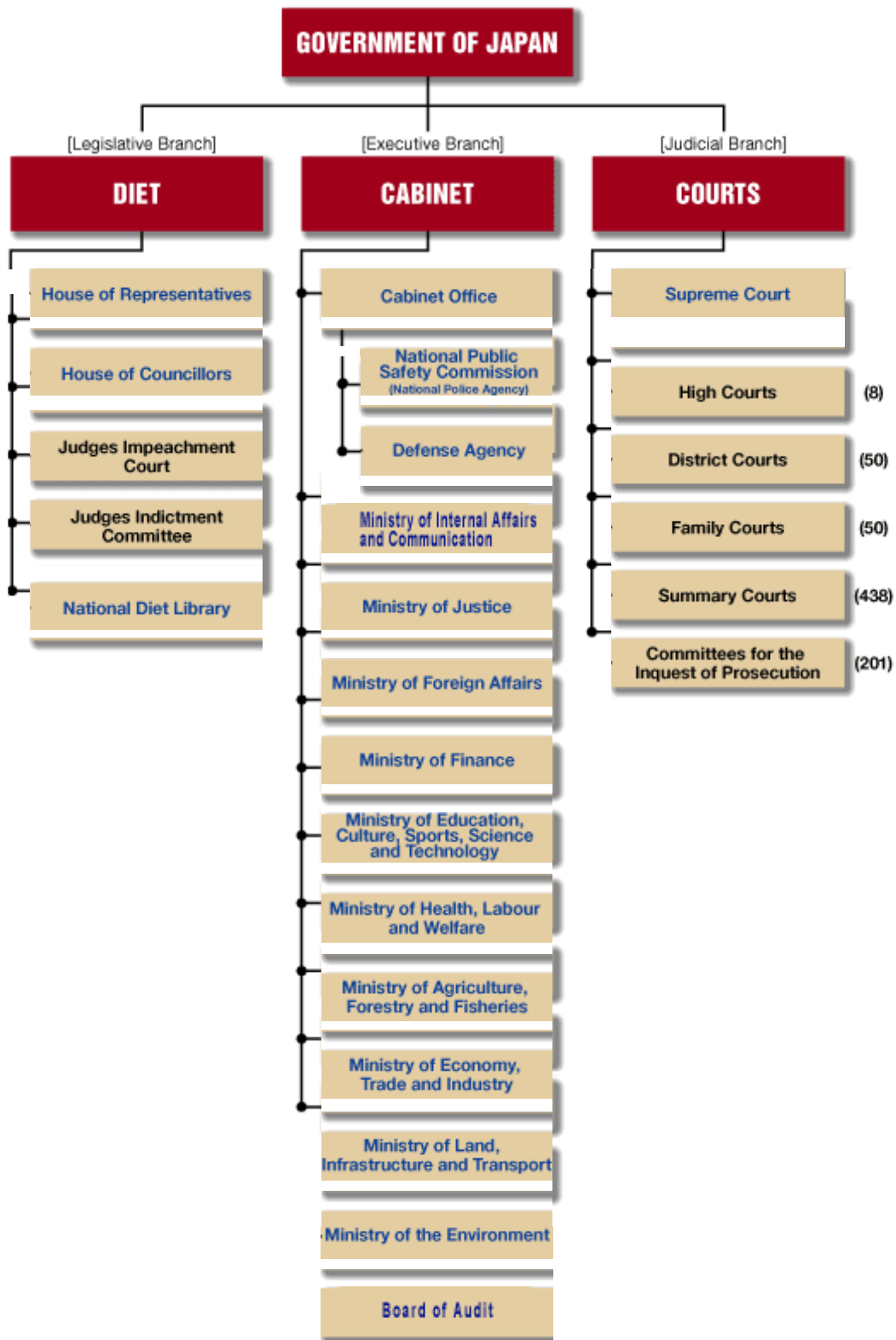
Post-war institutional development started with the acceptance of the Potsdam Declaration and the beginning of Allied Occupation on August 15, 1945. A number of reform programs were initiated under the guidance of the Occupational Authority in agriculture, labor and industry.<sup>29</sup>

The Constitution of Japan promulgated in 1947 clearly states the principles of popular sovereignty, respect for fundamental human rights and the advocacy of peace.<sup>30</sup> It defines the emperor as the symbol of the state and the unity of the people, adding that his position is derived from the will of the people with whom sovereign power resides. The constitution proclaims a system of representative democracy in which the Diet is the highest organ of executive power and which is responsible for appointing the Prime Minister and the Chief Justice of Japan's Supreme Court. Moreover, it is sole law-making body and has to approve the national budget, ratify international treaties and set in motion any formal proposals for amending the constitution.

There are three legislative branches of the Government of Japan. They are legislative branch, executive branch and judicial branch. The government system is similar to the Nepalese parliamentary system. Just as the Nepalese parliament has two houses, so the Japanese Diet has the (Lower) House of Representative and the (Upper) House of Councillors. There are 480 seats in the House of Representatives, of which 300 are elected members and the rest are chosen through a proportional representation system. There are 242 seats in the House of Councillors. The cabinet includes 10 ministries, the National Public Safety Commission and the Defense Agency, each headed by a minister of state appointed by the Prime Minister. Each minister is supported by one or two senior vice ministers (see below the Cabinet and the Executive Branch of Government). The party that controls the majority of seats in the Diet is determined to be the party in power and has the right to appoint the Prime Minister, usually the party President.

The Judiciary (its independence represented by a dotted line on the chart below) comprises the Supreme Court, high courts, district courts and family courts. There are summary courts to hear minor cases.

**Figure: 2.1 The Cabinet and Executive Branch of the Government of Japan**



From the administrative point of view, Japan is divided into nine political regions and subdivided into 47 prefectures (with prefecture offices) and municipal bodies encompassing 652 cities, 1,997 towns and 607 villages.<sup>31</sup> At the end of fiscal year 2002, there were 1.1 million public servants working in different offices of the central government. The Constitution explicitly mentions that all public officials are servants of the whole community, not only of one particular group.

As regards political parties in Japan, currently the two largest parties are the Liberal Democratic Party (LDP) and the Social Democratic Party (SDP). In 1955, the Liberal Party and the Democratic Party of Japan merged and formed the Liberal Democratic Party (LDP). Since its formation in 1955, the conservative LDP has been in power almost continuously.<sup>32</sup> The LDP ruled Japan for 38 years until 1993. After a period in opposition, in 1998 the LDP was re-elected and formed a tri-party coalition government.

### **The Role of Government**

As far as the role of the government is concerned, in the post-war period it was active in supporting the growth and development of industries. There are those who say that the government in Japan still functions primarily as a guardian.<sup>33</sup> The government's model consists of an active central government with a stable bureaucracy, and the targeting of priority industries to enhance economic growth, and aggressive promotion of exports.<sup>34</sup> In addition, the government regulates the economy and financial markets, provides selective protection for the home market, restricts foreign direct investment (FDI), and maintains sound macro economic policies.<sup>35</sup>

A close relationship emerged between government and industries in the form of public-private partnerships. This system is in direct contrast to the U.S. system, which is grounded in a tradition of a strong antitrust policy, market competition and private ownership.<sup>36</sup> In many areas of Japan, it is still necessary to get permission from a government department to initiate a business. While there are anti-monopoly laws, exceptions are granted.<sup>37</sup> To take the example of business organizations forming cartels, the law does not accept the quasi-vertical integration of suppliers with distributors. The Ministry of Foreign Affairs, the Ministry of Finance, the Ministry of Economy, Trade and Industry, and the Ministry of Health, Labour and Welfare are regarded as the most powerful ministries in terms of their role in new policy formulation and enforcement.

The government has remained most vigilant in protecting working people by formulating and enforcing policies to cope with changing socio-economic situations (see Box: The Government's Role in Labor and Employment Relations and Economic Development in Japan).<sup>38</sup> Depending on the socio-economic situation of the country, it kept institutions alert to ensure employment opportunities, prevent unemployment and facilitate re-employment so workers can use their maximum abilities.<sup>39</sup> A number of laws promulgated and periodically revised shows how the government plays a dominant role in regulating employment relations. When the employment situation began to weaken in the aftermath of the collapse

of the bubble economy and when the financial world was in crisis at the end of 1997, the government, in response, enacted a series of comprehensive employment policies.<sup>40</sup> The government deregulated the labour market by amending the Worker Dispatching Law in 1999.

### **Box: 2.1 The Government's Role in Labor and Employment Relations and Economic Development in Japan**

Source: Takashi Araki, *Labor and Employment Law in Japan*, The Japan Institute of Labour, 2002. p. 223.

Following World War II and the liberalization of the economy, labour relations in Japan started off in an adversarial manner. However, this period of confrontational industrial relations gradually evolved into one of cooperation and Japan's economy entered a period of high economic growth. Both the stabilization of industrial relations and economic growth played important and interconnecting roles in establishing cooperative industrial relations in Japan. The defining characteristic of the government's role in this transformation was its indirect guidance. Certainly, in the unstable period under the occupation, when industrial relations were being modernized, the government's direct intervention was witnessed. However, such direct intervention was to prove exceptional in the subsequent history of Japanese industrial relations. Instead the government encouraged labor and management themselves to seek and establish cooperative relations to enhance productivity by promoting the Productivity Increase Movement.

Once stable collective labor relations had been established in the 1970s, the state retreated from the arena of collective labour relations and its activities in the labour market became conspicuous. The government developed an active employment policy through subsidies and other administrative supports to encourage the efforts of private parties to maintain employment. Once again, the state's intervention was indirect.

In recent years, the government's legislative activities became important once again in the arena of individual employment relations. This is because Japanese society is facing internal and external structural changes and the corporate unionism in Japan is incapable of addressing issues that should be handled at the macro level. As illustrated by equal employment legislation and harmonization legislation, the Japanese government took a characteristically "soft-law" approach utilizing "a duty to endeavour" and administrative guidance.

In short, the state has been playing a significant role in Japanese labor and employment relations, although the focus of the government commitment shifted from collective labor relations to labor market regulations and more recently to individual labor relations. Therefore, Japanese industrial relations, in which the state plays such an important role, differ markedly from neo-liberalism, in which the state seeks to abstain from intervention in the market. However, the Japanese economy is based on the free market system and thus cannot be labelled a planned economy. The government's influence was exerted not with direct intervention but through indirect guidance aimed at prompting the parties' voluntary action and through government-sponsored consultation machinery. The Japanese model is, therefore, also different from the authoritarianism or developmental autocracy under which the state wields dictatorial power to achieve state-led economic development.

### **Brief Review of Labor Laws and Employment Policies**

The Constitutions of Japan guaranteed the "right to live." Article 25 of the Japanese Constitution explicitly describes the fundamental principle that "all citizens shall have the right to a minimum standard of wholesome and cultured living." Article 27 expresses rights and obligations to work and standards for working conditions. In the same Article, the right to work imposes two obligations on the government: To promote opportunities for workers to exercise their skills and abilities, and to provide a livelihood for workers who have no chance to work.<sup>41</sup> Article 28 provides three fundamental rights of the workers: the right of workers to organize, to bargain collectively and to strike. It further states for provisions of law to

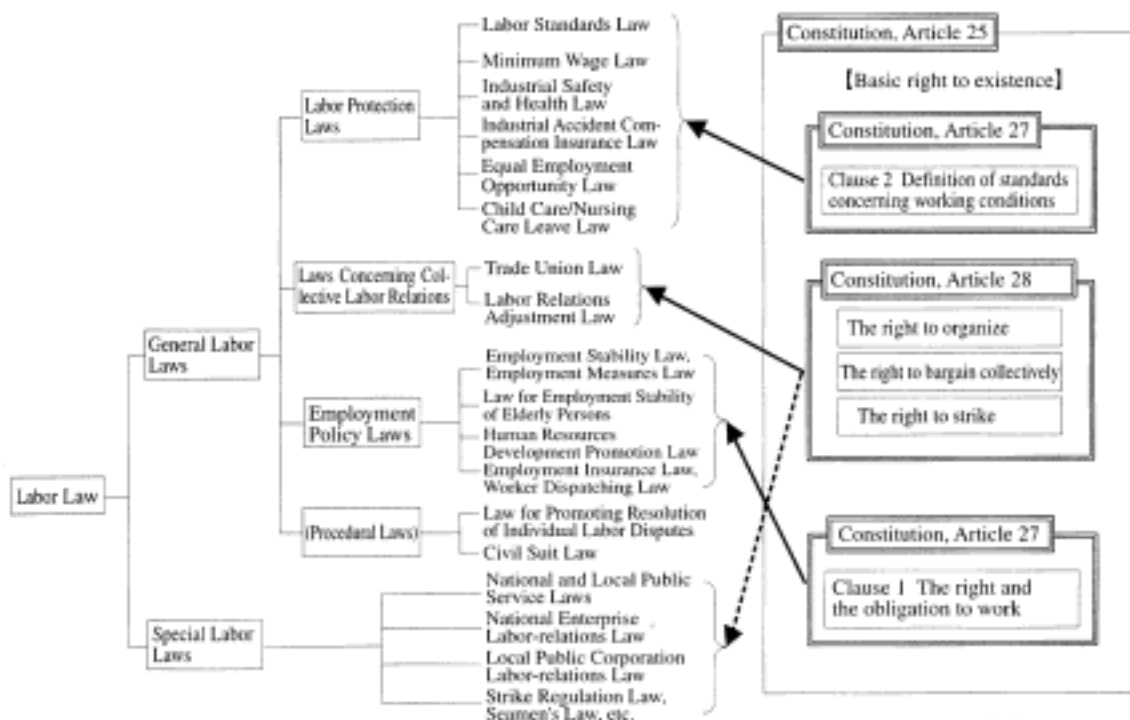
regulate standards for wages, working hours, breaks and other working conditions.

Japanese labor legislation includes a number of laws to regulate employment practices. In order to enforce labor law, the government has certain enforcement mechanisms, such as the court system, administrative agencies, the Labor Office, and the Labor Relations Commission.

Different labor-related laws safeguard labor rights in Japan. Labour legislation comprises General Labor Laws and Special Labor Laws. There are many other Labor Laws under these categories. These Labor Laws may be grouped as follows: those laws that cover the rights of workers' rights in relation to labor unions; laws to protect workers, covering individual workers' employment and the protection of workers before and after application of employment policy; and laws concerning employment, which regulate the external market.<sup>42</sup> (also see Summary of Labor law presented in Figure 2.2 below).

In order to regulate employment security to protect labor rights, laws are promulgated and revised from time to time to keep various groups in line. Laws are also drawn up to protect aging and handicapped workers and to promote occupational abilities within the workforce. Similarly, in order to minimise discrimination in the workforce in terms of gender and wages, legislation such as the Equal Employment Opportunity Law and the Labour Standards Law are promulgated. The government revised the Labor Standards Law in 1987 to reduce maximum working hours from 48 to 40 hours. The Child Care Leave Law was enacted in 1991 in order to provide workers with the right to take childcare leave of up to one year.

**Figure: 2.2 Japan's Labor Laws**



Source: Japan Business Federation, *Current Labor Economy in Japan, 2003*.

The role of government is further explained with its contribution in devising various policy measures from time to time. For example, Japan's Ministry of Health, Labour and Welfare publishes *White Papers* on the labor economy. The *White Papers* present trends in the labor economy, the situation in the labor force and other labor-related policies. It works as a guideline for the management of employment relations at the company level. Below is a list of some important policy measures adopted by the government over time to regulate employment relations practices.

**Figure: 2.3 Review of Recent Employment**

Date of implementation		Contents
1	1998 April	Emergency Employment Development Program → employment stability, human resources development • Expansion of employment adjustment subsidies and of subsidies for employment development for specified job-seekers
2	November	Comprehensive Plan to Revitalize Employment → in addition to stabilizing employment, provides support for job creation and labor shifts. Aims to create jobs and provide job stability for 1 million people. • Subsidies to SMEs for creating jobs and securing personnel • Establishment of special subsidies for emergency employment creation and of special subsidies for supporting labor shifts of middle-aged and older workers
3	1999 June	Emergency employment measures → emergency measures whose main component is creation of employment opportunities for involuntarily unemployed middle-aged and older workers → creation of employment and job opportunities for over 700,000 people • Establishment of special subsidies for employment creation in new and growth areas and of special transfer payments for emergency regional employment
4	November	Employment measures under economic renewal measures → job creation through support for SME start-ups, employment creation measures in regions affected by large-scale downsizing of employment • Establishment of special subsidies for SME regional employment creation and of subsidies for employment creation in specified regions and among subcontractors
5	2000 May	Emergency employment measures focusing on elimination of mismatches → early training of personnel needed by growth industries and promotion of employment → creation of employment and job opportunities for 350,000 people • Vocational training in IT- and nursing care-related fields, expanded special subsidies for employment creation in new and growth areas
6	October	Employment measures under new development policies for a Japanese renewal → new development policies aimed at four fast-growing sectors such as IT, etc. • Promoting comprehensive occupational skill development measures appropriate for IT • Developing employment opportunities for middle-aged and older workers through trial employment and creation of programs promoting worker-friendly facilities in workplaces to eliminate mismatches in the case of older workers
7	2001 April	Employment measures in conjunction with emergency economic measures → creating employment and putting a safety net in place • Extension of special subsidies for emergency employment creation, and of expanded special subsidies for employment creation in new and growth areas • Broader range of training courses for middle-aged and older white-collar workers seeking employment, promotion of IT-related skill development and personnel training
8	September	Comprehensive employment measures → securing employment and creating new industries • Main elements of the measures are nurturing new industries so that more jobs are created, eliminating employment mismatches and expanding social safety net measures
9	2002 December	Comprehensive, coordinated program → to strengthen employment measures, provide more support for SMEs, and create employment by supporting new industries and businesses • Measures for dealing with the effects of accelerated disposal of non-performing loans on employment, creating new employment and stabilizing existing employment, improving matching between job-seekers and enterprises, and providing more support for those having difficulty finding jobs

Source: Prepared based on the Ministry of Health, Labor and Welfare's *White Paper on Labor Economy*, 2002, and the homepage of the Strategic Headquarters for Industrial Revival and Employment Measure.

The above figure provides a brief review of recent policy measures guiding employment relations practices in Japan. They include different development programs and employment measures that the Japanese government publishes through its White Paper in Labor Economy and work as a “guide map” for managers to implement employment relations practices at the company level.

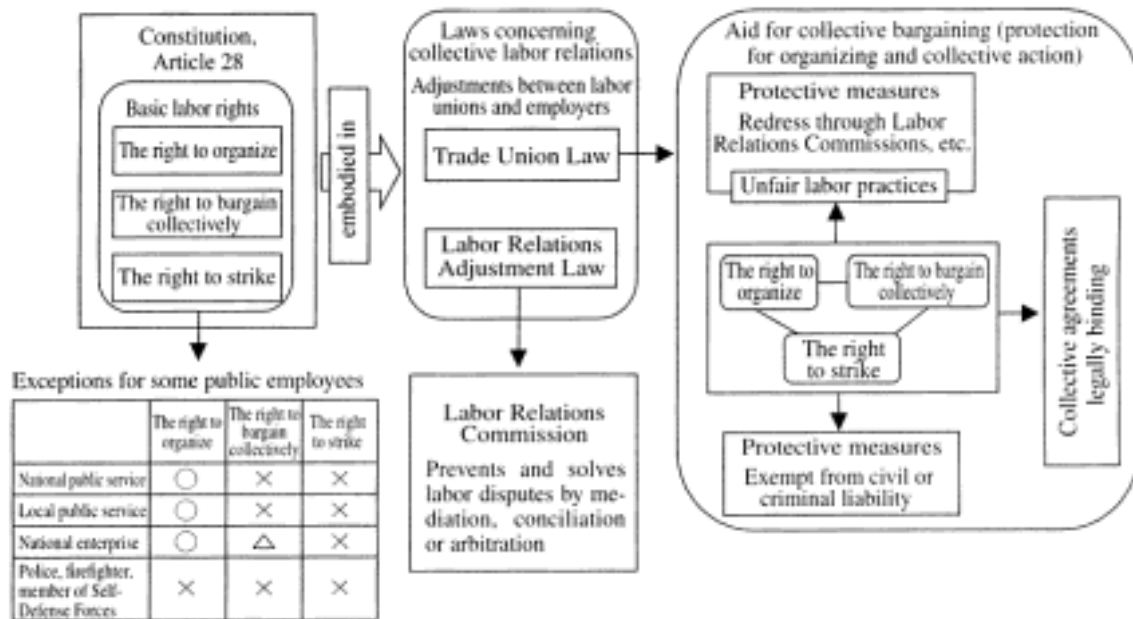
In order to respond to the current labour situation (2003), the government has taken measures such as: a) providing subsidies for companies/corporations that employ people aged 30 or older and below 60 who are forced to leave their work as a result of the disposal of non-performing loans; and b) establishing corporations to provide services that contribute to the local area and establishing support measures for the creation of places of employment for people aged 30 and above and below 65.

Although the actions of the government are not perhaps typical in a market economy, the above programs and measures are a good example of how far the Japanese government plays an egalitarian role through its institutions. In some cases, the government is moving resources to particular industries and trying to supplement market mechanisms and functions in a cross-section of industries rather than giving subsidies for the growth and development of a number of industries.

In Japan, the Trade Union Law and Labor Relations Adjustment Law govern industrial relations (See figure below). The Trade Union Law makes provisions regarding the formation of trade unions and determines their activities. The main aim of this Law is to enforce collective bargaining based on the principle of labor-management equality. The Labor Relations Adjustment Act makes provision for a Labor Relations Commission, which is empowered to prevent and solve labor disputes by mediation, conciliation or arbitration. In addition, two laws regulate non-regular employment: the Worker Dispatching Business Law and the Part-Time Worker Law. Since the number of non-regular employees has been increasing in recent years, these acts are the “guide maps” for protecting their rights at the company level. In order to guarantee work free from exploitation and hazards and to maintain standards, there are laws, such as the Minimum Wages Law, the Industrial Safety and Health Law, the Labor Standards Law, and the Equal Employment Opportunity Law.



**Figure: 2.4 System of Laws Governing Industrial Relations**



**Source:** Japan Business Federation, *Current Labor Economy in Japan*, p. 26.

The above figure shows the inter-linkages and features of laws governing industrial relations practices in Japanese companies. With ongoing changes in the socio-economic situation of the country, the government makes periodic amendments to the laws and regulations.

### **Labor Union Movement**

Turning to the labor union movement in Japan, it has played a significant part in the history of the industrial growth of Japan. The history of labor unions starts from the time Emperor Meiji was the sovereign ruler of the country. We can find traces of unions from the beginning of this era in 1867 when Japan embarked on a determined course of modernization and industrialization. At that time there were associations known as guilds.

According to Tsutsui, the concept of modern trade unionism starts with influence from visits, observation and study by Japanese intellectuals, government officials and businessmen from the USA, converted Christian workers, the influence of German historical economics and *sozialpolitik* and the American school of scientific management.<sup>43</sup> A number of Japanese scholars, businessmen and government officials went for study and training in the USA. They were under the control of the government due to their politically suspect activities and disruptive characters. In between 1890s and 1950s, it is believed that Japanese labor research and policy were largely influenced by the German approach of *sozialpolitik*.<sup>44</sup> During this time, Japanese and German societies were more common, especially with regards to maintaining strong hierarchical relationships, and both were emphasizing social order and harmony and

developing a community approach.<sup>45</sup> Immediately, before and after World War II, Japanese unions remained highly politicized. The government at that time regarded unionization as “anti-establishment”<sup>46</sup> and, as a result, restrictions were placed on union activities. The period between 1965 and 1980 is regarded as the “golden age” in the development of industrial relations in Japan.<sup>47</sup> During this time, two books on such topics became well known – “Workers and employers in Japan,” authored jointly by Okochi, Karsh and Levine (1973) and “British Factory – Japanese Factory,” authored by Dore (1973). It was a time when union density was at its highest and labor unions played a significant role in contributing to the economic development of Japan, as well as the Japanese management system (lifetime employment, the seniority based system and company-based unions), which became popular in many countries.<sup>48</sup>

The Labor Union Law was passed in 1945 for the first time in Japan. However, the post-war government led by the LDP (Liberal Democratic Party) attempted to follow the Meiji tradition of discouraging unionism.<sup>49</sup>

After World War II, the Supreme Commander of Allied Powers (SCAP) played a major role in the organizing of unions. It granted rights for unions to organize, bargain and take industrial action. SCAP formed the General Council of Trade Unions of Japan (Sohyo) in 1950.<sup>50</sup> The Congress of Industrial Unions of Japan (Sanbetsukaigi) and the Japanese Federation of Trade Unions (Sodomei) were constituted in 1946. By that time Japanese trade unions had begun to organize at the company level.<sup>51</sup> With the end of World War II, workers in the public sector were mainly organized under the Congress of Industrial Unions of Japan (Sanbetsu). In the private sector, they were organized under the Japanese Federation of Trade Unions (Sodomei).<sup>52</sup> In fact, with the enactment of the Labour Law in 1945 and the formation of different unions in different sectors, union membership increased rapidly, reaching 4.6 million within the first year of the implementation of the Labor Law. It reached its highest rate ever at 55.8% of the total workforce in 1949.<sup>53</sup> Sohyo was considered to be anti-Communist and was affiliated with the U.S.-controlled International Confederation of Free Trade Unions (ICFTU).<sup>54</sup> However, over the matter of Korean War (1950-53), Sohyo suffered from its affiliation with the ICFTU. In 1950, a part of Sodomei rejected joining Sohyo. In 1953, the right-wing unions rejected Sohyo’s decision on the peace treaty and the proposed affiliation with the ICFTU, and they formed the Japan Trade Union Congress (Zenro). In 1956, amidst the conflict between Sohyo, Sodomei and Zenro, the unaffiliated unions formed Churitsurokon, which was later renamed as the Federation of Independent Unions of Japan (Churitsurore). In 1962 Zenro and Sodomei merged to form the Congress of Japanese Confederation of Labor (Domeikaigi) which, in 1964 was renamed as the Japan Confederation of Labor (Domei). This is how the four different national labor centers – Shoyo, Sodomei, Churitsuroren and Shinasanbetsu – were established in order to strengthen bargaining power.

With the establishment of the Japanese Council of the International Metal Workers’ Federation (IMF-JC) in 1964 the Labor Front Unification Movement (LUM) started.<sup>55</sup> Amid these developments, a number of inner and outer conflicts raise leading a call by the leaders of trade unions for the unification of labor

unions. In 1970, the leaders of the major unions reached a basic agreement on unification which took place in 1972 involving 22 unions. The All-Japan Council of Labor Unions (*Zen-min-rokyo*) was formed in 1982 in the private sector to unify all organized labor unions under one single national charter. It remained very active in wage struggles and made demands for political and institutional reforms. The creation of this organization was a turning point in the Japanese union movement. Changing its organizational form from a council to a confederation, *Zenminrokyo* developed into the Japanese Private Sector Trade Union Confederation (old *Rengo*) in 1987 made up of 62 federations and 5.55 million members. In the mean time *Domei* and *Churitsuroren* dissolved and only *Shoyo* remained in the labor movement. Thus, the labor movement shifted from four national organizations, to two – old *Rengo* and *Sohyo*. Finally, in 1989 these two also merged and formed the Japanese Trade Union Confederation (*Rengo*).

Until 1987, there were four national-level labor unions: i) the General Council of Labor Unions of Japan (*Sohyo*), comprising 4.1 million members; ii) the Japan Confederation of Labor (*Domei*), comprising 2.1 million members; iii) the Federation of Independent Unions (*Churitsuronen*) comprising 1.6 million members; and iv) the National Federation of Industrial Organizations (*Shin-sambetsu*), comprising 0.06 million members. In 1987, its title was officially changed to the All Japan Federation of Private Labor Unions. Now it is called the Japanese Trade Union Confederation (*Rengo*) and comprises 6.9 million members, 61 affiliates and 47 local organizations.<sup>56</sup> The unification movement continued until the 1980s in different national centers.

The modern Japanese labor movement is structured on three levels:<sup>57</sup>

***National-level unions:*** *Rengo* is a national-level union made up of a number of industrial federations. National-level unions work directly with the national government and employers' organizations on issues such as labor standards, tax systems and social security, which cannot be solved at the industry or local level. Among other national centers, the National Confederation of Trade Unions (*Zenroren*) comprises over one million members and 20 affiliate unions. Finally, the National Trade Union Council (*Zenrokyo*) consists of 0.17 million workers and five affiliate unions.

***Industrial federations:*** As a federated body of company-based labor unions, industrial federations are the sole affiliates of national labor centers and qualify to directly affiliate with a national center. The federations are composed of company-based unions in the same industry. They are not supposed to conduct collective bargaining at the company level. They are financed by company-based unions and finance the national centers. Members of the federations exchange information on common working conditions in the industry, discuss industrial policies and other problems and strive to verify these. In fact, both national centers and industrial federations endeavor to unionize unorganized workers.

***Company-based unions:*** A prominent form of institution influencing employment relations is the company-based labor union. Labor unions in Japan are mostly company-based that have developed in the

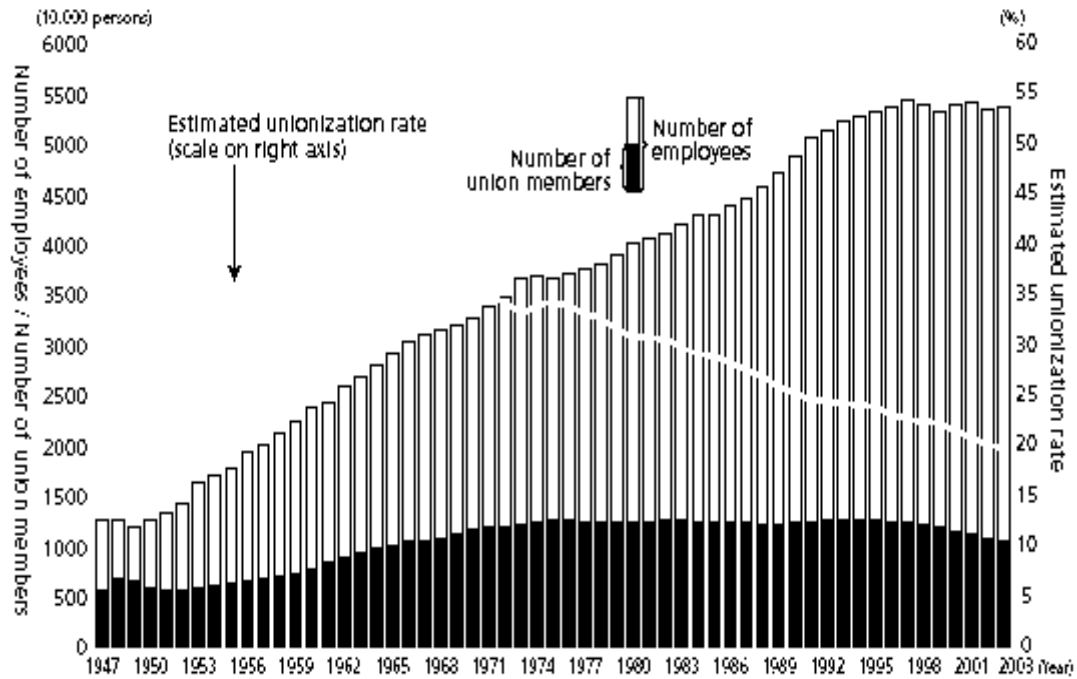
post-war period. For many years, these unions had a strong hold in manufacturing, finance, transportation, public utilities and government. They are organized in both large and small companies. The company-based union utilizes negotiations and labor-management consultations in the work place to improve working conditions, to monitor corporate activities and to provide services to their members.

### **The Current Situation of Unionization**

According to the Ministry of Health, Labour and Welfare, as of June 30, 2003, there were 63,955 unit labor unions in Japan. The number of unions varies according to the industry. The unionization rate is high in public service (53.6 percent), electricity, gas, heat supply and water (58.4 percent) and financing and insurance (51.7 percent).<sup>58</sup> In contrast, the unionization rate is low in agriculture, forestry and fisheries (3.8), wholesale and retail trade (9.8 percent), food and beverage and hotels (2.9 percent), service industries (6.6 percent) and other sectors.<sup>59</sup>

Despite a greater union role in the progress and prosperity of Japanese companies, the rate of unionization, in fact, has declined in the last four decades and currently stands at 19.6 percent<sup>60</sup> (see Figure 2.5). According to a recent survey by the Ministry of Health, Labour and Welfare, 70 percent of labor unions are seeing a sharp fall in memberships. The main reasons for this decline include the development of service industries, the fall in the hiring of full-time workers, withdrawal of memberships due to mandatory retirement, the withdrawal of individuals who retired due to company circumstances and the increasing number of part-time employees who are not covered by company-based unions.<sup>61</sup> <sup>62</sup>According to available statistics, only three percent of part-time workers are union members. The situation of newly established firms, where part-time workers are not organized, is the worst.<sup>63</sup> Realizing these developments in the last few decades of the union movement, Rengo itself candidly realized that there is a need to change the way workers think and unions have to start to re-evaluate their role in order to work smoothly in the 21<sup>st</sup> century.<sup>64</sup>

**Figure: 2.5 Changes in the Number of Employees and Union Members, and the Estimated Unionization Rate**



Source: Survey of Labour Unions, Ministry of Health, Labour and Welfare, 2003

### Employers' Associations

The first employers' association to be formed in Japan was the Japan Federation of Economic Organizations (Keidanren) in 1946. This was followed by the Japan Federation of Employer's Associations (Nikkeiren, now the Japan Business Federation) in 1948. Since 2002, the Japan Business Federation (JBF) came into existence through the amalgamation of Keidanren (the Japan Federation of Economic Organizations) and Nikkeiren (the Japan Federation of Employers' Associations). The JBF has 1,268 institutional members, including 79 with foreign ownership, 126 industrial associations and 47 regional employers' associations.<sup>65</sup> The JBF is mainly concerned with economic, industrial, social, labor and other issues related to corporate activity. It is working for private sector-led reform relating to industry, finance, trade, labor, social security and other issues currently faced by business in Japan. There are also two employer-related organizations: the Japan Chamber of Commerce and Industry (Nissho established in 1922) and the Japan Association of Corporate Executives (Doyukai, 1946).

The Federation aims to "achieve a private sector-led, vital and affluent economy and society in Japan."<sup>66</sup> To attain this, it aims to establish timely consensus, when necessary, and work towards the resolution of a variety of issues concerning the Japanese business community, including economic, industrial, social and labor. At the same time, it communicates with its stakeholders, including political leaders, administrators, labor unions and citizens at large. From time to time, it requests the government and ruling parties to

promote regulatory reform in order to boost industrial competitiveness and encourage companies to demonstrate creative ingenuity (also see Box: 2.2 Nippon Keidanren Announces Individual Requests for Promoting Regulatory Reforms). It also urges its members to adhere to the Charter of Corporate Behaviour and the Global Environment Charter in order to recover public confidence in businesses. It also attempts to resolve international problems and to deepen economic relations with other countries through policy dialogue with governments, business groups and concerned international organizations.

**Box: 2.2 Nippon Keidanren Announces Individual Requests for Promoting Regulatory Reforms**

Source: The Japan Labor Flash No.4, *E-mail Journal*, November 17, 2003.

The rapid globalization of economies and business is making the strengthening of Japan's international competitiveness a race against time. In view of this, Nippon Keidanren has announced specific individual requests to the government and the ruling party for regulatory reforms, categorized into 306 items covering 16 sectors.

The underlying view is that whatever the private sector is capable of doing should be left to the private sector. Nippon Keidanren stresses the need to promote deregulatory reforms in a drastic and rapid manner.

There were 21 requested items covering the employment and labor sectors, including 12 newly added requests, such as the full-scale lifting of the ban on pre-employment interviews of temporarily dispatched workers, the abolition of industry-specific wage systems, and the exemption of academic tests in technology proficiency tests. These were based on the 1,207 requests that had been sent in to Nippon Keidanren during a questionnaire survey targeting member corporations.

To boost industrial competitiveness and encourage companies to demonstrate creative ingenuity, Nippon Keidanren has compiled specific requests for regulatory reforms each year that reflect the actual demand for them on the economic front lines, and has strongly urged the government and the ruling party to realize such requests.

## **Education and Educational Institutions**

Educational institutes are a most essential part of institutional development in any country. The number of educational institutions, the quality of education they provide and the future directions of these institutions will determine the success of a nation.

Moving towards education development in Japan, Japanese society is often described as a *gaku-reku sakai*, a society in which a person's future is almost completely determined by their academic record.<sup>67</sup>

Education is highly valued in Japanese society and Japanese people take it very seriously. From their early history, they promoted high levels of educational development. At the end of the Tokugawa regime, the literacy rate of Japan was already about 40 percent, which can be compared with the USA at that time.

In the Edo period, there were schools run by priests, individual domains, Confucianist academies and private nongovernmental academies.<sup>68</sup> For the common people, there were small schools run by temple priests for the benefit of local children where mainly basic reading, writing and abacus skills necessary in everyday life were taught. The domain schools were specially set up for the education of the children of samurai families.

Following the Meiji restoration, many of these schools were abolished. During the Meiji era, a new education system introduced to help catch up with the education system of the West and a three-tier system consisting of primary school, middle school and university was established, with primary school being compulsory for both boys and girls. The provision of compulsory education increased the number of those attending school.<sup>69</sup> Western knowledge and methods were used to provide technical education to the people. Schools and colleges were established by the state, including engineering, mining and agricultural colleges.

The Fundamental Law on Education and the School Education Law were enacted following World War II under the direction of the Occupation Forces. The latter law defined the school and university system, which is still in use today: six years of elementary school, three years of junior high school, three years of high school, and two or four years of university. Elementary and junior high school attendance was made compulsory. There are also kindergartens (which children can attend for one to three years), five-year technical colleges for junior high school graduates, special training schools for junior high and high school graduates, and special schools for handicapped persons. Universities include undergraduate colleges, junior colleges, and graduate schools. Statistical information on educational institutions (schools, full-time faculties and the number of students in Japan) is presented in the figure below.

**Figure: 2.6 Educational Institutions, Full-time Faculties and Students in Japan**

Institutions	Schools	Full-Time Faculties	Students
Kindergartens	14,279	119,801	1,769,096
Elementary schools	23,808	423,814	7,239,327
Junior high schools	11,159	279,876	3,862,849
High schools	5,472	325,611	3,929,352
Special schools for handicapped persons	993	59,866	94,171
Colleges of technology	62	7,045	57,349
Junior colleges	541	44,585	267,086
Universities	686	304,438	2,786,092
Special training colleges	3,467	147,742	765,558
Miscellaneous schools	2,069	25,609	198,588

**Source:** Ministry of Education, Culture, Sports, Science and Technology, May 1, 2002.

There are a number of public vocational training institutes aiming to provide general and advanced levels of training for employees and prospective employees. The total number of such institutes is 300 in the public sector – those established by prefectural and national government sources. Taking into account the need for skill development, the government and private sector encourage employees to take part in these training programs by providing subsidies.

The Japanese educational system lays emphasis on cooperative behavior, group discipline and conformity to standards. The emphasis of modern education in the schools, in addition to the training of specialists necessary for national education and the state, involved the mass production of the standardized abilities necessary for efficiency in industry and disciplined group behavior.<sup>70</sup> It served the country well in producing the skilled industrial workforce that made Japan a global economic power in the 20<sup>th</sup> century. The success of the system is further reflected in the fact that the great majority of the Japanese people consider themselves middle class and sees education as the road to prosperity for their children.

Japanese people emphasize the importance of fostering creative talent, providing education to match the demand for fresh ideas and allowing the labor market to meet changing requirements. They are now, therefore, stressing the importance of improving the higher education system to develop specialized talent, as well as the need to create labor markets that will allow people with a wide range of talents to find jobs.<sup>71</sup> However, despite its success in contributing to post-war educational development in the country, there is a growing debate concerning how to change the educational system in order to respond to the challenges of the 21<sup>st</sup> century. Kobayashi argues that:

“Overall, education in Japan has succeeded in raising the people’s level of literacy. Yet it failed to produce leaders with a vision and to cultivate human ingenuity...Indeed, society has yet to agree on where to foster creativity and leadership and how to involve education in these goals.”<sup>72</sup>

Admitting the need for improving Japanese education, the Ministry of Education, Culture, Sports, Science and Technology is pushing forward with a number of wide-ranging reforms. An overarching theme of these reforms is a shift from “uniform and passive” education to “independent and creative.” Universities are undergoing the most extensive series of reforms and planning to the present system of education. As part of the reorganization effort, which began in fiscal year 2003, the 99 national universities are being reorganized into 89 institutions. The state universities are being transformed into independent administrative institutions with a view to creating a more competitive environment by introducing a private management system. The major points of the current educational reform include:

*Emphasis on individuality* – this is significantly different from the current system that emphasizes harmony and uniformity. The focus will be on creativity with more hands-on activities for children.

*Emphasis on lifelong learning* – this will bring about a change in the current system from rote memorization to learning how to acquire knowledge and a higher level of thinking.



*Emphasis on preparing students who can plan and cope with change and succeed in the information age and global society* – there is political pressure for students to acquire the skills to compete internationally. There is a move to provide students with comprehensive international learning, to help students understand other cultures, history, and values.

In fact, future education for the development of HR needs joint efforts and the shared responsibility of the business community, academia and the government.

## **Summary**

Japanese social institutions remained hierarchic from the early Tokugawa period. The employment and training system emerged from the family concept. From early history to the present, the credit for institutional development in Japan goes, so far, to the government.

