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## General Survey

### 1999 White Paper on Working Women

Titled the “Actual Situation of Women at Work,” the 1999 White Paper on Working Women was released by the Ministry of Labour in March 2000. The labor force participation rate for females aged 15 and over in 1999 was 49.6 percent (down from 50.4% in 1998). Women workers accounted for 40.6 percent of Japan's total labor force (down from 40.7% in 1998). This was the first time since 1989 that the participation rate fell below 50 percent. The number of female employees totaled 21.16 million (39.7% of all employees in Japan), a decline of 80,000 (0.4%) from the previous year.

The 1999 White Paper provides an analysis of the outlook for securing employment among female university graduates.

With regard to the approach of female university graduates seeking employment, the White Paper states that most took their first job because they found it suited their own character and because it was likely to allow them to make the most of their own abilities. At the same time, an overwhelming majority felt their work was worthwhile “when a task they had done was appreciated” and “when they felt they had achieved something at work.” It was also found that female university graduates preferred specialist to managerial posts, a short-term contract where their abilities were properly evaluated to a long-term one where there were not assignments which gave them opportunities for job-training and promotion, and work which involved genuine responsibility rather than simply assisting someone else in authority.

The labor force participation rate for women is nearly 100 percent immediately after graduation, but this declines to around 50 to 60 percent when they reach their early 30s. The participation rate for females does not increase much after the busiest years of raising children are over, even though quite a few wish to work again. The reasons that university graduates who do not currently work gave for quitting their former jobs included “they did not find their jobs fulfilling,” accounting for 22.8 percent, followed by “they had decided from the beginning to give up their jobs when they got married” (20.2 percent). On the other hand, among the female university graduates who wanted to work again but believed it was impossible, several reasons were given for not working; 72.2 percent mentioned “the age limit” - in particular, 81.8 percent of those aged 35 to 39 and 72.4 percent of those aged 40 and over claimed that their age was a fairly big hurdle when it came to reemployment. In response to this situation, the White Paper suggests such measures as improved flow of information

through the Internet, relaxing or even abolishing the age limit, and reform of the tax and social security systems.

## Working Conditions and the Labor Market

### Sexual Harassment: Actual Inquiries and the Responses of Companies

The revised Equal Employment Opportunity Law (EEOL) came into effect on April 1, 1999. The law details the obligation of employers to pay due attention to preventing sexual harassment in the workplace. In fiscal 1999, nearly 9,500 inquiries and complaints were brought to prefectural Equal Employment Departments located throughout the country.

The corresponding figure was 1,615 in fiscal 1996 and 2,534 in fiscal 1997. It rose sharply to 7,019 in fiscal 1998 just before the revised EEOL came into effect, and then jumped to 9,451 in fiscal 1999. Of the 9,451 cases in 1999, 4,882 cases were brought by female workers and 4,569 were brought by companies. Many inquiries from companies concerned: (i) possible preventive measures such as including company policy in work rules and setting up a counseling center at the workplace or (ii) what to do about actual cases. Many inquiries from women, on the other hand, concerned ways of dealing with actual harassment or the inadequacy of their company's response.

A questionnaire survey concerning the prevention of sexual harassment conducted by the Institute for Work in the 21st Century (Nijuisseiki Shokugyo Zaidan) has revealed that large companies are duly establishing preventive measures but that small companies are lagging behind. The revised law established three guidelines for firms: (i) dissemination of a clear statement of the measures taken by the firm to prevent sexual harassment in the workplace and active steps to ensure that employees are aware of the measures, (ii) establishment of a grievance and counseling center within each enterprise, and (iii) ascertaining the facts in a speedy and satisfactory manner and taking appropriate steps when harassment has occurred. The survey revealed that 70.9 percent of the surveyed enterprises with 1,000 or more employees had followed all three guidelines. However, only 45.4 percent of firms with 300-999 employees had done so, and the figure was a mere 6.8 percent of small enterprises with fewer than 30 employees. In terms of individual industries, most firms in finance and insurance had adopted the guidelines, while those in construction and services were lagging.