The role of the Allied Occupation Force was important in reforming institutions in the post-war period. Government institutions at that time remained highly vigilant toward employment relations practices. Although various laws and policy measures were taken to deregulate government activities, these institutions still played the guardian role in protecting employees' rights.

Unions, which are regarded as strong institutions, contributed significantly to the success of Japanese companies in the post-war period. However, with the change in the emphasis of employers to cut costs, pressures arose for unions to look for different roles in addition to their primary role of protecting the rights of its members. In a country like Japan, where a highly competitive business environment prevails, institutional reforms on the part of unions are expected to ensure success and profits for Japanese companies.

The Japan Business Federation is a strong private-sector institution responsible for achieving a private sector-led vital and affluent economy and society in Japan. It also works as a partner with the government and unions to achieve its aims and provides guidelines to its members in achieving goals of profits and growth.

The role of education remained paramount to changing and developing the Japanese economy. However, arguments are emerging to improve the prevailing education system in order to develop leaders with vision and to cultivate human ingenuity. In the last few years, reform moves have been taken by government and also by educational institutions to help the education system cope with the changing socio-economic challenges of the country.

Some of the features of Japanese institutions are listed below:

1. The government of Japan remained supportive in providing the required institutional assistance for business enterprises. The current role of the Japanese government is not taken as a threat to

participate in competition.

2. The government still plays a guardian role in supporting industrialization. Government institutions remained cooperative in supporting industrial development.
3. Labor-related laws and policies are enacted from time –to time in order to respond to new developments in socio-economic environmental forces.
4. The government has been involved in major policy reform and in developing effective mechanisms to enforce its policies at the company level.
5. There has been a declining trend in union membership at the company level.
6. Unions still have influence in protecting the rights of their members.
7. Employers' associations are very effective in protecting the interest of its members in order to assume a position where they can compete in domestic and international markets. They have been involved in a variety of policies and issues aimed at promoting stable growth and realizing a vital economy and industrial society.
8. The role of education is pervasive in the growth of Japanese business and companies. However, with the outgrowth of knowledge-based work systems, concerns are growing that major reforms are needed in current educational policies to make the workforce more innovative and creative.

## **Notes:**

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<sup>1</sup> Allen, G.C. *A Short Economic History of Modern Japan*, London: George Allen and Unwin Ltd., 1946.

<sup>2</sup> Murdoch, J. *A History of Japan, Vol.3*, 1910.

<sup>3</sup> Allen, G.C., *ibid.*, p .9.

<sup>4</sup> Beck, J.C. and Beck, M.N. *The Change of a Lifetime: Employment Patterns among Japan's Managerial Elite*, University of Hawaii Press, 1994.

<sup>5</sup> The Tokugawa period was the final era of “traditional” Japanese history. Tokugawa *Ieyasu*, after a striking victory over pro-Toyotomi warriors at the Battle of *Sekigahara* in 1600, assumed the title of shogun and established a powerful and enduring *shogunate* in the city of Edo, ushering in the Edo period (1600-1868) of Japanese history. The ideology of the Tokugawa rulers was neo-Confucianism. Europeans, particularly Portuguese and Dutch, started doing business in some areas. Jesuit missionaries were trying to promote Christianity in the country, but the ruler at the time saw Christianity as a threat to the nation and they ordered the expulsion of the missionaries. At that time, Japanese were also banned from travelling abroad.

<sup>6</sup> Who emerged as the unrivaled overlord and founder of the Tokugawa dynasty that ruled Japan for the next two and a half centuries.

<sup>7</sup> Edo is the former name of Tokyo, where the governmental administration was located, far from the imperial palace in Kyoto.

<sup>8</sup> *Japan: Profile of a Nation*, Tokyo: Kodansha International, 1995.

<sup>9</sup> Allen, G.C., *op.cit.*, p. 10.

<sup>10</sup> Allen, G.C. (1946) *ibid.*

<sup>11</sup> Morishima, M. Japanese Enterprise as Private Sector Bureaucracy, in Hiroshi Hayama (ed) *The History of Labour Management in Japan*, Classics in the History and Development of Economics, Macmillan Press Limited, 1997.

<sup>12</sup> *Ibid.*

<sup>13</sup> Ruled 1868-1912. Meiji (literally “enlightened rule”), was the name of the new imperial reign. During this period, Japanese society was transformed by progressive ideas from one of feudalism and military autocracy to liberty and enlightenment. Japan was again exposed to considerable outside influence. This time, the new leaders sent envoys to various European countries to seek models for their modernization, and trade relations were established, or re-established with countries all over the world. Developments were initiated in transportation and telecommunication systems at the beginning of this era.

<sup>14</sup> Flath, D. *The Japanese Economy*, City: Oxford, 2000.

<sup>15</sup> *Japan: Profile of a Nation*, *op.cit.*, p. 64.

<sup>16</sup> Ishida, T. *Japanese Society*, NY: Random House, 1971.

<sup>17</sup> *Ibid.*, p 17.

<sup>18</sup> Allen, G.C., *ibid.*, p.12.

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- <sup>19</sup> Yoshino, M.Y. *Japan's Managerial System: Tradition and Innovation*, The MIT Press, 1968.
- <sup>20</sup> Odagiri, H. and Goto, A. *Technology and Industrial Development in Japan*, Oxford: Clarendon, Press, 1996.
- <sup>21</sup> Ibid.
- <sup>22</sup> Ibid., p. 69.
- <sup>23</sup> Ericson, S.J. "Private Railroads in the Meiji Era: Forerunners of Modern Japanese Management," in T. Yui and K. Nakagawa (eds.) *Japanese Management in Historical Perspective*, Tokyo: University Tokyo Press, 1974.
- <sup>24</sup> Allen, G.C. (1946) op. cit., p. 64.
- <sup>25</sup> Ibid., p. 36.
- <sup>26</sup> Ibid., p. 64.
- <sup>27</sup> Ibid. 91.
- <sup>28</sup> Ibid.
- <sup>29</sup> Ibid. p. 99.
- <sup>30</sup> Figure is taken from <http://web-japan.org/factsheet/govern/cabinet.html>.
- <sup>31</sup> Hendry, J., op.cit., p. 55.
- <sup>32</sup> Rowthorn, C. *et.al. Japan, City*: Lonely Planet Publications, 2000.
- <sup>33</sup> Drucker, P.F. *Post-capitalist Society*, City: Harper Collins Book, pp. 129-30, 1993.
- <sup>34</sup> Porter, M. Takeuchi, H. and Sakakibara, M. *Can Japan Compete?* City: McMillan, 2000.
- <sup>35</sup> Ibid., p. 22.
- <sup>36</sup> Blomstron, M., Gangnes, B., and Croix, S.L. *Japan's New Economy: Continuity and Change in the Twenty-First Century*, City: Oxford University Press, 2001.
- <sup>37</sup> Kono, T. and Clegg, S. *Trends in Japanese Management: Continuing Strengths, Current Problems, and Changing Priorities*, City: Palgrave, 2001.
- <sup>38</sup> Araki, T. *Labour and Employment Law in Japan*, Tokyo: The Japan Institute of Labour, 2002.
- <sup>39</sup> The Japan Institute of Labour Policy and Training (JILPT). *Labour Situation in Japan and Analysis 2004-2005*, p. 71.
- <sup>40</sup> Japan Business Federation (JBF), *Current Labour Economy in Japan, 2003*, City
- <sup>41</sup> Ibid., p. 25.
- <sup>42</sup> Ibid.
- <sup>43</sup> Kaufman, B.E. *The Global Evolution of Industrial Relations: Events, Ideas and the IIRA*, Geneva: ILO, p. 501, 2004.
- <sup>44</sup> Ibid.
- <sup>45</sup> Ibid., p. 501.

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- <sup>46</sup> Shinoda, T. "Rengo and Policy Participation: Japanese-style Neo-corporatism?" in M.Sako and H. Sato (eds.) *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*, City: Rutledge, 1997.
- <sup>47</sup> Kaufman, op.cit., p. 512.
- <sup>48</sup> Ibid., p. 512
- <sup>49</sup> Shinoda, T., op.cit., p. 188.
- <sup>50</sup> Japan Institute of Labour (JIL). *Labour-Management Relations in Japan*, p. 19, 1994.
- <sup>51</sup> Fujimura, H. "New Unionism: Beyond Enterprise Unionism?" in M. Sako and H. Sato (eds.) *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*, City: Rutledge, 1997.
- <sup>52</sup> Ibid.
- <sup>53</sup> Ibid., p. 191.
- <sup>54</sup> Moore, J. *Japanese Workers and Struggle for Power 1945-47*. Madison: University of Wisconsin Press, 1983.
- <sup>55</sup> Fujimura, H., op.cit.
- <sup>56</sup> JTUC- *Rengo Bulletin*, 2004.
- <sup>57</sup> This part of the discussion is widely adapted from Inohara, H. *Human Resource Management in Japanese Companies*, Tokyo: Asian Productivity Organisation, 1990.
- <sup>58</sup> Ibid., p. 58.
- <sup>59</sup> Ibid.
- <sup>60</sup> JILPT, op.cit., p. 58.
- <sup>61</sup> Ibid.
- <sup>62</sup> JILPT, The Japan Labour Flash No. 24, *E-mail Journal*, October 1, 2004.
- <sup>63</sup> Freedman, R.B. and Rebick, M.E. "Crumbling Pillar? Declining Union Density in Japan," *Journal of the Japanese and International Economics* (Vol. 3), pp. 578-605, 1989.
- <sup>64</sup> <http://www.jtuc-rengo.org/about/index.html>.
- <sup>65</sup> [http://www.ioe-emp.org/ioe\\_emp/worldwide/page\\_pays\\_html/asia/japan.htm](http://www.ioe-emp.org/ioe_emp/worldwide/page_pays_html/asia/japan.htm).
- <sup>66</sup> <http://www.keidanren.or.jp/english/profile/pro001.html>.
- <sup>67</sup> Rowthorn, C. et.al., op.cit.
- <sup>68</sup> <http://www.isei.or.jp/books/75/Learning.html>.
- <sup>69</sup> Hendry, J. *Understanding Japanese Society*, City: Croom Helm, 1987.
- <sup>70</sup> <http://www.isei>
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## Chapter 3

### The Labor Market

This chapter is a brief review of the labor market during the Tokugawa and Meiji periods. It is believed that the trends and patterns seen in today's labor market are deeply rooted in the development of these two historical regimes.<sup>1</sup> However, there have been a number of changes in the postwar labor market. These changes are related to an aging labor force, increasing unemployment, the mismatch between job openings and job seekers, and the shifting employment sector which is connected with employment relations practices on the company level. Briefly these changes will be acknowledged and discussed, and new trends and issues in the labor market will be presented.

#### Brief History of the Labor Market

During the Tokugawa era (also known as the Edo period) the Japanese population was divided by a hereditary class system based on occupation, privilege and status — warriors, farmers, artisans and merchants.<sup>2</sup> People were not allowed to move out of the class they were born into.<sup>3</sup> Samurai were at the top with merchants on the bottom. At the start of the Tokugawa period, the total population of Japan was about 30 million, with about seven percent being samurai, 80 percent were farmers, and the remaining 13 percent was divided between the artisans and merchants.<sup>4</sup> Labor was hired from within the family, known as kind of kinship employment, and through family connections and recommendations from the local community.<sup>5</sup> In some business houses, boys were hired when they were 12 or 13 years of age and lived with the manager, like a household servant. They were called *detchi* (apprentice), and until they became *tedai* (clerks) at the age of 17 or 18 they were given food, lodging and clothing.<sup>6</sup> In fact, laborers were treated with a spirit of loyalty rather than a high-class commodity.<sup>7</sup> The labor force was concentrated in textile trading houses, *sake*-brewing factories (where rice liquor was produced), and in wax manufacturing. In fact, during this time, workers lived off their work rather wages.<sup>8</sup> Because the domestic system prevailed in society, peasants used to work for their lords and in exchange they received material in kind.

In 1873, the population of Japan was almost 35 million, totaling some 46 million by the end of the regime.<sup>9</sup> During the Meiji era, a number of factories came into existence, and there were several sources of demand for labor. The development of a better education system was the top priority of the Meiji regime. As the population became more educated, railways began to recruit graduates directly from the universities, higher secondary schools and the engineering colleges of Tokyo Imperial University. Through the joint efforts of engineers and administrators, professionalism developed in the lower and middle management of the railway companies.<sup>10</sup> People traveled to the West to study and for training, and upon their return they went to work in railway companies, paving the way to transfer their newly-acquired knowledge and skills.

Managers generally were college graduates. They did not have to work in a family structure or follow the clan system that existed during the Tokugawa period. In some cases, private businessmen supported college graduates, who after graduation were directly hired and received a salary 10 times more than a local bank manager.<sup>11</sup> Graduates sought to work in government service also, and contributed to the industrial development of the country. By the turn of the century, even merchant families and successful opportunists were placing a greater emphasis on hiring college graduates. The big *zaibatsu*, such as Mitsui, Mitsubishi and Sumitomo, offered job security to the graduates, for example by establishing lifetime employment.<sup>12</sup>

For women and other skilled and unskilled workers there were opportunities in the job market. Silk manufacturers and cotton spinning factories employed a large number of female workers.<sup>13</sup> Skilled male workers were mainly employed in the metal working and engineering industries. Unskilled workers were employed in construction, mining and other industries. In 1920, almost 14 million people were engaged in agriculture and 11 million in manufacturing, commerce, transport and communications, and in public service and the professions.<sup>14</sup> After the 1920s, efforts were made to formalize the recruitment process in Japanese enterprises.

During the 1920s and 1930s agriculture was the main occupation of roughly half of the employed workforce,<sup>15</sup> and employment and output were still rather heavily concentrated in agriculture and textile manufacturing. There were people who were self-employed and many of them shared tenants. However, in the agriculture sector, a kind of disguised unemployment prevailed due to low wages compared to the marginal salaries of the workers. This situation forced workers to join the modern sector. In the meantime, the development of industrial craftsmanship resulted in refinement in traditional handicrafts.<sup>16</sup> The artisans that produce handicrafts exhibited remarkable skills, required little capital investment, and were best governors of their own enterprises.

## **Population Growth Trends**

By 1940, the population of Japan reached about 73 million. Statistics show that between November 1945 (immediately after the end of World War II) and July 2003, the population has increased by a factor of about 1.77 percent, from a reported 72.15 million to 127.65 million.<sup>17</sup> However, this increase has not been uniform. Table 3.1 shows the population growth between 1950 and 2000. At the same time, the real growth rate is declining as both the fertility and mortality rates drop.<sup>18</sup> Since the first baby boom after World War II (1947-49), the average growth rate of the population remained at five percent. This rate declined rapidly and reached one percent during the subsequent 10 years. Another increase in the Japanese population occurred in the 1970s, but again reverted to a 0.6 percent growth rate. Currently, the annual population growth rate is below one percent, with the average family size decreasing from five in 1955 to 2.9 in 1995. It has been said that the main reason behind the decline in the population growth rate is the growing number of company employees who have nuclear families.<sup>19</sup> The declining birth rate



and increase in number of unmarried people also impact the structure of the labor market.<sup>20</sup> Population trends for the last 50 years are presented below.

**Table 3.1 Population Trends**

Year	Total population (1,000 people)	Births (per 1,000 people)	Deaths (per 1,000 people)	Life expectancy at birth (years)	Growth rate
1950	84,115	28.1	10.9	59.57	1.2
1960	94,302	17.2	7.6	65.32	1.0
1970	104,665	18.8	6.9	60.31	1.1
1980	117,060	13.6	6.2	73.35	0.6
1990	123,611	10.0	6.7	75.92	0.3
2000	126,919	9.5	7.6	77.72	0.0

**Source:** Ministry of Health, Labour and Welfare, 2000.

### **Aging Population and Labor Force Participation Ratio**

There is growing concern over the aging population and future consequences for the economic and social structures.<sup>21</sup> The aged population ratio in Japan is expected to increase to 5.2 percent by the year 2020. Compared to the situation in other countries, Japan is in fourth place following Italy, Greece and Sweden. In 2001, approximately 18 percent of Japan's population was 65 or older. This means that out of every four people there is one who is over 65 years old. According to recent demographic information, in the year 2050 the ratio of the aged population in Japan is expected to reach 36 percent. While the world's population is expected to increase by almost 50 percent by 2050, Japan could lose 20 percent of its population over the next half-century (see Table 3.2).

**Table: 3.2 Estimated Population of Japan**

(Units: %, 1,000)

Year	0-14	15-64	65 years or older	Total aged population
1995	15.9	69.4	14.5	125,570
2000	14.6	67.9	17.3	126,926
2010	14.4	67.7	18.0	127,291
2020	12.2	60.0	27.8	124,107
2030	11.3	59.2	29.6	117,580
2040	11.4	55.8	33.2	109,338
2050	10.8	53.6	35.7	100,593

**Source:** National Institute of Population and Social Security Research.

**Note:** Figures after 2001 are projections.

The most recent estimates show that Japan's population will peak in 2006 at 127 million, and then decline for the first time in history.<sup>22</sup> Such future changes in demographic trends will certainly impact the demand and supply of the labor force.

According to JILPT, the trends of labor force participation in the labor market show that the number of male workers aged 24 and under is declining whereas the ratio of the elderly (55 years old and older) is tending to increase. For female workers, the labor force participation trend takes on an "M" shape over time, declining for workers in their late 20s through 30s, and rising again in their 40s. The increase in female workers in the 25 to 34 and 55 to 64 age brackets is prominent.

Although the current growth rate of the population seems to affect the total number of the workforce at the workplace, it is too early to reach a conclusion as to what that effect is. In fact, the labor market balance is also determined by actual demand and supply of the labor force. Structural changes towards a labor-saving economy can check future labor shortages.<sup>23</sup> Increase in labor productivity, female participation in the workforce, rationalization of inefficient industries, liberalization of trade policies and foreign direct investment are some important measures that can be taken to solve labor shortages.<sup>24</sup>

### **The Unemployment Situation**

The labor force in Japan includes "those people aged 15 and older who actually hold jobs and therefore qualify as workers," as well as completely unemployed people "who want and seek jobs, but are not currently engaged in any work."<sup>25</sup>

The national census undertaken in 1955 revealed that nearly 40 percent of 41 million workers were employed in primary industries.<sup>26</sup> During the period of high economic growth — the 1950s and 1960s — the rate of unemployment was one percent.<sup>27</sup> In 1975, job offers due to the rise in exports of electrical goods, had a positive impact on employment. The rate of jobless people rose to nearly 3 percent after the two oil crises and the Plaza Accord. During these periods of crisis, both the internal and external labor markets underwent severe changes to cope with the prevailing challenges.<sup>28</sup>

The unemployment rate fell again to the low 2 percent range during the years of the bubble economy (1985-1991).<sup>29</sup> The situation since then has had a major impact and forced enterprises to make necessary changes in their prevailing structure. As a result, the number of dismissals increased sharply at the enterprise level.

The continued slow-down of the economy after the bubble burst forced many industries to restructure their management practices. One result of the recession that has continued since 1990 is that there was a substantial decrease in job openings and an increase in the number of the job seekers. The major drop in employment is attributed to decreased employment in the construction and manufacturing sectors, strong restraints on hiring, and a sizable increase in the number of long-term employed.<sup>30</sup> A number of manufacturing plants were shifted to developing countries to take advantage of low-cost and highly-skilled labor. As a result, the unemployment rate has risen sharply since 1998 and 1999, and in July 2003,

it went above five percent for the first time since 1953.<sup>31</sup> This includes people 15 years old and older who are able to work, have sought work, and are out of work for the time being, and also those waiting for job searching results.<sup>32</sup>

While unemployment hovers at a higher rate, the problem of mismatch between job openings and jobseekers has become more acute and is creating problems in the labor market. Since the latter half of the 1990s, structural and frictional unemployment resulting from a mismatch in job openings and job seekers has been rising, rather than demand-deficient unemployment that rises during a recession.<sup>33</sup> According to a JILPT source regarding the 5.3 percent unemployment rate in the January-March quarter of 2003, the structural and frictional unemployment rate was estimated to be 4.1 percent and the demand-deficient unemployment rate was estimated at 1.2 percent, meaning that three-quarters of those unemployed were out of work due to a mismatch between job openings and jobseekers. The reasons for such mismatches include the differences between expected and actual wages, the terms and conditions of job openings and job seekers, the inability to meet the professional abilities by job seekers, and the declining opportunities for middle-aged workers to apply for jobs due to strict age limitations.<sup>34</sup>

### **Current and Future Employment Situation**

Recent figures on the composition of the labor force employment show that most people are employed in the service sector (see Table 3.3 below). Looking at the breakdown of industries, the number of people working in primary and secondary industries is decreasing, while those in tertiary industries, mainly the service industry, has been increasing. The current trend also reveals that the service industry is growing at a faster pace than that of other sectors. Therefore, it is regarded as the main sector that will provide employment opportunities in the future. Figures for working patterns show that the number of clerical and related workers, managers and officials, craftsmen and manufacturing and construction workers decreased between 1995 and 2000, whereas the number of people engaged in sales remained steady. In addition, the number of professional and technical and service workers increased, and the rate of increase accelerated during the economic recovery from 2001 to 2003.<sup>35</sup>

**Table 3.3 Breakdown of Employment by Industry (2002)**

<b>Industry</b>	<b>Employed (%)</b>
Agriculture, forestry and fisheries	5.1
Mining and quarrying	0.1
Construction	10.1
Manufacturing	20.2
Wholesale and retail trade	24.2
Finance and insurance	9.3
Transport and communication	6.4
Electricity, gas and water supply	0.5
Services	24.1
<b>Total</b>	<b>100</b>

**Sources:** *Labour Force Statistics*; ILO, *Year of Labour Statistics*, OECD.

Between 1975 and 1985 there was a sharp rise in the average level of educated workers which was reflected in the increasing number of young people who entered tertiary institutions. Both men and women have become better educated. In 1960, the ratio of those who advanced to high school was 57.7 percent of junior high school graduates (males and females combined, excluding those who proceeded via correspondence courses). This figure jumped 95.9 percent in 2000. In addition, the percentage of those who entered university (undergraduates), community college (liberal arts), and so on was 10.3 percent in 1960 (male and female combined, including *ronin* — those who were unable to enter university immediately after graduating from high school, and are waiting for another chance). This figure increased to 49.1 percent in 2000. However, the data from the Ministry of Education, Culture, Sports, Science and Technology indicates that the employment rate for high school, college and university graduates has been declining since the late 1990s. Recently published data from JILPT shows that 0.8 percent, 16.6 percent, 59.7 percent and 55.1 percent of lower secondary schools, upper secondary schools, junior secondary colleges and universities, respectively, found employment.<sup>36</sup>

Regarding future employment prospects in the labor market, the *White Paper* published in 1999 by the Ministry of Labor stated that there will be a strong demand for labor especially in sectors such as information and communications, medical and social welfare, education and leisure, and business support. The *White Paper* also stresses that there is a need for proper human resource management in these business to establish better working conditions for employees.

A new trend has emerged in the labor market since the industrial structure underwent a fundamental shift in orientation, away from the manufacturing sector to the service sector. In the service sector there has been an increasing number of part-time, dispatched and other non-regular type of employees.<sup>37</sup> As a result, almost companies are hiring non-regular workers. The total ratio of non-regular workers was 21 percent in 2000, and reached almost 35 percent in the year 2003.<sup>38</sup> Keeping in mind recent developments in the communications and information sector, it is thought that the demand for non-regular and professional workers will rise in the future.

Meanwhile, the number of regular employees has declined considerably. According to an employment structure survey by the Ministry of Public Management, Home Affairs, Posts and Telecommunications, as of October 2002, the number of regular employees (excluding directors) stood at 34.35 million, a decrease of four million compared to the results of the survey taken five years earlier.<sup>39</sup> An editorial in *The Japan Times* described the decline in the number of regular workers as the result of corporate restructuring.<sup>40</sup> Companies have shifted from regular to non-regular workers in an effort to maintain their international competitiveness by slashing costs to reduce personnel expenses. The increasing numbers of part-time jobs in the labor market is considered a strategic trend to minimize labor costs.

As Japan is facing the highest unemployment rates in its history, it is thought that an improved environment for mid- and small-scale industries will help create more employment opportunities.

The number of foreign workers in the labor market is rising, particularly from the Asian and Pacific regions. According to the Immigration Bureau inside the Ministry of Justice, there are 0.74 million foreign nationals working in Japanese companies.<sup>41</sup> This represents one percent of the total workforce, much less than the 10 percent in the U.S. and Switzerland, eight percent in Germany, and six percent in France. However, the flow of foreign nationals will certainly support Japan's labor market during a projected labor shortage. Realizing this, in December 2004, a ministry panel recommended that the Japanese government also considering to accepting non-specialist workers in industries such as agriculture and forestry, which are expected to suffer labor shortages in the future.<sup>42</sup> Obviously, this will also bring diversity in terms of language, skills, races, age groups, and culture and orientation. The increasing diversity will certainly influence the prevailing employment relations system on the firm level. Realizing the importance of diversity in the workforce, the Japan Business Federation recently drafted a vision paper, "Japan 2025: Envisioning a Vibrant, Attractive Nation in the 21<sup>st</sup> Century." The paper contains recommendations to accept non-Japanese workers and outlined three principles under which non-Japanese workers could be employed: developing the quality of non-Japanese workers, full protection of their human rights, and providing benefits to the countries of origin.<sup>43</sup>

The next emerging issue is related to the increasing participation of young workers, known as *freeters*, who are looking for jobs in the labor market. These are people between the ages of 15 and 34 who are interested in working in part-time jobs known as *arubaito* jobs. They frequently switch jobs and therefore some people even argue that they lack commitment towards work.<sup>44</sup> More than 1.5 million such workers are employed in different undertakings. This situation raises the question of the possible loss of accumulated skills and abilities for enterprises and society as a whole due to frequent and unplanned job switching.<sup>45</sup>

## Summary

During the Tokugawa period almost 80 percent of the workforce was engaged in agriculture. This figure dropped to 50 percent during the 1920s and 1930s. According to available statistics, only five percent of the labor force was engaged in the agriculture sector in 2000, a clear statement that the ratio of labor force participation in non-agriculture has paralleled the growth, development and advancement of the Japanese economy. However, aging workforces, growing demand for non-regular workers, a mismatch in the labor market, and unemployment, have produced greater concern over the structure of the current and future labor market.

It is too early to conclude the effect that an aging workforce will have; however, Japanese institutions need to begin to think now of how best to deal with a predicted labor shortage. It is possible that there will be a demand for a qualified workforce in highly efficient technology, which will require the development of manpower with proper skills and knowledge. This will also help to minimize bridge the gap between job openings and job seekers.

More and more employers have been rethinking their prevailing employment practices to cope with competition and the cost-cutting needs of their companies. The rising number of non-regular workers as a strategic force is one example of such changes that minimize costs in the interests of companies. It is estimated that 35 percent of the labor force are now non-regular workers, a figure that was 21 percent in 2000. However, to ensure that there are sustained advantages from hiring such a workforce, companies have to offer proper rewards.

The number of foreign workers is on rise, currently representing one percent of the total workforce. In case of increasing diversity due to the inflow of foreign workers the challenge for managing diversity increases.

The main features of the Japanese labor market include:

- Changes stemming from shifts in the demographic structure of the country.
- The increasing number aging workers in the labor market will force enterprises to rethink prevailing employment relations practices.
- Employment is growing in the wholesale and retail trade and service sectors. Potential areas for new job openings are information and communications, medical and social welfare, education and leisure, and business support.
- There is growing concern about the increasing number of high school, college and university graduates on the one hand, and the declining number of job offers on the other.
- An increasing number of employers are interested in non-regular and dispatched workers as a strategic competitive measure.
- An increasing number of foreign workers are entering thhe Japanese labor market.

## Notes

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- <sup>1</sup> Allen, G.C. *A Short Economic History of Modern Japan*, London: George Allen and Unwin Ltd., 1946.
- <sup>2</sup> Flath, D., *The Japanese Economy*. Oxford University Press, 2000.
- <sup>3</sup> Morishima, M. *Why Has Japan 'Succeeded'? Western Technology and the Japanese Ethos*, Cambridge University Press, 1984.
- <sup>4</sup> *Ibid.*, p. 24.
- <sup>5</sup> Beck, J.C. and Beck, M.N. *The Change of a Lifetime: Employment Patterns Among Japan's Management Elite*, University of Hawaii Press, p. 33, 1994.
- <sup>6</sup> Hirschmeier, J. and Yui, T. *The Development of Japanese Business, 1600-1980*, London: George Allen and Unwin, 1981.
- <sup>7</sup> Morishima, M. , *op.cit.*, p. 117.
- <sup>8</sup> Flath, D., *op.cit.*
- <sup>9</sup> Allen, G.C., *op.cit.*
- <sup>10</sup> Ericson, S.J. (1974) Private Railroads in the Meiji Era Forerunners of Modern Japanese Management. In T. Yui and K. Nakagawa (eds.) *Japanese Management in Historical Perspective*, University Tokyo Press.
- <sup>11</sup> Beck, J.C. and Beck, M.N., *op.cit.*, p. 41.
- <sup>12</sup> Allen, G.C., *op.cit.*
- <sup>13</sup> Mikio, S. *A History of Wage Labor in Japan: The Formation of the Working Class in the First Half of the Meiji Era*, (in Japanese), Tokyo: University of Tokyo Press, 1955.
- <sup>14</sup> Allen, G.C., *op.cit.*, p. 167.
- <sup>15</sup> Flath, D., *op.cit.*, p. 51.
- <sup>16</sup> *Ibid.*, p. 52.
- <sup>17</sup> Japan Institute for Labour Policy and Training. *Situation in Japan and Analysis*, 2004-2005.
- <sup>18</sup> Allen, G.C., *op.cit.*
- <sup>19</sup> JILPT, *op.cit.*, p. 10.
- <sup>20</sup> *Ibid.*
- <sup>21</sup> The life expectancy of Japanese people is the highest in the world. This has resulted in an increase in an aging male and female population. If we look at the statistics, the 50 to 54 age bracket remains highest. This will seriously effect the composition of the labor force in the future.
- <sup>22</sup> *Ibid.*
- <sup>23</sup> Goto, J. "Aging Society and the Labour Market in Japan: Should the Fertility Rate be Raised Now? No," *Japan Labour Bulletin*, Vol. 40-No. 9 Sept. 2001.
- <sup>24</sup> *Ibid.*
- <sup>25</sup> JILPT, *op.cit.*, p. 14.

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- <sup>26</sup> Nishikawa, S. (ed) *The Labor Market in Japan: Selected Readings*, Tokyo: The Japan Foundation, 1980.
- <sup>27</sup> Japan Business Federation. *Current Labour Economy in Japan*, 2003.
- <sup>28</sup> Yamanouchi, T. and Okayaki-ward, L. “Key Issues in HRM in Japan,” in S. Tyson (ed.) *The Practice of Human Resource Strategy*, London: Pitman Publishing, 1997.
- <sup>29</sup> JBF, op.cit.
- <sup>30</sup> Ibid.
- <sup>31</sup> Ibid.
- <sup>32</sup> Ibid.
- <sup>33</sup> JILPT, op.cit.
- <sup>34</sup> Ibid., pp. 24-25.
- <sup>35</sup> Ministry of Health, Labour and Welfare, *White Paper on the Labour Economy 2004 Summary*, p. 11.
- <sup>36</sup> Japan Institute for Labour Policy and Training. *Japanese Working Life Profile 2004/2005—Labor Statistics*, p. 70
- <sup>37</sup> JILPT, op.cit., p. 18.
- <sup>38</sup> The Japan Times. *Japan’s Changing Labour Structure*, August 24, 2004. Of the total non-regular employees, 23% were part-time workers, 2.3% contract employees, 2% temporary workers dispatched by personnel agencies, and 1.5% were employees temporarily transferred to affiliated companies.
- <sup>39</sup> Ibid.
- <sup>40</sup> Ibid.
- <sup>41</sup> JIL. *Japan Labour Bulletin*, June 1, 2003.
- <sup>42</sup> The Japan Times. March 4, 2005.
- <sup>43</sup> Japan Business Federation. *Recommendations on Accepting Non-Japanese Workers*, April 14, 2004.
- <sup>44</sup> Ministry of Labour. *The 2000 White Paper on Labour: A Summary of the Analysis, Volume 39*, No. 9 Sept. 1, 2000.
- <sup>45</sup> Ibid., p. 4.



## **Chapter 4**

### **National Culture**

Japanese society is said to highly regard collectivism in which people work together sacrificing their private life to contribute to the success of their organizations. It is believed that this spirit has greatly impacted Japanese employment relations. Understanding the importance of such a value and belief system, this chapter provides a brief description of Japanese culture in order to understand its influence on employment relations practices. There will be a brief discussion of the history, religion and culture, features, the position of women, the value of education, and other interesting dimensions to fully describe Japanese culture.

#### **National Culture and Its Influences**

Nahavandi and Malekzadeh have defined national culture as:

“... a set of values and belief shared by people within a nation. Because national culture addresses many different aspects of life, it has a strong and pervasive influence on people’s behavior, both in everyday activities and in organisations.”<sup>1</sup>

The environmental elements of national culture are customs, mores, values and demographic characteristics often represented in the laws, rules and regulations of a country.<sup>2</sup> From the above definition it is clear that national culture plays a significant role in the personal as well organizational lives of a society.

Indeed, national culture differs from country to country. Because it carries a profound influence on the work system, a discussion of national culture will certainly ease our path to achieving a deeper understanding of the social systems within organizations. It appears to be the primary source for institutional resistance to withstanding the unifying impact of various global competitive trends. While global trends induce firms to change employment relationships in accordance with a global standard, national culture preserves the existing diversity.<sup>3</sup> A historical paper by Hofstede shows how national culture is related to employment relations. This study focuses on work-related values that have universal validity. In his research, he identified four important value dimensions which are: power distance, uncertainty avoidance, individual-collectivism and masculinity-femininity. Hofstede argues that:

“... Managing and organizing do not consist of making or moving tangible objects, but of manipulating symbols which have meaning to the people who are managed or organized. Because the meaning which we associate with symbols is heavily affected by what we have learned in our family, in our school, in our work environment, and in our society, management and organization are penetrated with culture from the beginning to the end.

Practice is usually wiser than the theory.”<sup>4</sup>

Applying Hofstede’s understanding, it is important to bear in the mind that what we have learned from our society, schools and environment has a meaningful impact on how we work and behave with people. In totality, organizational practices are determined by national culture. Moreover, national cultures are often seen as infrastructural; therefore, social, economic and political phenomena are often seen as manifestations of immanent culture.<sup>5</sup>

Regarding the influence of Japanese culture on management practices, Fukuda writes:

“The importance of cultural underpinnings of Japanese management are said to be groupism and a vertical structural tendency, which are found in Japanese society at large. The Japanese believe their society as culturally unique. Undermining the logic of industrialization that should have resulted in similarities among the industrialized nations regardless of their cultural traditions, Japan’s cultural uniqueness is manifested in a variety of organizational and behavioral phenomena today. In fact, many of the features of Japanese management ... could be explained in terms of Japan’s deeply-rooted cultural values, which are quite distinct from those held in the West or even its neighboring countries in the East Asia.”<sup>6</sup>

From the above statement it is clear that in Japanese society groupism and a tendency towards a vertical structure is common. More specifically these value systems influence management and HRM practices also.

### **Brief Historical Review of Japanese National Culture**

Moving to Japan, from its early history it appears that Japanese culture has been influenced by different religions mainly imported from other countries. The cultural history of Japan highlights that foreign religions and philosophy have been refashioned according to the dictates of the Japanese character, thus creating a new and valuable culture of their own. However, not surprisingly, the people of this cultural region formed a single language, religion and ethnic group that have unique cultural and behavioral patterns.<sup>7</sup> Therefore, a thorough understanding of the contemporary Japanese management system requires knowledge about the values and ideology inherited from the past.<sup>8</sup> Ishida explains:

“... Japan has been able to digest foreign cultures gradually and integrate them into her own. It is difficult for us to determine what features of Japanese culture are genuinely indigenous, because different cultural influences have been closely mixed with the native culture.”<sup>9</sup>

Since ancient times, Japanese culture continues to be influenced by Chinese and Korean cultures. Shinto

is the oldest religion of Japan. The word Shinto originated from two Chinese characters and is often translated as “the way of the gods.”<sup>10</sup> It is associated with the creation of the supernatural ancestors of Japan’s imperial line.<sup>11</sup> The Shinto religion remains a symbol of nationality. Instead of emphasizing moral commandments, Shintoism focuses on ritual purity and cleanliness in dealing with the god or gods (*kami*). Although it has no specific sacred scriptures, it made people more loyal towards emperor and nation.<sup>12</sup> This religion is mostly associated with the celebration of life and its development, with the harvest and fertility, and with house building and the community.<sup>13</sup> Buddhism was introduced into Japan from China in the sixth century and had a great influence on Japanese people and society. Shinto believers also played a role in introducing Buddhism to Japan to help organize society.<sup>14</sup> That might be why several times in history, there have been attempts to merge Shintoism and Buddhism.<sup>15</sup> The ritual processes of both religions are so closely related that it is often difficult to distinguish between Buddhist and Shinto rituals in Japanese society.

In the past, Confucian philosophy influenced in particular education and family life. During the Tokugawa regime, Confucianism was promoted and Japanese society adopted a Confucian feudal system. Confucianism believes that individuals need to be trained and educated in the virtues of benevolent action, loyalty and filial piety in order to participate in different sorts of relations, viz. between father and son, husband and wife, elder brother and younger brother, and between friends.<sup>16</sup> Therefore, the Tokugawa shogunate made Confucian values the core of an orthodox education.<sup>17</sup> In this way, the value system came to be dominated by Confucianism and nationalism, placing importance on conformity to the social order.<sup>18</sup>

Shintoism remains as the largest religion (54.1 percent), whereas Buddhism pervades each Japanese family with the celebration of the altar (*butsudan*) and remains the second largest religion (40.5 percent). In Japanese history, there is no conflict in society in terms of Shintoism, Buddhism and Confucianism philosophy. It is also thought that “Shintoism is the trunk, Buddhism is the branches and Confucianism is the leaves.”<sup>19</sup> Francis Xavier and his followers introduced Christianity in 1549.<sup>20</sup> During the Tokugawa period, Christians were banned for spreading their religion. It was only in 1859 that Christian missionaries returned to Japan after the government lifted ban, but still they could not openly meet until 1873.<sup>21</sup>

During the Tokugawa period, Japanese society was vertically structured where each person in society was defined almost completely by the station held by his or her family.<sup>22</sup> The status of a person was defined by what he or she could be or do within the Japanese social, economic and cultural context. Due to the existence of a class system, movement between the classes was prohibited.

During the Meiji period (1868-1912), the policy of national seclusion was rescinded and Western culture and civilization began to pervade every aspect of Japanese life. However, similar to the Tokugawa period, the basic unit of social control was still the family. The Japanese value system was dominated by loyalty, hard work and the human nexus.<sup>23</sup> The philosophy of Sontoku Ninomiya, “to repay (his) obligation to

society in general and to (his) employer in particular,”<sup>24</sup> pervaded the Japanese belief system. This belief system was also endorsed by the bureaucrats, and they were ready to follow this philosophy to serve society and the state, giving up their self independence and egoistic thoughts. Society heavily depended on the ability of the people, and, according to Fukuyawa Yukichi, the main consciousness was *udemae no sakakai* — a society in which only ability counted and in which a self-made younger brother could laugh at the petty authority of his poverty-stricken elder brother.<sup>25</sup> Due to such a belief system, young people had the courage, energy and initiative to implement *risshin-shusse* — raise yourself and make your way in the world.<sup>26</sup>

Statistics show that until 1996, 2.5 percent of the population was Christian. In the postwar period, the young generation was influenced by some Christian rituals. Some young people believe it is fashionable to adhere to some of the values and beliefs of Christianity. For example, having a Christian wedding ceremony, especially wearing a wedding gown, is becoming popular and nowadays people are interested in knowing about Christianity.<sup>27</sup> When asked what she thought about marriage, one 18-year-old woman replied, “I am not sure if I would enjoy married life or not, but I very much want to wear a wedding gown”.<sup>28</sup> This is an indication that some Christian rituals have taken hold among Japanese youth as a fashion.

Regarding the influence of foreign culture in the socio-economic life of Japanese people, some argue that Japanese society and social values are closer to 19th century Germany society than to the U.K. or the U.S.<sup>29</sup> Kaufman asserts that:<sup>30</sup>

“Neither Germany nor Japan were comfortable with the Anglo-American model of individualism, unrestrained competition and commercialism, and the laissez-faire approach of minimalist stage control. Both German and Japanese societies featured strong hierarchical status relationships, an emphasis on maintaining social order and harmony, a communitarian or ‘organic’ view of society (society is a living organism with its own will and destiny), a belief that successful economic development requires active state involvement and guidance, and preference for governance exercised by an enlightened monarch and administered by a strong and capable bureaucracy (a model of “social monarchy”).”

The Occupational Authority exerted great influence in the postwar period in Japan, however, the main characteristics of the culture were harmony, community and welfare for the common people.

### ***Nihonjinron* and National Culture**

However, many Japanese still believe that their culture is unique and therefore they will never fully be understood by non-Japanese.<sup>31</sup> A group of academics, journalists, critics and even elite businessmen have written on the different facets of Japanese culture. Although the ideas expressed in the theory known as *nihonhinron* concerning Japan and the West are not empirically true, they indirectly influence the business

community and organizational behavior of Japanese organizations.<sup>32</sup> Dale (1986) describes three widely held cultural assumptions that are contained in *nihonhiron*.<sup>33</sup> The first is the implicit assumption that Japanese society constitutes a culturally and socially homogeneous racial entity, whose essence is virtually unchanged from prehistoric times down to the present day. Second is the presupposition that the Japanese differ radically from all other known people. Third, is a consciously nationalistic outlook, displaying a conceptual and procedural hostility to any mode of analysis that might seem to derive from external, non-Japanese sources. Moreover, in other writings it is said that Japanese national culture influences management on the organization level.

### **Features of Japanese National Culture**

A number of researchers — including Davies and Ikeno (2002), Lehmbbruch (2001), Hendry (1987) and Ishida (1971) — have attempted to characterize Japanese culture in their work. They believe that even today, Japanese beliefs are dominated by the following:

*Ie* (the family system) refers to Japanese togetherness and the feeling of belonging to a family; sacrificing personal or individual interest for the good of a family.<sup>34</sup> The origins of the word *ie* stem from the historical Japanese family system in which the father, as the senior male, had absolute power, and the eldest son inherited the family estate. With this notion, the collective utility of the family is regarded more important than the utility of the individual members.<sup>35</sup> Traditionally, the term *ie* is associated with the rise of the samurai class and the struggle of military families to survive in medieval Japan.<sup>36</sup> They formed the *ie* system which became their strong hold and defended their land.<sup>37</sup> The concept of the *ie* is still widely accepted in the family and as well as at work. The *ie* also applies in education; education of family members, especially children, is highly valued in Japanese society. A family places great value on their children's education and is ready to sacrifice the interests of individual family members to ensure the children are properly educated. The *ie* system also prevails in Japanese companies where the company is regarded as the family, with all involved sacrificing their personal needs to protect the interests of the company.<sup>38</sup> Companies function as social groups based on the *ie* framework. Such a framework is highly valued in Japan and includes members with common attributes. In an ethnical society like Japan, members of the group with similar attributes drive the company as a family. Sometimes the line between company life and private life becomes obscured, as company related activities take up time after normal working hours.<sup>39</sup>

*Kazokushugi* (familism) refers to the fundamental basis of Japanese society. There are both structuralist and culturist views of familism. Clark argues that the idea of familism arose with apparent naturalness out of the circumstances of the time and was for that reason a powerfully persuasive doctrine.<sup>40</sup> He goes on to argue that the metaphor of the family, in addition to harking back to Tokugawa tradition, was perfectly adapted to interpret employment practices forced on employers by the labor market. During the Meiji

period, the notion of firm-as-family prevailed.<sup>41</sup> It is a core Japanese value that is spread throughout the organizational life of Japan even today. The concept of lifetime employment, the seniority-based evaluation system, and the paternalistic approach of human resource management in organizations reflects organizational familism.<sup>42</sup> According to familism, Japanese organizations are regarded not only as an economic entity; they are also more significantly social organizations which value social considerations when dealing with their members.<sup>43</sup> Therefore, it is believed that similar to the family system where the fate of the other family members depends on the fate of the head of the household, in organizational life, the fate of its members depends on the fate of the company.

**Aimai** (ambiguity) is defined as being generally tolerant, used to avoid any confrontation in Japanese communication. Japanese are generally tolerant of ambiguity in communication and decisionmaking. This may be the reason why they avoid uncertainty at the highest level compared to other nations such as the U.S., Great Britain, Canada, etc.<sup>44</sup> Ambiguity sometimes creates problem in cross-cultural communication. However, Japanese prefer to exchange their feelings and thoughts in an implicit way. This concept is also used in politics and business as a deceitful means of communication in which people hide their real motives in order to gain power and advantage. There is another cultural notion called *haragei* (an implicit way of communication) which refers to the way of exchanging feelings and thoughts implicitly among Japanese people. It is non-verbal because open declaration of intent is explosive.

**Sempai-kohai** (seniority rules within relationships) refers to the view that society contains seniors and juniors. It has been argued by many authors that Japanese society is structured along the fine lines of a vertical hierarchy corresponding to the degree of power and distance in interpersonal relationships.<sup>45</sup> In fact, the *sempai-kohai* dichotomy exists virtually in all corporate, educational and governmental organizations. Status, position, and salary still depend largely on seniority, and older employees are generally in higher positions and are paid more than their younger subordinates. In the business world, the *sempai-kohai* system has a powerful influence on human relations, such as in meetings where a junior employee will take a seat near the door, which is called *shimoza*, while the eldest person (often the boss) will be seated next to any important guests in a position called *kamiza*.<sup>46</sup> In most meetings, the majority of businessmen do not normally voice their opinions. They simply listen to their superiors, flatter them, or express opinions that were formulated behind the scenes by the influence of senior employees.<sup>47</sup> In the workplace, subordinates always give way to their superior when there is objectively a potential conflict of interest. When a conflict of interest within the group arises, the subordinate should never be seen as winning an argument. Dore explains that “skill lies in giving the superior an escape route, and allowing it to appear that the final solution was what the superior first proposed.”<sup>48</sup>

**Wa** (harmony and teamwork) refers to the maintenance of harmony in social life. Japanese people are a mostly homogenous population in terms of race and language. The word *wa* is echoed from the Japanese proverb “silence is golden but eloquence is only silver.”<sup>49</sup> In the past, during tribal times, Japanese people were not in a position to invade their neighboring tribes nor were they invaded by foreign tribes. Thus,

Japanese people lived on the archipelago in harmony. Breaking harmony in the society was tantamount to committing tribal suicide.<sup>50</sup> Previous research shows that *wa* is reflected in Japanese organizations. It is believed that Japanese managers consider harmony at work more than their American counterparts.<sup>51</sup> Relationships with employees, customers and suppliers are regarded as most important in Japanese companies. For Japanese managers, the challenge is how to develop harmony with these groups for the long-term growth and prosperity of the organization. Relations among employees are highly required and respected as important to maintain harmony and teamwork.<sup>52</sup> All human resource development activities are directed toward maintaining harmony and teamwork on the enterprise level. *Shudan ishiki* (group consciousness), a concept related to *wa*, refers to the group interest of the Japanese people rather than individual interest. With this dichotomy, collectivism and long-term relationships are encouraged in society. *Shudan ishiki* is not new. It started around the time that rice was first cultivated and is embedded in every aspect of social organizations even today. On the national level, collectivism is found in the nexus of elite bureaucrats, national politicians and big business houses. The members in the group are ready to sacrifice their individual interests for the cost of collective interests. This is what Hofstede described as a high level of masculinity characterized by dominance of organizational interests over people's private lives.<sup>53</sup> Japanese believe that the maximization of collective utility and long-term relationships goes hand-in-hand.<sup>54</sup> Society is recognized as mostly cultured, where people live in harmony characterized by feelings of collectivism. People are primarily group-oriented and, therefore, they prefer group harmony over individualism. Most consider that it is important to adhere to the values of the groups to which they belong. It has been argued that Japanese like intimate, exclusive groups composed of people from the same region or graduates from the same school.<sup>55</sup> This loyalty to a group produces a feeling of solidarity, and the underlying concept of group consciousness is seen in the diverse aspects of Japanese life. Group members create their own social codes of behavior, and group consciousness has become the foundation of society. Hofstede asserts that it is a country of low individualism and higher power distance, strong uncertainty avoidance and strong masculinity.<sup>56</sup>

***Oyabun-kobun*** (vertical structure of society) refers to a father-son type of vertical relationship that pervades in Japanese society. From the Meiji period, a social relationship was used to define both vertical and horizontal relationships. Vertical relationships apply mostly to respect senior citizens whereas horizontal social relationships are found among workgroups and colleagues. In fact, the vertical form of relationship (*oyabun-kobun*) is highly respected. *Oyabun* controls and provides instructions to the *kobun* in the society, and is respected for providing valuable guidance.<sup>57</sup> It is assumed that senior citizens worked harder and longer in the past for their country and therefore they deserve a high level of respect and dignity. On the organizational level, senior-junior relations are defined in the form of *oyabun-kobun*. This means that relations with a superior are regarded more important than relations with one's co-workers. A *oyabun* can have many *kobun*, but a *kobun* can have only one *oyabun*. Within the group, members are tied into a one-to-one dyadic relation depending on the order and time of one's entry into the group.<sup>58</sup> The

etiquette of communication and social interaction is also dominated by rank consciousness. Therefore, sometimes it is difficult for a person, prior to establishing his/her rank, who wants to communicate or interact with others.<sup>59</sup>

The above dichotomies are some examples of Japanese culture and value systems which are still embedded in society and organizations. Moreover, there are concepts such *uchi-soto* (inside and outside) which refers to the prevailing system of strong distinctions between those inside and outside, giving one a sense of security within the group. People within the group (*uchi*) have more harmonious relationships, but are often not good at associating with those from other groups (*soto*).<sup>60</sup> Next is *giri* (social obligation) which involves caring for those from whom one has received a debt of gratitude and being determined to realize their happiness, sometimes even by self-sacrifice. The gift-giving culture pervades in Japanese society. The culture of exchanging gifts, the return of one kindness with another, is an important part of social life.<sup>61</sup> *Giri* is recognized as a Japanese form of human relations even in contemporary society. The cost of gift-giving is regarded as the cost of keeping harmony to maintain human relations at work.<sup>62</sup>

According to Fukuda, certain features of Japanese management — such as group and community-orientation, collective decision making by consensus, and group rather than individual duties and responsibilities — are largely attributed to Japanese cultural values.<sup>63</sup> Therefore, it can be assumed that the values and belief systems widely held by Japanese managers and workers directly or indirectly influence HR practices such as the practice of participation, individual autonomy of the workforce, the performance evaluation system and others.

### **The Position of women in Japanese Society**

A discussion on culture and value systems cannot be concluded without mentioning the status of women in society. The status of women in relation to men in Japanese society remained low early in history compared to Western countries. Due to the many paternal aspects of Confucianism, the notion of “men outside, women inside” became widespread, and this attitude is still prevalent in Japanese society.<sup>64</sup> An old Confucian adage says, for example, in her youth, a woman should obey her father, in maturity her husband, and in old age her son.<sup>65</sup> The Japanese word *teishu* (high respect to husband) itself reflects the status of male members in the family. Expressing the term husband in Japanese, most wives use the word *shujin*, which consists of two *kanji* meaning “main person.” On other hand, *kanai*, which literally means “inside the house,” is used by men to call their wife.<sup>66</sup> These expressions illustrate certain traditional Japanese ideas on how females are valued, and how Japanese husbands believe that they are superior to their wives, and that wives should always stay at home and obey their husbands. Moreover, there is also the ideology that women are good wives and wise mothers (*ryosaikenbo*).

The status of women is also reflected in the workplace. The wage gap between men and women is much greater than in the West.<sup>67</sup> In general, female employees are discriminated against. There was a



widespread belief among employers that female workers would quit their job in their mid20s once they were married.<sup>68</sup>

When the government adopted the Equal Employment Opportunity Law in 1985, it attempted to improve women's participation at work by minimizing the level of discrimination. Consequently, the number of female part-time workers was increased by two-thirds from 1986 to 1995. However, in spite of a few improvements, it is true that discrimination is widespread.<sup>69</sup> Rowthorn *et.al.* writes:

“Japanese women are still significantly under represented in upper management and political positions, but over-represented as office fodder, such as office ladies. Part of the reason for this is the prevalence of gender discrimination and sexual harassment in Japanese companies. Social expectations, however, also play a role. Japanese women are forced to choose between having a career and having family. Not only do most companies refuse to hire women for career-track positions, the majority of Japanese men are simply not interested in having a career woman as a spouse.”<sup>70</sup>

From the above discussion it appears that women are socially respected in various forms of life and in their own family system. Their contributions appear to be substantial in strengthening the family culture and system. Although some of the terms used to describe women express the domination of male family members, with the increasing participation of women in education and the job market, things have substantially changed. In recent years, the role of women has become increasingly important in organizations. In the future, it appears that their role will change with the increasing number of women graduates from universities.

### **Education in Japanese Society**

Education in society changes and shapes social culture and value system. As discussed earlier, education is highly respected in Japanese society. It teaches culture and values from one generation to the next in different ways. Learned culture and values are normally manifested in their society and organizations for their prospect and prosperity. Therefore, it is essential to understand the assumptions underlying education and its impact in society to predict the future direction of a nation. Presented here are some basic social assumptions regarding Japanese education:<sup>71</sup>

- Japan is considered a dutiful society where people are apt to define their purpose in life, not in terms of self-realization, self-expression and the pursuit of happiness, but in terms of fulfilling duties — to their parents and teachers, to their work colleagues, to their firms, to their nation.
- Japan follows a meritocracy in the education system. In terms of educational opportunities, money plays less of a role, whereas test results play a much more important role.

- Among universities there is a prestige hierarchy. The best students are given priority in the oldest state universities. Students who cannot get admitted to state universities go for second ranked universities.
- The best jobs in Japanese are not those people enter while already in the labor market; the best jobs are those that are filled by recruiting directly from schools and universities. The employees working under the lifetime employment system — normally in the government bureaucracy or big business houses — are regarded as prestigious.
- Educational credentials are not as important as the candidate's ability to learn in the future. Credentials are viewed as indicators that a person has learned. What is important for the individual is to make a career out of the job in which he/she is employed. In other words, people are selected on the basis of their potential to grow and develop.

Indeed, the education system in Japan has contributed heavily to developing a work related belief and value system. Graduates from state and non-state universities value something. The current education system places emphasis on producing diligent and hard-working manpower.

Critics of the Japanese education system periodically comment on the postwar education system. They believe that the postwar education system has failed to produce the type of people the country really needs to be able to compete in the future. They argue that the education system has failed to produce the type of person Japan needs to face a new competitive capitalism.<sup>72 73</sup> In fact, Japan needs “capable, motivated people who possess such qualities as courage, fairness and honesty” rather than hedonistic and self-indulgent people who lack creativeness and the entrepreneurial spirit necessary to drive capitalism from the below.<sup>74</sup> Although many scholars, including Partick, disagree with this argument, Morishima argues that the current Japanese value system is inadequate and thus the Japanese economy will suffer in the next 50 years.<sup>75</sup> On the contrary, there is also the argument that the value system of the Japanese is strong enough and supportive of market-based competitive capitalism, and that it will be beneficial, not inhibiting.<sup>76</sup>

### **Time, Language and Sense of Egalitarianism**

There are a few other interesting dimensions to Japanese culture, such as time, language and the sense of egalitarianism.<sup>77</sup> It has been argued that Japanese managers are neither future-oriented like their U.S. counterparts nor past-oriented like in Europe.<sup>78</sup> They are basically present oriented and view the future as an extension of the present. They believe in cultural time, and argue that the past flows continuously towards the present, and that the future is also firmly linked to the present. Therefore, it could be quite difficult for Japanese and American executives to work together on strategic planning, for example, because of their disparate images of the future.

Regarding the language, people of this cultural region, formed from a single language, religion and ethnic group, have unique cultural and behavioral patterns. However, Japanese people are open and receptive

and selectively adapting (*wakon-yohsai*) foreign language and things. It is a society like a large room undivided by partitions or screens. In this sense, Japan is a classless society. This may be the reason why Japanese organizations, as far as possible, treat all members the same.

## Changes in Japanese Culture

It is important to bear in mind that Japanese society is culturally homogenous and future oriented.<sup>79</sup> As described earlier in this chapter, Japanese society has certain norms and values that are deeply embedded and commonly held among people and organizations. The Japanese sense of aesthetics can still be found, but it has been rapidly changing in the last few years. With the opening of society in the 19<sup>th</sup> century after many years of seclusion, and especially after World War II, the Japanese have tried to “keep up” with the West and have tried to copy some of the culture of the West. The number of people with higher educational backgrounds is increasing, and their sense of values is also changing in many ways.

At the same time, the increasing pace of modernization has greatly influenced the Japanese family and village communities. With the introduction of modern work technology and increasing industrialization, the traditional value system somehow changed in the postwar period. Work opportunities increased in society. People who used to live in the rural areas are attracted to urban areas in search of opportunities. This has not only changed their attitudes towards rural lifestyles, but also influenced the way they think, believe and react. As Sumiya explains:

“With the development of industrialization, a wider labor market came into being, and a large number of sons and daughters from farming areas were pulled into the labor market and increasingly hired in the new industries. The social dynamics in the factories were significantly different in nature from those they had been accustomed to in village communities. As a result, forced to live away from the village, they began to think of themselves not as part of a community but more as individuals. The modernization of Japan exposed them to a new style of life.”<sup>80</sup>

As a result of the above changes, the motivation to work and awareness about work have also been changing. According to the *White Paper* published by the Ministry of Health, Labour and Welfare, the tendency towards job stability is more pronounced in middle-aged employees, whereas young employees are more prone to seek challenging work.<sup>81</sup> Similarly, once employees were more dedicated to work and stayed in the office: nowadays they are placing importance on and trying hard to balance work and family life.<sup>82</sup>

Moreover, an increasing number of Japanese youth are interested in getting an education overseas in the U.S., Australia or the U.K. They are frequent travelers in different parts of the world. They are learning and selectively imitating Western culture and the corresponding value system, and are comparing their own culture with Western values and cultures. Many are satisfied with the Western culture which seems free. For example, a Japanese girl living in Australia was asked her opinion about returning to Japan. She responded that, “I wouldn’t go back. Here (in Australia) I feel I have control of my life, not society. In Japan you have to follow the mainstream.”<sup>83</sup>

No doubt, these Japanese are among those who love their country, food and language. It is difficult to

make a generalization from the above statement; however, it contains a message that Japanese youth are in the process of selectively adapting (*wakon-yohsai*) foreign cultures and value systems.

## Summary

Japan is a cultured society. People believe in history, religion, community and education. In Japanese organizations, a family-like work environment, a community approach, and respect for one's seniors are some examples that reflect the collective work culture.

The important features of Japanese culture are the family system, familism, ambiguity, seniority rules, harmony and teamwork, and the vertical structure of society. These influence to some degree employment relations practices.

The attitude of society towards the role of women in society is changing. Japanese society expects women to play a bigger role in the future, especially in organizations.

Education has continued to remain the first priority of development in Japanese society. However, reform is expected to take place to meet the increasing challenges accompanied by globalization and competition. Responding to developments and movements in society, Japanese culture is gradually changing and influencing work values and the belief system.

In sum, below are the main features that relate to Japanese culture:

- Japanese national culture deeply influences Japanese social organizations. (The belief system in Japanese organizations is influenced by the prevailing national culture.)
- Japanese are tolerant of different religions.
- Employment relations in Japan are embedded in different Japanese value systems. For example, the importance of education and development, job loyalty, supervisor-subordinate relations, etc. still play an important role in the work system.
- The Japanese belief system is still dominated by *haragei*, *sempai-kohai*, *shudan ishiki*, *itoko-dori*, *oyun-kobun*, etc., and other similar value systems.
- Collectivism and familism is regarded as the main work philosophy behind the Japanese work system.
- The position of women in Japanese society is changing.
- Discrimination practices against women workers in terms of employment and wages is increasing.
- Work related values and the motivation to work is changing due to increasing competition. This will influence how individuals value work, the proliferation of the performance-based system, and traditional management practices.

## Notes

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- <sup>71</sup> Dore, R. *op.cit.*
- <sup>72</sup> Ibid.
- <sup>73</sup> Morishima, M., op.cit, p.44
- <sup>74</sup> Ibid., p.60
- <sup>75</sup> Patrick, H. commenting on Morishima's article in Morishima (1999) op.cit.
- <sup>76</sup> Patrick, H. *ibid.*, P. 68
- <sup>77</sup> This paragraph is largely based on Hayashi, S. (1991) op.cit.
- <sup>78</sup> Ibid.
- <sup>79</sup> Dore, R. *Taking Japan Seriously*, London: The Athlone Press, 1987.
- <sup>80</sup> Sumia, M, *The Japan Industrial Relations Reconsidered*, The Japan Labour Institute, 1990.
- <sup>81</sup> White Paper on the Labour Economy, 2004
- <sup>82</sup> Ibid. p.17
- <sup>83</sup> Davies, J.J. and Ikeno, O. (eds.) op.cit.



## Chapter 5

### Economy and Business

In this chapter information about developments in Japan's economy and business during Tokugawa, Meiji and in the post-war time will be reviewed and discussed briefly. The general situation of economy, business sector, labor productivity and R&D will also be highlighted to explain and develop a perspective on the economy and business environment.

#### A Brief Review of Japanese Economic History

During *Tokugawa* regime, Japanese economy was based primarily on agriculture, especially rice cultivation.<sup>1</sup> Farmers were treated as second class status people after Samurai. Both the economic and political systems were influenced by Confucian thought. Confucianism emphasizes the importance of economic activities, though only insofar as they contribute to social order and welfare. For *Tokugawa* rulers, economic development was necessary to contribute to the achievement of their political objectives. Therefore, a sustained period of peace and stability encouraged the growth of commercial activities. The 16<sup>th</sup> century for Japan was a period of major urbanization. A number of commercial centers emerged in urban Japan. Merchants were united and they jointly evolved the most elaborate and ingenious commercial system and financial institutions. With the increasing degree of commercialization, the class basis of the *Tokugawa* feudal system began to weaken gradually. Both the peasant and the samurai classes became highly dependent on the merchant class for their material welfare.

A number of developments took place overtime during *Tokugawa* period and provided a fundamental basis for industrialization during *meiji* Japan. There was an increase in the number of educated people; a surplus labor in the agricultural sector; a highly monetized economy controlled by a wealthy and capable merchant class and the large samurai class capable of filling leadership and administrative positions.<sup>2</sup> Priority was given to the development of railroads, communication facilities, mining, shipbuilding and military arsenal.<sup>3</sup> Their focus was on "Japanese spirit and Western technology." Many foreign experts had been engaged to instruct the Japanese in Western methods of mining and manufacturing and in 1872 there were at least 200 foreign technical experts employed by the Japanese government.<sup>4</sup>

The government initiated the participation of private sector in the economy by deciding to sell out some of the government enterprises to a handful of favored wealthy families in 1880. The close tie-up between these families and the government created lasting economic advantages for these families. These developments had a substantial impact on the national economy. The national income tripled between 1890 and 1912. Statistics show that between 1880 and 1925 the number of business establishments in Japan increased from 4,296 to 13,887, showing a three-fold increase.<sup>5</sup>

Western influence was increasing in the Japanese political scene resulting in lessening authoritarianism

and emerging liberal thoughts during 1920s. However, political ideology was still suppressed by the enforcement of rules and regulations and prohibition in free speech and political actions remained continuous. In the aftermath of the World War I, Japanese economy faced a trouble. The agricultural production declined and the industry was no longer able to absorb the growing labor force. Due to some undue relations between the business community known as *zaibatsu*<sup>6</sup> and the political leaders, the economy faced a lot of trouble. However, in the mean time, the coalition of *zaibatsu* and the military force emerged with a view to develop cooperation. As a result, in the 1930s Japanese industries made another rapid progress by doubling their outputs.

By the late 1930s, Japan was taking a socialistic-economic line born by *zaibatsu* capitalism and sired by militaristic authoritarianism.<sup>7</sup> A full scale control was extended over the economy by about 1940 when the Japanese economy was in effect a centrally planned command economy much similar to the former Soviet Union's centralised plan. In the mean time the, priority was given to make the nation strategically strong. With the outbreak of war with China in 1937, the country poured all its strengths in building up its military power.<sup>8</sup> The priority was given to national defense and strategic industries. It was in 1940 that a number of strategically important industries were brought under a centralized administration and national policy companies were established under official guidance.

### **Post-war Economic Development**

There have been increasing debates on whether Japan follows state regulated capitalism or market regulated capitalism. Morishima stated that the Japanese capitalism is "capitalism from above". He further asserts that state-led capitalism is coming to an end and inevitably will be replaced by a neoclassical-type competitive capitalism.<sup>9</sup> In Anglo-American and even in Japanese writings it is believed that Japanese economy as 'regulated' and, therefore, the country is facing problems to compete in domestic and foreign markets in the past. Therefore, observers ask for meaningful reform and the government must refrain from direct funding and stop protecting domestic industries. It must deregulate and liberalize the economy.<sup>10</sup> However, there are sufficient evidences that Japan's economy is market based where the role of state is still there in some areas of social policies. While it is out of the context in this study to make further arguments in this area, what is important to note is that Japan is the second largest economy in the world recognized as one of the capitalist countries.

Just after the end of the World War II, one of the staggering problems was unemployment. Reforms were started to tackle many other issues too. Due to increasing economic crisis the events like bankruptcies of small and medium-sized enterprises were common in almost all economic activities.<sup>11</sup> During 1945-1947 a number of reform measures were initiated. The economic reform measures concentrated on improving agricultural productivity (the Land Reform Act, encouragement of agricultural cooperative association and rice price controls), labor democratization (The Trade Union Law, The Labor Standard Law and the Labor Relations Adjustment Law), and industry (The Antimonopoly Law, *zaibatsu* dissolution and

deconcentration of economic power).<sup>12 13</sup>

In 1948 economic restructuring begins with the concept of balanced budget (which actually produced fiscal surpluses and redeemed bonds more rapidly), suspension of the new loan from Reconstruction Bank and reduction and abolition of subsidies.<sup>14 15</sup> In fact, the restructuring efforts were directed towards a free-market economy and complete rejection of government interference.

During 1949-51 exports grew by almost 3 times and the most important factor for Japanese economy was that the foreign exchange income derived from the expenditure of the US army and military personnel rose sharply with their special procurements because of Korean War. Since exports increased at an accelerating rate, foreign exchange gradually increased in 1952 and 1953. In the late 1950s, trade was flourishing, and the economy continued to expand rapidly. In the year 1960, the then Prime Minister *Ikeda Hayato* announced further measures to make the income double by fixing the annual growth rate at 7.8 % during the decade 1961-1970.

In the 1950s Japan was the second largest borrower from the World Bank and was classified as a less developed country. From 1964, it was recognized as an advanced industrial nation. By 1968, it had surpassed West Germany and was recognized as the second largest economy after the US. It was in 1968 that Japan's national income doubled and the average annual growth rate reached 10 % that moved the country from a less developed country to a developed one. The main reasons behind such development were high rates of personal savings and private-sector facilities investment, a labor force with a strong work ethic, increasing participation of educated workforce, ample supply of cheap oil, innovative technology, and effective government intervention in private-sector industries. During its high growth period, the inflow of rural migrants increased in urban Japan.

When the war began in the Middle East, the price of oil rose sharply and consequently a downturn in the high growth began that is famously known as the 'oil shock' of 1973. The time between 1975 and 1990 was the period of a slow growth rate when Japan suffered from a double-digit inflation rate. As a result, energy costs soared and yen's exchange rate became higher than its true value. The consequent recession slowed down the economy from 10 % growth to an average of 3.6 % growth during 1974-1978. During the 80's the average growth rate remained about 4 %. Despite the oil crisis, the Japanese industries have succeeded to maintain their competitiveness by cutting costs and increasing efficiency. During 1970-1980, as in the growth period of the 60s, the export remained high due to increasing demand of Japanese electronic goods.

### **Impact of Plaza Accord and Bubble Economy<sup>16</sup>**

Just after the *Plaza Accord* in 1985 the value of Yen rose sharply, reaching 120 to 1 US Dollar in 1988. The resulting effect was a decline in the export and weakening competitive power of the Japanese industries. However, financial measures taken by the government somehow succeeded to increase domestic demand for the product. In 1988 and 1989, the corporate investment rose sharply. The stock

prices increased and there was a lot of fund to finance the corporations. At the same time, banks started to invest in real estate development. Corporations used real estate holdings as collateral for stock market speculation which caused the doubling of land prices until there was an increase by 180 % in the Tokyo Nikkei stock market index. Despite the measures taken by the government to control the ongoing situation, the land price continued to remain high. At the time when the bubble economy was picking up, Japanese business and government planners were busy with another major industrial restructuring led to offshore manufacturing plants in South East Asian Countries. From that time a large number of motor vehicle and consumer electronics industries were “hollowed out” and relocated abroad.

By the meltdown of stock prices Japan’s bubble economy burst in 1989, with devastating effects for the whole financial debts in banks and related businesses. As a result, in the same year the stock price fell sharply causing a loss of 300 trillion yens in the stock market. The old certainties seemed to vanish. Japan’s legendary economic growth slowed down to a standstill, and the economy actually started to contract. In 1991, Japanese banks, hit by the fall in stock market values, could no longer afford to be so free with their money and raised their interest rates. In turn, land prices came crashing back to earth.

The impact of post bubble remains in the form of a recession until the second half of the 1990s. As a result of the bubble burst, a large number of companies began to adjust their employment system especially as a cost cutting measure.<sup>17</sup> The Japanese per capita growth remained stagnated at near zero for four successive years (1992-1995).<sup>18</sup> Temporary improvements had been noticed in 1995 and 1996 with a fall in the value of Japanese yen and an increase in the domestic demand of the goods and services. But with the rise in the consumption tax rate, decrease in the government investment activities and bankruptcies of the major financial institutions, the recession continued. Land prices were still falling and there was a huge amount of bad debts. Therefore, banks were hesitant to provide loan for investment in plants and equipment. This resulted in the Asian economic crisis due to the low profit in industry.

After several years of stagnation the Japanese economy began to face serious problems when it fell into an outright recession in the fourth quarter of 1997. At this time the real GDP declined at an annual rate of 5.3 % in the first quarter of 1998. As a result, the Japanese economy has taken a negative turn in terms of its growth rate in 1998. There were growing world-wide worries on the negative downturn of the Japanese economy and the growing unemployment.<sup>19</sup>

The turning point in the Japanese economy came in 1999 when the government decided to increase its public spending in order to promote the economic recovery. The Economic Survey of Japan 1999 states that “enterprises must restructure if economic recovery is to occur.” The Bank of Japan instituted a zero percent short-term interest rate policy to ease the money supply, and in March 1999 the government poured 7.5 trillion yen in public funds into 15 major banks. With these measures in place, the production of Japanese goods increased, and at the same time, their demands increased both in domestic and Asian markets.

The Japanese economy further entered into a recession in the year 2000 and as a result there was a sharp

drop in the number of employees. The employment rate remained at high marking 5.5 % and there was a sharp decline in the number job openings throughout the year. By the year 2001 again, sluggishness started in Japanese economy when demand for goods fell in the domestic and Asian markets due to deterioration in the US economy. Even after the recovery of the Asian and US markets, due to weak domestic demands, Japanese economy faced a recession in 2002. The main reasons for such a situation were declining investment in plant and equipment, the use of excessive funds to pay off the excessive debts and excessive allocation of the funds by the banks to make disposal of nonperforming loans. However, according to the OECD source Japanese economy was in an upturn from 2002. The source says that Japanese economic performance was moving towards a downturn after the upturn that started in 2002 leaving it in the risk of its fourth recession since the collapse of the bubble economy. To recover the economy from the forthcoming risk it is suggested that short-term as well as long term measures be used. Explaining the reasons of the downturn of the Japanese economy, Hanami states that it is due to the pressure of competition in the domestic and international markets arising from advanced multinational economic forces combined with the effects of new forces from emerging economies in Asia. He further states:

“to survive, the government must establish and enforce active labor and social policies that will create a new employment environment which maintains the traditional long-term employment system that creates and preserves capable core workers, which establish flexible arrangements that incorporate efficient contingent workers that are needed to cope with extensive business fluctuations, which are expected to become sharper in the future.”<sup>20</sup>

Recognizing the above challenges' it is also important to note that in spite of the difficulties of the post-bubble time, Japan is in the midst of an economic recovery. If we look at the national level statistics it shows that in the first quarter of 2004, the real growth rate of GDP in Japan has increased by 5.6 % on an annual basis. It is expected that the Japanese economy will continue to grow in personal consumption, capital investment, and other areas. The Economist writes that Japan is in the best position to lead to recovery since 1989 when a financial crisis occurred leading to repeated recessions and slow growth.

<sup>21</sup>Manufacturing industries specially Toyota, Nissan and Canon have been in the forefront in exports and overseas manufacturing earnings, much of the service sector remained bogged down by debt, depressed confidence and widespread inefficiency.<sup>22</sup>

## **Business Environment in the Past**

Turning to Japanese business and trade, since Tokugawa regime Japan entered into a period of national seclusion, the regime was conscious about the increasing foreign influence and therefore they tried to keep foreigners under their control. Japanese people and businessmen were not even allowed to travel to foreign countries. Few Dutch, Chinese and Koreans were allowed to remain in the country under the close supervision of the regime in certain areas strictly for their business. Inside the country, groups of

specialized handicraftsmen were involved to produce clothes, furniture, metal articles, swords and other military equipment for the samurai (daimyo).<sup>23</sup> During that period Kyoto was famous for craft works. Osaka, known as the city of merchants, was a big manufacturing centre. Most of the articles produced in those days were raw silk, cotton and silk textiles, paper, mats and lanterns.<sup>24</sup> The isolation policy adopted by then regime affected trade and business slightly at that time. The chief imports were the limited quantity of raw silk and silk piece-goods, and these were paid for by exports of gold, silver and copper.<sup>25</sup> The career of modern Japan's business and trade begins with the establishment of *meiji* regime. The main slogan of *meiji* regime was "rich nation, strong army."<sup>26</sup> The *meiji* government was interested in foreign trade. There was already a system of payment in foreign currency in exchange of imports of goods. Factories were established in French and Italian models and tried a number of Western techniques of production.<sup>27</sup> The volume of foreign trade increased with the development of industrial activities. In 1668 the total volume of foreign trade was about 26 million yens; by 1873 it had risen to about 50 million yens; and by 1881 it reached 62 million yens.<sup>28</sup> A mill was first established in 1877 to spin waste silk by applying the Western method. Export of raw silk remained the main item of foreign trade during 1883-1913, exported mainly to the US. The country imported bulk amounts of cotton from other countries too. The industry which was built up after 1890, almost entirely depended on imported cotton. Most of the imports were made from British India, China and the USA. There was a growing demand for Japanese cotton yarn during 1903-13. In 1913, three-fifth of the workers were employed in the textile factories.<sup>29</sup> Amid these developments, a number of heavy industries and shipping businesses flourished during 1881-1914.

As described earlier in this section, in the aftermath of the Great War (1914-18) Japan faced financial, industrial and social troubles. It was the time when the country was striving hard just to grow the economy in the future. However, export trade remained in favor of Japan during 1915-18, at the same time, trade surplus increased with the excess of exports over imports.

Japan was having a post-war boom which ended in 1920. Immediate after 1920, the price of raw silk and rice went down. Following that problem, the government announced certain measures to control raw silk and rice price. Yen was overvalued in exchange from 1921 to the end of 1923 and import surplus became large. However, with a fall in the value of yen in 1925 export surplus remained high. There was again a rise in the value of yen in 1927 affected raw silk export trade. As a result income of the people substantially declined and another economic crisis began. A number of enterprises including banks were weeded out and restructuring efforts begun. The demand for silk and cotton was rising in the USA and India resulting in a favorable balance of payment in 1929. During 1913 and 1929, the Japanese foreign trade increased three times in value and well over twice in volume. In the mean time, a number of *zaibatsu* were emerging as big financial strength for the Japanese economy and their power was widening. During 1932 and 1937, virtually all financial and human resources were employed for the development of armament industries. By 1937, Japan was able to produce all kinds of machinery and equipment and was

capable of developing power plants. Japanese industries were very advanced and efficient to produce goods ready to compete in many markets of the world. In fact, until the middle of the 19<sup>th</sup> century Japan's foreign trade was quite satisfactory, industrial development touched the peak, living standards of the people rose sharply and the country was in a position similar to that of the Great Britain.<sup>30</sup>

### **Business Environment in the Post-War Period**

The US occupation prior to the Korea War pushed the Japanese to pursue export-led growth strategy based on small and light industry. After gaining independence from the US in 1952 Japanese government decided to invest in huge capital intensive industries specially aluminum, electric power, petrochemicals, cement and ship buildings. Between 1952 and 1960, Japanese exports share of GDP rose by 14 %. Industries were flourishing and taking a leading role in world markets. For example, in 1971 Japan's Nippon Steel had overtaken US steel and become world's largest steel company.

Foreign investment in Japan started in a small scale since the country started to make technical cooperation with Americans and Europeans during 1894-1895. The real volume of foreign direct investment (FDI) increased from the 1950s and 1960s. In the early 1970s, Japan made a substantial progress showing an almost embarrassingly large foreign-exchange surplus- the first boom for the overseas investment.<sup>31</sup> In 1974, Japan committed more than 2 billion dollar to investment as FDI in the USA alone. Until the end of 1981 Japanese investment in the US had exceeded the US investment in Japan. Japanese FDI in European countries also increased dramatically in the later half of the 1980s and reached a new height in 1989.<sup>32</sup>

With the appreciation of the Japanese yen in 1985, its economy entered in the third boom. With that rise in the Yen's value and increasing trade deficit forced Japan to shift production of electronics and automobiles industries overseas. Subsequently, manufacturing companies shifted their operations China, Thailand, Malaysia and other Asian countries to take advantage of cheap labor and best work quality. With this policy of increasing FDI and the globalization of manufacturing plants, both import and export of Japan to and from China increased. Japanese companies are exporting capital goods and intermediate goods to production facilities in China whereas Japan imports finished products from China. However, as China and other developing nations continue to improve their technical capabilities, a challenge remains for Japan's manufacturing industry. In the future, Japanese economy will be determined by how far Japanese companies can compete and have comparative advantage in knowledge- and technology-intensive sectors.

Inward FDI has not increased in comparison with the outward FDI. In order to increase the inward FDI as a means of promoting structural reform and revitalizing the Japanese economy, Japan Investment Council was formed in 1994 under the chairmanship of the prime minister.<sup>33</sup> This somehow worked to increase the FDI in the mid-1990s. Due to reform measures taken by the government in the finance, communications and distribution sectors, FDI has increased. Furthermore, improvements in corporate law, bankruptcy law

and accounting principles helped attract foreign capital to Japanese companies. Till the end of 2002, FDI reached 9.4 trillion yens, an increase of 41.3 % from the previous year. According to the current figures, the stock of FDI as of the end of 2003 totaled 9.6 trillion yens, up 2.6 % from 2002. Moreover, with the increasing amount of foreign investment in Japan, competition is increasing and forcing Japanese firms to increase their competitive capacity by restructuring their enterprises.

### **Service Sector Revamping**

There has been increasing demand for service sector revamping and thus overhauling is undergoing in the last few years. In 1999, some major banks announced drastic restructuring amid the prolonged economic recession in financial institutions.<sup>34</sup> The growth of service sector not only vitalized the service industry but also increased competitiveness of the manufacturing industry. However, the service sector still needs further efforts to vitalize with measures such as: (1) promotion of competition and regulatory reform; (2) development and utilization of information and service technology; (3) creation and promotion of new business; 4) advancement of community business; and (5) securing of flexible employment and human resource development system.<sup>35</sup> A number of big manufacturing firms called zombies (companies that are competitively dead, but, sustained by their banks, continue to walk the Earth and give healthier firms nightmares) are supported by their banks to keep them alive.<sup>36</sup> As a result, this unhealthy alliance between zombies and banks has proved one of the most durable, distorting and destabilizing aspects of the business sector in Japan.<sup>37</sup>

Since the main banks were unable to provide corporate bailout functions as effectively as they used to and since there is a decrease in profitability, more companies that have overcapacity and carrying debts have begun to select and concentrate business domains, and the number of mergers and acquisitions is on rise. The ratio of mergers and acquisitions between Japanese companies has also been on the rise. The resultant effect is that a review in the practice of dealing exclusively within *Keiretsu*, and causing companies to deal more with companies outside *Keiretsu* in an effort to achieve cost reduction. It has also had impact on long-term stable employment practices such as lifetime employment and seniority based wages, and led to the diversification of employment patterns, which include the review of seniority-based wages, increased mobility of workers by job change and employment adjustment, a decrease of regular, full-time employees and increase of part-time ones.<sup>38</sup>

### **Foreign Trade**

If we look at trade balance statistics, most of the time it has remained favorable for Japan. The import of raw materials and export of finished goods remain the most important characteristics of the foreign trade of modern Japan. The country is importing huge amounts of manufactured products, which have greatly increased since the mid 1980s. This import is further exceeding 50 % in 1990 and 60 % in mid-1990s. The main products for Japanese export were automobiles, electronics and electrical parts, technology-



intensive goods including computers, semiconductors, VCRs, machine tools and facsimile machines. In 1998, the export of these products was about 73 %. The recent figure of changes in Japan's imports and exports shows a favorable balance of trade. During the year 2003-2004, except crude oil and mineral fuels, there has been an increase both in exports and imports of food stuffs, chemicals and metal products. The detailed figure is presented below in Table: 5.1.

**Table 5.1 Export and Import Trade**

Exports and Imports	% Changes from June 2003 to June 2004	
	Imports	Exports
<b>Total</b>	12.3	13.2
Foodstuffs	12.9	9.1
Textiles	11.5	2.1
Chemicals	20.5	9.2
Non-metallic mineral products	11.2	14.2
Metals	31.0	17.3
Crude oil	-15.9	--
Mineral fuels	-9.3	--
General machinery and equipment	24.9	65.3
Others	58	19.8

Monthly Finance Review June 2004

Source: Ministry of Finance, Japan.

From the early *meiji* period, Japanese rulers were interested in Western civilization in order to modernize their country.<sup>39</sup> This modernization goal of the government focused on importing superior technology, hiring engineers from abroad, educating people and encouraging Japanese entrepreneurs to assimilate foreign technology and to apply them into Japanese factories.<sup>40</sup> Although Japan imported technology from the West, it never completely depended in foreign technology and knowledge. One of the features of Japan is that it possesses a high level of capability and is able to absorb and utilize technology inherited from its own indigenous technology and partly fostered through education and other conscious efforts. Moreover, the increasing amount of FDI into Japan had also transferred foreign technology and knowledge in the past.