The survey found that 42.7 percent of all firms had notified all their employees about their company policy on sexual harassment via an "internal notification" method. To improve the understanding which employees had of harassment, 53.7 percent of large firms with 1,000

or more employees conducted educational programs for employees in managerial posts. Among enterprises with 30 or fewer employees, the most common method was to hold “discussions and meetings within the workplace” (49.8%). As for the establishment of a grievance and counseling center within enterprises, 41.2 percent of large companies with 1,000 or more employees included females among their counselors, and 71.7 percent assigned the task to their personnel sections. On the other hand, in small companies, personnel staff (37.8% of firms) and managers in individual workplaces (36.7%) were in charge.

## Human Resources Management

### Companies Grapple with the Dwindling Family

On April 20, 2000, the Japan Federation of Employers' Associations (Nikkeiren) and the Japanese Trade Union Confederation (Rengo) issued a joint statement indicating their determination to grapple with problems arising from the dwindling number of children in the population. Recognizing that the rapid decline in the birthrate will significantly affect society and the economy in various ways, they called on companies to make themselves more “family-friendly.” Specifically, they mentioned the need (1) to expand maternity and child-care leave, (2) to introduce more flexible working arrangements such as staggered office hours and working at home, and (3) to provide reemployment schemes for workers affected by childbirth and child care.

Shortly afterwards, on April 25, a national conference on measures to deal with smaller families released a report entitled “The Promotion of an Approach Acceptable to the Nation at Large.” The report called for companies to provide their employees with working conditions which would allow families to balance work and child care. The conference requested Nikkeiren and management in general (1) to improve maternity and child-care leave provisions, (2) to introduce more flexible working arrangements to enable employees to continue working while being responsible for their children, (3) to avoid the relocation to inconvenient locations of employees with child-care responsibilities, and (4) to provide training programs for those who have emerged from their most demanding period of child care and are about to return to the workplace. The report also called for Rengo and unions in general to press for (1) the shortening of working hours, (2) gender equality in the workplace, (3) agreements which provide for gender equality in terms of overtime and holiday work, (4) stronger measures to prevent and remedy instances of sexual harassment, (5) a shorter working week in line with provisions of the Child Care and Family Care Leave Law, and (6) agreement on leaves to attend to the illness of children or similar emergencies.

In line with such developments, Nikkeiren and other employers' associations decided that they would, from time to time, publicize firms which are taking active steps to create conditions conducive to a better balance being struck between work and child-rearing responsibilities. They pledged themselves to examine the role of private companies in meeting social needs. The next 15 years or so was set as a target period during which they would address a range of issues which the move toward smaller families has raised.

The Ministry of Labour has instituted a certification and award system for “family-friendly” firms. The awards will be for firms which have put in place schemes to help their employees manage both work and child care or other nursing responsibilities at home. (See the January 2000 issue of the *Japan Labor Bulletin*.)

## International Relations

**Conference Report: The Annual Meeting of the International Club of Labor Periodicals**  
***From Protection towards Proaction: The Role of Labor Law and Industrial Relations in Job Creation Policies***

by Hideyuki Morito (Associate Professor of Law, Seikei University)

### Introduction

On April 28, an international conference was held at the University of Modena in Italy. It was the annual meeting of the international “club” of labor periodicals, organized by Professor Marco Biagi of the University of Modena and Reggio Emilia, and also the managing editor of the *International Journal of Comparative Labour Law and Industrial Relations*. The purpose of the club is to make collaborative arrangements for the advancement of research in the fields of labor law and industrial relations, and for the exchange and publication of material. The member journals are: *Análisis Laboral*, *Arbeit und Recht*, *the Australian Journal of Labour Law*, *the Bulletin of Comparative Labour Relations*, *the Comparative Labor Law and Policy Journal*, *the Industrial Law Journal*, *the International Journal of Comparative Labour Law and Industrial Relations*, *the Japan Labor Bulletin*, *Lavoro e Diritto*, *Liasons Sociales Europe*, *Relaciones Laborales*, and *the South African Industrial Law Journal*.