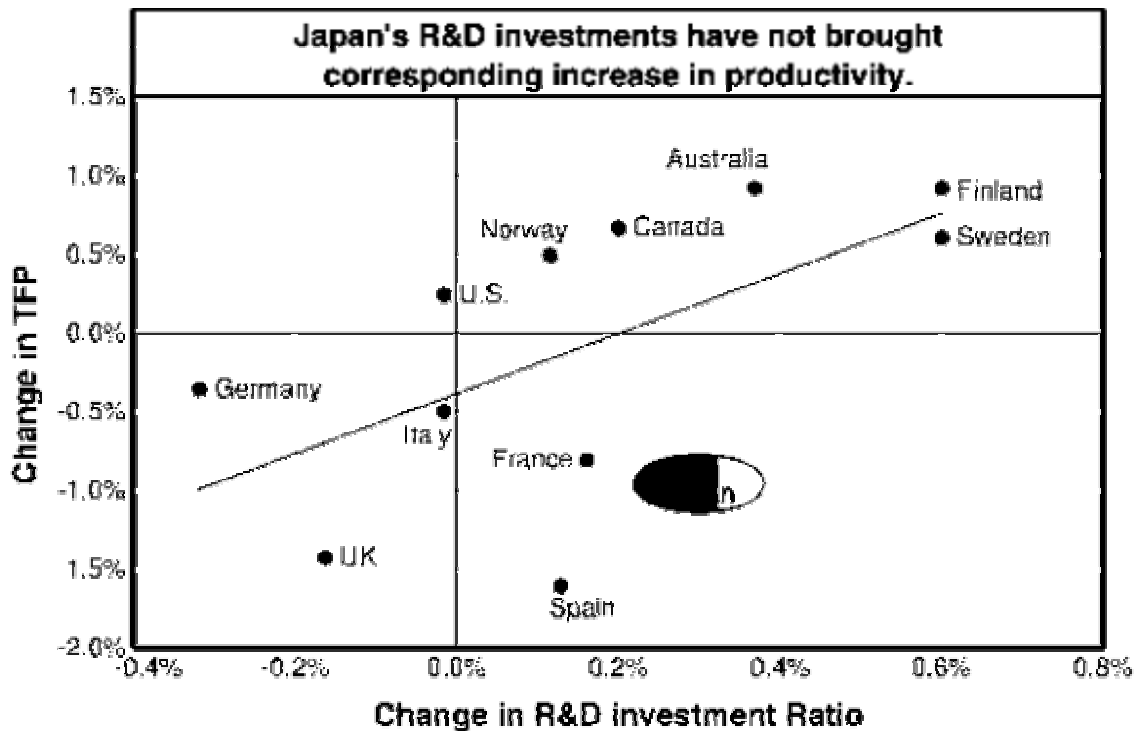
### **R&D and Its Impact on Productivity**

Japan remains in the front line for the investment in research and development (R&D) as compared with the US and Germany. However, its productivity is lagging behind that of these countries. The R&D

activity was intensified in both pre- and post-war times with the growth of technology-intensive heavy industries. With the end of World War II Japan again was lagging behind the West in many industries. However, Japan continued technology importation from the West using the diverse channels and became a significant factor for her post-war technological progress.<sup>41</sup> Since Japan is a country which is poorly endowed with natural resources, produces highly value-added products in an environment marked by technical capabilities as the basis for its survival.

Indeed, the productivity of Japanese companies does not justify corresponding R&D investment. Japanese companies are exhibiting a declining rate of productivity in comparison with European and American companies (see Figure 5.1 below). The figure cites the comparative situation of Japan's R&D investments and the total factor productivity in relation to those of other countries.

**Figure 5.1: Total Factor Productivity and Investment in R&D in Japan**



Source: 2002 Annual Report on Japan's Economy and Public Finance

In the last four years, Japan's productivity remains the lowest among 9 industrialized nations.<sup>42</sup> The decreasing working hour remains one of the important causes resulting in a decline in the total factor productivity compared to the other countries. The OECD source indicates that "making productivity the main source for growth will require audacious economic reforms. Many sectors of the Japanese economy are characterized by weak innovative activity, low productivity and comparatively high prices."<sup>43</sup> It has also been argued that there are relatively small number of industries in which Japan is competitive in the

world market.<sup>44</sup> Especially, the manufacturing sector in Japan has lost its competitiveness in the last few years. In terms of competitiveness of the manufacturing sector, Japan ranked second as it did in 2002, but the difference with the USA in the first place had somewhat expanded.<sup>45</sup> As a result, corporate profit from this sector is falling behind that of the USA. It was only in the year 2001 that there were 18,587 cases of bankruptcies reported in the manufacturing sector that caused a loss of employment of 0.019 million people.

Realizing the current situation of decreasing productivity, Japanese companies need a drastic change and reform in order to break this pattern.<sup>46</sup> The White Paper on Science and Technology 2003 reveals the facts on Japan's technology development and states that<sup>47</sup> a) high cost technology is threatening international competitiveness of the Japanese firms; b) Japan is losing ground to the United States in advanced technology and interdisciplinary fields, including IT and the life sciences; c) despite Japan's position as a world pioneer of science and technology, the ratio of operating profit to investment in research and development is decreasing in Japanese companies as compared with the time when it was a technology follower; and d) although Japan maintains its superiority in the current technological capabilities with major Asian countries including China and Taiwan, she is behind in such capability in comparison with the US and Europe. Comparative results with Europe and the US in a survey on the level of Japanese R&D show that the country is still maintaining its superiority in emerging saving technology, electronics materials, transportation devices, nuclear energy, biomedical materials and global environment.<sup>48</sup>

## **Summary**

During Tokugawa's period, the priority given to economic development was for contributing to achieve political objectives. From Meiji's time, the focus was on Japanese spirit and western technology. These governments tried to regulate economic and business environments to protect their political interest most of the time in the past. However, from 1880 the privatization movement was started by the Meiji rulers.

In the post-war period, the government played the role of a facilitator to develop economic infrastructure. Although there is argument as to whether Japanese economy is "capitalism from the above", Japanese economy was led by the private sector in the past and achieved high economic growth in the 1960s. The government has been deregulating many of its activities for the growth and development of a market led private sector competitive economy. A review of the past literature reveals the fact that Japan faced economic upheavals, such as, oil shocks, rise in the value of yen, bubble burst and still continues to face economic recessions. Economic and business environment has remained highly volatile. These events, after all, also influenced the prevailing employment relations practices and the companies started to reform in these practices.

Regarding FDI, both inward and outward investments are increasing. The balance of trade has remained favorable most of the time. Investment in R&D remained high. However, the main challenge of improving in the current level of productivity is still there threatening the Japanese economy and business

environment.

Some of the major features relating to the economy and business environment are presented below:

1. The influence of socialistic pattern of economic system appears in the pre-war Japan.
2. The time-to-time economic recession influenced by *Plaza Accord* and bubble economy forced Japanese companies to make major employment management restructuring.
3. Japanese enterprises must restructure if economic recovery is to be occurred.
4. The increasing flow of FDI into Japan also forced Japanese companies to make restructuring in their indigenous management practices.
5. Increasing competition in the market remained the important phenomena of the Japanese economic and business environment.
6. The current level of productivity does not justify corresponding R&D investment.
7. Improvement in productivity needs major restructuring in Japanese companies.

## Notes

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- <sup>1</sup> This part has been adapted from the work of Yoshino, M.Y. (1968) *Japan's Managerial System: Tradition and Innovation*. The MIT Press p.13-17.
- <sup>2</sup> *Japan: Profile of a Nation*, Kodansa International, 1995.
- <sup>3</sup> Yoshino, M.Y. (1968), *ibid.*, p.20.
- <sup>4</sup> Allen, G.C. (1946) *A Short Economic History of Modern Japan*, London: George Allen and Unwin Ltd.
- <sup>5</sup> Adopted from *Hundred-Year Statistics of Japanese Economy*, Tokyo: Bank of Japan, 1967, page 94.
- <sup>6</sup> *zaibatsu* refers to a giant group of firms that was diversified into a number of related and unrelated fields, and control by a holding company. Until the end of World War II they were dominant in the Japanese economy.
- <sup>7</sup> Reischauer, E. (1965) The Rise and Fall of Democratic Institutions. In G.O. Totten (ed), *Democracy in Pre War Japan*, p.8.
- <sup>8</sup> Nakamura, T. (1995), *The Post-war Japanese Economy: Its Development and Structure 1937-1994*, University of Tokyo Press.
- <sup>9</sup> Morishima, M. (1999) Why Do I Expect Japan to Collapse?, in C. Freedman (ed.), *Why did Japan Stumble?* Edward Edgar.
- <sup>10</sup> Burkett and Hart-Landsberg (2000) *Development, Crisis, and Class Struggle: Learning From Japan and East Asia*. McMillan.
- <sup>11</sup> *Ibid.*, pp.24-25.
- <sup>12</sup> *Japan: Profile of a Nation*, *op.cit.*
- <sup>13</sup> Nakamura, T. (1995), *op.cit.*, p.23-52.
- <sup>14</sup> *Ibid.* p. 41
- <sup>15</sup> Rowthorn, C. et.al. (2000), *Japan*, Lonely Planet Publications.
- <sup>16</sup> This part has substantially benefited from Sato, K. (1999) "Japanese at a Crossroads", In K. Sato (ed.) *The Transformation of the Japanese Economy*, London, an East Gate Book.
- <sup>17</sup> Hirasawa, K. (1997) "Japanese Management Under Mega Competition", *The Study of Business and Industry*, The Research Institute of Commerce, Nihon University, No.14.
- <sup>18</sup> Sato, K. (1999) Japan at a Crossroads, In K. Sato (ed.) *The Transformation of the Japanese Economy*, London, An East Gate Book and Nakamura, T. (1995).
- <sup>19</sup> Hamilton, D.P. (1998) *Japan's Economy Is In Trouble, But Don't Tell That to Tokyo*, Wall Street Journal, June 17, pp.A1, A9.
- <sup>20</sup> Hanami, T. (2002) *Government Policy in the Era of Globalisation*, Japan Labour Bulletin, October, 1.
- <sup>21</sup> The Economist, Sept. 25 2004
- <sup>22</sup> *Ibid.* p.77
- <sup>23</sup> Allen, G.C. (1946), *op.cit.*, p.13

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- <sup>24</sup> Ibid.
- <sup>25</sup> Ibid. pp. 15-16.
- <sup>26</sup> Kada, T. (no date) *Social and Political Factors in Japan's External Economic Policies*. Tokyo: Japanese Society of International Studies.
- <sup>27</sup> Allen, G.C. (1946) p.29
- <sup>28</sup> Ibid p. 31
- <sup>29</sup> Ibid. p.71.
- <sup>30</sup> Ibid. p.153.
- <sup>31</sup> Fukuda, K.J. (1988) *Japanese Style Management Transferred the Experience of East Asia*, London: Rutledge.
- <sup>32</sup> Hurukiyo, H. (1998) Japanese Global Strategies in Europe and the Formation of Regional Markets. In H. Harukiyo and G.D. Hook (eds) *Japanese Business Management Restructuring for Low Growth and Globalisation*, Routledge.
- <sup>33</sup> [http://www5.cao.go.jp/access/english/jic\\_main\\_e.html](http://www5.cao.go.jp/access/english/jic_main_e.html)
- <sup>34</sup> JIL, Labour Bulletin, vol.38, No.2, Feb. 1999
- <sup>35</sup> Ministry of Economy, Trade and Industry, July 2003
- <sup>36</sup> *The Economist* September 25<sup>th</sup> 2004.
- <sup>37</sup> *The Economists*, Ibid., p.77.
- <sup>38</sup> This section is taken from JILPT, Labour Situation in Japan and Analysis 2004-2005.
- <sup>39</sup> Sumia, M. (1990) *The Japan Industrial Relations Reconsidered*. The Japan Institute of Labour.
- <sup>40</sup> Odagiri, H. and Goto, A. (1996) *Technology and Industrial Development in Japan*, Clarendon Press, Oxford.
- <sup>41</sup> Ibid. 39.
- <sup>42</sup> Ibid.
- <sup>43</sup> Ibid.
- <sup>44</sup> Porter, M. Takeuchi, H. and Sakakibara, M. (2000) *Can Japan Compete?* McMillan.
- <sup>45</sup> JPC-SED Research Report, 2003
- <sup>46</sup> Japan Management Association (2003), *JMA Proposal and Corporate Management Challenges Survey* 2003.
- <sup>47</sup> White Paper on Science and Technology 2003.
- <sup>48</sup> Ibid.

## Chapter 6

### Corporate Management: An Overview

This chapter seeks to provide an overview of the Japanese corporate management system. There will be a brief discussion on the evolution of corporate management in Japan. Recently, changes in the nature of national factors have resulted in changes to the Japanese management system. In addition, this chapter will take up the differences between the U.S. and Japanese management styles, reforms to the Japanese management system, integration and competition, and lastly, HRM functions in Japanese companies.

#### Corporate Management

Japanese society is supposed to be homogenous in terms of language and culture. Managers and workers hold similar values whether they work for Japanese or foreign companies.<sup>1</sup> The institutional culture is dominated by the concepts of collectivism and *ie*. The culture of *familism* and *oyabun-kobun* still prevail in human relations. The reason why the Japanese management system is recognized as ideal and different from Western management is that, in addition to cultural factors, managers use their intuition and sometimes they are more informal than their counterparts in the U.S. Managers use their experience and ideas, skill and personnel system rather than formal management practices, such as strategy and structure, corporate organization and system.<sup>2 3</sup> Interpersonal relations arise from shared interests and mutual trust.<sup>4</sup> Nonetheless, it is believed that the lifetime commitment and a kind of permanent relationship between workers and the organization are the most important distinguishing features of Japanese and American management.<sup>5</sup> The long time success of this model attracted many companies in the West in the 1980s.<sup>6</sup> Vogel argued that the industrial power that Japan gained in the past is also the result of such ideal management models, and others should learn from these models to make their countries economically successful.<sup>7</sup> Other prominent authors, including Ouchi, and Peters and Waterman, praised the Japanese management system and argued that Japanese management models are being used in many successful and excellent companies in the West. Increasingly, these models have been used in East Asian countries, such as South Korea, Singapore, Taiwan and Hong Kong.

But what is the Japanese management model? According to Porter et. al.<sup>8</sup>

“The model [Japanese management model] stresses attributes such as teamwork, a long time horizon, and dedication to continuous quality improvement, all of which remain important Japanese strengths. This model is not an abstract theory; it derives from the extraordinary advances made by Japanese companies through pioneering a host of by now well-known managerial practices, such as total quality management (TQM), lean production, and close supplier relationships. These produced persistent cost and quality advantages over Western companies.”

From the above statement, it is clear that Japan has a typical competitive management model defined by operational efficiencies such as TQM, lean production system and a strong network with suppliers. At the

same time, they care about people and treat them as important assets, believe in consensual decision making and have long-term goals.<sup>9</sup> Social norms within the organization are regarded as another unique quality of Japanese management.<sup>10</sup> People in organizations are cultured, value team work, believe in the concept of firm-as-family, and respect seniors for the knowledge they have learned over the years and for the contributions they have given to the firm.

However, in light of increasing competition, critics of Japanese management have argued that it is time to rethink prevailing management practices. There is pressure to make a paradigm shift in the prevailing corporate management model.<sup>11</sup> Authors, including Fukuda, have stated their dissatisfaction with the present management system and argue that there is growing incompatibility between the traditional Japanese management system and the evolving environment, creating inefficiencies in the work system. This is forcing companies to make changes in prevailing employment relations.<sup>12</sup> Odaka finds it difficult to determine whether the positive observations about Japanese management model are reality or myth. He asserts that:

“... Japanese management is implemented only at large firms and factories, mainly at places staffed by 300 employees or more ... It may be true that Japanese management has its roots in the Edo period, but Japan has passed three historical eras in the more than 100 years since then, and Japanese management forms and functions have been modified repeatedly along the way to create the present catechism ... In recent years, especially since the recessions of the 1970s, the positive benefits have lost some of their lustre and the negative effects have come to the fore ... The disadvantages of Japanese management are coming to outweigh the advantages, even in Japan. How can a system which is not even performing as expected at home hope to perform as expected elsewhere? ... the myth about Japanese management may actually have been a plot to destroy Japanese management and set Japan’s industrial development back by puffing Japanese management up with pride, conceit and complacency.”<sup>13</sup>

From the above discussions it appears that some observers are cautious about explaining the Japanese management model as a successful paradigm. However, from past experience it is important to note that Japanese management is not static. It is changing to cope with the needs of the time. In relatively stable economic situations it maintained its status quo, but when the economy faced a severe situation, the management model was updated. Below is a brief review of evaluations about the Japanese model.

### **Evolution of Japanese Management Model**

Very few Japanese researchers attempted to write about Japanese management during the prewar period. It was immediately after World War II that an increasing number of academicians presented their views about the Japanese management system. Arguments are still evolving on the different dimensions of



Japanese corporate management models. Some argue that Japanese management is typical, and greatly influenced by the national feudal culture of the Tokugawa regime, whereas others describe it as model learned from the U.S., particularly during U.S. Occupation. However, during the postwar period of industrialization, Japanese managers rationally developed and followed management models that matched Japanese reality.

Many observers, including Yoshino, believe that the main elements in the Japanese management model are culture and history. He states that:

“A close examination of the contemporary Japanese managerial system reveals clear imprints of the values and ideology inherited from the traditional past.”<sup>14</sup>

The prewar Japanese management model was influenced by the feudal value system that spread in early Tokugawa society and the family system.<sup>15</sup> The main features of the social and family systems were: a) longer and lifelong continuity of relations between the family and its constituent members; and b) vertical relations between parent and child.<sup>16</sup> In the corporation the hierarchy system was widespread. The employment practice that was adopted was intended to bind the employee to the company, and to reward loyalty. The basis for wage determination was length of service and status. Emphasis was placed on corporate *familism* — based on the philosophy of paternalism — where firms were regarded as part of the family system in which employers had to look after their employees and in turn workers were expected to be loyal to their employers.<sup>17</sup> During the Tokugawa period, Japan was a very rigid and hierarchically organized society with strong emphasis on authoritarian control on the one hand and obedience on the other. This gave rise to a complex and highly regulated pattern of interpersonal relationships.<sup>18</sup> The dominant *giri* and *ie* cultures prevailed and shaped human relationships in society and in organizations. These observations can be further examined from the assertion of Ruth Benedict who also hypothesized the entire social structure of Japan was dictated by a concept of hierarchy deriving from the kinship of the clan.<sup>19</sup> Japanese tend to regard their organization as an imaginary community, or family, and to give it their loyalty. Therefore, one can clearly see that there is a relation between social structure and the nature of Japanese organizations and, perhaps, the present form of Japanese management is the result of the consistent and logical outgrowth of the kinds of relations that existed in the society prior industrialization.<sup>20</sup>

Tokugawa's managerial ideology continued for some time even after 1868. During the Meiji era, the rulers emphasized that what was necessary was to build military power in order to protect the country. The popular slogans that motivated the rural population, warriors and the industrialists were, for example, *wakon yosai* (Japanese spirit and Western technology) and *fukoku kyohei* (rich country, strong army). The traditional family system of the samurai class and its accompanying values were held by the ruling

oligarchy as ideal for the entire society, and dominated in institutions.<sup>21</sup> As described in the last chapter, the emphasis was on development of strategically importance industries. Industrialization was taken as the national goal for national development. Consequently, a number of strategic industries developed with the government as the major promoter, owner and administrator. They selectively accepted Western technology and institutions. In 1880, the government decided to transfer ownership of the modern industries to trained and wealthy families. This was really an attempt to privatize Japanese industries by selling them at nominal prices and is considered as beginning of the tradition of shifting state-owned firms to the hands of a few private-sector entrepreneurs. Many of these later developed into huge financial and industrial combines, widely known as the *zaibatsu*.<sup>22</sup> They had an important influence over the ruling oligarchy of prewar Japan.

The concept of Taylorism was first introduced to Japan by Toshiro Ikeda in 1911, who had published a number of articles on scientific management.<sup>23</sup> At that time hundreds of employees were sent to the U.S. to learn about the principles of scientific management. The principles of harmony and cooperation remained very popular since they were part of the deeply rooted social culture of Japanese society. The father of Japanese “scientific management,” Yoichi Ueno, stressed the need for a “mental revolution,” and argued that cooperation in an organization was necessary to gather all employees, from top to down, to work together for the common good of the company’s prosperity and urged that employees devote themselves to the group.<sup>24</sup> At this time the concept of a personnel department emerged, and shop committees and works councils were formed, welfare programs were expanded and internal labor markets developed.<sup>25</sup> Although a number of concepts from the American management system were adopted just before and during World War I, they were considerable modified to fit Japanese workplace needs.

Immediate after World War II, during the U.S. Occupation, Japanese management was continuously influenced by Western management ideology based on the U.S. model of management, which had no link with the prewar social development.<sup>26</sup> The guiding ideology of management was “corporate welfareism” in which emphasis was given to harmony between labor and management, and even a unity between labor and management.<sup>27</sup> During the Occupation period (1945-1952), the emphasis of employment relations was lifetime employment, seniority-based reward and the fringe benefit system.<sup>28</sup>

It is believed that a shortage of skilled labor immediate after the war forced Japanese enterprises to follow long-term employment practices to motivate workers.<sup>29</sup> The other practices learned from the U.S. management system were the division system in which each company division manufactures a separate line of products, the matrix organizational structure, strategies for overseas operations, product planning methods, quality control, marketing techniques and the concept of venture capital.<sup>30</sup> In the postwar period, these practices were heavily used to minimize the effect of a recession and to achieve the goal of high economic growth. The difference in status between line workers and office staff was minimized, a uniform wage schedule was implemented and the practice of promotion based on seniority was developed. The turning point in Japanese management came after 1960, which is when the high growth era began

and Japanese industries faced an acute labor shortage on the shop floor. This was the time when the Japanese management system had to work, however, the system came under debate. Instead of enforcing the practices of lifetime employment, Japanese companies heavily recruited part-time workers, outsourced some of their functions and subcontracted production activities. This clearly challenged the prevailing notion of corporate welfareism. In the meantime, fewer workers began to identify with the company and interest in the seniority based wage system declined.<sup>31</sup> Amid these developments, corporate management emphasized increased productivity. A number of production and productivity improvement practices — such as a logistic system, just-in-time inventory to reduce costs, the total quality system that reduces product defects and improves quality simultaneously — were introduced. Training and education began in small groups supported by engineers and management consultants. Small group (also known as quality circles) activities started to conduct meetings after working hours. Consequently, such activities substantially reduced costs and raised product quality and productivity.<sup>32</sup>

As described earlier, the Japanese have been extremely selective and have not just copied the concepts of Western management (e.g., bureaucracy theory and, to a lesser extent, management sciences).<sup>33</sup> But many practices have been adopted, for example scientific management, classical organizational theory, behavioral sciences and the contingency theory. A selective method was followed to implement the borrowed management techniques. A close examination of Western management practices in Japanese organizations provides examples of how Japan copied Western management practices. At workplaces, both Japanese indigenous practices and Western management systems are applied, with Japanese culture working as an enzyme to digest Western ideas.<sup>34</sup> This selective attitude indicates that while practicing management systems, managers adopt Western ideas while trying to preserve Japaneseness.

### **Japanese vs. U.S. Management Practices**

It is useful to take a closer look at how U.S. and Japanese management practice the concept of organic and system type management. One can argue that Japanese managers practice organic-type management while their American counterparts use the system-type.<sup>35</sup> Under organic management, top-level managers work as facilitators, build a working climate inside the organization, and work as social leaders. The strength of this type of management is determined by the high degree of collective and emotional commitment: management places more emphasis on human relations and human resource management while making decisions. In a study of 142 Japanese manufacturing firms, it was revealed that 64 percent have an organic and hierarchical structure where some 26 percent have an organic and flat structure.<sup>36</sup> On the other hand, under system-type management, top-level managers usually work as designers of the management system, strategic planners, and decision makers and professional managers. The strength of system-type management is determined by individual activities.

A comparative study between American and Japanese management revealed that the former follows a mechanistic-type management while the latter follows a more organic-type.<sup>37</sup> According to this study,

Americans focus more on matching the job with the person whereas Japanese focus on matching the person with the job. This means that Americans assign jobs only to suitable workers whereas in Japan employees are assigned to suitable jobs. This may be the reason why Japanese workers put more effort into their work. Moreover, Japanese work units are organized on a group basis with ambiguous duties and responsibilities for the individual; i.e. individual workers are not clear where their job starts and where they end.<sup>38</sup> In American work units, the area for group work is not as broad as the Japanese. In the U.S., organizations are rigidly structured and each individual is placed within the confines of his/her own duties and responsibilities.

A further understanding of the Japanese management system can be made by knowing how Japanese managers differ from American managers in the management of ideas, things and people. Planning and decision-making practices are based on ideas. Long-range planning in the U.S. is used to make strategic decisions based on a set of clearly defined objectives. In contrast, long-range planning in Japan is used only to clarify the goals and policies of enterprises.<sup>39</sup> Japanese focus on long-term growth and global vision whereas Americans are more interested in short-term profit.<sup>40</sup> Decision-making practices are, to some extent, the same in Japan and the West. The main difference lies in the involvement of top management in the decision-making steps. In the U.S., top-level management is involved in problem identification, analysis, development of alternative courses of action and selection of optimum courses of action. In Japan, top managers are involved only in defining the problem, the other steps are left to middle and lower management. The managing board of directors is the highest decision-making authority composed of executives from the managing directors and higher.<sup>41</sup> It is the highest executive organ assisting the president. It conducts strategic decision making innovatively and promptly, involving as many member directors as possible. The president generally drafts a future vision taking into account the tendencies occurring in the external environment, internal conditions and, especially, the company's strengths and weaknesses. He always tries to obtain a consensus and the understanding of other managing directors before making any decision. The final decision will be made in a formal meeting. Indeed, in the process of decision making in Japanese enterprises, the organizational climate encourages participation and harmony and discourages criticism. Therefore, the Japanese system of decision making is described as "decision making by consensual understanding" rather than simply as "decision making by consensus."<sup>42</sup> The opinions of lower-level personnel, down to section chiefs, are taken into account when making a decision. It is a kind of "U" shape decision process which starts with defining the problem by top management and then collecting the views of the lower ranked employees, which are acknowledged by top management.<sup>43</sup>

Another interesting difference between the U.S. and Japanese management is how they manage "things." In the West, especially in the U.S., individuals are expected to perform a specific function and conscious efforts are made to clearly demarcate an individual's duties. On the other hand, Japanese management stresses group strength, and therefore, managers place a greater emphasis on human relations within and

among groups than on functional responsibilities. In the Japanese system, tasks are performed based on the unwritten rules of situational conformity. Concretely this means that when Japanese workers are given an assignment, they quickly try to understand what needs to be done and how to do it. In the case of American employees, they wait for orders, instructions, manuals, etc.

The main feature of Japanese management is that it emphasizes “people” to manage ideas and things. The interest of the group is placed higher than that of the individual. Employees are recruited, assigned, developed and utilized internally. This help to foster a feeling of “groupness” and the “community” to work together for the benefit of the organization. Employees are treated as important assets. HR policies are geared toward creating a strong sense of community within the company, employee loyalty, and a long-term orientation in managerial decision making.<sup>44</sup>

In fact, the reason Japan was able to successfully incorporate Western technology was due to their focus on “people” dimensions — especially human relations and human resource management practices.<sup>45 46</sup>

Japanese human relations factors on the enterprise level are deeply embedded in the work system in the form of employee morale, the system of obtaining consensus, information sharing, and a high sense of belonging to the group. Such factors are further enhanced and supported by the human resource model, which contains such practices as lifetime employment and the seniority-based evaluation system. It is these factors which are largely responsible for Japan being able to implant Western technology without resistance.<sup>47</sup> Managers prioritized, creating a shared vision and culture of collective commitment in order to achieve organizational goals often expressed in philosophical rather than in quantitative terms.<sup>48</sup> They identify themselves as a member of the firm, which is regarded as the best enterprise level norm.<sup>49</sup>

In other words, people stand in the center of Japanese management. Other examples of holding “people” in management in high esteem include:<sup>50 51 52 53</sup>

1. *Group orientation*: The basic characteristic of the Japanese work system is the group and employee understanding that they belong. This can be attributed to Japanese culture and is pervasive among all types of Japanese organizations. People work for the group rather than for individual interest. The individual is indentured, body and soul, and loyal to the group. Group orientation is the core of the Japanese management system.
2. *Community orientation* (concern for people): The focus of the company in both private and organizational life. Employees are treated as member of the organizational family. The company is interested in both the private (or family) life and the organizational life of employees. Company performance and an employee’s family life are largely determined by survival, growth and the development of employees.
3. *Internalization of the labor market*: This is regarded as the backbone of the Japanese management system. The labor market is basically internalized. Employees are hired, developed and transferred internally. Employees also believe that the job they are given leads to a career in the long-run. Enterprise-level unions are very supportive of management, and this makes possible the sustained

growth of the internal labor market.

4. *Collective decision making by consensus*: Companies encourage employees to participate in decision making. Management shares a large amount of information with employees to get their views and ideas. Group decision making prevails over all management hierarchies. The company believes that in order to improve the behavioral and performance output of employees, it is imperative to give them large amounts of information.
5. *Group duties and responsibilities*: In Japanese organizations, individual jobs are not clearly defined and there is no system of providing individual job descriptions. Duties and responsibilities are highly diffused.
6. *Recruitment*: Employees are recruited based on personal qualities without reference to a particular work task or set of skills. Potential employees are selected based on the education they have received, their character and general background.
7. *Lifetime employment*: This generally applies to large and mid-sized companies. Once an individual is given a job, he is employed for life. Jobs are guaranteed until retirement. The company does not dismiss employees even when they become redundant. Lifetime employment is not based on a formal contract but on a commitment to maintain long-term employment relations between the company and employees.
8. *Comprehensive welfare programs*: There are complete packages of welfare programs offered by the company. These programs include recreational/medical facilities, housing, company loans and so on.
9. *Seniority-based pay and promotion*: Priority is given to senior employees to make decisions on their pay and promotion. Senior employees are highly respected in the Japanese system.
10. *On-the-job training*: The company provides on-the-job training to develop the skills and knowledge of their employees on a regular basis. Employees have the opportunity to engage in life-long learning and have development opportunities throughout their career.
11. *Job rotation*: Companies focus on developing employees in general rather than focusing on specific skills. Therefore, Japanese employees are multi-skilled and are periodically rotated from one job to another.

In sum, the main management policy of Japanese companies is the internalization of the labor market guided by the ideology of groupism and community orientation. They recruit, develop, promote and utilize manpower to strengthen the internal market. This practice helps to develop the labor force in a particular desired way for the future. It is the responsibility of every manager to maintain harmony and promote relationships at work. Companies believe that in order to achieve good behavioral and performance results, such as commitment and the motivation to work, it is imperative to share information, be concerned about their employees and develop skills through training and job rotation.

## Reforms in Management Practice

Is Japanese management typical and the same in every company? Since Japan has faced economic growth and contractions several times, has its corporate management system remained the same over time?

Fukuda argues that:<sup>54</sup>

“We should recognize that there is no such thing as a typical Japanese company or uniformly accepted management practices. There are wide variations; no one organization contains each and every characteristic that we have identified, in pure form. Nevertheless, virtually all managers of large companies in Japan at least seek to achieve, as nearly as possible, these underlying characteristics.”

It is also interesting to note that the Japanese management system has changed over time. With growing competition in the domestic and international markets in the past, Japanese firms have tried to achieve a new level of industrialization and a rapid technological advancement; they have faced an erosion of traditional values, a growing labor shortage, and an ever-increasing complexity in size and operation.<sup>55</sup>

Porter *et al.* made the important point that:<sup>56</sup>

“Japan has already moved to the competition system in those parts of the economy that are productive and successful. The real question is whether Japan can understand this and overcome the obstacles to spreading the competition system throughout the economy.”

From the initiative that it has displayed in the past, Japan has shown that it is a nation that reveres its traditions and prizes stability. It has demonstrated an extraordinary capacity to transform itself when its well-being was at stake. After World War II, Japan encountered economic recessions at different points. However, it succeeded in managing its economy. The two oil crises in the 1970s triggered an extraordinary upgrading of Japanese industry. When the price of crude oil quadrupled in 1973, the economy slowed from a real GDP growth rate of 10 percent in the 1960s to a recession that lasted four years. Under such intense pressure, Japanese companies invested heavily in energy-conserving technologies and moved toward higher value products. The next oil crisis occurred in 1979. At that time Japanese companies undertook a number of structural reforms. From heavy industry, which had supported Japan's growth, emphasis shifted to electronics and the automobile industry. Productivity improved through innovations. The “yen shock,” which saw the yen appreciate by 100 percent in the two years following the Plaza Accord in September 1985, led to an equally rapid transformation. Almost overnight, Japanese products became expensive in international market, and Japanese wages reached some of the highest levels in the world, a sharp reversal in an economy where low wages relative to the West for

skilled workers had been an important advantage. Faced again with severe pressures, Japanese firms enormously improved their productivity, shifting production of less sophisticated, lower value products to overseas locations, and moving to more sophisticated products that were less susceptible to price competition.<sup>57</sup> Japan faced an enormously difficult period when its bubble economy burst in 1991, entering into a crisis and being saddled with bad debts. At that time, companies succeeded in cutting costs and improving quality through various measures. The government has taken various market based financial measures to improve traditional financial administration systems.<sup>58</sup>

Nowadays, the Japanese economy is more knowledge-based and its economic activities are highly globalized.<sup>59</sup> Okubayashi explained that changes in the economy structure and labor market resulted in: a) changes to the industrial structure in which a large number of employees are now working in the service sector; b) a gradual shift in the organizational structure from an organic-hierarchy to an organic-flat structure in which employee participation and workplace democracy can be further enhanced; and c) manufacturing plants moving abroad and concentrating more on R&D, designing, planning business models, and controlling the entire business process which can not be transferred to other countries.

Moreover, there are pressures to restructure prevailing corporate management practices due to changes in the prevailing pattern of share ownership. According to Araki, two distinct patterns of share ownership have emerged which influence prevailing corporate management and employment relations practices.<sup>60</sup> The first is a decline in cross- and long-term share holdings by banks and their customers since the 1990s. This has resulted in a continuous drop in stock prices, leading many companies to sell unprofitable stock. The second is that corporate management is now largely influenced by outside stakeholders due to an increasing number of shares held by Japanese individuals and foreign investors. Indeed, a kind of U.S. corporate governance model is becoming popular in place of the employee governance model of the recent past.<sup>61</sup>

Similarly, corporate restructuring, and mergers and acquisitions are on the rise due to intensified domestic competition, market maturity and limited demands, heavy employment costs, and other factors.<sup>62 63</sup> With such cases increasing, corporations are forced to work with companies outside the prevailing management framework of the so-called *keiretsu*.

From the above discussion, it appears that the Japanese management system has been based on the principle of egalitarianism and is focused on sustained growth and stability over the past several years. Pushed by persistent pressures from environmental forces in the postwar period, there have been changes in the traditional way of managing ideas, things and people in order to cope in the world of competition.

## **Integration and Competition**

There have been long standing debates in Western HR literature about the integration of strategy, structure and people. The “matching model,” developed by Fombrun et al. described in Chapter 1, suggests that people in an organization will be managed according to the requirements necessary for quality and



effectiveness. Thus, according to this model, the critical managerial task is to align the formal structure with the HR systems, which will drive the business strategy of the organization.<sup>64</sup> Similarly, Hendry and Pettigrew assert that HRM offers a mechanism for integration, for example, (1) the use of planning; (2) a coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy, and often underpinned by a “philosophy;” (3) matching HRM activities and policies to some explicit business strategy; and (4) viewing the people in the organization as a “strategic resource” for achieving “competitive” advantage.<sup>65</sup>

Regarding Japanese firms, as described earlier in this chapter, their management system is based on informal practices such as corporate ideas, acquired management skills and style, and personnel management rather than the formal integration of strategy and structure, corporate organization and system.<sup>66</sup> They gain ideas and experience from their manufacturing system, which is a source of competition.<sup>67</sup> That’s why some economists believe that Japanese organizations are run by the internal market system rather than the external market mechanism.<sup>68</sup> This indicates that the long-term planning of Japanese firms is supported by strongly held, internally sustained and stable employment relations rather than a well formed strategy. However, it is also believed that American firms which perform well have much in common with these excellently managed Japanese firms.<sup>69</sup>

It is common for Japanese firms to be owned by employees rather than shareholders. They prefer to plan for long-term growth rather than short-term profit; in fact, 80 to 90 percent of all large organizations are engaged in long-term planning.<sup>70</sup> The corporate planning department is responsible for the development of corporate strategy and for initiating implementation. In this way, the department promotes strategic thinking, collects strategic information, and determines basic goals and policies.<sup>71</sup> Big companies focus on R&D, and are heavily investing four to 10 percent of their sales revenue in research and development.<sup>72</sup> Their emphasis is on the value of the company. For instance, Sony strives hard to “explore the unknown,” whereas Matsushita claims the value it provides “home appliances at a reasonable price, is like a supply of water.”<sup>73</sup> In order to compete in the domestic and global markets, , as indicated earlier, the restructuring of vertical and strategic alliances is the main strategy being taken by Japanese companies. Companies are both competitive and collaborative. They are involved in forming business groups, making vertical alliances with different companies in order to compete in the market. Management and other staff regard these business groups as friends, while companies in the same field in other business groups are seen as rivals.<sup>74</sup> The large and success companies have mainly centralized activities — such as the research and development and product development units — in order to make strategic moves. However, these activities are very dependent, with some tending to be organic, as explained earlier in this chapter.

Very few studies exist in Japan that deal with integrated corporate strategy, structure and human resource management system. From the earlier discussion, it is clear that the corporate governing structure of Japanese firms is different than in the West. Decisions are made by top-level managers, including investors, and executive managers are responsible for implementing corporate decisions. Moreover, the

fundamental basis for implementation is the “community of fate” supported by highly integrated employment relations practices. As far as integration of employment relations practices with typical competing practices is concerned, the following observation have been made:<sup>75</sup>

1. Companies interested in new business ventures and competing globally tend to prioritize using traditional methods of improving labor conditions, such as wages and working hours. This indicates that a management that wants to compete in the global market will adopt favorable labor conditions and stable labor relations. On the other hand, companies interested in domestic market that do not fear restructuring are affected the most by the recession.
2. Companies with visionary management tend to adopt a multi-valued personnel administration. They use women workers and older employees, and encourage diversity in the organization. They value education and most are future oriented. They also encourage a multi-cultural atmosphere on the firm level like those in the West.
3. Companies that try to minimize the so-called “Dinosaur syndrome”<sup>76</sup> and, therefore, tend to recruit professional employees to improve frontline management. They try to minimize organizational hierarchy by downsizing.
4. Companies that focus on downsizing and rationalization of the work system tend to consider the merit-oriented personnel system and select from the corporate elite as an important human resource strategy.

Although Japanese companies face competition in the domestic and international markets, some believe that there is a lack of real competition.<sup>77</sup> Porter argues that Japanese companies rarely having a competitive strategy. He further states that:

“Most Japanese companies imitate and emulate one another ... The dangers of Japanese-style competition are now becoming easier to recognize. In the 1980s with rivals operating far from the productivity frontier, it seemed possible to win on both cost and quality indefinitely.”<sup>78</sup>

Porter is right that during 1980s Japanese companies competed with what he describes as their “operational effectiveness”<sup>79</sup> rather than a well-formulated strategy. In fact, the corporate strategy of a particular company is defined by its core competencies, which are far more difficult to imitate.<sup>80</sup> Indeed, Japanese firms maintained their operational effectiveness with applying shop floor organizational tools and techniques such as total quality management, lean production system, just-in-time inventory, job rotation, regular transfer of employees in different divisions, etc. These shop floor organizational techniques are widely imitated by many firms in the world. However, it is also important to note that Japanese enterprises have a typical corporate governance approach which cannot be imitated by

competitors: the community of fate<sup>81</sup> and their governance structure.<sup>82</sup> Indeed, the competitive advantages of Japanese enterprises are not found in traditional management practices but in how they upgraded and are reinforced by the community of fate and corporate governance techniques, which are not easily imitated by international competitors.<sup>83</sup>

However, competition does not prevail in all sectors in the real sense. For a better understanding of this, it is essential to describe two distinct sectors, the competition-intensive sector and the government regulated sector. In the competition-intensive sector such as automobile and electronics products manufacturing there is little coordination at the initiation of the government. These companies are forming long-term strategic alliances, specially of the vertical and horizontal types, to take competitive advantage by making and selling high-technology products.<sup>84</sup> On the other hand, agriculture, financial services and retail are protected and regulated by the government and there is no stiff competition.

To conclude, although very few studies show a direct link between Japanese corporate strategy, structure and human resource management, it is important to note that Japanese firms still operate under the community approach. From the above-cited examples, it seems that large companies have a competitive strategy and were successful in gaining competitive advantage in the domestic and international markets. However, many small companies are still protected and regulated, particularly in the agriculture, finance, service and retail industries. For them, strict cost-cutting measures will be imperative to compete in the future. By and large, from the above discussion it appears that the main competitive strategy of Japanese firms in the past has been embedded in their employment relations practices.

### **Employment Relations Practices**

Some believe that the Japanese employment relations system emerged from the Japanese way of thinking which is embedded in their culture and, therefore, they argue that the Japanese national character gave birth to Japanese-style management.<sup>85</sup> Japanese organizations follow a paternalistic management system based on familiar relations among working people. They believe in collectivism and group workers have a sense of community. Although some dimensions are similar to the West, the basic difference lies in the management of ideas, things and people, regarded as the fundamentals of corporate management in Japanese companies. The three sacred items of employment relations are the main pillars of Japanese employment relations. Although many believe that there have been significant changes in these three dimensions, others will argue that Japanese companies have not changed their basic philosophy of employment relations — that is, the enterprise as the family system. In successful Japanese companies, typical employment relations practices are reflected in the management of human resources based on the community approach (*gemeinschaft*).<sup>86</sup> This approach is still a family-based paternalistic system. Members in the company are held together by bonds of love, trust and understanding, sharing the good as well as the bad.

## Organization of HRM Functions in Japanese Companies<sup>87 88</sup>

In the postwar period, Japanese companies developed personnel administration to support employment relations at the firm level.<sup>89</sup> Personnel departments occupy a distinct role in integrating personnel practices with company strategy (see Box: Functions of the Personnel Department). They contribute much to the growth of enterprises through human resource development, skill formation and stable employment, and labor relations, particularly in large-sized firms. Regardless of job type, employees in the same company are managed under the same personnel department. However, the practice of managing human resources varies with the size of the company.

### **Box: 6.1 Functions of the Personnel Department**

**Source:** Japan Labour Institute, Tokyo.

The personnel department at Japanese companies generally fulfills the role of overall integration of various measures for HRM. This includes hiring, stationing personnel, promotion, assessment, salary raises and dismissal. In general, managers of individual divisions are not authorized to hire employees. The personnel division must approve the stationing of personnel and promotions.

Under the premise of lifetime employment, the personnel division concentrates on determining the aptitudes and skills of employees, and therefore is able to efficiently utilize their human resources by rationally stationing employees within the company and gathering personnel-related information.

The personnel department often manages personnel in a manner that is linked to business strategy. For this reason, skills at large enterprises are fostered in the personnel division with a view of the entire company. Personnel-related activities such as those regarding basic HR policy, essential planning for personnel and pay-related systems, standards for working conditions, skill development, welfare, in-house activation, safety and hygiene, industrial relations and work management are determined by the personnel division based on a HR strategy. These are subsequently communicated to the workplaces.

It is considered essential that personnel departments at Japanese companies be knowledgeable about business strategy geared toward system planning. Accordingly, personnel divisions at Japanese companies are closer to the administrative center of the company than their counterparts in Europe and the U.S.

In the Japanese system there are two departments — the General Affairs Department (*somu-bu*) and the Personnel Department (*jinji-bu*). Whereas the former administers legal matters, shareholders' relations, corporate documentation, internal regulations, maintenance, purchasing and maintaining public relations, the latter functions as the central agency in many personnel issues. Personnel management is one of the functions in addition to production, finance and marketing, that is explicitly embedded in the corporate philosophy of Japanese companies. To implement personnel functions there is little room for individual managers. Personnel functions are generally assumed to be corporate matters and will be administered companywide by the Personnel Department with the help of a detailed set of rules, regulations and procedures. There are two distinct levels in organizing personnel functions. One is on the company level and another is on the individual level. Inohara explains how personnel functions are organized at these two levels:<sup>90</sup>

“On the company level, the Personnel Department is the central agency that administers institutionalized and formal aspects of personnel management. In addition, it assists in

every possible way the smooth implementation on the individual level. On the individual level, every superior, subordinate, and co-worker is expected to manage the personal and informal aspects of personnel management, in other words, human relations on the spot.

The Personnel Department, though occupying a central position, participates in all the standard functions of the Japanese corporate structure. Operationally, it is usually a department with several sections, more in the line of organization than staff functions. As with other organizational units, its activities are ruled not by a set of 'job descriptions' for individual employees, but by what could be described at best as a 'group tasks.' Finally, neither its members nor its managers are expected to be professionals in personnel management."<sup>1</sup>

People working in personnel departments can be transferred to any department and change their membership from one group to another. However, these workers feel that they are permanently under the control of one central department, personnel. As far as the structure of the personnel department is concerned, it differs with the size of the organization and the number of employees. In small companies with below 100 employees, the responsibility of personnel management lies on general affairs section. In companies with 100 to 200 employees, one unit from general affairs section looks after personnel functions. In large companies, this function is entrusted to a single personnel department. The department consists of other sections, such as welfare and education. When a company is big and has several branches, the personnel functions are organized by locating personnel department staff in the head office. For the largest companies, the responsibilities of the personnel department are separated out and new central departments are created to look after welfare and education matters.

In the Japanese system, HRM is regarded as a line function. Unlike in the West, in Japanese organizations the overlap of responsibility and assuming duties of all employees, anywhere, anytime is usual and a symbol of unanimous cooperation. It means that an employee from the personnel department can work anywhere and engage in personnel matters as a member of a group. Inhora explains that,

“The Personnel Department is theoretically advocated as staff. However, it remains in the line, in the flow of authority and in the work of the line, because it controls the people manning the line.”<sup>91</sup>

From the above description it seems that the personnel department has a central position in the organization and works in the line functions of different working groups on the enterprise level.

## **Summary**

Japanese society is supposed to be homogenous in terms of language and culture. Managers and workers hold similar values whether they work for Japanese or foreign companies. The reason why Japanese management system is recognized as ideal and different from Western management is that, in addition to cultural factors, managers use their intuition and sometimes they are more informal than their

counterparts in the U.S. There are clear imprints of the values and ideology inherited from the traditional past. However, in the light of increasing competition many experts of Japanese management argue that there is a need to rethink prevailing management practices.

HR policies are geared toward creating a strong sense of community within the company, employee loyalty, and a long-term orientation in managerial decision making. The reason Japan was able to successfully incorporate Western technology was due to their focus on “people” dimensions — especially human relations and human resource management practices. The reason Japan was able to successfully incorporate Western technology was due to their focus on “people” dimensions — especially human relations and human resource management practices. The main elements of people dimensions are—group orientation, community orientation, internalisation of the labour market, collective decision making by consensus, group duties and responsibilities, recruitment policy, life-time employment, comprehensive welfare programme and so forth.

It is also interesting to note that the Japanese management system has changed over time. With growing competition in the domestic and international markets in the past, Japanese firms have tried to achieve a new level of industrialization and a rapid technological advancement; they have faced an erosion of traditional values, a growing labor shortage, and an ever-increasing complexity in size and operation

**Notes:**

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- <sup>16</sup> Hazama, H. *Nihon Romukanrishi Kenkyu* (Japanese labour management history), Daiyamondo-sha, 1964 (in Japanese).
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- <sup>18</sup> Yoshino, M.Y., op.cit., p. 6.
- <sup>19</sup> Adopted from Abegglen, J.C., op.cit.
- <sup>20</sup> Ibid., p. 130.

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- <sup>25</sup> Ibid., p. 506.
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- <sup>28</sup> Ibid.
- <sup>29</sup> Fukuda, K.J., op.cit.
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- <sup>31</sup> Komai, H., op.cit.
- <sup>32</sup> Ibid., p. 24.
- <sup>33</sup> Fukuda, K.J., op.cit.
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- <sup>35</sup> Yang, C.Y. "Management Styles: American Vis-à-vis Japanese," *Columbia Journal of World Business*, pp. 23-31, 1977.
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<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*, p.4.

<sup>71</sup> *Ibid.*, p. 236.

<sup>72</sup> *Ibid.*, p. 4.

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<sup>74</sup> *Ibid.*, p. 7.

<sup>75</sup> Kawakita, T. "Corporate Strategy and Human Resource Management," in M. Sako and H. Sato, *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*, London: Routledge, 1997.

<sup>76</sup> Big business syndrome or empire building mentality.

<sup>77</sup> Kone and Klegg, *ibid.*, p.23.

<sup>78</sup> Porter, M. *On Competition*, City??: A Harvard Business Review Book, 1996.

<sup>79</sup> Operational effectiveness means performing similar activities better than one's rivals. Porter argues that differences in operational effectiveness were at the heart of the Japanese challenge to Western companies in the 1980s. The Japanese were so far ahead of their rivals in operational effectiveness that they could offer lower cost and superior quality at the same time.

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<sup>81</sup> Besser, T. "Rewards and Organizational Achievement: A case study of Toyota Motor Manufacturing in Kentucky," *Journal of Management Studies*, 32(3), May 1995. This concept, developed by Robert Cole in the 1970s, refers to the feelings among employees that they all belong to the same organization, and that they will share both the successes and failures of its operation. The main philosophy of community of fate is that it encourages participatory management, job security, joint consultation between labor and management, horizontal communication, team incentives, and a relatively small gap the between highest and lowest salaries.

<sup>82</sup> Refers to corporate governance, such as development of corporate alliances and *keiretsu* relations that allows members to share R&D information and develop cost cutting techniques.

<sup>83</sup> Mourdoukoutas, P. and Papadimitriou, S. "Do Japanese Companies have a Competitive Strategy?", *European Business Review*, 98(4), pp. 227-34, 1998.

<sup>84</sup> Kono and Klegg, *op.cit.*, p. 7.

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<sup>85</sup> Kawanishi, H. *Enterprise Unionism in Japan*, London: Kegan Paul International, 1992.

<sup>86</sup> Kono, T. and Clegg, S., *op.cit.*, p. 251.

<sup>87</sup> Normally in textbooks the term personnel management is widely used. However, in the JILPT report the term HRM is used. Since JILPT is an important authority in the labor field in Japan, I also used the same term to describe traditional personnel management.

<sup>88</sup> This part is substantially adopted from Inohara, H. *Human Resource Development in Japanese Companies*, Asian Productivity Organisation, 1990.

<sup>89</sup> Japan Business Federation, *Current Labour Economy in Japan 2003*, Tokyo.

<sup>90</sup> Inohara, *op.cit.*

<sup>91</sup> *Ibid.* pp. 43-44.

## Chapter 7

### Employment Relations Practice

This chapter seeks to review the theory and practice of lifetime employment, the seniority-based system and enterprise-based unions in Japan. Together with the changes occurring in national factors, there are a number of changes taking place in these traditional management practices. New case developments in employment relations will be presented to evaluate the trends taking place in employment relations practices in Japanese companies.

#### **Lifetime Employment (*shushinkoyo*) System: A Brief Review**

One of the distinct features of the Japanese employment relations system is lifetime employment.<sup>1 2</sup> It is believed that the startling success of Japanese industries can largely be attributed to the lifetime employment system they adapted.<sup>3</sup> The terms “long-term” or “permanent” employment are used synonymously to describe lifetime employment, which was established at many companies during the period of high economic growth during the 1960s. A person employed under the lifetime employment system is also known as a “salaryman,” referring to male, white-collar middle managers who work for the same organization throughout their lives.<sup>4</sup> However, we should not confused “lifetime” employment with a kind of permanent employment agreement that does not contain retirement or dismissals. This system does not exist in Japan, where there is a system of mandatory retirement and even dismissal.<sup>5</sup>

The concept of lifetime employment emerged as a result of the peculiar aspects of Japanese employer-employees relations that were supported by narrow labor markets during the postwar period when Japan experienced a labor shortage for the first time in her industrial history.<sup>6 7</sup> This system developed and was established at many large and mid-sized companies during this period of high economic growth. With rapid technology innovation and expansion of businesses, large-sized companies hired inexperienced manpower directly from the labor market and through in-house training and development programs these workers developed various skills and techniques.

The lifetime employment system was largely supported by employers, employees, unions and government institutions. Employees who have been trained for a long period within the same company without changing jobs acquire skills and know-how in the organization. The practice of on-the-job training by transferring employees to different departments makes it possible for them to accumulate information about product development and improvement. For employers to get the most from their investment of training employees over a long period, it became necessary to support such an employment system that included continuous wage increases and promotions. Such a hiring system has advantages in the sense that it provides a steady supply of a large numbers of workers on a regular basis, workers can be trained on the job for the needed skills, and the practice fosters a spirit of competition among members of the same entrant cohort and adds vitality to the organization. Moreover, with court precedents restricting

dismissals in many cases, the lifetime employment system, which emphasizes job security, became further established and welcomed by employees and labor unions.

According to the Labour Standard Law, except under certain situations,<sup>8</sup> in principle employers are free to dismiss employees. They can even carry out individual or collective dismissals for economic reasons as well as disciplinary dismissals of those who violate work-place rules.<sup>9 10</sup>

### Reasons Why People Stay for an Extended Period at One Job

Japanese workers joins companies at a young age, and spend a larger portion of their life in the company compared to other countries. A comparison of years of service between Japan and other industrialized countries supports this assertion. The figure for Japanese workers in terms of length of service, average number of years and median years compared to workers in other countries is much higher (see Table 7.1 below). Except for Germany and France, the situation for female employees is the same. A study conducted by NKSKK (Japanese-style Employment System Research Group) also reveals that the employee retention rate of Japanese male white-collar graduates remains considerably higher; out of 4,063 respondents almost 81 percent never changed employers.<sup>11</sup>

**Table: 7.1 Comparative Length of Service**

	Japan <sup>1)</sup>	U.S. <sup>2)</sup>	Canada <sup>3)</sup>	U.K.	Germany	France
20 years of service or more (%)	21.4	9.0	11.3	9.4	17.0	18.7
Average (years)	11.3	7.4	7.9	7.8	9.7	10.7
Median figure (years)	8.3	4.2	5.9	5.0	10.7	7.7
Average length of employment (years)						
Men	12.9	7.9	8.8	8.9	10.6	11.0
Women	7.9	6.8	6.9	6.7	8.5	10.3

**Source:** Adopted from *Current Labour Economy in Japan*.

**Notes:** 1, 2 and 3: Average length of service based on *OECD Report*, 1995. Other figures from the respective country.

It is believed that workers stay at one company even though they are dissatisfied with their present job and working conditions.<sup>12</sup> There are several reasons for this. First, the employment system is highly embedded in the philosophy that once employees are recruited to a company they rarely quit the job. Since Japanese firms have been celebrated as clans and enterprise communities, their strong internal culture binds employees in a reciprocal lifetime commitment.<sup>13</sup> Second, under the lifetime employment system, students are hired by companies immediately after graduating from high schools and colleges. These new recruits are trained in different company departments and work groups where they have the opportunity to acquire different skills and become acquainted with a number of co-workers. Through this process, they develop unique relationships which motivate them to stay in the job for long time. Thirdly, long-term employment helps firms train people, aids in sharing information among employees and

develops employees' interest in work.<sup>14</sup> Skill formation and internal career development are continuous processes in the Japanese HRM system.<sup>15</sup> On-the-job training (OJT)<sup>16</sup> is provided to both blue and white-collar employees to develop their skills through actual work experience. In many companies, OJT is used to train people about the production process, to repair malfunctioning machinery and to perform maintenance work. When employees are trained inside the company, they are reassigned and sometimes, transferred to work in affiliated companies. Mostly for these reasons, people stayed with one company throughout their life, i.e., until their mandatory retirement age.<sup>17</sup> The current retirement age is 60, and is thought that the retirement age will rise to 65 to match the increasing life expectancy of Japanese people.

### Prevailing Employment Practices

Is long-term employment is still unique to and widely prevailing in Japanese companies? Available statistics show that 49.48 million people are employed, excluding executives. Of this number, 69 percent are regular employees, about 22 percent are non-regular employees, and the rest fall under different categories (see Table 7.2 below).

**Table: 7.2 Breakdown of Number of Workers (2002 average)**

Type of Employee	In 10,000 persons
Employee (excluding executives)	4,948
Regular staff	3,444
Part-time worker	1,089
Other	415

**Source:** *Labour Force Survey*, Statistics Bureau, Ministry of Public Management, Home Affairs and Post and Telecommunication, 2002.

Regardless of the different arguments on the declining number of companies that ascribe to the lifetime employment system, a large number of employees still fall into this category. However, it is important to note that at the same time the number of non-regular workers is skyrocketing, estimated to have risen from 19 to 29 percent in the last decade<sup>18</sup> (see Box 7.1 “Life-time Employment and Reality of the Labor Market”).

#### **Box: 7.1 Lifetime Employment and the Reality of the Labor Market**

Source: Tadashi Hanami, “The Changing Labour Market, Industrial Relations and Labour Policy,” *Japan Labor Review*, Volume 1, No. 1 Winter 2004.

Regardless of the outcome of the debate on the merit of lifetime employment, there is probably no need to mention that the practice declining both in terms of the number of workers covered by this system and the role it plays within the contemporary Japanese labour market.

According to the *Labour Force Survey*, the number of those employed for a fixed-term increased from around 910,000 in 1992 to more than two million in 2001 (an increase of some 1.4 million). In 2001, there were 12 million part-time workers (those who worked less than 35 hours per week). The percentage of such part-time workers among the total number of employed workers has steadily increased, from 10 percent in 1980 to 22.8 percent in 2001. Although the percentage of part-time employees among male employees has constantly increased, from 5.2 percent to 12 percent during the same period, the increase

in the percentage of part-time employees among female workers is much more significant, being 19.3 percent in 1980 to 39.1 percent in 2001. As a matter of fact, part-time work is concentrated mostly among middle-aged married women and partly shared by aged and young male workers.

The number of temporary workers sent from manpower agencies (called dispatched workers) has tripled in the past decade (from 503,000 in 1992 to around 1.45 million in 2001 according to the number registered.)

This means the number of non-regular employees in 2001 reached 13.8 million, comprising 26 percent of the total number of employed people, excluding executives, while the number of regular employees has dropped by 2.1 million (10.4 million males and 10.5 million females) since 1992. Thus, the non-regular employment now accounts for about one-third the total number of employed people.

The October 28, 2003 issue of the *Nikkei* reported on a survey regarding future employment strategies of the top 1000 companies. According to the survey, Japanese companies plan to reduce employment of new graduates by 7 percent while increasing employment of outsiders by 9.3 percent. This trend is most conspicuous in the electronics industries where employment from the outside will be increased by 24.1 percent while the number of new graduates hired will be reduced by 12.1 percent. This much-heralded report by a major economic newspaper symbolizes the general changes that are taking place in employment practices in Japanese industries.

Thus, the reality of the labor market suggests that in spite of differing opinions on the merit of lifetime employment both the scope of its coverage and its role is definitely declining and policy makers should fact this reality regardless of whether they agree or not.

### **Changing Attitudes towards Lifetime Employment**

There have been ongoing debates to reform the lifetime employment system in the midst of the continued recession since 1990. Company attitudes are gradually changing due to increasing labor costs as employees get older and a growing rise in the number are unable to cope with the rapidly developing new technology. For example, electronic parts companies like Kyocera have increased their recruitment of part-time workers.<sup>19</sup> In order to get competent employees, they have already diversified their recruitment practices.

Many companies have begun to adopt more diverse hiring practices over past few years, taking on experienced employees in mid-career in addition to new graduates. Employers prefer to hire mid-career and non-regular workers both in large, mid- and small-sized organizations. The rate of hiring of mid-career workers in non-clerical positions is higher in small businesses. Hiring mid-career workers, on the one hand, minimizes training costs and, on the other hand, companies get workers with ready-made skills who can work with developing technology.

In fact, employers are now seeking staff with readily available skills and workers with specialized abilities who can handle more complex and specialized operations so they can respond to stiffer competition.<sup>20</sup> Many employers are arguing for some partial adjustment to the prevailing practice of lifetime employment. The table below shows how companies are changing their attitude toward lifetime employment practices (see Table 7.3):

**Table: 7.3 Attitudes of Companies towards Lifetime Employment**

<i>Attitude</i>	<i>Response percentage</i>
Will basically maintain the practice	36.1
Partial adjustment is inevitable	40.0
Fundamental review is necessary	15.3
Do not have lifetime employment practice	5.2
No response	3.3

**Source:** *Labour Situation in Japan and Analysis 2004-2005*, p. 26.

From the above presentation, it appears that a large number of companies are thinking about partial and even a fundamental review of their employment system.

### **Crisis in Lifetime Employment**

From the previous discussions it is clear that the practice of lifetime employment in Japan is mainly popular in big companies. For small companies this employment practice is too costly. For these reasons, some argue that lifetime employment is an employment policy goal rather than a universal rule to be followed by all organizations.<sup>21</sup> It is worth mentioning here that this employment practice has resulted in a discriminatory type social structure in Japanese organizations because it included only privileged employees in large sized firms and excluded large numbers of male, female and foreign contingent workers.<sup>22</sup> Some even argue that because the system is not that very widespread and includes only permanent workers in large-sized firms, there is a danger that the system will be toppled in the near future.<sup>23 24</sup> Lifetime employment remained questionable after the period of high economic growth when Japan faced a huge labor shortage due to increasing technological innovations and competition.<sup>25</sup>

The system underwent heavy changes during the first and second oil crisis. Then, companies instituted programs to ship out middle-aged and older workers, to transfer employees to subsidiary companies, and can up with fixed-age retirement schemes for managerial staff.<sup>26</sup> Many large companies have relied extensively on two devices — the extensive employment of temporary workers and widespread reliance on sub-contractors.<sup>27</sup> Therefore, some believe that not only the lifetime employment system but also the traditional personnel management system is not compatible with Japan's rapid technological advance, which also demands greater operational flexibility.

### **Reasons for Increasing Use of Contingent Workers**

As described earlier, due to increasing competition in the domestic and international markets and in order to gain cost advantage in these markets, recruitment of contingent workers (part-time and other types of non-regular employees) has overtaken employment of lifetime employees in recent years. There are general and specific reasons for the increase in non-regular employees. Concerning the overall reasons, since the two oil shocks employers have been faced with a continuing recession and lifetime employees



proved too expensive for employers since wage increases are based on the number of years of service. As employees age, labor costs rise. Secondly, with the rapid changes in technology over the past few years, and changing globalized markets, employers now need staff with readily usable skills and workers who have specialized abilities in order to respond to stiffer competition and handle more complex specialized operations. The older workers employed with lifetime contacts are not able to adjust rapidly to new developing technologies typified by information technology. In fact, employers do not expect to reduce costs by employing these employees.<sup>28</sup>

Sato identifies different reasons for using various types of workers and specifies how business trends influence the use of non-regular workers (see Figure 7).<sup>29</sup> According to him, the main reasons to employ different types of workers are fluctuations in workloads due to holidays, opening of new stores and closing of existing ones; workload fluctuations due to business downturns; and stagnant businesses.<sup>30</sup>

**Table: 7.4 Emerging Patterns of Labor Contracts in Japanese Companies**

Firm; Industrial sector; No. of regular employees (No. of atypical employees)	(1) State of business (2) Fluctuation in labor demand (3) Personnel changes	(1) Atypical employee designations (2) Labor-management regulations	Use of atypical workers (main duties)	(1) Are the duties of part-time and regular employees identical (2) Can part-time workers be promoted to regular employee (3) Is the difference in man- power management between regular and part-time workers clear
<b>Firm A;</b> Major firm in service sector (no. of employees; confidentially)	(1) good; (2) workloads increase on holidays (i.e., weekends and consecu- tive holidays); (3) numbers of both regular and atypical workers are increasing	(1) (a) temporary employees, (b) contract employees, (c) junior employees; (2) (a) and (b) have fixed-term labor contracts, (c) work shorter hours	(a) one-off tasks requiring special skills (i.e., translation), (b) & (c) to deal with fluctuations in the number of customers, and to real- ize low-cost performance (i.e., supervisors, shop assistants, attendants at attractions, etc.)	(1) no; (2) yes; (3) yes
<b>Firm B;</b> Grocery store; 518 (1,500)	(1) good; (2) workload fluctuates due to opening new stores and closing existing ones; (3) number of regular employees decreasing, number of atypical workers increasing	(1) (a) "Type-F" employees, and (b) re-hired employees; (2) (a) are different from regular employees in that they are not required to transfer to different stores, (b) are fixed-term employees re-hired after reaching mandatory severance age	(a) duties as a whole within the store, including those of store manager, (b) duties within the store, etc.	(1) yes; (2) yes; (3) yes
<b>Firm C;</b> Baby products, retail; 168 (118 to 130)	(1) fair; (2) workload fluctuates due to opening new stores and closing existing ones; (3) number of regular employees stable or decreasing, that of atypical workers increasing	(1) "Type-P" employees (work less than 40 hours/week), "Type-M" employees (work 30 to 40 hours/week), and "Type-J" employees (work 20 to 30 hours/week); (2) work shorter hours and not required to transfer	duties as a whole within the store (some in managerial posts)	(1) yes; (2) yes in theory, but none in practice recently; (3) yes
<b>Firm D;</b> Manufacturer of ceramic ware; 186 (38)	(1) downward trend; (2) workload fluctuates due to changes in produc- tion level; (3) number of regular employees decreasing, number of atypical workers stable	(1) (a) part-time workers, and (b) temporary employees; (2) (a) at least six working hours per day (some work longer hours), (b) fixed- term labor contracts	(a) mainly engaged in ceramic manufacturing (many long-estab- lished workers), (b) duties related to new projects (e.g., speciality ceramics), branches that have dif- ficulty foreseeing prospects for marketing products	(1) yes; (2) no; (3) no
<b>Firm E;</b> Software developer; 28 (12)	(1) stagnant; (2) workload fluctuates due to changes in orders from parent company; (3) stable	(1) (a) part-time workers, (b) dispatched employees; (2) (a) five hours or so per day, (b) workers are from group companies in accor- dance with the Worker Dispatching Law	(a) females, who once worked for the parent company as regular employees (software develop- ment), working shorter hours, (b) duties at call centers	(1) yes; (2) no; (3) yes
<b>Firm F;</b> Japanese inn with hot spa; 74 (91)	(1) stagnant; (2) workload fluctuates irregularly due to number of guests; (3) number of regular employees decreasing, number of atypical work- ers increasing	(1) (a) part-time workers (mainly waitresses), (b) part-time workers (mainly cleaners); (2) (a) with the exception of some workers with long working hours, most work shorter hours, in shifts (shift A: 7 am to 4 pm, and shift B: 2 to 10 pm), (b) short working hours with shifts (early shift: 9:30 am to 3 pm, late shift: 6 to 9 pm, and long shift: 9:30 am to 9 pm)	(a) waitresses providing meals and similar room services, (b) cleaning rooms, making beds, etc.	(1) yes; (2) no; (3) no
<b>Firm G;</b> Maintenance and security of buildings; 78 (228)	(1) stagnant; (2) workload fluctuates depending on contract renewals; (3) number of regular employees flat, that of atypical workers slightly decreasing	(1) (a) some regular employees are hired on the basis of hourly payments (indefinite-term labor contract), (b) part-time workers (2) (a) full- time with indefinite-term labor contract, (b) shorter working hours (mainly 4 to 5 hours/day) under one-year labor contract	(a) & (b) stationed on the clients' premises, responsible for clean- ing, checking on facilities and security, and so on	(1) yes, when compared to regular employees on hourly payment con- tract; (2) no; (3) yes

Source: *Japan Labor Bulletin*, June 1, 2003.

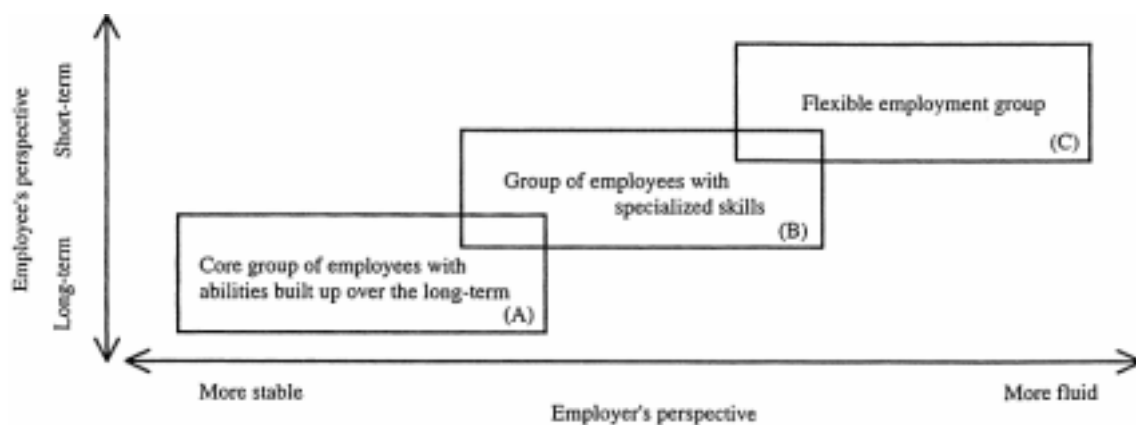
From the above table it is important to note that lifetime employment is not the main employment policy option these days. The table also makes clearly explains the duties of part-time and regular workers, the use of atypical workers for different purposes, and many other facts related to non-regular workers in different industrial sectors.

Available statistics also present evidence that employees hired after graduation working under the lifetime system occupy less than 20 percent of the employed workers.<sup>31</sup> In small and mid-sized companies, the number of continuing workers largely drops among young and middle-aged employees due to resignations for personal reasons, company bankruptcy, or business closings. At large companies, the major factor are the loaning and transferring of middle-aged, management-level employees and white-collar employees to affiliated companies or partner companies.

### Employment Portfolio Approach

The Japan Business Federation proposed an “employment portfolio” approach in the selection process. According to this approach, they proposed three types of employment viz. the lifetime employment group, specialized skills employment group and flexible employment group. The details of these employment groups are presented below in Figure 7.1.

**Figure 7.1 Employment Portfolio Approach**



- (A) Employed under an open-ended employment contract in managerial career-track or core-technical occupation.
- (B) Employment contract for a fixed term in specialist occupations such as planning, sales research and development, etc.
- (C) Employment contract for a fixed term in clerical, technical and sales positions.

**Source:** Japan Business Federation, 2003, p. 37.

It was assumed that part-time workers do not work in professional and routine jobs. However, interestingly, part-time employees are also increasingly working in such jobs.<sup>32 33</sup> Furthermore, employers are now interested in obtaining workers with specialized skills, meeting their production targets during

the peak season, and having a workforce which is easy to acquire and terminate depending on their needs.

### **Impact of New Developments**

People from different walks of life — including academics, unions and even some government officials — still favor the lifetime employment system.<sup>34</sup> Previous research has noted that the lifetime employment system does not impact negatively on contingent workers, especially in terms of their attitude towards work. In fact, it is the declining number of regular-status workers in Japanese workplaces that is creating a negative impact on employees.<sup>35</sup> However, the increasing wage gap between regular and non-regular workers is creating a subclass of poorly paid workers in Japan. The OECD's warns that the huge changes in the Japanese labor market are creating a dangerous divide between well-paid and well trained workers in permanent employment and a subclass of poorly paid workers with low skills and fragile job security<sup>36</sup> (see Box: 7.2). However, since the lifetime employment system is undergoing changes, the question of employment security is most serious issue to maintain a sustained practice of employment in order to maintain the postwar economic stability in Japan. Araki asserts that, "It is certain that the long-term employment practice is undergoing changes. Thus legal theory, particularly case law which has been formed to suit the long-term employment system, will be subject to some revisions. However, employment security will continue to be the basic presumption underlying employment in Japan even though its prominence will be diminished and its scope will be adjusted. Therefore, the legal theory that has developed to accommodate demands of the highly developed internal labor market under the long-term employment will remain prominent in Japanese labor law."<sup>37</sup>

## **OECD Report**

### **Box: 7.2 Japan Ccreating Sub-class of Poorly Paid**

**Source:** *Financial Times*, Monday, January 24, 2005.

Huge changes in Japan's labour market are creating a dangerous divide between well-paid, well-trained workers in permanent workers in permanent employment and a subclass of poorly paid workers with low skills and fragile job security, the Organisation for Economic Cooperation and Development has warned.

The report, which continues to argue in favour of the need to tackle deflation and asserts fiscal control, branches off into an unusually gloomy chapter about the downsides of what would normally be considered the positive effects of greater labour market flexibility.

"Employment flexibility is being achieved through increased hiring of non-regular workers," whose numbers have sky-rocketed from 19 percent to 29 percent of the total workforce in a decade, it said. Temporary staff earned about 40 percent as much as regular workers. "The increasing dualism is creating a group, concentrated among young people, with short-term employment experience and low human capital."

The OECD concern chimes with growing anxiousness within the Japanese government that the postwar employment model is dying but has not been replaced by a tenable alternative.

One government official said the number of suicides had not fallen since Japan's economic recovery began three years ago, a phenomenon he attributed to greater despair caused by the collapse of the old labour market system.

The Bank of Japan recently put out an influential report on labour market changes, which it said were partly responsible for the tenacity of deflation, now into its seventh. Year. Wages have continued to fall in spite of three years of economic recovery, interrupting a transmission mechanism by which greater economic activity normally feeds through into higher prices.

This weekend, the government produced a draft of a report, Japan's vision for the 21<sup>st</sup> Century, in which one of the main recommendations was to change pension and other laws to make it easier for workers to move between jobs. It also recommended making it easier for women to work full-time and for people to work until 75.

One of the OECD's main concerns, said Randall Jones, the OECD's chief economist for Japan and South Korea, was that labour flexibility was being introduced in only one part of the market, creating an unbridgeable divide between workers in non-regular and regular employment.

"The equity concern is magnified by the lack of movement between the two segments of the workforce, trapping a significant portion of the labour force in a low-wage category from which it is difficult to escape," the report said.

Mr. Jones contrasted the situation with that of Australia, where it was fairly easy to move between the two categories of employment. Because Japanese training largely took place within companies that offered lifetime jobs, those outside the walls of permanent employment could fall further and further behind.

The burden falls disproportionately on the young because many companies, which have sought to slash costs since the late 1990s, have preserved the jobs of existing employees by freezing the hiring of graduates. The youth unemployment rate is about twice the national average at 10 percent.

The OECD said it did not favour putting a brake on the creation of non-permanent employment- a remedy favoured by Japanese unions, many academics and even some government officials. Rather, it recommended bringing flexibility across the labour market making it easier to hire and fire. "Reducing employment protection for regular workers could reverse this trend by preventing the adjustment of the workforce from falling disproportionately on young people."

## **Future Issues**

From the above discussion, it appears that there are a number of merits and demerits to the lifetime employment system from the perspective of the national economy, enterprises and the individual.<sup>38 39</sup>

Regarding its advantages from the economic viewpoint, the *1999 White Paper on Labour* argues that it minimizes fluctuations in employment and the burden of paying unemployment benefits. For employees, the system provides a sense of security, a strong feeling of belonging and commitment. Finally, for the

enterprise it helps to accumulate skills and abilities, reduces operational costs required for hiring and training, and also directly impacts their sense of security in terms of productivity and production quality. Regarding the disadvantages, from the national perspective, lifetime employment inhibits a rapid growth of the economy as employees are not innovative or creative enough. From an employee's points of view, it discourages innovativeness and competitiveness. The system is regarded as too rigid to adjust to changing business needs. For example, sometime companies need to implement drastic employment adjustment measures such as sudden dismissals, cutting overtime hours, reassigning employees, or loaning out or transferring employees to affiliated companies. This can not be done easily done under the lifetime employment system. Finally, it imposes rigidity in employment practices, making it difficult to follow technological innovation and to compete in the market at low cost.

By and large, the above described situation and available facts reveal that the lifetime employment system in Japan is gradually changing due to changes in socioeconomic factors. But the pace of change is not very fast as revealed by the statistic that some 69 percent of all employees are under lifetime employment contracts. Based on the above, it appears that employers are interested in rethinking their current recruitment and hiring practices, focusing on cost reduction. However, this is not that easy. There are challenges ahead, which are directly related to the increasing wage gap between regular and non-regular workers, the training and skills development of young employees, and the long-term stability of employment relations through employment security measures. It is believed that there is still more of a sense of corporate obligation among Japanese managers to provide jobs, income and security than in U.S. companies. They want to maintain the postwar stability embodied in Japanese employment practices which remain supportive of welfare corporatism. However, at the same time, employers are seeking a kind of flexibility in employment practices to provide an impetus to compete in the market on a low cost basis.

### **Seniority-based Pay and Promotion System (*nenko joretsu*)**

Another important characteristic of Japanese employment relations system is the seniority-based pay and promotion system under which the decisive factors determining pay are the length of service, age and educational background, not the work performed.<sup>40</sup> The system goes hand-in-hand with the lifetime employment. Traditionally, the seniority-based reward system had two different aims. The first was to advance an employee's career and provide financial compensation based on broad social considerations and personal qualifications, such as the age and education level of employees. The second was to make extensive use of non-cash fringe benefits for employees and their families.<sup>41</sup> The recent version of the seniority-based system includes all the merits that an employee has accumulated over the years by cooperating with his colleagues, and also technical and social ability. The seniority-based system recognizes that "a man grows and matures on the human and technology levels as experiences accumulated through work increase, and this recognition is reflected in salary and promotion."<sup>42</sup>

To understand the main concept behind the seniority-based wage system it is imperative to know the two versions of wage theory presented by Koike.<sup>43</sup> According to one version, wages refer to: a) salaries that increase in accordance with age and length of service; b) the rewards that are not paid on the basis of the job performed; and c) that are unique to Japan.<sup>44</sup> This theory developed during the period of Japan's delayed economic development when there was an abundant supply of less-skilled farm labor and therefore it was difficult to pay them according to the job they had done. At that time, wages were only to offset the cost of living, based on age, and they increased as the cost of living increased, followed by seniority. According to Koike's second version, the seniority wage theory rejects the proposition that wages are not paid according to job. With this theory, wages correspond to the age and length of service only because the skills needed to perform certain jobs increase with age and length of service.<sup>45</sup> The second version is also the result of Japan's late development. But it is applicable because the system worked as needed at that time when Japan widely used imported technology. During that time, the seniority-based wage system worked successfully, motivating workers to improve their skills through learning and training. To compare Japanese the wage system with that which exists in the West, these concepts can be further analyzed by wage profile and wage scale. The wage profile refers to the wage curve achieved by graphing age along a horizontal axis and wages along a vertical axis.<sup>46</sup> With this system, the seniority wage curve moves up in almost a straight diagonal. Unskilled workers are paid using this system. On the other hand, the wage scale takes into consideration age, length of service, and type of job or job grade. According to this practice, wages are classed, respectively, as pay based on age, on service, on the job, and on the job grade.<sup>47</sup> In Japan, the wage profile and wage scale are often confused. Therefore pay based on age or based on service is mistakenly thought to result in a seniority wage curve based on wage profile.

In Japan, in principle, the same wage structure applies to all employees. However, in practice, as the length of service increases, it is assumed that job performance will also rise and therefore, wages will increase on a seniority basis. It is normally believed that by staying at one firm, workers acquire skill using their employers' proprietary technology (see Box: Salary Determining Factors). However, that does not mean that all members of the organization are promoted equally and receiving the same of salary and wages increments. This is a kind of skill-grade system that prevails in Japan and is used to determine pay and promotion of employees by applying detail criteria to assess employees on the basis of what they are capable of performing rather than what they have performed in the past.<sup>48</sup>

Under the seniority-based wage system, in terms of productivity, younger employees are underpaid when compared with their senior employees. It is also believed that the younger workers have invested their time and effort in the company by being underpaid which will be returned back by making over payment when they become senior workers in the same company.<sup>49</sup>

### **Box: 7.3 Factors Determining Wages and Salary in Japanese Companies**

**Source:** JILPT, 2002 p. 23-24.

The main salary determination factors are seniority and the number of years the employee has been working at the company.

Many Japanese companies have systems in place for periodic salary increases. Base pay is increased periodically based on years of service and seniority (however, job promotion itself is not based entirely on the seniority system). Salary increase based on seniority is a general labor practice, and not a “system.” However, the idea of seniority is deeply embedded in the consciousness of workers in Japan.

Japanese companies rarely evaluate academic degrees such as doctorate. That is, while there are differences in the salaries of white-collar and blue-collar workers, and salaries differences based on educational background, this difference is remarkably smaller than it is in other capitalist nations.

Generally, even if someone is an executive or in upper management at a Japanese company, that person’s base pay is based on the same standard as the base salaries of the people who work under that person. Therefore, a distinguishing feature among Japanese companies is that the salary range for company executives is lower compared to that of companies in the U.S. and Europe.

#### ***Basic Concept in Determining Salaries***

- Pay system based on seniority: The distinguishing feature of the Japanese pay system is that many companies employ a “seniority-based system,” whereby salaries are increased in nearly direct proportion to age and years of service. While in the strict sense, salary increase is based on seniority, this is not to say that salaries are increased based on age and the years of service regardless of a person’s job and skills. Even if employees are of the same age and started working at the company at the same time, differences do occur between them if there have been differences in promotions and job performances.

Generally, many companies adopt a base pay schedule determined by age and job skills as follows:

- Age-based salary: Under the premise that a person’s job skills improve with age, a person’s base pay increases by one (1) rank every working year within the company.
- Skills-based salary: Judging job proficiency levels from the results of appraisals, an employee receives points and salary increases based on promotion in skills ranking or in accordance with one’s proficiency level in the same rank.

Although the notion behind the skills-based salary system is primarily different from that of seniority, since the tendency is to evaluate potential skills, it also tends to apply seniority factors.

The starting salary is the amount paid by a company to a newly hired graduate.

The distinguishing features include:

- The conditions of supply and demand in the job market directly influence decisions regarding starting salary.
- There is not a big difference in starting salaries based on such factors as industry, scale of company, educational background or geographical area.

Companies decide starting salaries based on the balance of supply and demand in the job market, and the standard salaries of employees are determined through negotiation, taking into consideration the standard pays to new graduates.