Distinguished labor law and industrial relations scholars from around the world were present at the conference as speakers and chairpersons: Professors Richard Mitchell (University of Melbourne, Australia), Breen Creighton (La Trobe University, Australia), John Howe (University of Melbourne, Australia), Matthew Finkin (University of Illinois, United States), Deborah Malamud (University of Michigan, United States), Manfred Weiss

(University of Frankfurt, Germany), Marlene Schmidt (University of Frankfurt, Germany), Michele Tiraboschi (University of Modena and Reggio Emilia, Italy), Marco Biagi (University of Modena and Reggio Emilia, Italy), Véronique Marleau (University of Paris II, France), Reinhold Fahlbeck (University of Lund, Sweden), Rudolf Buschmann (*Arbeit und Recht*, Germany), Tadashi Hanami (Japan Institute of Labour, Japan), Shinya Ouchi (Kobe University, Japan), Catherine Barnard (University of Cambridge, United Kingdom), Guido Balandi (University of Ferrara, Italy), Alan C. Neal (University of Leicester, United Kingdom), Pascale Lorber (University of Leicester, United Kingdom), Carole Cooper (University of Witwatersrand, Republic of South Africa), Hideyuki Morito (Seikei University, Japan), Lammy Betten (University of Exeter, United Kingdom), Miguel Rodríguez-Piñero Royo (*Relaciones Laborales*, Spain), Torsten Walter (*Arbeit und Recht*, Germany), Clyde Summers (University of Pennsylvania, United States), Paul Davies (London School of Economics, United Kingdom), Carmen Agut García (University Jaume I-Castellón, Spain), Juan Raso Delgue (University of Uruguay, Uruguay), Luis Aparicio Valdez (*Análisis Laboral*, Peru), Fernando Vasquez (European Commission, Portugal), and Sally Ball (University of Oxford, United Kingdom).

## **Discussion at the Conference**

The key question discussed during the conference was whether labor law, in performing its new function of promoting employment, is at the same time losing its original role of protecting people at work. Many participants, including Professors Ouchi and Morito from Japan, prepared papers for the conference in line with Professor Biagi's outline which is largely based on the European Union's "employment guidelines" for member states for the year 2000.

### **(1) Improving Employability**

The first session dealt with employability issues. Attention was paid to training, retraining, work practice or other employability measures with a view to the effective integration of workers into the labor market. The improvement of workers' employability is considered the key to tackling youth unemployment and preventing long-term unemployment in Europe.

The first subsession was entitled "The Meaning of an Employment/Job Creation Policy: Supply-Side vs. Demand-Side Strategies." After Professor Biagi's opening remarks and Professor Aparicio Valdez's presentation on the situation in Latin American countries, Professor Mitchell pointed out that, in Australia, there has been a steady shift in importance from demand-side measures to supply-side measures over recent years. Then, Professor

Rodríguez-Piñero made some comments from a Spanish perspective.

The second subsession was entitled “The Role of the State/Government: Public vs. Private Employment Services.” After introductory remarks in impressively fluent Italian, Professor Ouchi changed to English and emphasized that, while on the one hand it is necessary to encourage private employment services, on the other hand we should not forget the importance of public employment services because the latter may be the only choice for a certain category of job seeker. All of the participants agreed with him. The next speaker, Professor Tiraboschi also agreed with Professor Ouchi in general but had a different opinion on some particular points. Then, in his role as commentator, Professor Davies pointed out inefficiency in the state monopoly system of employment placement and temporary work businesses, followed by short comments by three participants from the floor.

## **(2) Encouraging Adaptability**

Professor Hanami chaired the second session. The main point under discussion was whether or not, and how, to incorporate more adaptable forms of contracts into national legal systems, taking into account the fact that forms of employment are nowadays increasingly diverse and that those working under such adaptable contracts should at the same time enjoy adequate security and higher occupational status, compatible with the needs of business.

The first subsession, “Equal Treatment for Unequal Workers: Playing a Game of Cat and Mouse?” , opened with Professor Marleau's presentation. Professor Weiss followed with a very impressive speech. His concluding remarks criticized the European Union's directive on equal treatment for part-time and full-time workers. He pointed out that most part-timers are female workers who need a different type of protection. Professor Summers then raised a very fundamental question on job creation policies. He stated that economic growth is the only way to create jobs and all we can do to boost the economy is to help employers reduce labor costs. The subsession ended with Professor Cooper's comments.

The second subsession was entitled “Trainees for Ever? The Role of Life-Long Learning.” Professors Raso-Delgue and Ball made presentations and Professors Finkin and Barnard made comments. Professor Barnard explained the importance and effectiveness of the “soft law” approach, such as recommendation, guidelines, and so on. The session ended with Professor Hanami's concluding remarks.

## **(3) Promoting a Labor Market Open to All**

The third session dealt mainly with labor market-opening measures for female workers, people with disabilities, ethnic minorities, etc., from the point of view of searching for

appropriate forms of preventive and active policies to promote their integration into the labor market. In the first subsession, entitled “Equal Opportunities: for Good Jobs Only?” , Professors Schmidt and Lorber made presentations, followed by lively discussion triggered by Professors Betten and Cooper's comments.

The second subsession was entitled “Making the Unemployed Socially Insecure?” Professors Morito and Balandi were speakers and Professors Howe and Torsten were commentators. After explaining the current labor market-opening policies in Japan, Professor Morito pointed out that the role of labor law has not changed at all: it is to protect workers. He stated that what has changed or should be changed is how to protect workers. Deregulating labor protection laws and at the same time reinforcing anti-discrimination laws may be one answer. Professors Balandi and Torsten then discussed the role of social security in job creation policies.

#### **(4) Negotiating the Modernization of Labor Law**

The title of the first subsession was “Coordinated Corporatist Strategy to Employment Creation: Is That a Fast Track?” , followed by “Social Dialogue and Job Creation: A Model Working Only in Europe?” The speakers were Professors Buschmann, Agut Garcia, Vasquez, Neal, and Fahlbeck and the commentators were Professors Hanami and Malamud.

The conference ended with Professor Biagi's final remarks. He pointed out that labor law has not been able to adapt itself to the so-called “new economy.” He then emphasized the importance of “life-long learning” as well as the role of social partners in the process of work modernization. Finally, he agreed with Professor Weiss' comments mentioned above by stressing that atypical or temporary workers should enjoy another type of security through the promotion of life-long learning.

#### **Future Direction of the “Club”**

All of the papers submitted by the conference participants will be published in an issue of the International Journal of Comparative Labour Law and Industrial Relations. On the day after the conference, the participants discussed the future direction of the “club” and agreed to endeavor to have an academic get-together of this kind every year.

## **Public Policy**

### **Revision of the Employment Insurance Law**

The Employment Insurance Law has been revised owing to the financial deterioration of

the current insurance system which has been caused by increasing unemployment and the longer period required for individuals to get back to work. The system went into deficit in fiscal 1994, and has registered a substantial deficit every year since. During this period the deficit was covered by drawing on reserves which peaked at ¥4.8 trillion in fiscal 1993 and have been shrinking every year since. The reserves are expected to fall to ¥270 billion in fiscal 2000. The new legislation will raise insurance premiums and vary the period of eligibility for unemployment benefits depending on the reason for becoming unemployed.

The rate of insurance premiums is currently set at 0.8 percent of the total amount of wages and shared by workers and employers. The changes will result in a 1.2 percent premium, with the burden of each party increasing by 0.2 percentage points. At the same time, the National Treasury will be responsible for 25 percent of the outlay for benefits, up from 14 percent at the present.

Concerning the differentiation among recipients of benefits, if an employee has left his or her job at the mandatory retirement age or for a voluntary reason, then the duration of benefits will be shorter than if he or she is looking for subsequent employment. On the other hand, if the employee is obliged to give up a job due to involuntary reasons such as the bankruptcy of the company or dismissal, then the duration of the benefits will be extended. In the former case involving voluntarily separation, the recipient will receive benefits for 90 to 180 days, depending on the length of time he or she has contributed to the system. In the latter situation involving involuntary separation, the recipient will receive benefits for 90 to 330 days, depending on age and the length of time he or she contributed to the scheme. A summary of the revised scheme is presented in Table 1 (see page 7). As the table shows, among unemployed people aged 30 to 44 and aged 60 to 64, there will be a variation of some 60 days in the eligibility for benefits depending on the reason for leaving their jobs. For those aged 45 to 59 the variation will increase to 90 to 150 days. Some difficulty is anticipated in determining whether unemployment is voluntary or involuntary, but specific criteria for the distinction will be set forth based on further discussion before the revised law comes into effect on April 1, 2001.