Since decisions regarding starting salary are influenced by the overall balance of supply and demand in the job market, which goes beyond the situation in some companies, as a general rule the starting salary for people hired at the same company has nothing to do with what university someone graduated from, what department a person belonged to in the university, one’s grades at the university, affiliations or job type. There are no big differences based on educational background and almost none among people of the same based on the attended university or high school. (For example, the average starting monthly salary of male university graduates in all industries in fiscal year 2003 was about ¥220,000, whereas it was ¥193,000 for the male senior high school graduates.) The salary for male high school graduates in their fourth year at a company would be very close to the starting salary for a male university graduate.

#### ***Wage Differentials***

The longer a person works at a company, the greater the wage differentials following his/her personnel



review. Considering the pay of company employees on an individual basis, while they receive the same amount for their starting salary, it increases throughout the years they work within the company, and the difference in the promotion level according to skill rank system is caused by their appraisal results, which are reflected in pay, so that the difference in their salaries grows.

The general tendency is for employees to continuously receive similar salary increases for the first several years of work. Then, when they have reached the age for rank promotion for their job skills, their skills rank<sup>50</sup> is based on their review by their immediate supervisor and the results of rank promotion examination.

#### ***Salary Increases***

Salary increases generally take place once a year, with employees receiving a raise in their base pay determined on the salary system the company uses. This is called a “periodic salary increase.”

Salary increases normally consist of the periodic salary increase with its rising salary table based on seniority and the portion of substantial pay increase (base up) from the actual standard of the pay table. The amounts of these pay increases are basically determined by factors such as performance at the company and increases in consumer prices. To decide the amount, there are the customary spring wage offensives conducted every spring by labor unions to demand a standard pay increase focusing on large enterprises. Since companies in the same industry or in the same type of business decide on pay increase amounts around the same time during the spring wage offensive, while there are differences between industries and business types, a “public market” has been formed in the same industry and the same type of business so that there are few occurrences of large differences in salary increase amounts.

#### ***Minimum Wage***

Based on the Minimum Wage Act, the minimum wage is set by municipalities, and employers are legally compelled to abide by it.

Concretely, regional minimum wages are determined by the Minister of Health, Labour and Welfare and directors of the prefectural Labour Standards Bureaus. It is based on studies and deliberations by the Minimum Wage Council. An employment agreement which calls for a wage amount below the minimum is invalid and an employer who has concluded such agreement will ultimately be penalized.

In Japan, the hourly minimum wage differs by prefecture. In 2004, the hourly minimum wage ranged from ¥708 to ¥605.

#### ***Recent Trends***

In recent years there has been an increase in the number of Japanese companies that are considering the adoption of a “pay system based on performance,” represented by the annual salary system. The main reason for this is because the number of middle-aged and elderly workers among all employees has increased. Therefore, wages costs at individual companies with pay systems that are based on seniority has increased.

Companies are mainly adopting a “job-based salary,” focusing on people occupying managerial positions or higher. An increasing number of companies are putting a stop to their practice of periodic salary raises based on seniority, and introducing systems in which bonuses are influenced by evaluations. In these cases, many companies have adopted or are considering the adoption of management by objectives, as well as an arrangement to inform employees of their evaluations.

While there has been an increase in the number of companies that have begun to adopt a form of payment that places less emphasis on seniority, others tend to be faced with other problems, such as fairly evaluating “performance” and obtaining an employee’s understanding of the evaluation. A major theme for the future will most likely be the extent to which companies will be adopting pay systems based on performance to the exclusion of seniority, in addition to measures to improve the short-term management by objectives for key posts.

## **Developments in Seniority-based Wage Practice**

The seniority-based wage system, which first appeared in 1920, is still the most widely used wage system in Japan.<sup>51</sup> Although there is a considerable debate as to whether or not this system is still useful given the

changing environment, it was certainly a strategic move on the part of management who wanted to attract and retain employees during periods of labor shortage. As discussed earlier, most lifetime employees are selected directly from among new college graduates. They join a company, accumulate experience in various departments and gradually rise through the ranks. An employee's salary is usually equally divided between monies necessary to support an average livelihood and monetary contributions for their services to the company. The livelihood wage system consisting of wages plus other fringe benefits was initiated in 1946 on demands from the electrical workers' trade union.<sup>52</sup>

Yamanouchi and Okazaki-ward had attempted to explain the history and practices of the evaluation system in Japan.<sup>53</sup> They argue that Japanese companies had experienced different turning points in the evaluation system for the sake of pay and promotion. The first period started in the 1950s. During that time, the American system of job analysis and job classification was introduced as a modern, rational management system to rebuild Japanese management. The main emphasis of the wage system was to secure a livelihood for each worker. The second turning point came between the 1960s and 1970s when Japanese companies reconsidered the Americanization of Japanese management practices and then revised them. An evaluation system was adopted that placed priority on the nature of the job and the ability of the employee rather than on maintaining a livelihood. The evaluation system that followed was a job-ranking system in which an employee could refuse to do a lower level job, leading to the development of a tight social order within the company. Realizing this problem, companies introduced a competency-ranking system which almost 64 percent of the organizations followed until 1974. The third restructuring occurred in the 1980s when the competency-ranking system did not work properly due to the impact of an increase in the value of yen, globalize business activities, deregulation, the maturation of the economy, and an aging workforce. The competency-ranking system became more debatable due to problems in its implementation. Under pressure from workers who argued that the system failed to take into consideration the actual ranking for the job done, many companies revised the competency-based ranking system.<sup>54</sup> The recession of 1990 forced many companies to reduce costs by trimming the number of employees, particularly those over 40 years old, because keeping senior employees became more costly than employing younger employees. According to the Japan Productivity Centre, on an average for all companies, the salary for a college graduate now age 5 was 3.46 times than that of 22 year olds.

### **Skills-based Grades and Ability-based Wage Systems**

Although length of service period is important, there are two other factors that influence the wage scale. First is the job grade. Usually there are 5 to 10 grades within a job, depending on the size of the company. Salary increases differ for workers with the same length of service but whose job is classified differently. This means that even Japan follows a tenure-based pay system there are individual differences exist in the levels of achievement of skills development which is recognized in skill-grade system and which is a strong incentives for Japanese employees to learn and improve their skills.<sup>55</sup> The skills-based grade

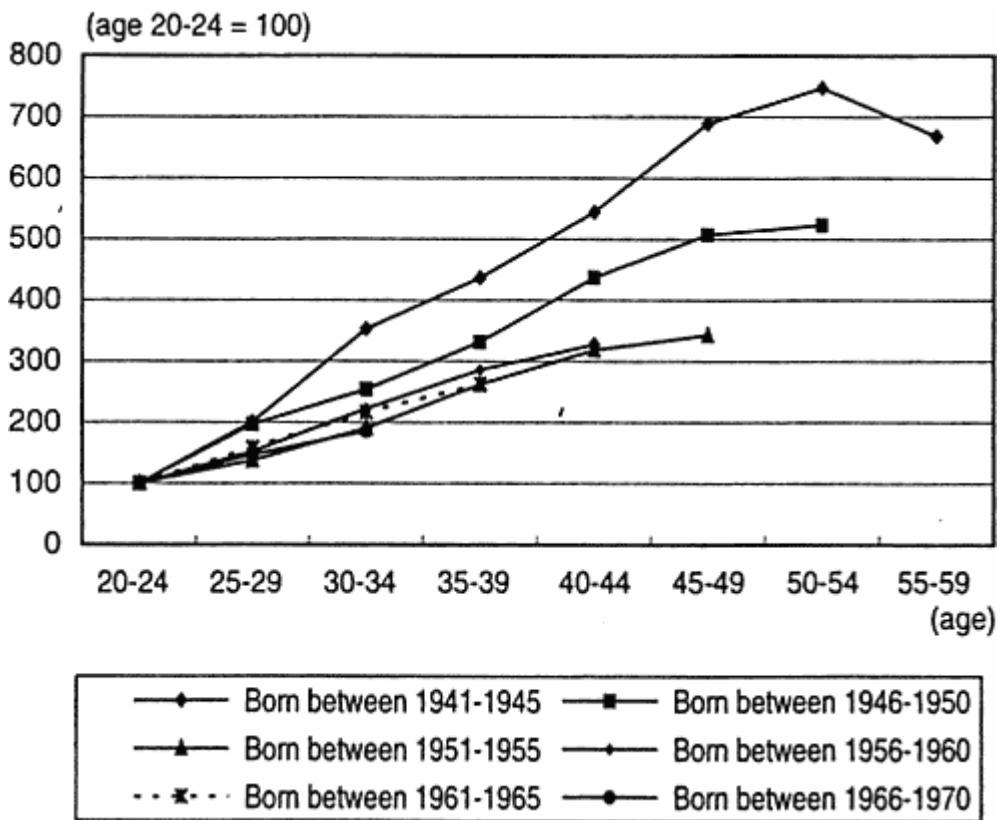
system is used to support lifetime employment practices in terms of compensating employees based on their performance and skills.<sup>56</sup> Second, pay raises differ even for those in the same grade depending on their merit ratings which are based on the ability of each worker. This form of wage structure contrasts with the seniority-based system in which a good evaluation results in large wage hikes. This practice is gaining momentum due to placing priority on an individual's performance, and this practice is replacing wages based on length of service in many companies.<sup>57</sup>

### **Wage System: A Comparison**

A comparison of the wage systems that exist in the European and Japan provides a clear picture wages for blue- and white-collar employees. In Western Europe, wages for blue-collar workers rise steeply but level off or rise only 10 to 15 percent after workers reach their mid-20s, whereas in Japan, blue-collar workers are mostly paid on the basis of seniority. In addition, the wages of workers over 50 years old in large Japanese companies declined precipitously compared to their Western European counterparts.

As workers age, their real wages increase at a smaller rate in proportion to younger employees (see Figure 7.2).

**Figure: 7.2 Wage Increases by Age Group (university male graduates)**



Source: Ministry of Health, Labour and Welfare, *White Paper 2002*.

Figure 7.2 clearly indicates that the rate of increase for real wages decreases as workers age, indicating that more enterprises are reexamining the seniority-based wage system.

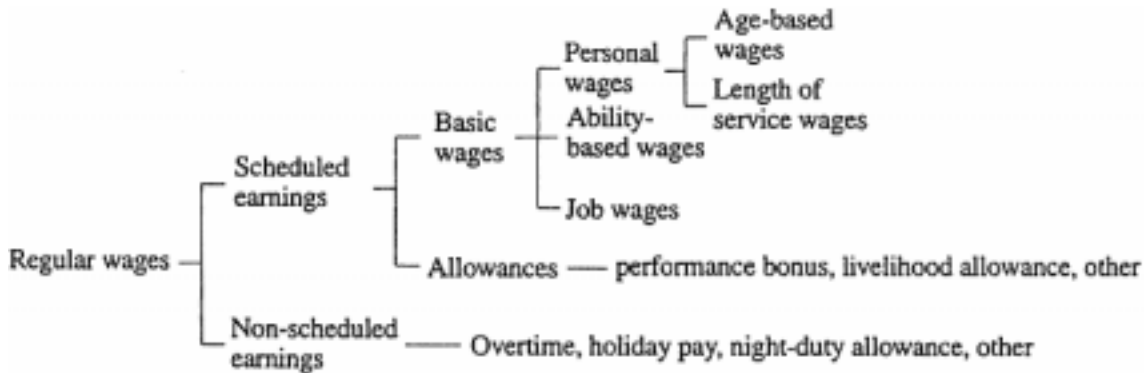
Third, the seniority-based, white-collar employee wage profile in large Japanese firms is more or less similar to Western Europe. What is different is that blue-collar workers can earn the same wages as white-collar workers in Japanese companies.

**Structure of Wage Composition**

How regular wages are determined is presented below (see Figure 7.3). Regular wages include both scheduled and non-scheduled earnings. Scheduled earnings include base pay plus various additional allowances, such as a family allowance, commuting allowance and housing allowance, whereas nonscheduled earnings include overtime, holiday pay, night duty allowance, etc. A proportion of basic wage is determined according to personal characteristics, such as age or length of service and job performance ability. Basic wages and annual wage increments, in general, are determined through the spring labor negotiations. In addition to monthly salary, workers also receive bonuses twice a year. Upon

retirement, employees either receive a lump sum retirement allowance or a pension. The amount of retirement is based on the number of years of service at a specific company.

**Figure: 7.3 Example of Regular Wage Structure of**



**Source:** Japan Business Federation, *Current Labour Economy in Japan*, 2003.

The wage structure provided above is more complex than a simple seniority-based system, and is intended to boost employees' morale by providing wages on the basis of both skill and performance.

### Seniority-based Promotion Career

Career advancement ultimately brings promotion, power, responsibility, prestige, pay and other forms of rewards. Due to a strong emphasis in seniority, career advancement is predictable. But it happens very slowly. Normally, to get to the position of section chief (the first managerial position) takes eight to 10 years. But even with such rigid seniority-based reward system, neither competence nor ability is completely ignored. Employees who are able and competent may have opportunities to advance to top management positions one or two years earlier than the normal period.<sup>58 59</sup> Promotions generally occur "in company." In general, there are three different promotion systems. The most important criterion for promotion is length of service (*nenko* system). Another system is grade based (*shokumu-kyu*), in which an employee's performance, qualifications and time assigned to different positions are used as the basis for promotion. Demotions are extremely rare and only happen in the worst cases. Slow promotion system is also prevailing to motivate employees with educative punishment. There is another system of promotion called as job cluster (*shoduno shikaku* system) in which jobs are classified into technical, clerical, sales and engineering with each having three to four grades.

In Japan, a university degree is also regarded as the main prerequisite for career advancement to the managerial level in large-sized companies. Those who have not graduated from university have very

limited opportunities for advancement. Within a given educational level, career advancement has been based on seniority. Even promotions to certain lower-level managerial positions are determined by the year the employee graduated from college. This corresponds to the year of his/her entry into the firm. Individual differences in terms of competence and ability are virtually ignored within the group when it comes to promotion. Everyone within the same category — in terms of age and educational level — is treated the same. Thus, the entire personnel management program, including the reward system, is designed for a collective rather than individual basis. Employers, in turn, use promotions to reward workers for developing their skills.

pointing terms of promotions, as stated earlier, the number of job levels and grades varies in different companies depending on the size and other contingent factors, but in general it takes about 19 to 22 years for an employee to work his/her way to the top (see below the example of the promotion ladder).<sup>60</sup> Under this system, pay increases accumulate according to length of service with only minor adjustments that reflect an employee's performance. Performance and contributions are also evaluated to determine promotion and incremental raises, but on the whole they are not used as the basis. One characteristic of the Japanese employment system is the slow pace at which pay increases and promotions are allocated. It is considered favoritism or nepotism when an employee is quickly promoted or receives numerous wage hikes, a situation that is detrimental to harmony in the company.<sup>61</sup>

### **Performance Appraisal**

Different performance appraisal systems exist in Japanese organizations. Generally performance is appraised three different ways and the results are used to determine rewards and pay grades. The every six-month evaluation determines payment of seasonal allowances; results of the 12-month evaluation help to set annual pay increments. Finally, a long-term career assessment is conducted in connection with one's career development within the company over one's entire working life. However, with the long-term evaluation no one specific item is used to evaluate performance, instead it assesses contribution, effort, sincerity, group orientation, new task implementation, respect for others, support to subordinates and morale (see Box: 7.4 Performance Evaluation System in Japan: An Introduction). Individual contributions to increase group performance are highly regarded in the Japanese HRM system and performance appraisal. Because jobs are comprised of various grades resulting in different wages, , in some companies employees working the same job could receive different salaries.

#### **Box: 7.4 Performance Evaluation System in Japan: An Introduction**

**Source:** JIL, 2002 pp.25-27.

- Results of the evaluations are used to determine such matters as employee skill development, stationing and promotions.
- Evaluations take into consideration overall "skills," "enthusiasm" and "achievement," and the results are used for the development and selection of human resources.

Through this system, companies can observe the everyday job performance of employees, and evaluate

such aspects as job achievement, how well an employee demonstrates his/her skills, and job attitudes. Generally, Japanese companies use these results to develop skills, including "human resource development," organize jobs, station and rotate employees, increase salaries, as the basis for promotions and to determine bonuses.

Each company determines its own evaluation standards and the procedures they will use. However, the following factors are the most common: the higher the position, the more severe the standards to evaluate a person's performance, with a high standard applied to evaluate the younger age bracket.

### ***Important Appraisal Factors***

- Skills: Knowledge and skills required for job performance, which are obtained through job experience and training.
- Enthusiasm: Job posture and attitude.
- Achievement: How much an employee has contributed to the company during a specified period.

Evaluations are generally conducted periodically, with the results of an annual skills evaluation being reflected in salary increases and promotions. Scores for achievement and enthusiasm are reflected in the twice a year bonuses (summer and winter). The primary evaluator is generally the direct supervisor, who possess the authority to appraise employees.

The consideration for appraisal consists of "absolute evaluation" and "relative evaluation". The former is considered from the viewpoint of "development," to determine the level of achievement of "selection". The primary evaluator generally conducts an absolute evaluation, while the secondary evaluation is performed by the head of division, generally from the point of view of relative evaluation based on logic of selection.

### ***Main Appraisal System***

1. Skill rank system: As a general rule, many large Japanese companies periodically hire new university graduates, and have a skill rank system in effect for evaluating the job achievement skills of employees, standards of certain job skills and ranking them according to job skill level. There are few evaluation factors limited to job contents, and the focus of the evaluation is placed on such factors as a wide range of experience, skills and knowledge, including potential skills as the requirements of skill evaluation.
2. Rank promotion and title promotion: A rise in rank is called "rank promotion." A rise in position is called "title promotion." In actual practice, rank promotion at the upper levels is generally accompanied by title promotion to positions like chief clerk or section managers. There are cases in which multiple job ranks are applied to a certain managerial position. For rank promotion candidates, in addition to appraisal results covering the past 1 to 3 years of that person's job rank promotion is also decided through interview. And depending on the situation, some companies conduct this appraisal through written examinations in the form of essays.

### ***Feedback***

In the past, evaluators were reluctant to feedback appraisal (evaluation) results to people who had been appraised. In recent years, however, due to an increased awareness for fairness, clarity and understanding for appraisal, and for purposes of human resources development, more and more companies are feeding these results back to the people in question and holding interviews with them, in an effort to effectively apply the results to the improvement of employee's skills.

### ***Trends in Recent Years***

- Shortage of managerial positions: When the skill rank system was first introduced in Japan, there were many companies that correlated ranks with management positions. However, with the deceleration of expansion and growth of companies that went through the oil crisis in the 1970s and the increase in the density of middle-aged and elderly brackets, companies have become unable to prepare a number of high-ranking people who could fill for management positions. In order to eliminate the shortage of posts, there are an extremely great number of companies that have instituted a "system of setting retirement age for management position" and a "system of professionals by course".
- Management by objectives: There is an increased awareness from clarity and understanding of management by objectives. An increasing number of companies are introducing MBO so that seniors

and subordinates can establish objectives and review achievements of objectives together based on appraisal. Particularly, through joint-use of MBO, companies that are reducing seniority factors and examining treatment “based on results” are introducing personnel systems and increasing understanding for evaluation.

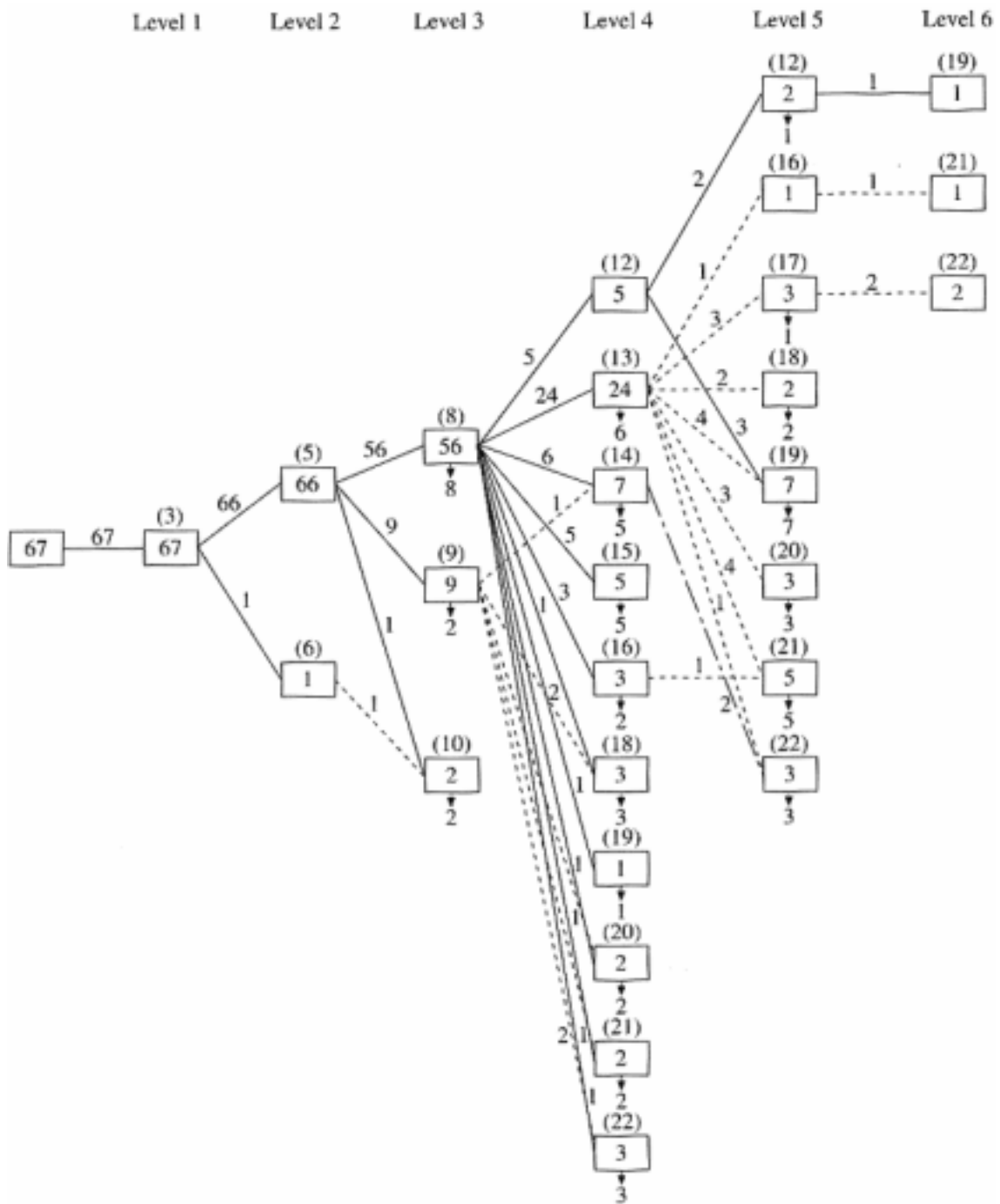
- Versatile evaluation/360-degree evaluation: There is an introduction of versatile type of evaluation, the evaluation of colleagues and subordinates who regularly work with the person being appraised, in addition to appraisal by the person’s senior. However, since it is difficult to evaluate people, many companies use evaluation by colleagues and subordinates who are not developed as evaluators as reference information for the primary appraiser, in order to apply this evaluation from the standpoint of human resource development.

### ***Career Tree: An Example***

A significant divergence can be seen in terms of promotions. It was revealed that of 67 staff who began work at the same time, only four were promoted to the post of deputy divisional manager after 19 to 22 years of service.<sup>62</sup> On the way to becoming deputy divisional manager, they had been promoted to senior staff member, group manger, assistant section manager, junior section manager and senior section manager. (see Figure 7.5 for an example of a promotion chart). Comparing Japanese and American promotion systems for white-collar employees, Koike argues that the Japanese promotion system is relatively slower than the U.S. system.<sup>63</sup> Very few studies have been done on the promotion system of blue-collar employees, but information available from a major Japanese car manufacturer reveals that there are ranks range from P1 (junior worker) to P8 (foreman) for non-managerial blue-collar positions.<sup>64</sup> By the age of 40, successful a production worker becomes a sub-foreman (P6), while a white-collar employee arrives at an analogous position (O7) in his late 30s. However, only a fraction of production workers reach the level P6, while almost all university graduates proceed to O7.<sup>65</sup>



**Figure: 7.5 Career Tree of a Japanese Insurance Company<sup>66</sup>**



**Source:** Adopted from *Work and Pay in Japan*, R. A. Hart and S. Kawasaki, Cambridge, p.108, 1999.

**Note:** The figures in the boxes indicate the number of those promoted; figures in parentheses indicate the number of years it took to get the promotion; and the figures under the box indicate the percentage of those who retired from that position. A broken line indicates that the transition proportion is less than 0.2.

## **Changing Attitudes towards Seniority-based Practices**

Seniority-based practices help in creating a balance between older employees — who are paid much more for their accumulated experience — and younger employees, who are learning about the company and receive substantially lower pay. The system, as such, encourages workers to stay at one company by assuring regular pay raises and promotions. Moreover, it helps companies retain employees by assuring them periodic wage increases and promotions. The system guarantees workers their livelihood, boosts morale and loyalty, and encourages long-term employment.<sup>67</sup>

In spite of the popularity of the seniority-based system, concerns are growing in response to changes in the business environment, such as globalization of economic activity, and to achieve competitive advantage that the system may need to be reviewed. Many companies have already changed their wage systems to reflect individual performance and productivity.

The attitudes of managers as well as employees have also been changing. A study of sample 3,126 white-collar employees and managers in 33 firms revealed that there is a need to rethink the employment practices.<sup>68</sup> More than half of the respondents, 53.5 percent, prefer the compensation system which pays higher wages for good performance and which does not link pay to age or seniority. About 79 percent of the respondents favored of staffing practices which may involve demotions or the possibility of being passed over by junior employees. The study also revealed that almost 80 percent of white-collar employees want to develop professional skills so they can move from one company to other company rather than staying in one company to obtain a senior position. On the company level, for example, Hitachi, Ltd. abolished the seniority-based wage system in April 2004 in favor of a merit/performance-based wage system for both managerial and non-managerial employees (See Box:7.5 Hitachi, Ltd. to Abolish Seniority Wage System).

### **Box : 7.5 Hitachi, Ltd. to Abolish Seniority Wage System**

**Source:** Japan Labor Bulletin, The Japan Labor Flash No.4, Email Journal November 17, 2003

Starting next fiscal year (from April 2004), management and labor at Hitachi, Ltd. have agreed to completely replace the seniority wage system and instead apply a new wage system that incorporates performance evaluations to all Hitachi employees. They also agreed to abolish built-in annual wage increases. As a result, the merit/performance-based wage system that was first applied in 2000 to managerial staff will be extended to Hitachi's 30,000 non-managerial employees working in Japan.

Of the conventional salary calculation to be abolished, about 40 percent was basic pay related to the employee's educational history, age, and number of years of service, with the remaining 60 percent or so comprising occupational pay, set according to certification/eligibility and occupational duties.

Under the new system, an individual's ability to carry out his or her work will be evaluated on a scale of one to five. To ensure that the evaluations are fair, the company reportedly will establish a new written

standard that stipulates the criteria for occupational duties and behavioral processes.

Until now, Hitachi has led the electric appliance industry in wage negotiations. The complete abolition of its seniority-based wage system will have a major impact on the debate now taking place at other Japanese companies on how to review their salary systems.

Interestingly, beginning with new college graduates hired in the spring of 2005, Sanyo Electric introduced the practice of wage differences for new recruits and now uses a job-position wage system.<sup>69</sup> Under this scheme, wage differences will arise depending on an employee's skill abilities (see Box: 7.6 Sanyo Electric to Introduce Wage Differences).

**Box: 7.6 Sanyo Electric to Introduce Wage Differences Beginning with Next Year's New Recruits**

**Source:** Adopted from: The Japan Labor Flash No.8, Email Journal February 2, 2004.

Sanyo Electric Co., Ltd. will apply a job position-based wage system in the spring of 2005, beginning with new college graduates. Under this system, wage differences will arise depending on employees' abilities and skills. Although many major electric appliance companies are actively reexamining the seniority wage system, this is the first time that a company has made changes that affect employees' starting salaries.

The company will adopt the "grade-skipping" system of providing the most qualified new recruits with a grade-class comparable with, or even higher than, that of employees who had joined the company before them. For example, if a new recruit has exceptionally high-level knowledge of semiconductor design and is recognized to be capable of starting work immediately as a fully-fledged employee, he or she will be classified comparably to those joining the company before him or her, and receive a salary higher than that of other employees joining the company in the same year. There may even be cases in which he or she receives higher pay than his or her senior workers

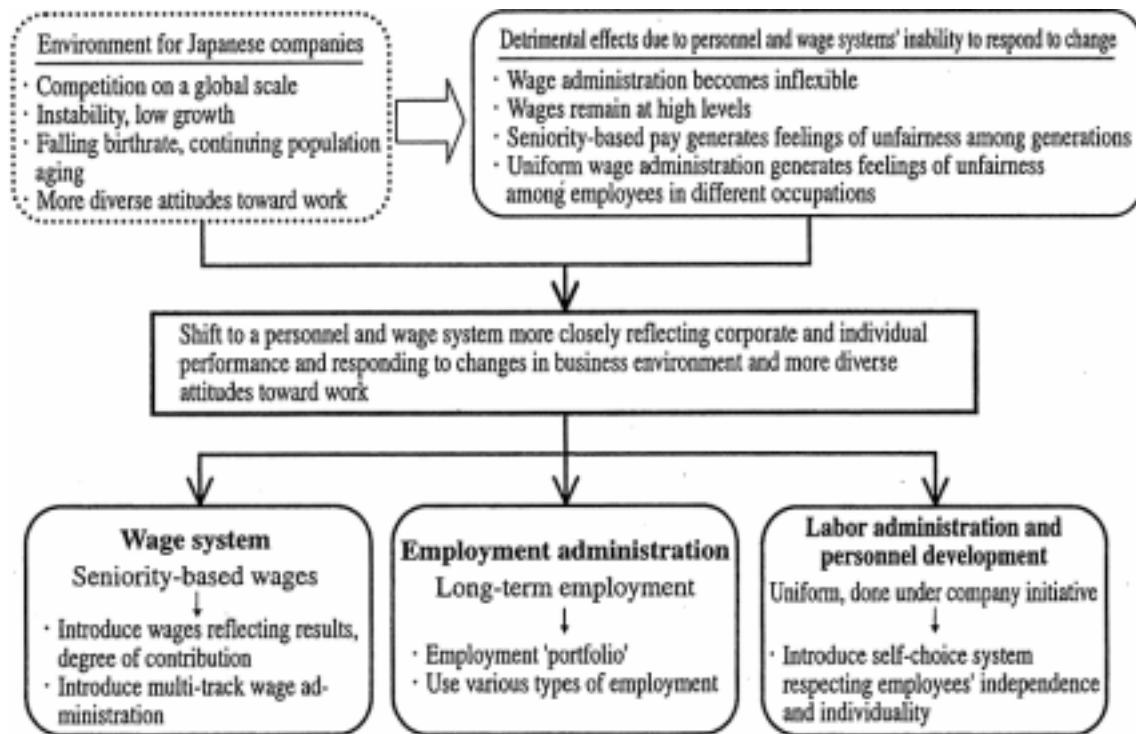
Moreover, starting this summer, liberal arts university students who have been unofficially chosen to work for the company the following spring will undergo a training program and take part in small-scale projects related to personnel, sales and accounting. Their abilities will be evaluated based on their practical skills, and the findings will be used to help decide on the post and department they will be assigned to. Trainees will receive about ¥100,000 per month.

Although presented in scattered ways, there are other studies that support the above arguments and indicate that: a) the old personnel and remuneration system did not develop employees' abilities, b) the feedback of employee evaluations relating to the development of employees' skills did not work well; c) the system itself is neither creative nor innovative; and d) the system is burdensome during periods of economic difficulties. According to another study, there is a new remuneration system in which 55 percent of one's salary is determined by "job ability" (based on occupational competence) and the remaining 45 percent is determined by personal wages (stability).<sup>70</sup> In another study of white-collar unionized employees, 36 percent of the employees indicated that an ability- or achievement-oriented wage system is required.<sup>71</sup> The study further reveals that 33 percent of the respondents argued that since individual employees differ in terms of their abilities, it is imperative to choose a personnel management practice which reflect these differences.

Recent developments indicate three important trends in Japanese pay practices<sup>72</sup>. First, that pay practices are undergoing changes. Many employers are adopting an evaluation and wage determination practice that takes employee performance into consideration. Although the practice is not a substantial departure from the prevailing one, what is important to note that employers are assigning a larger weight to employee performance, while retaining previous factors such as employee skills and age/tenure. Second, changes in wage payment practices are resulting in increasing wage disparity among employees. The problem, however, is that while it is easy to pay more for the top performer, it is difficult to decrease the wages of poor performing employees. There are some system-related and institutional factors that are likely to prevent employers from introducing large wage differentials and wage increases/decreases based on employee performance. Third, whereas Japanese employers are reluctant to introduce organization-based variable pay such as profit sharing, the current recession has changed their attitude regarding this issue.

According to the Japan Employers' Federation, changes in traditional personnel management practices are occurring due to fluctuations in the Japanese business environment (see Figure 7.6).

**Figure: 7.6 Japanese Business Environment and Changes in Personnel and Wage Systems**



**Source:** Japan Employers' Federation, p. 38, 2003.

The Japan Business Federation called for adopting a labor cost management system to reflect performance, adjust wages to more appropriate levels, set up systems to determine wages based on results and degree of contribution, and to shift to multi-track wage systems. Enterprises were encouraged to review seniority-based wages and uniform wage systems and adopt performance-based wages, which more strongly reflect their economic performance and an individual's achievements.<sup>73</sup> This clearly indicates that employers are beginning to review in their seniority-based wage systems and adopting performance-related wages.

Similar to the argument presented above, JILPT also indicated that Japanese companies are becoming more concerned about the burden imposed by paying high salaries to the growing numbers of middle-aged workers in the midst of increasing competition resulting from globalization and the aging of the population. Realizing the increasing challenges that stem from using the traditional wage system in the current situation of rising competition, some large-sized companies have already pegging employees' salaries to the level of productivity.<sup>74</sup> Recent trends show that some big companies are adopting an annual performance-based salary system. For example, companies such as Sony, Hitachi, and Mitsushita Electric are broadening their use of the performance-based salary system.

However, there has been no substantial change in prevailing practices. What has changed is an emphasis on individual performance, including skills and age.<sup>75</sup> The other change in the wage system which has occurred is that raises determined by length of service are increasingly at a slower pace in proportion to age than before.

### **Future Issues**

The seniority-based pay and promotion systems are still practiced in many large Japanese companies. The main purpose is to motivate employees and to get them to make sustain use of the skills they have acquired while working in the company. Japan has used different types of seniority-based pay depending on the socio-economic situation. However, the recent emphasis is to pay high wages when performance is good and to demote employees when performance is poor. Employers are seeking flexible seniority-based HR practices which will help them acquire highly qualified and creative employees. On the other hand, some employees are in favor of ability-based and achievement-oriented wage system.

Choosing a performance-based system as opposed to the seniority-based system on some level connotes a willingness by companies to look for options to support a non-regular employment system. At a time when there is danger of “creating a sub-class of poorly paid non-regular employees,”<sup>75</sup> this option may be helpful in paying higher wages for high performers regardless of employment status, to bring non-regular regular workers into the mainstream of employment. However, in a society where fast-track promotions and pay increases are viewed as nepotism or favoritism, it is imperative that the performance appraisal practice is developed more cautiously.

### **Enterprise-based Unions (*Kigyo-betsu kumiai*)**

Another important characteristic of Japanese employment relations are enterprise-based unions. In Japan, unions are organized at the enterprise level, collectively bargain with a single employer, and conclude collective agreements on the enterprise level.<sup>76</sup> According to Inohara:<sup>77</sup>

“Enterprise-wide unionism specifically expresses the workplace in terms of union membership. In principle, it organizes all regular employees of a company indiscriminately into one union, i.e., it is an employee organization on the basis of where they work (company) and not what they do (occupation or skill). Such a labor union is not dominated by the company; it represents the workforce, and as such, enjoys appropriate prestige and benefits provided by the company. Relations between management and the union are between insiders, namely, all the members of the union are company employees. Intervention by outsiders such as industrial and national labor organizations, outside business agents, or attorneys is not tolerated.”

Enterprise-level unions have been the dominant form of workers' organizations in Japanese companies,

especially after World War II.<sup>78</sup> According to a JIL source, in 1997, 93 percent of all unions were enterprise unions and 85.6 percent of all union members were members of an enterprise union.<sup>79</sup> In June 2003, out of 63,953 labor unions, 90 percent unions were enterprise-based unions. However, as described in the last chapter, the ratio of organized workers has been declining since the mid-1970s, with the percentage of workers belonging to a union plunging to a record low of 19.6 percent in June 2003.<sup>80</sup> The main reason for the declining union membership is a drop in the number of lifetime employees and the corresponding increase in non-regular workers who are less likely to become union members.<sup>81</sup>

Conceptually, enterprise-based unions are different from unions in the West in terms of how they organize and operate. Enterprise unions in Japan are organized to form industrial federations, which in turn are affiliated with a centralized national labor organization. Both the national organizations and the industrial federations deal with issues that are difficult to handle on the level of enterprise unions, such as demands concerning political and institutional reforms.

In fact, labor unions organized on the enterprise level stand for long-term cooperation between labor and management for the survival and growth of the working community, known as the company, which in turn affects the working conditions and living standards of all employees and their families.<sup>82</sup>

The main characteristics of enterprise-based union include:<sup>83</sup> a) union members are limited to regular employees of a particular enterprise; b) in general, both white- and blue-collar workers are organized in a single union; c) union officers are elected from among the regular employees of the enterprise, and d) during their tenure in office, they usually retain their employee status but are paid by the union.

There are some reasons why enterprise unions are so common in Japan. The main principles of employment relations in Japan are, as described earlier, permanent employment, seniority wages and the enterprise-based union system. Internal contracting (*naya seido*) was the most popular form of industrial management during 19<sup>th</sup> century for recruitment purposes, and to organize and supervise the labor force. “Systematic paternalism” is described as the ideal base of Japanese labor management relations.<sup>84</sup> Once recruited, workers prefer to work until retirement. They are regularly educated and trained and have opportunities to work in different positions through job rotations. According to the length of service, wages are increased and employees are promoted. Personnel related decisions are made inside the company where the role of unions and the labor force in the form of collective bargaining and joint consultation at the enterprise level are played out. The second reason is that union officers are employed as regular employees and are not bound to surrender to the will of management when decisions on working conditions are made. Rather working in the willingness of management, enterprise unions are the primary force in shaping inter-company working conditions and in taking positions to protect the profits that are owed to workers with the help of joint consultations — very effective in maintaining shop floor employee relations in Japan.

## Development of Enterprise-based Unions

While many believe that enterprise-based unions are a postwar development, others argue that in large-sized organizations enterprise-based unions came into existence between World Wars I and II.<sup>85</sup> Komatsu notes that already in 1920 there were unions in state-owned enterprises such as weapons factories, naval shipyards, in the tobacco monopoly, and municipal railways as well as in large private firms in the mining, steel, machinery, engineering, shipbuilding, copper refining and textile industries.<sup>86</sup> Another explanation about the emergence of enterprise-based unions is that are outgrowths of *sangyo hokokukai (sampo)*, a wartime patriotic labor organization designed by the government to ensure industrial peace and workers' dedication to the war effort. According to this explanation an enterprise-based union is essentially the same thing as *sampo*.

In fact, enterprise-based unions were popular in Japan especially after World War II and in particular between 1955 and 1974.<sup>87</sup> In the period following the war, Occupation Forces prompted the Potsdam Declaration encouraging a free trade union movement in Japan. The occupational authorities urged the Japanese government to promote the immediate formation of unions on both the national and local level.<sup>88</sup> Under pressure from the Occupation Forces, Japanese workers began to organize on the plant and enterprise level. With the beginning of the productivity movement in 1955, emphasis was placed on the role of labor-management relations on the enterprise level which really transformed the Japanese industrial system.<sup>89</sup>

## The Approach of Enterprise-based Unions

Abegglen's research tried to explain how non-Western, feudal Japan with a different social heritage was able to incorporate Western industrial technology.<sup>90</sup> He discovered that the distinct employment relations practices in Japan are related with employment system and wages. As described earlier in this chapter, Japanese companies do not discharge their workers; in return, workers are committed to dedicate their lives to their companies. Abegglen also argues that labor relations in Japanese factories are analogous to family relations, and advanced a hypothesis that this is a consistent and logical outgrowth of Japan's pre-industrial social organizations.<sup>91</sup> Supporting Abegglen's hypothesis, Nakamaya has also argued that the main charm of Japanese industrial relations lies in the common interest and mutual trust between employers and employees. He asserts that Japanese industrial relations are characterized by family-like relations in the enterprise between management and the union.<sup>92</sup> According to him, it is the deeply rooted Japanese culture and family system (*ie*) that has given birth to enterprise unions, whereas others argue these types of unions are necessary to pursue longer-term careers and to support the seniority-based system. Another convincing argument behind the creation of enterprise unions is that they are emerged as a force to compete on firm basis and to get advantage out of that.