**Table 1. Duration of Unemployment Benefits under the Revised Law**

Type of insured person		Generally insured person <sup>(1)</sup>				Insured person with shorter working hours <sup>(2)</sup>				
Period of time as a contributing member of the system (in years) <sup>(3)</sup>		1 - less than 5	5 - less than 10	10 - less than 20	over 20	1 - less than 5	5 - less than 10	10 - less than 20	over 20	
Age and reason for quitting	Under 30	Voluntary <sup>(3)</sup>	90	120 (+30)	150 (-30)	180	90	90	120 (-60)	150
		Involuntary <sup>(3)</sup>	90	120 (+30)	180	210	90	90	150 (-30)	180
	30 - 44	Voluntary	90	120 (-60)	150 (-60)	180 (-30)	90	90 (-90)	120 (-60)	150 (-60)
		Involuntary	90	180	210	240 (+30)	90	150 (-30)	180	210
	45 - 59	Voluntary	90 (-90)	120 (-90)	150 (-90)	180 (-120)	90	90 (-90)	120 (-60)	150 (-60)
		Involuntary	180	240 (+30)	270 (+30)	330 (+30)	180 (+90)	210 (+30)	240 (+60)	300 (+90)
	60 - 64	Voluntary	90 (-150)	120 (-180)	150 (-150)	180 (-120)	90 (-120)	90 (-120)	120 (-90)	150 (-60)
		Involuntary	150 (-90)	180 (-120)	210 (-90)	240 (-60)	150 (-60)	150 (-60)	180 (-30)	210

Notes:

- (1) "A generally insured person" is defined as a worker who qualifies for unemployment benefits. However, insured persons who have been employed continuously by the same employer until age 65 or over; those who are regularly engaged in seasonal jobs or short-term work lasting less than one year; and those who are employed on a daily wage basis are excluded. An insured person with shorter working hours is defined as a generally insured person who engages in jobs where regular working hours are less than 30 hours per week but the contract is for one year or more.
- (2) For unemployed people who have contributed to the benefit system for less than one year, the duration of a benefit is uniformly 90 days regardless of the category.
- (3) In each cell, the upper figures show the duration of benefits under the revised law, the lower figures in brackets, if any, show the difference in the duration between the revised and the previous laws.

Several revisions to the Employment Insurance Law also deserve noting:

The allowance for child-care leave and family-care leave will increase from the current 25 percent of the individual's wages to 40 percent from January 1, 2001. The maximum amount of subsidies paid for educational training will also be increased. At present, unemployed people who have contributed to the system for more than five years are eligible for a rebate to cover 80 percent or a maximum of ¥200,000 of the expenses for education and training provided by vocational training schools. From January 1, 2001 the maximum will rise to ¥300,000.

## Special Topc

### Localization of Management in Japanese-related Firms in Indonesia

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#### 1. Hypothesis and Data

Japanese overseas firms have an international reputation for being slow to localize management arrangements. Slow localization itself is not necessarily to be condemned or criticized, as a firm's goal lies not in localization but in exploiting local circumstances to maximize profits. However, reluctance to localize may result in the management of Japanese-related firms being disadvantaged: they may be unable to attract capable people, or their most capable employees may leave. This difficulty in retaining capable employees further delays localization, and sets up a vicious cycle. To promote localization, host country governments may impose regulatory measures on foreign firms that would limit the free behavior of firms and may result in the loss of good business opportunities.

In addition to these potential disadvantages, slow localization increases labor costs, especially for Japanese expatriates, as many would be forced to extend their time in overseas subsidiaries.

As Japanese-related firms are probably aware of the disadvantages of slow localization, the question is “Why do they seem reluctant to localize their management?”

Before considering the background to slow localization, we should examine the assumption that Japanese-related firms have a localization policy. The policy depends largely on the Japanese share of stock in the firm, and despite any disadvantages, Japanese-related firms might actually be reluctant to become localized. If this is correct, the next obvious question is: “Despite the negative impression given by their reluctance and the obvious disadvantages suffered, what makes these companies so reluctant to localize?” Further, if they do in fact want to be localized as soon as possible, but cannot do so, what factors are preventing this?

While the causes of slow localization by Japanese firms have been discussed from various

viewpoints, our hypothesis, at least as far as manufacturing firms are concerned, is that the slowness is partly related to their adherence to their efficient production systems. Japanese manufacturing firms in the automobile, electric, and steel industries are known for their management efficiency and assurance of high quality, despite continuing to suffer the effects of insufficient and delayed measures against the collapse of the bubble economy.

Characteristics of the Japanese production system in the manufacturing sector include: efficient, flexible, and high quality production; an intimate relationship between design divisions and production divisions; strict shop floor monitoring by supervisors; and well-trained workers. It would seem logical that Japanese firms adhere to transplanting such a production system to their overseas subsidiaries, as it is the only system they know, and it seems to promise good performance. However, this system requires well-trained managers, engineers, supervisors, and workers. Transferring the production system and training highly-skilled employees takes time. Thus, adherence to transplanting a production system could slow down the process of localization.

If the rate of localization is a result of this adherence, then the speed of localization depends on the rate at which the production system is transferred and highly-skilled employees are trained.

To sum up, our hypothesis is that Japanese firms may be slow to localize because of their localization policy. Further, this slowness may be due in part to their adherence to maintaining their own efficient production system. In other words, for these firms, localization is commensurate with the successful transfer of their production system.

In examining the hypothesis, we used data from 100 Japanese-related firms operating in Indonesia\*.

## **2. Japanese Expatriate Ratio**

First, we examined the average Japanese expatriate ratio. The ratio of Japanese expatriates to total employees is 1.8 percent. The ratio of Japanese division managers to total division managers is 34.3 percent. Two out of three, or 66.6 percent, of division managers are Indonesian nationals. The ratio of Japanese directors to total directors is 70.5 percent. The ratio of Japanese division managers and directors to total division managers and directors is 46.2 percent. It is difficult to judge whether these ratios are comparatively high or low, but one obvious feature is the much higher ratio of Japanese directors compared to the ratio of Japanese division managers.

### 3. Localization Policy

Let us then look at the localization policies of Japanese-related firms and consider whether they want to be localized.

The proportion of firms that do not plan to localize top management is 45.0 percent. It is understandable for Japanese-related firms to keep the ultimate management responsibility in the hands of Japanese expatriates. In fact, in firms with no policy for localization of top management, there is a very high tendency for the ownership of stocks to be concentrated in Japanese hands. For example, in firms where Japanese people hold less than 50 percent of the stock, only 17.4 percent have no localization policy, whereas in firms where Japanese people hold 50 percent to 75 percent of the stock, the ratio is 44.4 percent. In firms where Japanese people hold between 75 percent and 100 percent of the stock, it is 44.8 percent. In firms that are 100 percent Japanese owned, 76.2 percent have no policy for localization of top management.

Although many firms do not have a policy for localization of top management, few firms have no policy to localize divisions. In other words, they are willing to advance localization in the divisions. In fact, Indonesians have already taken responsibility for divisions in 50 percent to 70 percent of Japanese-related firms. Even firms with Japanese holding a higher share or 100 percent of the stock have a localization policy for divisions other than top management.

Japanese-related firms seem to be willing to advance localization in all divisions except top management. However, why is the percentage of firms practicing localization not higher than 50 percent to 70 percent?

### 4. Analysis

To determine what affects the speed of localization, we use regression analysis on data collected from 100 Japanese-related firms. The dependent variable is the ratio of Japanese directors to total directors. Independent variables and their expected causal relations are as follows:

#### 1) Length of operation

The longer the firm has been established, the lower the ratio of Japanese directors.

#### 2) Number of employees

The larger the size, the lower the ratio of Japanese directors. This is because larger firms attract capable local workers more easily and have more director positions available.

3) Japanese share of stock

The greater the share, the higher the Japanese director ratio.

4) Top management localization policy

The less positive the company is in localizing top management, the higher the Japanese director ratio. For the analysis, we substituted the category variable for a numerical variable, that is, four for “no top management localization policy,” three for “localization will take a long time,” two for top management will be localized soon,” one for “top management is already localized.”

5) Difficulties with production

The variable is a proxy variable that indicates the degree to which the production system has been transferred. The fewer the number of difficulties, the lower the Japanese director ratio. The variable ranges from zero (no difficulty) to seven (difficulties with all seven items, such as, for example, prompt trouble shooting).

6) Well-trained engineers

This variable is also a proxy variable. The more highly trained the engineers are, the lower the Japanese director ratio. The variable ranges from seven (unable to perform all seven tasks, such as production planning) to 28 (able to perform all tasks independently).

The results of the analysis, shown in Table 1, reveal very interesting facts.

First, neither duration of the operation nor company size have any significant effects on localization of director positions. It is often observed that Japanese expatriates decrease in number as time goes by. However, this does not necessarily mean that localization of management positions advances with the duration of operation. It should be noted here that the change in the number of Japanese expatriates is different from localization.