On the other hand, the functional approach put forward by Taira explains that Japanese labor relations are



the outcome of optimal choices by employers and workers under given labor market conditions during the process of industrialization.<sup>93</sup> However, Dore forwarded a neo-culturist approach and dubbed Japanese industrial relations as “welfare corporatism.”<sup>94</sup> He noted that no substantial changes would appear in the Japanese industrial relations in the immediate future.<sup>95</sup>

The reasons why Japanese unionists have chosen enterprise-based unions seem realistic. It was management which encouraged enterprise level unions in order to compete on company basis and to earn more profit.<sup>96</sup> Employers and management always oppose any kind of “outside” intrusion into their enterprises or plants. Therefore, they have favored an enterprise-based union formed exclusively by their employees. From the viewpoint of the employee — since unions are given all kinds of facilities to organize on company property and employees working in the union office are treated as regular employees in terms of providing career opportunities — they also are supportive of the company union.

### **Enterprise-based or a ‘Company’ Union**

Many observers, especially from the West, are hesitant to describe enterprise-based unions as real unions, particularly as compared to the more overt form of union found in the West. They believe that enterprise unions work in close cooperation with management and therefore they are hesitant to describe them as bona fide unions, instead calling them “company unions.”<sup>97</sup> The term company union contains the connotation that it is a primitive form of workers’ organization lacking economic power and displaying a submissive attitude toward management. In addition, it cannot control the labor market outside the company and is not able to resist management. Union authorities have little say in management; at best they can collaborate in production.<sup>98</sup> For Westerners, union-management conflicts and confrontations should be somehow overt. But in Japan, labor management confrontation does not exist in the same form as in the West.<sup>99</sup>

However, industrial relations in Japan are not free from conflict between labor and management. Most Western observers believe that there is less conflict and that enterprise unions, like “company unions,” always cooperate with management. There are two reasons for behind such thinking. First, Westerner observers mostly focus on large enterprises where there is a lower level of conflict and where union-management relations are more harmonious than in small enterprises. Second, they do not understand the implicit nature of the conflicts that emerge in Japanese workplaces. Japanese employees show their grievances very implicitly. If not dealt with by the management in due time, the real conflict starts in overt form, such as a strike. Generally, strikes last for two or three days. Instead of showing any cohort behavior, workers intentionally stop being cooperative.

A 1977 report by the OECD described enterprise unions as one of the pillars of Japanese employment relations and stated explicitly:

“In Western eyes an enterprise union tends to be suspect, as likely to be too dependent on

management. But the Japanese enterprise union owes its development not to employers but to historical chance and to the lifetime employment system, which led workers to identify with their working group and to lack interest in what happened in other enterprises. Even though union officials normally remain employees of the enterprise throughout their terms of office (and have a good chance of promotion within the enterprise), the Japanese enterprise union could not be said to be dominated by management.”<sup>100</sup>

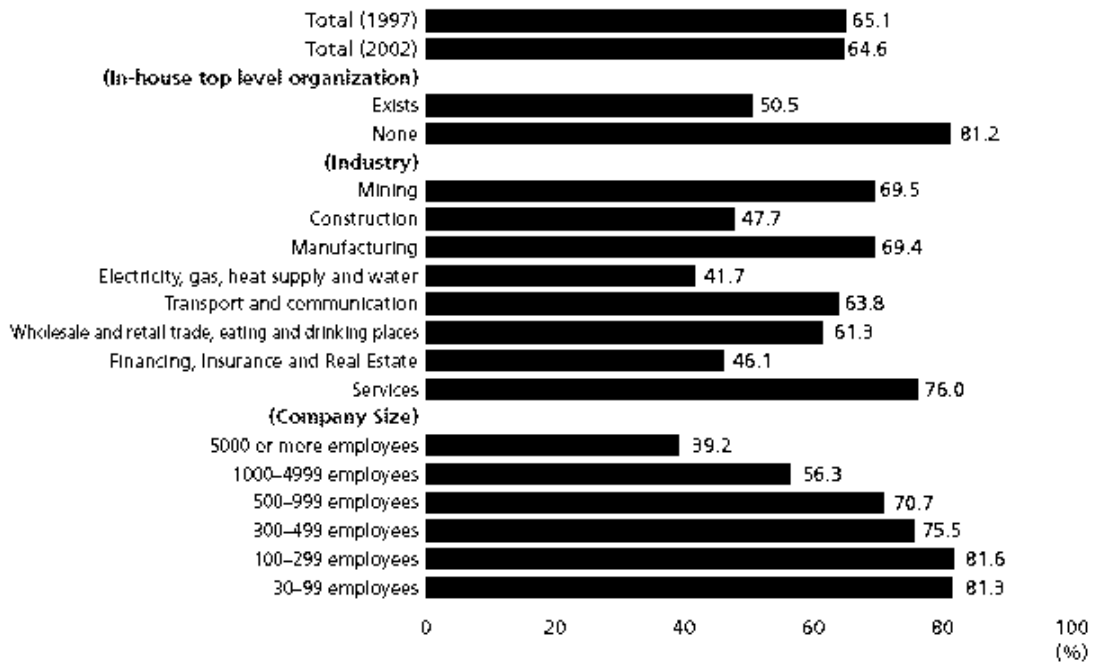
It is true that Japanese unions cooperate with management. This is because the unions believe that their existence depends on the company’s survival and growth, leading them to pay attention to the welfare of the enterprise. For example, at the time of two oil crises in the 1970s, Japanese labor unions recognized that the vicious circle of high wage increases resulting in an inflationary trend would eventually endangered employment security. Therefore, they placed employment security as the priority and accepted moderate wage hikes from 1975.<sup>101</sup> The unions played a dominant role in minimizing costs and increasing productivity on the enterprise level, and aided in the process of economic success during the two oil crises.

### **Collective Bargaining and Labor-management Consultations**

Enterprise-based unions exercise three important rights: the right to organize, to bargain collectively, and to strike. Each enterprise union has the staff, funding, and other materials necessary to exercise labor’s three primary rights.<sup>102</sup> On the enterprise level, there is an established mechanism to carryout collective bargaining in labor-related issues. At this level, union and management are involved in collective bargaining on issues related to wages, working hours, employment and personnel affairs.<sup>103</sup> Collective bargaining takes place between the director in charge of personnel assisted by personnel managers, and the union president, assisted by other union officials. During collective bargaining sessions, “outsiders,” such as representatives from national labor centers or government agencies, are not allowed to participate or interfere.

As far as involvement of unions in collective bargaining is concerned, according to one survey in the last three years 64.6 percent of all labor unions were involved in collective bargaining, a slight decline from the 65.1 percent in the previous survey.<sup>104</sup> By industry, services had the highest percentage of unions carrying out collective bargaining (76 percent) followed by mining (69.5 percent) and manufacturing (69.4 percent). At the other end of the scale, utilities companies, such as electricity, gas, heat supply and water engaged in collective bargaining the least (41.7 percent) (a breakdown is presented below in Figure 7.7). When collective bargaining breaks down, the dispute between labor and management widens and may result in a strike or third party mediation with the help of the Labour Relations Commission.

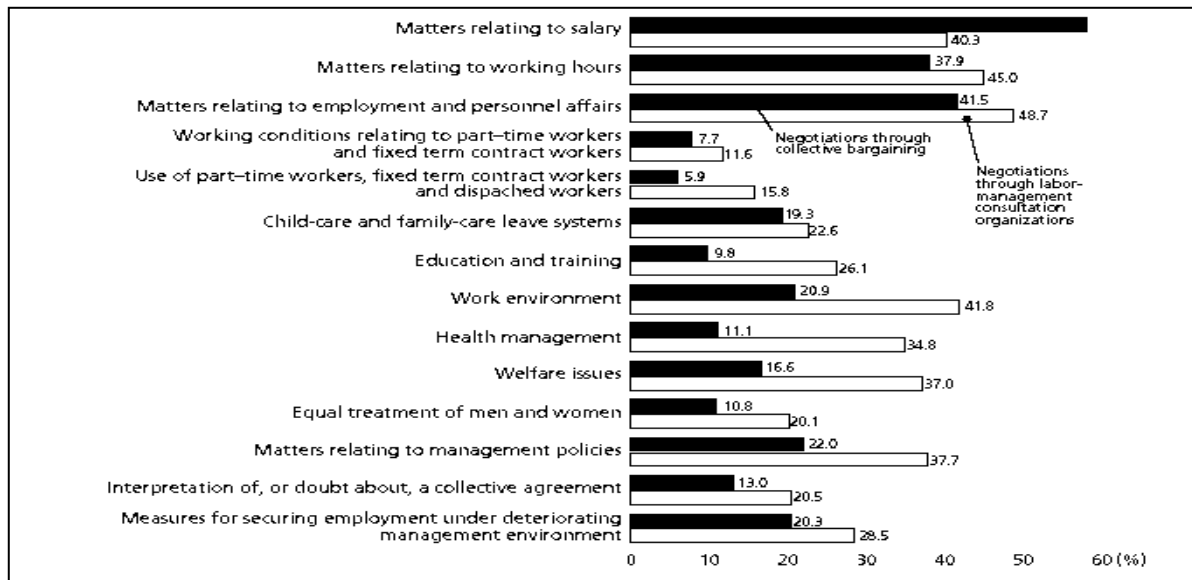
**Figure: 7.7 Percentage of Conclusive Collective Bargaining in the Past 3 Years  
(all labor unions = 100)**



**Source:** Adopted from *Labour Situation in Japan and Analysis 2004/2005*, JILPT.

Aside from collective bargaining, a number of labor-management consultations are conducted separately and discussions are held on formulation of management policy, production plans and other personnel related issues. This is an established practice within industrial relations which complements collective bargaining over the terms and conditions of employment.<sup>105</sup> This practice began in the 1960s almost simultaneously with the productivity movement.<sup>106</sup> Consultations are now widely used to establish sound labor-management relations in Japanese enterprises. Even in organizations where there are no enterprise-level unions, joint consultation committees are very active in various labor related issues. In fact, this practice is becoming a useful tool to enhance participation of the workforce in the management. Although the joint consultations are not legally binding, they provide a forum for discussion for management and labor to share information, improve their relationship and to encourage employee participation in management and promote flexible discussion on changing the attitude of workers. They discuss matters related to the workplace environment as it affects workers performance, and exchange information and opinions to facilitate mutual understanding and communication (see Figure 7.8).

**Figure: 7.8 Percentage of Negotiations through Collective Bargaining and Management Consultations in the Past 3 Years**



**Source:** Adopted from Labor Situation in Japan and Analysis 2004/2005, JILPT, p.68.

The above figure notes that depending on the issue, both collective bargaining and management consultation are useful negotiating tools. The figure shows that collective bargaining is effective in dealing with salary increases whereas management consultations are used to solve problems of working hours, employment and personnel affairs, working conditions, etc.

### Resolving Disputes

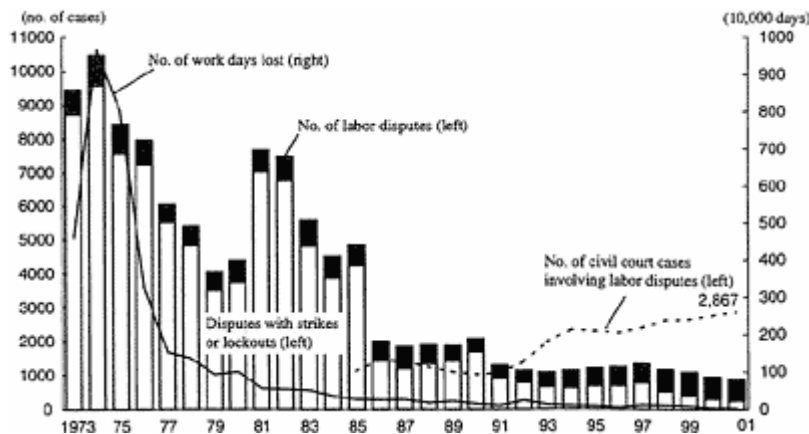
Disputes between labor and management occur with the failure to reach an agreement over the issues being discussed at the collective bargaining stage. The number of disputes climbed steeply immediately after the oil crises of the 1970s, and then declined, mainly in large enterprises, as labor-management relations matured. As a result, the number of workdays lost to strikes, lockouts or other form of disputes has been declining every year. Looking at the ratio of labor unions engaged in disputes by size, while labor unions of all sizes fell in the range of five to six percent, labor unions with 1,000 to 4,999 members alone marked a low rate of 3.2 percent.<sup>107</sup> Furthermore, in industrial trade unions, more labor disputes occurred in the transport and communications industry than in other industries.<sup>108</sup>

Enterprise-based unions have played a pervasive role in settling disputes and in the declining number of disputes. Since these unions are familiar to their members and play the most immediate role in maintaining and improving quality of workers' lives, they serve as "checkpoints" to stop disputes at the

source. Moreover, enterprise unions also serve as the base for relations with industrial unions and national centers which help develop understanding between management and unions during the different levels of dispute.

However, a new trend has been seen in the last few decades. Although the number of disputes substantially declined in the last two decades, there has been marked increase in civil court cases concerning individual labor disputes. This is due to the shift to personnel administration on an individual worker basis and changing employment patterns, resulting in more individual workers directly filing suits without going through a labor union (see Figure 7.9 Labor Disputes and Civil Court Cases).<sup>109</sup> To respond this problem, in 2001, the government established prefectural labor bureaus which help to solve disputes between individual employees and employers.

**Figure: 7.9 Labor Disputes and Civil Court Cases**



Source: Japan Business Federation p.21.

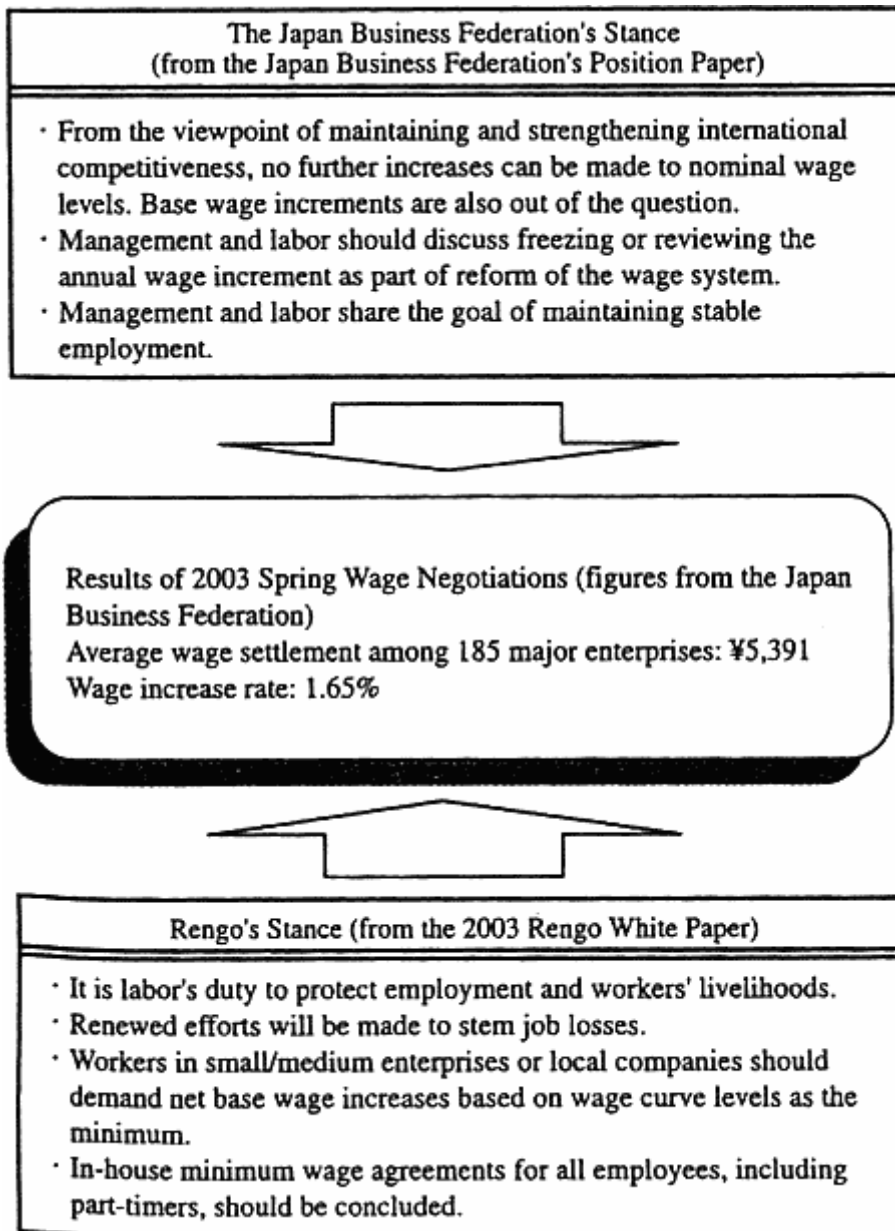
### Spring Wage Offensive

Japanese enterprises follow a typical wage determination practice. Every spring each enterprise union negotiates with its own management concerning wage levels and working conditions under the direction and coordination of national organizations and industrial federations. In Japan, the new fiscal year starts in April. Most enterprises hire new employees, revise wage rates, and carry out promotions and transfers in spring. The wage negotiations are called the *shunto* (spring wage offensive) which has been in existence since 1955 under the slogan of “spring struggle for better life.” In fact, it is a bargaining process in which individual enterprise unions simultaneously submit their wage demands, and negotiate with their respective employers. These negotiations result in standardized wage rates applicable across industries and companies.

Indeed, it is the most important annual event for Japanese labor-management relations. Trade unions started the *shunto* as a strategy to strengthen their bargaining power and to reduce the disparity in wage increases among individual enterprises across company and industrial lines. As a general rule, the process

begins with annual wage negotiations in the iron and steel, shipbuilding, electrical machinery and automobile industries. This is followed by negotiations by major private industries. In turn, the results of these negotiations are reflected in the annual wage increases given to workers in small- and mid-sized enterprises and unorganized workers. Moreover, decisions reached during the *shunto* on annual wage increases also effect wage determination of public enterprises and recommendations handed down by the National Personnel Authority (NPA), which takes responsibility for determining the salaries of public servants (see Figure: 7.10 2003 Spring Labor Negotiations). Indeed, the *shunto* was very successful in raising the wages of employees during periods of economic growth. It was also instrumental in raising the low wages in industries and sectors that paid poorly.

**Figure: 7.10 2003 Spring Labor Negotiations**



**Source:** Japan Business Federation, p. 23.

In spite of the success stories, debates surrounding the role of the *shunto* have emerged in the last few years. In particular, employers have argued that since wage rates are higher than the real economic productivity increase rate, it is becoming difficult for Japanese companies to compete in domestic and international markets (see Figure: 7.11 Wage Increases and Real Economic Productivity). Negotiations during the *shunto* also increased due to differences in the performance among the enterprises. The

disparity in wages between companies posting good performance and those with only a moderately good performance is increasing. Moreover, since many large companies are opting for a performance-based wage system, the use of annual wage increases arrived at through negotiations is decreasing. Many companies, including Canon, abolished annual wage increases and employee allowances. These were replaced with a new system that evaluates an employee's abilities and job performance. In fact, these companies discontinued wage negotiations during the spring offensive and replaced them with year-round-negotiations focusing on non-wage issues, including improvements in the efficacy of the new system, such as the personnel evaluation system. They are advocating this as the "new Japanese style."<sup>110</sup> (also Box: 7.7 Annual Wage Increases in Japanese Companies).

**Box: 7.7 Annual Wage Increases in Japanese Companies**

**Source:** The Japan Labor Flash No.13, Email Journal, April 15, 2004.

The proportion of corporations that have not offered an annual wage increase has risen by 25 percentage points over the past four years.

In March, the Japan Productivity Center for Socio-Economic Development released findings of its survey on changes in Japanese personnel systems.

The survey was conducted from November 2003 to early January 2004, and the questions were sent to all companies listed on Section 1 of the Tokyo Stock Exchange. Responses were received by 251 companies (for a response rate of 9.7 percent).

This year's survey found that 37.8 percent of the companies had not offered an annual wage increases for both their managerial and non-managerial employees, up 25 percentage points from the survey conducted four years ago, in 2000 (12.8 percent). Even among those companies that currently implement annual wage increases, about 30 percent said that they planned to abolish the system in the near future.

More companies (40.6 percent) now include departmental performance as a factor in their employee wage systems. Of these, more than half also apply to non-managerial posts, with 64.3 percent targeting mid-level workers (corresponding to section heads and subsection chiefs) and 53.6 percent apply to the rank and file. These findings reveal that overall the introduction of merit-based systems is steadily making its way into non-managerial posts.

### **Some New Trends**

As described in this section, enterprise-based unions are most successful in promoting labor-management relations and in contributing to the mutual interests of labor and management. The postwar success of Japan is largely attributed to the practice of employment relations based on the enterprise union concept. However, with changes in national factors, a number of issues related to labor-management relations have emerged on the enterprise level. Unions themselves have candidly admitted that they are under severe pressure from recent developments in the economic and business environments.

With the decline of lifetime employment and the increase in the number of non-regular workers, not only enterprise unions but the entire union movement is under threat. It is important to note that since the economic contribution of temporary workers is increasing, it is necessary to recognize their representation in the labor market by protecting their rights. Realizing this, some supermarket chains, such as Aeon, Ito-Yakado and Seiyu, have started to allow part-time workers to become union



members.<sup>111</sup> In fact, this trend is essential to enhance the union movement in the future. (also Box: 7.8 Major Supermarkets Allow Part-time Workers to Become Union Members). Moreover, there is increasing demand to allow non-regular employees to become union members in other companies too.

Recent economic trends show that the current wage level is higher than real economic productivity in Japan (see Figure: 7.11). Given today's austere economic climate in which wage increases are difficult, the *shunto* is shifting from its former policy of seeking wage increases as the highest priority to "job security and maintenance." The *shunto* is also being used to put forward various demands on the government for social and economic policies and institutional reforms on issues such as price stabilization, employment security and social security, thus to improve the living standards of workers. Therefore, unions are currently rethinking the traditional role of enterprise unions. The huge amounts of time and money that are devoted to the *shunto* are only yielding minor wage increases. Since the country has endured years of low growth and economic maturity, the needs and challenges of the workforce are also changing.

**Box 7.8 Major Supermarkets Allow Part-time Workers to Become Union Members**

**Source:** The Japan Labor Flash No.15, Email Journal, May 17, 2004.

Three major supermarket chains (Aeon, Ito-Yokad, and Seiyu) are moving to allow a maximum of 140,000 part-time employees to join the same labor unions as their full-time employees. Part-time employees now account for over 70 percent of all employees at all three chains, with part-time employees even assuming managerial positions at some stores. By allowing part-timers to become members of the same unions as full-time employees, the chains aim to respond to workers' demands for improvements in the workplace, as well as to boost worker morale, and heighten their competitiveness. Other retailers are expected to follow suit.

At Daiei, approximately 30 percent of all its part-time workers (about 14,500 people) are already union members.

With competition intensifying within the industry, companies have decided to allow unionization among part-time workers because the quality of part-timers impacts on their competitive edge. Part-timers also stand to gain as union members, because they can demand improvement in working conditions and make use of various corporate welfare programs.

**Figure: 7.11 Wage Increases and Real Economic Productivity**



With increased cost-cut measures adopted by employers due to rising competition, there has been a substantial increase in the employment of non-regular workers in the last few years. The unionization rate of these workers is only three percent. At the same time, employers have become increasingly interested in performance-based systems on the enterprise level. These developments should influence the future role of unions in the regular wage negotiation process.

But it is important to note that the Japanese pattern of employment relations is changing at slow pace. Both union leaders and employers are searching for employment relations which, on the one hand, succeed in maintaining the postwar stability and, on the other hand, allow them to compete in the domestic and international markets to meet the challenges stemming from national factors.

### **Summary**

The Distinct features of the Japanese employment relations system are lifetime employment, seniority based system and enterprise-based unions. Of the total employees, 69 percent employees are regular employees. However, the number of employees under lifetime contract is declining due to continued recession since 1990. Many companies have begun to adopt more diverse hiring practices over past few years, taking on experienced employees in mid-career in addition to new graduates. Employers began to prefer to hire mid-career and non-regular workers both in large, mid- and small-sized organizations. Employers are interested in rethinking their current recruitment and hiring practices, focusing on cost reduction.

The next important feature of Japanese employment relations system is the seniority-based pay and promotion system under which the decisive factors determining pay are the length of service, age and educational background, not the work performed. Regular wages include both scheduled (base pay plus various additional allowances such as a family allowance, commuting allowance and housing allowance) and non-scheduled earnings ( such as overtime, holiday pay, night duty allowance, etc.). Promotion in Japanese organizations is based on seniority. The most important criterion for promotion is length of service(*nenko* system). Another system is grade-based (*shokumu-kyu*), in which an employee's performance, qualifications and time assigned to different positions are used as the basis for promotion. Normally, to get to the position of section chief (the first managerial position) takes eight to 10 years. Performance appraisal system also exists in Japan. The every six-month evaluation determines payment of seasonal allowances; results of the 12-month evaluation help to set annual pay increments. The every six-month evaluation determines payment of seasonal allowances; results of the 12-month evaluation help to set annual pay increments. However, nowadays attitudes towards seniority based system have been changing. Many companies have changed their wage systems to reflect individual performance.

Another important characteristic of Japanese employment relations are enterprise-based unions. Unions in Japan are organized at the enterprise level, collectively bargain with a single employer, and conclude collective agreements on the enterprise level. Enterprise unions in Japan are organized to form industrial federations, which in turn are affiliated with a centralized national labor organization. It is believed that Japanese industrial relations are characterized by family-like relations in the enterprise between union and management. However, with the decline of lifetime employment and the increase in the number of non-regular workers, not only enterprise unions but the entire union movement is under threat. Moreover, given today's austere economic climate in which wage increases are difficult, the *shunto* is shifting from its former policy of seeking wage increases as the highest priority to "job security and maintenance."

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**Notes:**

<sup>1</sup> Abegglen, J.C. *The Japanese Factory*, The Free Press, 1960.

<sup>2</sup> Ouchi, W.G. *Theory Z*, Avon, 1980.

<sup>3</sup> Hasegawa, K. *Japanese Style Management*, Tokyo: Kodansha, 1986.

<sup>4</sup> Yoshimura, N. and Anderson, P. *Inside the Kaisha: Demystifying Japanese Business Behaviour*, Cambridge, Harvard Business School Press, 1997.

<sup>5</sup> Koike, K. *The Economics of Work in Japan*, LTCB International Library Foundation, 1996.

<sup>6</sup> Abegglen, J.C. (1958) op.cit.

<sup>7</sup> Yoshino, M.Y. *Japan's Managerial System: Tradition and Innovation*, The MIT Press, 1968.

<sup>8</sup> According to the Labour Standard Law, certain dismissals are prohibited. These include: a) during a period of leave for a workplace injury illness, and during the 30 days following, as well as b) during maternity and delivery leave (Article 65), and the 30 days following birth.

<sup>9</sup> However, companies should try to avoid such situations. This should only be used as a final resort to save the company from economic crisis. The company should first look for other measures, such as restrictions on overtime, reassignments and temporary transfers, freeze on new hires, etc.

<sup>10</sup> JILPT. *Labour Situation in Japan and Analysis 2004-2005*, Tokyo.

<sup>11</sup> NKSKK (Nihongata koyo Shisutemu Kenkyu Kai) *Kokokusho*, Tokyo: Nihongata koyo Shisutemu Kenkyu Kai, 1995.

<sup>12</sup> Adopted from Matanle, C.D. *Japanese Capitalism and Modernity in a Global Era: Re-fabricating Lifetime Employment Relations*, London: Routledge, 2003.

<sup>13</sup> Ouchi, op.cit.

<sup>14</sup> Higuchi, Y. "Trends in Japanese Labour Markets," in M.Sako and H. Sato (eds.) *Japanese Labour and Management in Transition: Diversity, Flexibility and Participation*, London: Rutledge, 1997.

<sup>15</sup> Koike, K. (1997) *Human Resource Development*, Tokyo: The Japan Institute of Labour.

<sup>16</sup> There are two types of OJT — formal and informal. The formal OJT is provided by instructors to train employees, and to set post-training evaluation standards. Informal OJT goes beyond the formal process and helps employees acquire and hone skills over the long term. It usually takes the form of a gradual progression or work experiences from simple to more difficult tasks, or a rotation system that enables employees to serve in a variety of positions. According to the *Basic Survey of Human Resource Development* undertaken by the Ministry of Health, Labour and Welfare, 44.8 percent of companies have formal training programs and 60.2 percent companies informal OJT.

<sup>17</sup> Sato, K. "Japan at a Crossroads," in K. Sato (ed.) *The Transformation of the Japanese Economy*, London: An East Gate Book, 1999.

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- <sup>18</sup> *Financial Times*, January 24, 2005.
- <sup>19</sup> JILPT, "Japan Labour Flash" No. 4, *Email Journal*, Nov. 17, 2003.
- <sup>20</sup> Japan Business Federation. *Current Labour Economy in Japan*, Tokyo, 2003.
- <sup>21</sup> Ouchi, op.cit.
- <sup>22</sup> Hanami, T. *The Changing Labour Market, Industrial Relations and Labour Policy*, Paper presented in Fifth Regional IIR Congress 2004.
- <sup>23</sup> Cole, R.E. *Japanese Blue Collar: The Changing Tradition*. Berkeley: University of California Press, 1971.
- <sup>24</sup> Gordon, A. *The Evolution of Labour Relations in Japan: Heavy Industry, 1853-1955*, Cambridge: Harvard University Press, 1985.
- <sup>25</sup> Yoshino, op.cit.
- <sup>26</sup> Yamanouchi, T. and Okayaki-ward, L. "Key Issues in HRM in Japan," in S. Tyson (ed.) *The Practice of Human Resource Strategy*, London: Pitman Publishing, 1997.
- <sup>27</sup> *Ibid.*, p. 226.
- <sup>28</sup> JILPT, op.cit.
- <sup>29</sup> Sato, A. "The Situation Part-time Workers Face and Future Tasks: An Analysis Focusing on Case Studies," *Japan Labor Bulletin*, JIL, pp. 6-11, June 2003.
- <sup>30</sup> *Ibid.*, p. 8.
- <sup>31</sup> JILPT, op.cit., p. 28.
- <sup>32</sup> *Japan Labor Bulletin*, Vol. 41. No. 7, July 2002.
- <sup>33</sup> Morishima, M. "Contingent Workers in Japan: New Developments and Unexpected Consequences," *Japan Labor Bulletin*, Vol.40-No. 3 March 1, 2001.
- <sup>34</sup> *Financial Times*, op.cit.
- <sup>35</sup> *Ibid.* p.7.
- <sup>36</sup> *Financial Times*, op.cit.
- <sup>37</sup> Araki, ?? "Labour and Employment Law in Japan," Tokyo: The Japan Institute Labour, 2005.
- <sup>38</sup> Japan Institute of Labour. "The 1999 White Paper on Labour: A Summary of the Analysis," Vol. 38- No.9 Sept. 1999.
- <sup>39</sup> Keeley, T.D. *International Human Resource Management, in Japanese Firms*, London: Palgrave, 2001.
- <sup>40</sup> Araki, op.cit., p. 71.
- <sup>41</sup> Yoshino, op.cit., p. 236.
- <sup>42</sup> Inohara, H. *Human Resource Management in Japanese Companies*, Tokyo: Asian Productivity Organisation, 1990.
- <sup>43</sup> Kazuo, K. *The Economics of Work in Japan, City??*: LTCB International Library Foundation, 1996.
- This part is substantially adopted from Koike's work.

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- <sup>44</sup> Ibid.
- <sup>45</sup> Ibid.
- <sup>46</sup> Ibid.
- <sup>47</sup> Ibid., p16.
- <sup>48</sup> Koike. K. *Learning and Incentive Systems in Japanese Industry*, Mimeo, Tokyo: Hosei University, 1991.
- <sup>49</sup> Araki, op.cit.
- <sup>50</sup> A “skills rank system” is a mechanism for the systematic classification of job achievement skills, the standardization of grading all employees together, and a company wide comprehensive integrated personnel organization.
- <sup>51</sup> JILPT, op.cit.
- <sup>52</sup> JBF, op.cit.
- <sup>53</sup> This part is adopted from Yamanouchi, T. and Okayaki-ward, L., op.cit. p.203-231.
- <sup>54</sup> Ibid.
- <sup>55</sup> Morishima, M. “Embedding HRM in a Social Context,” *British Journal of Industrial Relations*, 33 (4), pp. 617-40, 1995.
- <sup>56</sup> Adopted from Araki, op.cit., p.72.
- <sup>57</sup> Ibid., p. 73.
- <sup>58</sup> Hart, R.A. and Kawasaki, S. *Work and Pay in Japan*, Cambridge University Press, p.104, 1999.
- <sup>59</sup> Yoshino, op.cit.
- <sup>60</sup> Morishima, M., op.cit.
- <sup>61</sup> Inohara, op.cit.
- <sup>62</sup> Takeuchi, H. *Nihon no merittodurashii: koyo to shinsei* (Japan’s Meritocracy: Structure and Chacter), Tokyo: Tokyo Daigaku Shuppankai, 1995.
- <sup>63</sup> Koike, K. *Understanding Industrial Relations in Modern Japan*, London: Mcmillan, 1988.
- <sup>64</sup> Adopted from Hart and Kawasaki, op.cit., p. 111,
- <sup>65</sup> Ibid.
- <sup>66</sup> Takeuchi, H., op.cit.
- <sup>67</sup> JBF, op.cit., p.46.
- <sup>68</sup> Morishima, M. “Changes in Japanese Human Resource Management: A Demand Side Story,” *Japan Labor Bullentin*, 36(11), November 1997.
- <sup>69</sup> JILPT, “The Japan Labour Flash No. 8,” *Email Journal*, February 2, 2004.
- <sup>70</sup> Yamanouchi, T. and Okayaki-ward, L.,op.cit.
- <sup>71</sup> Fujimura, H. “Changes in the Spring Wage Offensive and Future of the Wage Determination System in Japanese Firms,” *Japan Labour Bulletin*, May 1, 2003.

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<sup>72</sup> This paper appears in the “Special Topic” column by Morishima, M. “Pay Practices in Japanese Organizations: Changes and Non-Changes,” *Japan Labor Bulletin*, pp. 8-13, April 1, 2002, and is based on two surveys. Two sources were heavily used. The first is the Ministry of Health, Labour and Welfare (MHLW) survey conducted in 2001, using a sample of 5,321 firms. The response rate was statistically significant (almost 90 percent). The second survey was smaller in scale, conducted by the author himself in 2001 in cooperation with MHLW, using the 199 largest employers listed on the Tokyo Stock Exchange. But the response rate of this survey was low.

<sup>73</sup> JBF, op.cit., p.38.

<sup>74</sup> Ibid. p.39.

<sup>75</sup> *Financial Times*, op.cit.

<sup>76</sup> Araki, op.cit., pp. 26-57.

<sup>77</sup> Inohara, pp. 25-26.

<sup>78</sup> Shirai, T. A. “Theory of Enterprise Unionism,” in Taishiro Shirai (ed.) *Contemporary Industrial Relations in Japan*, City??: University of Wisconsin Press, pp. 117-143, 1971.

<sup>79</sup> The Japan Institute of Labour. *Labor Management Relations in Japan*, Tokyo: JIL, 1997.

<sup>80</sup> ????. *Facts and Figures of Japan 2004*, city??: publisher??

<sup>81</sup> Ibid., p. 99

<sup>82</sup> Inhora, op.cit.

<sup>83</sup> Shirai, T. A., op.cit.

<sup>84</sup> Hiroshi, H. “Nihon romukanrishi kenkyu: Keiei kazokushigi nokeisei to tenkai (English translation??),” ??399-482??, *Mitsubishi Nagasaki Zosen sho shi*, pp. 707.

<sup>85</sup> Adopted from Shirai, p. 124.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid., p. 122.

<sup>89</sup> Araki, op.cit. pp. 209-10.

<sup>90</sup> This paragraph is substantially adopted from the historic work by Abegglen (1958).

<sup>91</sup> Shirai, op.cit. pp. 117-43.

<sup>92</sup> Nakamaya, I. *Industrialization and Labour-management Relations in Japan*. Tokyo: Japan Institute of Labour, 1975.

<sup>93</sup> Shimada, H. et.al. *Paradigm Shift in Made in Japan: Revitalizing Japanese Manufacturing for Economic Growth*, Japan Commission on Industrial Performance, London: The MIT Press, 1997.

<sup>94</sup> Dore, R.P. *British Factory-Japanese Factory: The Origins of National Diversity in Industrial Relations*. Berkeley: University of California Press, 1973.

<sup>95</sup> Ibid.

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<sup>96</sup> Ibid., pp. 128-33.

<sup>97</sup> Shirai, op.cit.

<sup>98</sup> Koike, K., op.cit., p. 195.

<sup>99</sup> This subsection is widely adopted from Hanami, T. *Labour Relations in Japan Today*, Tokyo: Kodansha International Ltd., 1979

<sup>100</sup> Organization for Economic Cooperation and Development (OECD). *The Development of Industrial Relations Systems: Some Implications of Japanese Experience*, Paris: OECD, 1977.

<sup>101</sup> Araki, op.cit. p. 215.

<sup>102</sup> JILPT, 2004-2005, p. 60.

<sup>103</sup> The Japan Institute of Labour. *Labour-Management Relations in Japan*, Tokyo: JIL, p. 2, 1997.

<sup>104</sup> JILPT, op.cit. p.63

<sup>105</sup> Araki, T. "Corporate Governance Reforms, Labour Law Developments, and the Future of Japan's Practice-Dependent Stakeholder Model," *Japan Labour Review*, 2(1), p. 42, Winter, 2005.

<sup>106</sup> Inhora,op.cit., p. 135.

<sup>107</sup> JILPT, 2004-2005, p. 62.

<sup>108</sup> Ibid., p .62.

<sup>109</sup> JBF (2002), op.cit., p. 21.

<sup>110</sup> JILPT, "The Japan Labour Flash" No. 12, *Email Journal*, April 1, 2004.

<sup>111</sup> JILPT, "The Japan Labor Flash" No. 15, *Email Journal*, May 17, 2004.



## **Chapter 8**

### **National Factors and Employment Relations in Japanese Companies**

This chapter seeks to describe national factors and employment relations practices in Japan. Information collected through interviews with HR managers and experts will be presented and analyzed to explain the changes in national factors and employment relations. In the final part of this chapter, two case studies are presented to reveal the influence of national factors on Japanese employment relations practices at the company level.

#### **Summary of the Background of Research**

In the opening paragraph of this study, a brief description of the change theory of Kurt Lewin is presented to indicate that every threat from outside forces in the firm passes through the internal management system that will take final integration or any result in the future. In case of Japanese companies, as cited in literature review, the main change forces are national institutions, labour market, national culture and economic and business environment. Many authors, as mentioned earlier in chapters, argue that these national factors are operating as the main forces triggering prevailing employment relations practices, such as, life-time employment, seniority-based system and enterprise-based unions. Moreover, contingent factors such as size, changes in corporate management system etc are working as moderating forces to introduce changes in specific companies.

To take some references from the Western countries, such as the USA and UK, in the last three decades a number of changes have occurred in their employment relations practices. These changes are accompanied by increasing pressures from domestic and international markets to achieve competitive advantages resulting from the globalization of business activities. Amid these pressures, companies in the USA and UK have placed emphasis on the management of human resource to improve productivity and quality and thus to be competitive in the domestic and external markets. Moreover, the role of human resource management has also changed overtime in these countries. Merely from record keeping and dealing with labour problems, human resource management nowadays in these countries is more concentrated on organizational change and development, communication, and ultimately, to make contribution for increasing organizational performance.

In Japan, employment relations practices have undergone many changes since the two oil crises of the 1970s. Companies implemented different cost cutting and productivity improvement measures to remain competitive in the business. As a result, impacts have been noticed in the employment of life-time workforce, seniority-based system and enterprise-based unions. Contrary to the prevailing employment practices, companies started to recruit non-regular workforce, introduced performance based reward system and there was a decrease in the union membership at the company level.

From the view point of many western and Japanese authors, unlike companies in the USA and the UK, Japanese big companies followed a typical management practice in the past. The typical management practice, as described in the Japanese and English literature, is believed to have emerged from the developments in Japanese institutions, labour market, culture and economic and business factors. Furthermore, the review of past works by many authors clearly shows the fact that Japanese employment relations practices are undergoing many changes especially in large sized companies. At the company level, a number of employment relations strategies have been changed. To take some examples of changes in life time and seniority based employment practices, electronic parts companies like Kyocera are hiring part-time workers; Hitachi Limited abolished seniority based wage system, Toyota abolished “age-linked wages” and established “proficiency-linked wages” and Canon abolished the annual wages increase programme. Similarly, changes have been occurring in enterprise-based union practices. Since the number of disputes is decreasing and work related issues are dealt through labour-management consultation the role of enterprise unions has changed. Many large-sized companies have stopped annual wage increments and follow performance based reward system. This trend will further minimize the unions' roles in wage increments.

Realising these facts, the study framework presented in this study aims to describe both national factors and employment relations practices to understand Japanese employment relations system. This model of Japanese employment relations attempts to develop a holistic concept to understand changes in employment relations in the past and present.

It is believed that Japanese institutions are influenced by historical developments in the society. The review of historical events explains the theories and facts about how family system and feudal system of the past largely contributed to the growth and development of current Japanese institutions. In the post-war period, the role of Allied Occupation Forces remained important to reform institutions. The government's institutions from that time remained highly vigilant towards employment relations practices at the company level. The government's role model was active central government with a stable bureaucracy, targeting of priority industries to enhance economic growth and aggressive promotion. A number of laws and policy measures were adopted to deregulate government activities. Rules and regulations promulgated by the government to protect employees' rights and time-to-time amended considering needs of various sections of people. The Equal Employment Opportunity Law, the Labour Standard Law, the Child Care Leave Law are some of the examples. Similarly, Trade Union Law and Labour Relations Law regulate employment relations practices at the individual companies as well as at the national level. In order to maintain a stable labour market and generate employment opportunities, the state plays an active role. In the recent past, the government has issued employment policies to address emergency employment development programme, to revitalize employment and to follow other comprehensive employment measures by the companies. These initiatives helped quite a lot to solve labour market and other employment related problems.

Among other national institutions, unions have contributed largely for the success of Japanese companies in the post-war time. They are organized at all levels from the national level to the enterprise based unions. Enterprise based unions are most popular and effective in Japanese companies. The number of enterprise based unions reached 63,955 in June 30 2003. Available statistics show that the unionization rate is the highest in the public services and electricity, gas heat supply, water, financing and insurance. Most of the union members are full timers and life time employees. Only 3% of the part-timers are union members. Currently, trade union movement is going under review due to the increase in the number of part-time workers which caused a decline in the membership at the enterprise level, withdrawal of membership due to mandatory retirement, and lowering dispute rates. The unionization rate has now reached below 20 percent. However, the role trade union is there in the future to support the competition, growth and to increase profits at the company and national level.

Japan Business Federation (JBF) is a strong private-sector institution responsible to achieve a private sector-led, vital and affluent economy and society in Japan. It comprises 1268 institutional members includes 79 foreign ownerships, 126 industrial associations, and 37 regional employers' associations. It deals with economic, industrial, social, labour and other issues relating to corporate activities and maintains relations with its members, government and labour unions. It also works as a partner with the government and unions to achieve its aims and provides guidelines to its members in achieving goals of profits and growth. From time to time, it makes individual request to the government for regulatory reforms. It urges members to adhere to the Charter of Corporate Behaviour and Global Environment Charter in order to recover public confidence in businesses.

The role of education remained paramount to change and develop the Japanese society. The post-war model of education consists of six years of elementary school, three years of junior high school, three years of high school, and two or four years of university. Elementary and junior high school attendance is compulsory. Universities include undergraduate colleges, junior colleges and graduate schools. In addition, there are a number of public vocational training institutions to provide general and advanced trainings in the public sector specially established by the prefectural and the central governments. Japanese education system emphasizes cooperative behaviour, group discipline and conformity to standards. However, in the background of emerging industrial challenges there is a need to foster creative talent, educate people to match the demand for new and creative ideas and to enrich the labour market to meet the changing requirements of the society. Demands are growing louder to improve the prevailing education system. It is argued that education should contribute to the development of leaders with a vision and cultivating human ingenuity. In some cases, reform measures have already been taken by the government and the educational institutions to cope with the socio-economic challenges of the country. Japanese labour market faces a number of challenges. The main characteristics of the Japanese labour market are: declining population growth rate, aging working population, rising percentage of unemployed people, declining employment opportunities in the manufacturing sector and smaller and interrupted

participation of women workforce. Another revealing challenge in the labour market is the mismatch between job offers and job seekers.

Japan is known as a highly cultured country. Some of the national cultural dichotomies are still believed to exist in organisational practices. The inheritance system ( *ie* ), familism ( *kazokushugi* ), general tolerance with ambiguity ( *aimai* ), seniority rules in relations ( *senpai-kohai* ) and harmony ( *wa* ) are some of the examples of national cultural trends. It is believed that all or some of these cultural elements have significant impact in employment relations practices. However, in the course of development of the country and movements of the people in the society, Japanese culture is gradually changing and influencing work values and belief systems at work.

Japan follows a capitalistic market economic model and is the second largest economy of the World. Although Japan faced a number of economic upheavals over the period of time, such as, two oil shocks, rise in the value of yen, bubble burst and continued economic recessions, from the past experience it evinces that it has enough capacity and resources to recover from these economic turbulences. Industries in different sectors were restructured and are still undergoing overhauls in the economy. Regarding the FDI, both inward and outward investment is increasing. Foreign trade has remained favorable most of the time. Investment in R&D has remained high. However, the main challenge of improving the current level of productivity is still there threatening the Japanese economy and business environment.

Presented below is a discussion of the influence of national factors on employment relations in two Japanese companies. Two organisations have been selected for the purpose of case study. One is Mitsubishi Chemical Corporation (MCC) and the other is Association of Sinken Banks (ASB). The information was collected from direct interviews with concerned HR managers and executives. The details of the case study are presented in the last section of this chapter.

### **National institutions and ERs at the Company Level**

In a country like Japan, where the economy is predominantly a market-based, regular reform measures of the government affect the extent of regulation and deregulation of employment relations practices. In the past, there were evidences of government interference in the labour market to curb unusual economic events so that the smallest percentage of the workforce would suffer. As discussed earlier in this study, a number of rules and regulations were promulgated to deregulate economy and labour market forces. However, problems still lie ahead at the individual company level. On behalf of a group of companies with 392 subsidiaries and affiliates in Japan and overseas, a HR supervisor argues that the government still attempts to influence a number of employment relations practices. He further states that unlike the US companies, Japanese companies are more regulated by the government. The government's willingness to force adherence to rules and regulation influences the companies' autonomy while making decision on employment relations issues such as employment and reward practices. The HR supervisor of Mitsubishi Chemical Corporation (MCC), views that the things are not going as per the norms of market economy. It

is generally believed that deregulation in employment practices is imperative to compete and to integrate in the globalization process. However, the government still puts in effort to interfere even in the daily ERs practices.

However, the management of Shinkin banks argues that a number of government regulations have been relaxed in order to encourage competition. Until 1980s, the government took the policy of protecting banks. At the same time, deregulation started. From this time, the government divided the banks into strong and weak institutions. There are cases when the government protected the big banks while, with the deregulation of economy Shinkin banks have to work desperately for their survival.

Regarding the declining unionization rate, companies argue that due to less interest in union membership of young and part-time workforce, there is an effect on the rate of unionization both in manufacturing and financial sectors. With the process of deregulation going on in many sectors including the labour, unions are not big issues. In fact, in terms of regulation of unions, there are virtually no big changes in the last few years. Even the government does not want that unions should increase their influence. Management and even some workforce members accuse the union leaders of being "union aristocrats" and failing to represent the members' voices. However, with the deregulation of labour legislation, there is a problem in protecting the interest of labour force at the company level.

There has been an increasing demand to restructure educational institutions so that they can contribute to produce competent leaders and entrepreneurs who can make Japanese companies further competitive in the future. Since Japanese schools and universities do not teach practical skills required for the manufacturing and financial sector, employers are putting their best efforts to train and develop the new recruits.

The influence from JBF is increasing. More recently, it attempted to implement the Charter of Corporate Behaviour and Global Environment Charter at the company level. It is urging its members to adhere to these Charters in order to recover public confidence in businesses. However, it is necessary to warn company managers with pressures so that they develop mechanisms in their companies to implement such initiatives and understand their implications in employment relations practices. In fact, in spite of its limitations to influence at the company level it is believed that JBF as a prime institution of the employers helps a lot by working as a moderator with unions and the government. Its roles are believed to be favourable to enhance the competitive capacity of the companies.

### **Labour Markets and ERs**

Generally it is believed that the declining population growth rate and increasing number of aging workforce will affect future demand and supply of manpower at the company level, increase work pressure among blue and white color workers in the future and increase demand for foreign workforce in both skilled and unskilled jobs. However, the influence of such developments may differ at the company level.

Companies are aware of the recent developments in the labour market. They are sometimes in a difficult situation in finding quality workers to work in manufacturing plants. It may be due to a lower interest of Junior High Schools' students in Japan to work in manufacturing plants. They are more interested in "soft jobs" such as in retailing or may be doing their own small business.

However, the declining trend of population growth rate is not considered a serious matter at the level of individual company. Mitsubishi Chemical Group (MCG) is investing in R&TD and is able to develop efficient technology to supplement workers' productivity. In the last 10 years MCC reduced its total number of employees to almost a half of the percentage. Companies are working efficiently and productivity is increasing optimally. In the future, there will not be any serious problem of under supply of labour force when Japanese school graduates will be ready to work and companies invest huge sums of resources in R&TD to invent efficient work technology.

Aging workforce is not always a problem for a company like the MCC. The HR Manager argues that they can contribute by teaching the junior staff. Contributions of aged workforce have been appraised of in the past. Some aged workers are willing to work as part-time workers for the company.

Normally, it is assumed that an increasing unemployment rate moderates wage rise and thus affects the bargaining power of the company unions. It is generally believed that when supply of unemployed workforce increases in the labour market, employers will have greater choice and freedom in recruitment and reward matters. However, in case of individual companies it may not be true. Companies under MC group are more interested in quality workforce and they are ready to reward the staff based on their individual performance. In fact, the reward system is changing from a fixed one to a performance-based one at the company level and, at the same time, the role of collective bargaining for wage increment is becoming questionable.

Macro level population statistics show that Japanese labour participation rate is not uniform for male and female in general. Male workers aged 24 and under are declining whereas the ratio of the elderly (age between 55 and older bracket) tend to increase. This will certainly influence the old age benefits of employees and the contribution of newly recruited people in the social security system. The labour force participation ratio of female workers declines in their late 20s through their 30s, and increases again in the 40s. This trend may result in some disadvantages of breaking jobs in the labour market. However, at the individual company level the effect of such changes is negligible. It is really difficult to evaluate the effect of a "M" curve at the company level. At MCC, women workforce is managing well to contribute in the company. They are working as managers and performing quite satisfactorily in the company with few and manageable job interruptions.

The new problems are emerging in the Japanese labour market with the increasing population of NEET (not in employment, education and training) and withdrawals (Kikomori). Rise in such category of people will certainly have an adverse effect in the ratio of labor force participation.

## **National Culture and ERs**

Japanese *ie* dichotomy enhances feelings of togetherness and belonging at the company level. The culture of familiasm develops a belief system that an organization is a family house and people working in it are family members who sacrifice for the best of organization and family. Japanese collectivist value appears to be well practiced for successful team work and harmony. *Sempai-kohai* dichotomy represents respect for senior employees at the companies. It reinforces the seniority system. On the other hand, Influence of western culture is increasing in the daily lives of Japanese youth. Japanese risk-averting culture has had its influence on creativity, innovativeness, entrepreneurship at the company level. Education system and national culture are closely related. Improvements in the prevailing education system can influence Japanese culture towards enhancing creativity and risk-taking behaviour. As the movement of people increased from rural to urban areas, competition increased with the inflow of foreign companies, and still the Japanese 'mainstream' culture remained very deeply rooted. This has made it difficult to make sudden 'Western-type' changes in the corporate management practices.

Understanding of the impact of national culture at the work place makes us clearer about its impact on employment relations practices. In Japan, women were expected to work at home and men worked in offices as 'salaryman'. However, in a Company like MCC women participation is satisfactory.

The company follows a performance based reward system. However, there is increasing discontent among managers and unions regarding the evaluation system. Some even argue that this will destabilize Japanese prevailing work harmony, cooperativeness and team work at the organizational level. However, the HR manager argues that the increasing difficulty of appraising individual performance may be due to a high level of familiasm and collectivist culture prevailing at the workplace.

It is believed that salary and benefits of regular workers are undermined after the Americanization of workplaces in Japan. In former times, particularly 1960s and 1970s, there was a thick layer of middle class family due to a large number of salary workers. When the regular source of income decreased, it created many problems for the people - even headaches and mental illnesses. This trend adversely affected performance.

Managers still believe that influence of culture is still there at the Japanese workplace. They further explain that even after increasing competition and introduction of performance based system the influence of culture at the workplace is a half truth. It is not like the USA where culture is regarded as the 'causal factor'. In a company, a feeling of harmony, team work and organization as a family is still valid. Every company under MCG is sharing these values and belief systems. Even after companies started asking for more and more autonomy in the regulation process of the government, they are still interested in Japanese hard working culture and workplace harmony.

Some authors argue that there is no place for subordinates who argue against their bosses. It is not true in the case of individual companies like MCC. Individual companies do support arguments, discussions and disagreements. Managers dislike subordinates who wait for orders and need a lot of instructions and

control.

The increasing influence of individualistic culture in Japanese companies has been creating problems in training and developing junior staffs. Senior staffs believe that teaching and transfer of knowledge and skills to junior staffs may lead to competition between seniors and juniors within the company. Obviously, in a performance-based system a junior staff can succeed his or her senior on the basis of better performance. In a country like Japan where society is still feudal in character and where overriding feelings of seniority are present at the workplaces, promotion of the junior staff prior to his or her boss causes frustration and dissatisfaction among the senior staff.

### **Economy and Business Environment and ERs**

Many argue that competition and cost-cutting policies are the main forces influencing employment of non-regular workers, introduction of performance-based system, recruitment of mid-career employees, and the need for employment of foreign workers. Merger, restructuring and external FDI in the past have affected job creation negatively. On the other hand, increasing internal FDI created job opportunities, forced local companies to improve their productivity and to reengineer internal management system and work efficiency.

Although the service sector in Japan is emerging as an important and attractive sector in terms of employment of people in the future, big banks are the exceptions. Even they announce new vacancies; the social reputation of the banks has declined so much that, once regarded as the most attractive sector for fresh graduates, they are now less attractive for qualified graduates. This will create problems in getting competitive workforce. The restructuring of middle and small scale industries created fewer employment opportunities in the past.

Chief executives and HR supervisors agree that there is a need to improve in the current level of factory productivity in the ratio of investment in R&D. At the present level of productivity, other things remaining the same; wage increment is not so difficult. The only option is to follow the strategic pay system based on performance. Some organizations have been following a portfolio approach for determining the reward for employees. Under this system employees are recruited as per the nature of the job in different contracts. Depending on the nature of the job, some employees are recruited in a life-time contract whereas others are recruited under part-time contracts.

At the company level, rather than focusing in competition and cost cutting, priorities are given to quality, customer care and good solution. Companies like MCC are not worried about competing on a low cost basis as Chinese, Russian and other developing countries are. Its focus is on quality improvement. The MC group of companies looks for high performing people in the management, in the head office and in every subsidiary.

Since the MC group is investing more on R&TD, it employs people who can manage to work with this developed technology. What is important is to develop people who can race with new technology. In fact,



companies under MC group are competing on the quality of people they employ. Therefore, their main concern is how to get people who can cope with high-performing work system.

### **Final Remarks**

- On the basis of a review of latest developments and interviews in the two companies we find that in Japan the contingent factors influencing relations between national factors and the prevailing employment relations are size of organization in terms of employment and capital investment, sector (manufacturing or service), corporate management and objective of the respective company.
- There is strong evidence that the government of Japan still plays an influential role for shaping employment relations practices at the company level. However, deregulation is important to motivate companies for competition and integrate their activities in the globalization process.
- The labour market factors are influential to decide on recruitment and selection practices.
- Explicit influence of national culture is noticed at the time of recruitment, selection and performance evaluation.
- The Economy and business factors are closely related with recruitment and representation practices at the company level. More specifically, increase and decrease in the volume of FDI, off-shoring of manufacturing firms to low-cost areas, inflow of foreign companies, acquisition of Japanese firms by non-Japanese companies will certainly influence the recruitment and representation systems
- The degree of influence of national factors on employment relations practices is largely determined by the contingent factors such as the business sector.

## **Case Study-1**

### ***Mitsubishi Chemical Corporation (MCC)***

#### ***Introduction<sup>1</sup>***

MCC is a part of a larger group of corporation named Mitsubishi Chemical Group (MCG) incorporated in October 1, 1994 by merging two big corporations—Mitsubishi Kasei Corporation and Mitsubishi Petrochemical. Its paid up capital is 14508.6 billion Yen. Its head office is in Tokyo, Japan. It has plants in nine different places and branch offices in Osaka, Nagoya, Fukuoka and Sapporo. The Research and Technology Development (R&TD) centers are in Yokohama and Tsukuba. It has major overseas subsidiaries and offices in the USA, Europe and the Asia and Pacific. The total number of employees in MCC contract is 10193 of which 4937 are regular and 190 are part-time/ temporary employees and the rest are leased.<sup>2</sup>

Its business is mainly concentrated in two segments—petrochemical and performance products. Under the petrochemical segment, it produces ethylene, acrylic acid, bisphenol-A, styrene monomer, terephthalic acid, ethylene glycol, 1-4 butanediol, Polytrimethylene, ether glycol, polycarbonate and poly butylenes terephthalate. On the other hand under performance segment, its products are Coke, high-analysis compound fertilizer and ion exchange resin.

MCC is a part of a larger organized group called Mitsubishi Chemical Group (MCG). The corporate message clearly states that it is committed to a group motto i.e. to make change at the time of a wave of change and do its utmost to engage in solution-based business activities that are done in dialogue with its customers, shareholders, and investors. The company intends to accept the challenges of the times and climb to the pinnacle as the world's top chemical group. Its main vision is “good chemistry for tomorrow” (it is their approach to respond to the needs of industry and society in order to create good ‘chemistry’ with people, society and nature). Four main principles to run the businesses are: a) to be a preferred solution partner to its customers by constantly advancing skills and technologies; b) to change and innovate, creating value and contributing to sustainable growth throughout the world; c) to fulfill social responsibilities including commitment to health and safety, and harmony with the environment; and d) follow the corporate culture of openness, fairness and mutual respect to enable us to actively pursue and realize our dreams.

MCC’s Board of Directors is led by a Chairman, and has 4 Representative Directors, 4 Members of the Board and a number of Executive Officers and Corporate Auditors. MCC has created an executive officer system since 1999 which aims to promote large-scale delegation of authority, optimize the number of directors, expedite decision-making and business execution and clarify responsibilities and the scope of authority. It has created the management system by business segments in April 2002 and intensified decision-making and business execution across the Group.

Regarding the financial performance, in the last three years the non-consolidated financial data presents

the following facts on sales, income and other relevant information.

### Non-Consolated Financial Statement of MCC.

	Unit	FY2001	FY2002	FY2003
Net sales	Billion yen	669.3	674.6	715.7
Operating income	Billion yen	(7.8)	28.0	21.1
Income (loss) before income taxes	Billion yen	(13.0)	23.2	16.9
Net income	Billion yen	(88.8)	16.0	6.9

Recently, MCC declared a plan known as “KAKUSHIN” to rebuild its business foundation.<sup>3</sup> The plan aims to solve business related problems, such as, dispersed business, weakened financial position, low profitability, decentralized business structure and conservative corporate culture. The solutions sought by the company are: improvement in business selection and focus process, reduction in interest-bearing debts, reduction in costs by adding more and more value, integrating competencies of the group of companies and rejuvenation of the corporate culture.

Regarding R&D, the MCG has its own Science and Technology Development Research Center, Inc. which was formally established on July 1, 2003, by integrating various research and technology development (R&TD) capabilities of the Mitsubishi Chemical Group in order to provide the customers with revolutionary products and solutions even faster than before. The two most important targets of MCC Group's R&TD activities today are matching R&TD strategies with business strategies and the creation of new technologies that can prove competitive in the marketplace. As MCC Group shifts its strategic emphasis to a product-oriented company, the most important tasks of R&TD organizations are to form bridge between technologies and business, to establish technological core competence that gives the Company a truly competitive edge, and to create a seamless process of innovation.

In order to integrate R&TD strategies with business it has adopted three research programmes. They are research for business development, building technology platforms, and cooperation with public research organizations and academia.

Research for business development programmes is related to develop a new venture program, and is an aggressive top-down research strategy aimed at business growth in the areas of life science and performance products. This programme also helps to bring out new products. Specifically, the R&TD wing is developing electro-organic materials, solid-state lighting, environmentally-friendly energy systems, polymers that respond to their environment, biological materials, chemicals that meet specific customer needs, functional polymers, and many other products that are designed to fulfill the needs of the contemporary society.

Technology platforms are programs where several scientific and technological areas are broadly integrated in order to support competitive strength in all corporate research. The third programme seeks to connect MCC Group with outside organizations that have outstanding

researchers. This is regarded as an effort to build up future research competence where joint research is being conducted from the earliest stages together with companies in other industries such as Rohm, Pioneer, Hitachi, and NTT. It has also a comprehensive research alliance with the National Institute of Advanced Industrial Science and Technology, which is a public sector research organization. In fact, the three programs mentioned above are aiming at developing dynamic R&TD systems and clearly focused on searching for business opportunities and contributing to the welfare of society.

MCC is seeking energetic and motivated persons in the world who have gained valuable experiences with excellent talents and creativity. It recruits both international students with ability to use business level Japanese and Japanese students with experiences abroad.

### ***Interview with Group HR Manager***

In the course of this study, the researcher interviewed the Group Manager of the HRM Department. Presented below is an edited version of the responses of the Group Manager.

#### ***Q. How supportive is the government to make your organization competitive?***

**Group HR Manager:** The Government does not help that much. We have been greatly regulated by the government law and regulation. In this situation, it is difficult for us to compete in the domestic and international markets. From employment to manufacturing plants, we are much more regulated than our American counterparts. For example we have a petro-chemical manufacturing plant which should be shut-down every year for overall inspection. This will affect our production. The system here is different from that of the USA where companies regulate their own inspections in manufacturing plants. Although our production facility is good enough to produce continuously for 2-3 years from now, the government does not understand the situation. It wants to regulate too much when it comes to safety matters. The Koijumi's government made some progress in the deregulation process. However, still there are many things to do ahead. Despite the fact that our technology has improved over time, the government still wants to follow the safety policies, which were formulated immediately after the Second World War.

To take another example, in the labour law there is a provision for having white collar workers paid by time. They work overtime and we are required to pay for the same time they work. How long they work? If they work for 10 hours extra we have to pay for the hours they worked; not their performance. We believe that reward should be given on the basis of performance rather than the time one spends in the job. To take another example, the government made a provision for flexible working hour system under which employees are free to choose their working hours. In the mean time, the government also asked the companies that they should use time card or have the work of employees directly controlled by a supervisor. It means that we have to pay for the time they work more than they are supposed to do. That makes no sense and these kinds of things are happening very often.

I understand that some small companies have not complied so far with the above matters and some of

them are going even against the standards as determined by the regulation. In fact, we do not need a unique regulation system which treats all kinds of companies equally. The government rules should vary based on the companies' performance. If our company is doing good and complying with the rules and regulations, the government should give them autonomy. If not, a mechanism of supervision and control is needed.

In case of employment relation matters, the rules are similar for both small and big companies. It would be better if the government made different policies to treat small scale and large companies differently due to the different nature of their problems.

***Q. What is your opinion about the declining union membership?***

***Group HR Manager:*** We are having unions in our companies. Our unions are very friendly. The main reason behind the declining union membership so far is that the young people are not interested in union activities and also the role of union is decreasing. The Company itself is thinking of employee welfare very well. We do not have many issues that unions have to facilitate. In fact, the role of unions in our company is decreasing. In the past, Japanese companies largely employed permanent employees and they were the main portion of union members. But this situation is changing overtime. We are now having many temporary employees and they are not interested in union membership. At the same time, our HR system is changing. We pay for performance. Annual increments do not make any sense. It is difficult for unions because they have no issues to talk about with the companies. When problems occur they are first handled at the manager's level.

***Q. How do you evaluate the role of Nippon Keidanren (Employer's Association)?***

***Group HR Manager:*** They are helpful. The Employer's Association is doing a good job. Of course, they have certain limitations and cannot go beyond their limits. They represent the companies' opinions. I don't have any special opinion about them. They are doing well. I have no idea about the Charter of Corporate Behaviour, Global Environmental Charter, Japan 2025. I think they are the new policies. I don't know the details.

***Q. Are you aware of the changes in the labour market? What are the main changes in the last 3 years?***

***Group HR Manager:*** Labor market is drastically changing. We are having difficulty in finding good people. Unemployment rate is increasing. Competition is increasing and it is my opinion that the level of students from junior high school is getting worse. It is a problem related to the quality of industrial education in Japan. We are getting quality manpower at the production plants. We have to invest a lot for in-house training. Young students do not want to get permanent jobs specially to work in manufacturing plants. They like "soft jobs" in retailing business or prefer to be involved in small businesses.

The aging population is not our problem. It will not affect our labour supply. In the last 10 years, the

number of employees became half in our company. We are investing a lot in research and technology development. Our productivity is increasing and we are outsourcing some of our manufacturing jobs. So it is not our problem.

Aging workers increase a company's costs. In the new jobs especially, to work efficiently with high performing technology, they are not very efficient. They are not good to operate with computer systems and to generate new ideas. However, from skill's point of view they are not so bad. Since they are very experienced they are helping a lot to train and develop our young employees. Our workforce can work without others' help till the age of 72 years. It's not bad. We have so many older people working as teachers, and front line servicemen. They are still willing to work.

In some cases it is very difficult to find qualified people to work. For example, there are cases when our vacancy requirements and the qualification of job seekers do not match properly.

***Q. Do you think that people in your organization are innovative and contributing to productivity enhancement?***

***Group HR Manager:*** Our employees are not conservative. Four years ago, our business was in a terrible situation. It is not only our companies but also many other businesses in Japan that have passed through very hard times in the past. Now we are in a better position. It is because our employees worked very hard; they accepted challenges and did their best to create new things in the past. They have brilliantly contributed to the growth of the company and to bring it to this position.

***Q. Are the attitudes of people changing at work, especially regarding women at work, participation, group work, discussion and disagreement?***

***Group HR Manager:*** In the past, women participation was less due to a feeling of "women inside and men outside." Now attitudes towards women have changed. They are getting better. Women are now educated and willing to contribute by working in different positions. In our companies, there are women managers working as the frontline engineers, managers of R&D department, managers for sales and marketing departments. They are effectively playing different roles in these departments. Unlike in the past, women are ready to give more time in the office. Since we are having fewer and fewer children in our family, our children are reared by their grand parents. The Equal Employment Opportunities Act helped women to get many facilities on the job so that they can contribute a lot from their given positions. Our culture is changing. The past belief system that "Japanese culture affects work environment" is now a half truth. But it's not like in America. We have never completely given up our culture. We still believe in group work and harmony. We think that business and work is more important than personal life. People are working very hard. Our managers are motivated. In the USA, managers come from outside to get higher positions. But we have an internal promotion system. Our people are having a better feeling of ownership than their counterparts in the USA. I worked for five years in the US subsidiary where I got

this impression.

The Company is also trying to establish a family-like environment. We have a feeling that we are sailing in the same boat. It means if the boat sinks we all will get into trouble. Teams are very important in the company. We can do any job without difficulty with our team efforts.

However, it is getting difficult to evaluate performance for our supervisors. Generally, they do not like to give any negative remarks while appraising the performance of their subordinates. This might be because of the Japanese culture where people live with unity in groups. We have good relations among each other and do not try to destabilize the harmonious work environment.

Our work culture is gradually changing. Superiors and subordinates discuss the different business matters. They can agree or disagree and put forward relevant arguments. We facilitate and encourage our subordinates to participate in discussions. We do not need employees who wait for orders from the boss. Employees are free to put forward their opinions in front of their bosses. Superiors are also tolerant of their subordinates' opinions.

There are some bosses who are arrogant and dislike arguments. In cases where bosses and subordinates seriously disagree, we can make their internal transfers.

***Q. What measures need to be implemented immediately for your company to remain competitive in the domestic and international markets?***

We need highly performing people in the management. We have had 392 subsidiaries and affiliates. In each subsidiary and affiliate we need highly performing people with proper leadership and executive skills who provide their best services to the company.

We are very concerned about how to make our people more educated and trained so that they can contribute to work in our companies. Our focus is on performance and productivity. That's why we are investing a lot of resources in R&TD activities.

We are looking for business-minded managers and leaders. We are more concerned about quality. We always look for customer care and good solution. We cannot compete with Chinese companies on cost basis. In fact, we are not worrying about that. We put in good ideas to produce the best quality of products that our customers like.

*Q. Which national factor/factors remained influential to decide on employment relations factors in the last three years? (1 stands for the least influential and 7 for the most influential). Please also indicate reasons for some factors being more/less influential)*

*Group HR Manager:*

	National institutions	Labor market	National culture	Economy and business
<b>a. Life-time employment</b>	6	4	4	4
<b>b. Seniority based system</b>	6	1	2	2
<b>c. Enterprise-based unions</b>	1	1	4	4

*Q. What new challenges are you currently facing in recruitment, promotion and from the representatives of the company unions?*

*Group HR Manager:* our most important challenge is how to manage diversity. We are more committed to managing diversity. Therefore, we are involved in managing women, senior people, handicapped and foreigners. We do not have very specific diversity management programmes except language courses to teach for Japanese workers.

We need a concept of portfolio management to employ our human resources. Permanent employees vs. temporary employees, part time work system, work sharing system etc. We have to be very careful to decide on what kind of job contract should be made with permanent employees, part timers and for employees working in R&TD section. For example, in R&TD work, we need employees for a 2 year contract. A full timer should not be assigned part timers' type of job. Some of the jobs are very difficult to perform for ourselves therefore we need professional people or we may outsource that particular aspect of job.

We are worried about how to educate and develop highly potential people. We have just started an internal executive MBA course for developing our executive workforce. We select 25 managers and request university professors to come to teach them. They teach them using a number of cases.

We have language courses for Japanese workforce inside the factory premises and we also send our people to overseas plants for such training. Normally, we teach our people Chinese, Korean and English languages.



## **Shinkin Banks<sup>4</sup>**

Shinkin banks were incorporated under the Shinkin Bank Law in June 1951 as cooperative regional financial institutions serving in financial matters both to small and medium sized organizations and individuals. The main aims of the banks include: 1) healthy development of small and medium-sized enterprises; 2) realization of affluent domestic lifestyle; and 3) contribution to the prosperity of local regions. In the last 50 years, they have contributed a lot especially in the development of small and medium sized organisations in Japan. In the past when small businesses were having a very difficult time due to sluggish sales and low profits, together with other regional financial institutions, Shinkin banks had effectively supported them in revitalizing their business situations.

These banks are the cooperative forms of organizations based on a membership system. Loans are distributed only to the members of prescribed geographical regions and deposits are collected from both members and non-members. Of the total deposits in Japanese financial institutions almost 10.5 percent is held by Shinkin banks. In the last 50 years, the bank deposits increased by 524 times. Besides deposit, the banks' main operation includes other services such as loans, domestic and foreign exchanges and other business related services. They are non-profit cooperative organizations financed by its members. There is no restriction on deposits. Although there are differences in the legal foundation and purpose of establishment between Shinkin banks and commercial banks, the nature of their services do not differ significantly.

Regarding the management in Shinkin bank, the highest decision making authority lies either with the general meeting or the deputies' meeting. The voting system is one vote for each member. Directors and auditors are elected at the general meeting or the deputies' meeting, and the directors form the Board of Directors (BOD). The BOD is responsible for electing the Chairman of the Board and the other representative directors, and overseeing the daily operations of the bank.

The Financial Service Agency supervises the bank's activities. It is responsible for regular monitoring and inspection of the banks to ensure that the applicable laws and regulations are being observed and that their operation is sound.

There are two umbrella organisations of Shinkin banks. They are the National Association of Shinkin Banks (Zenshinkyo) and Shinkin Central Bank. There are some other related organisations assisting in supplementing and strengthening activities of the members' banks.

Altogether 300 Sinkin banks are in operation in all prefectures of Japan. They employ almost 1.5 million workforces of which 1.2 million are life-time employees (out of which 70% are male and 30% are female) and others are part-time and dispatched employees. The researcher had an opportunity to interview two important personalities of the Zenshinkyo. The Manager of HR Training Division and the Representative of a Central Educational institute provided a lot of information in respect to the influence

of national factors on employment relations practices in their banks. Their opinion represents only the Shinkin Banks that are located in Tokyo area. The edited version of the interview is presented below.

***Q. How supportive is the government to make your organization competitive?***

***SB Associates:*** Regarding the influence of labour policy and government rules and regulations, a number of relaxations have been made in the regulation system of the government in the past. In order to provide a competitive environment and to protect Japanese companies from the competitors such as China, the government has made relaxation in its rules and regulations so that companies do not go bankrupt. A number of policies and regulations that had protected labourers in the past have been relaxed too.

Our banking business is different that of from other manufacturing companies. We don't produce cars, TVs and other specific materials or products. Especially the development of banking business depends on what happened in the history of the particular country. Japan also has a long history of banking business.

Any company in a country needs capital to invest to start a business. In Anglo-Saxon countries capital is raised from the capital market. In some other countries, banks lend money to start and operate businesses. In Japan, banks invest money in the companies overwhelmingly. After the bubble burst, the money lent to companies turned into bad debts. As a result, we are still fighting to recover from this huge volume of bad debts. Some banks have recovered whereas we are still trying to solve this problem. Indeed, in the last decade financial institutions were very busy to deal with their bad debt problems. Although the aim was to recover in three years, we have not yet succeeded completely.

In Japan, until 1980s governments had the policy of protecting the banks. Since banks play a very strong role in the economic development of the country the government was really protecting the banks. Deregulation in the financial sector was started from the 1980s. With the beginning of deregulation in this sector the government made discrimination in its treatment of strong and weak institutions. From the late 1990s the number of financial institutions decreased. The government is still protecting strong but sick banks by providing public money. With the deregulation of the economy Shinkin banks have had to work desperately for their survival.

Since the government follows the market policy, it does not help if a bank goes bankrupt. To recover from the losses either they should merge or close down their business. It means that difficulty is increasing.

***Q. What is your opinion about the declining union membership?***

***SB Associates:*** Some of our banks are unionized. As in other manufacturing and banking sector organizations the influence of unions is declining. The decline in membership is because of the attitude of the government. The government does not want the union membership to increase. This is the attitude of the government towards unions.

There are some other reasons too. The active unions' representatives are successfully getting higher positions soon after they become leaders in the company and they are becoming "union aristocrats". In fact, they do not represent the real voice of the members. They misuse their positions to make their own

careers in organization disregarding the other members. Many employees have been disappointed with such opportunistic behaviour of the union leaders and declined from the memberships. That's why the overall membership has declined. In the case of Shinkin banks too, it is true that the number of members and the interest in unionism has been declining.

But if you look at this trend very objectively, this is not good news. Rather, it is the process of infringement of rights of the workers. At the time when the deregulation policy of the government is undermining the workers' rights, this should not to be taken as a right trend.

Furthermore, the number of regular workers either leveled or declined. The number of atypical workers has been increasing in many organizations. Many young employees are not interested to join unions.

Those recruited from high schools or universities will not have enough skills to work in the beginning. Since our schools and universities do not teach them the practical skills, students do not have any practical skills. This applies for any other sectors, not only for the financial sector. In fact, training and development opportunities are provided by the employers in the internal labour market. In case of Sinkin banks they have training centers in different prefectures.

***Q. How do you evaluate the role of Nippon Keidanren (Employer's Association)?***

***SB Associates:*** Shinkin Banks and this association are not the members of Nippon Keidanren. Members of the Nippon Keidanren are having big businesses. It collects requests and demands of members and works as a pressure group to influence the government policy in its favor. They are a very big pressure group.

However, it is important to note that only 25 percent of salaried workers are employees in these big business houses and the rest are working in small and medium-sized organizations. It denotes that Nippon Keidanren does not represent the voices of all organizations and their employees in Japan.

***Q. Are you aware of changes in the labour market? What are the main changes in the last 3 years?***

The government admits the fact that the diversity in the Japanese employment pattern is changing in the recent past. A number of workers are ready for working in a non-regular contract. That is a good symptom of improvement.

According to the recent population census the number of young workforce is sinking in Japan. This trend will have an impact in the Japanese companies. Debates are ongoing whether foreign laborers are to be given the chance. Otherwise Japan is facing a severe workforce scarcity in the future.

There are an increasing number of NEET (not in employment education and training) people in the labour markets. Moreover, 850 thousand youths are of withdrawn (kikomori) category mostly passive workforce in the labour market who are either school graduates or dropout students staying at home.

***Q. Do you think that people in your organization are innovative and contributing to productivity enhancement?***

***SB Associates:*** In the sense of innovativeness, employees working in the Shinkin banks are conservative. However, just demanding innovativeness from workers prohibits them from their regular duties. Therefore, people in these banks are conservative in a very positive sense. Sinking banks are not stock holding companies rather they are cooperatives. Profit making is not their motive.

***Q. Is the attitude of people changing in work, especially regarding women at work, participation, group work, discussion and disagreement?***

***SB Associates:*** Very frankly, the salary and other benefits for regular workers appears to have decreased in many organisations. In the past, Japanese employees worked very hard as salary workmen in the organizations. They used to earn a good sum of money and their living standard was very high in the society. Japanese economy has also remained very strong. A large proportion of working people were economically sound enough. Recently, their ration is decreasing due to the increasing Americanization of the Japanese management system.

We do not see obvious changes on the surface. However, specific problems of headaches and mental illness are some of the emerging challenges. These challenges deepen in the financial sector. Mental health problem is becoming the main issue. In big banks and other financial intuitions mental health of senior workforce becomes an important issue. People are becoming introverted because of themselves. This will certainly affect their quality of performance and ultimately contributions at work.

In the past when the peers entered the company they used to be promoted and received the same kind treatment in terms getting salary increments, promotions and other benefits. But after the introduction of performance system disparity began to appear within the peer group of employees. Discrimination has started in the promotion and benefit systems. Competition among the peers increased and this trend has led to increasing mental pressures and health problems. Many employees are going to hospitals. This reverse phenomenon in the organization disturbed the seniority system. The junior staff that are smart and prove to be the best on the basis of performance are promoted to higher ranks. In some cases, they succeed their bosses and are appointed as supervisors of their former bosses. This also applies to Sinkin banks. This has become a severe pressure for the senior employees who are forced to work under their juniors. In the Japanese society where seniority and cooperativeness are regarded as the fundamentals of employment relations practices with the introduction of performance based systems, senior and aged employees are facing these problems. Indeed, work harmony and cooperation in Japanese organisations are in problems because of the introduction of the performance based system.

People started thinking of whether the system itself is good or not. If we read newspaper or magazine articles almost 80% of top management argues that performance based system is a problem. Similarly, 100 % union members say this is a problem.

Performance based systems have another weakness. If you start a performance based system, senior workers start to refrain from teaching their juniors. They decline to teach their juniors assuming that the juniors may be a kind of threat in their future competition for promotion and other career development matters. That will affect performance of the organization also. Therefore, a performance based system is not good.

***Q. What measures need to be implemented immediately for your company to remain competitive in the domestic and international markets?***

We concentrated only in a certain portion of Japanese domestic market. In the past, it was necessary to have skills to attract deposits. Currently, what is required for the employees is to acquire the skills to extend loans to potential borrowers. Things are changing. Banks do not lend money if there is no prospect for returns in the future. We cannot charge the handling fees.

***R. Which national factor/factors remained influential to decide on employment relations factors in the last three years? (1 stands for the least influential and 7 for the most influential).***

***SB Associates:***

	<b>National institutions</b>	<b>Labor market</b>	<b>National culture</b>	<b>Economy and business</b>
<b>d. Life-time employment</b>	6	2-3	5	7
<b>e. Seniority based system</b>	4	3-4	5	6
<b>f. Enterprise-based system</b>	1	1	1	1

***Q. What measures need to be implemented immediately for your company to remain competitive in the domestic and international markets?***

***SB Associates:*** Major economic changes after the bubble economy affected our institutional mechanism and system too. A number of Japanese manufacturing plants were shifted to China. Of course, china is the top most emerging manufacturing point for Japan. There are both good and bad points of this development. The good point is that Japan can have advantage from skilled and low wage workers. The bad point is that there is no adjustment in the wage level of Chinese and Japanese workers.

***Q. What new challenges are you currently facing in recruitment, promotion and from the representatives of company unions?***

***SK Associates:*** Now the Japanese economy is fully integrated into the globalization process. Organisations are involved in cutting regular wages by appointing atypical workers. In the restructuring

process many banks stop making fresh recruitments. As a result unemployment of educated people increased. The amount of wages, in total, decreased substantially in favor of banks.

Even mega-banks are in the process of cutting operational costs. They are planning to make new recruitment of a few thousands of fresh graduates from the next year. Shinkin banks probably will do the same.

The government is asking for shifting the retirement age from 60 to 65 years. This will further increase the number of old aged workers and make it difficult for making new recruitment.

Banks in general had dropped their social positions in the last 10 years. Since mergers, acquisitions, bankruptcies and similar phenomenal things have been occurring; banking is no more regarded as the stable sector for the purpose of employment. In the past, banks were thought to be the most attractive and stable sector for employment purpose. It is because many things changed in the financial sector in the last 10 years, the issue is whether we shall continue the same recruitment practice that we had followed in the past. Before 10 years banking sector was the most attractive from the viewpoint of employment of the fresh qualified graduates. But now it is the least attractive sector for the new graduates. The problem is how to attract these young graduates. The Shinken banks are also not appealing for them.

A number of big banks merged due to increasing difficulties and in order to take advantage of the use of their collective efforts. Banks like UFJ, Mijuhō and Tokyo Mitsubishi were once separate banks. But now they have merged together. Before the merger they had their own cultures. When they merged together, difficulties increased in integrating their cultures. Still it is a great challenge for the merged banks. Finally, this phenomenon is affecting individual workers and work places resulting in a number of mental illness cases among the employees.

### ***Notes:***

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<sup>1</sup> This part is prepared based on the information available from the website <http://www.m-kagaku.co.jp/english/corporate/006.html>

<sup>2</sup> These figures were noted from the Group HR Manager during interview.

<sup>3</sup> “KAKUSHIN” is a slogan representing MCC’s determination to make a quantum leap through continuous innovation and renovation.

<sup>4</sup> The descriptions about Shinkin banks are based on information on Guide to the Operation of Shinkin Banks, 2005, Face to Face, The National Association of Shinkin Banks, Tokyo, Japan.

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