Second, the Japanese share of stock has a significant, positive impact on the Japanese director ratio. The higher the Japanese share, the higher the Japanese director ratio.

Third, the top management localization policy also has a significant, positive impact on the ratio. If a company has no localization policy concerning top management, the ratio of Japanese directors to total directors remains low. In other words, the localization policy for top management affects localization in the other divisions.

The fourth finding, and that of most interest, is that the variables that are expected to indicate the degree of production system transfer have a significant, positive effect on localization of director positions. The more difficulties with production there are, the higher the Japanese director ratio. In other words, the fewer the difficulties, the lower the Japanese director ratio and the higher the Indonesian director ratio. Moreover, the more highly the engineers are trained, the lower the Japanese director ratio and the higher the Indonesian director ratio.

To sum up, the more successfully the production system is transferred, the further localization is advanced.

**Table 1. Result of Regression Analysis**

	(1)	(2)
Constant	26.616 <sup>(2)</sup> (2.597)	61.756 <sup>(1)</sup> (3.851)
Length of operation	-0.051 (-0.458)	-0.031 (-0.287)
Number of employees	0.03 (0.289)	0.072 (0.721)
Japanese share of stocks	0.359 <sup>(1)</sup> (3.602)	0.365 <sup>(1)</sup> (3.750)
Top management localization policy	0.309 <sup>(1)</sup> (3.115)	0.255 <sup>(1)</sup> (2.652)
Difficulties with production	0.162 <sup>(1)</sup> (1.736)	
Well-trained engineers		-0.227 <sup>(2)</sup> (-2.443)
Adjusted R squares	0.293	0.330
Dubin Watson ratio	1.939	2.015
Number	88	88

**Notes:**

<sup>(1)</sup> significant at one percent level, <sup>(2)</sup> significant at five percent level, and <sup>(3)</sup> significant at 10 percent level.

## 5. Conclusion

The share of stock held by Japanese, the localization policy for top management, and the degree of the production system transfer are the main factors significantly affecting localization of directors in Japanese-related firms in Indonesia.

Of the three factors, the degree to which the production system has been transferred is a convincing factor. When production does not go well, the firm needs more Japanese expatriates. As Indonesian production engineers become better trained and the difficulties with production are reduced, localization of management is further advanced.

The influence of the other two factors does not seem to be as convincing as that of the degree of the production system transfer. Why is it that the higher the proportion of shares held by Japanese, the lower the Indonesian director ratio? Why is it that the more reluctant the company is to localize top management, the lower the Indonesian director ratio? Japanese-related firms might be cautious about localization without any pressure from Indonesians. For some reason, the policy for top management localization extends its influence to localization in other divisions.

If localization is to be advanced further in order to take advantage of good business opportunities and avoid government regulation, these two factors have to be considered. Length of operation does not automatically advance localization of management. It is not unexpected for host country governments to put pressure on Japanese-related firms to further localize, or to limit the positions that Japanese expatriates are allowed to take.

Note:

\* For further details see Nakamura, Keisuke, ed. *Management Comparison and Localization: Indonesia and Japan*. Center for Japanese Studies, University of Indonesia, Jakarta: 2000. In addition to the localization of management at Japanese-related firms, this study compares the management practices and performance of 200 Indonesian firms and 100 Japanese-related firms.

## **JIL News and Information**

### **EU-Japan Symposium**

#### **New Employment Strategies in the EU and Japan: Adaptability and Entrepreneurship**

Since 1991 the Japan Institute of Labour (JIL), in cooperation with the Ministry of Labour and the European Commission, has held a series of symposia dealing with labor issues common to Japan and the European Union. The aim has been to promote mutual understanding and to explore solutions to commonly shared problems. On March 6, 2000, the eighth such symposium was held in Tokyo. At present, the maintenance and expansion of employment is one of the most crucial labor policy issues both in Japan and in the EU. The Japanese government, together with labor and management, has joined in a concerted effort to put forward new policies aimed at creating job opportunities and establishing an environment in which people can work in various ways. The member nations of the EU are seeking through their shared employment strategy arrangements which will allow labor to be reallocated flexibly, facilitate the establishment of new businesses and foster the entrepreneurial spirit. The symposium revolved around the maintenance and expansion of employment as the main theme. It consisted of two sessions - one on "adaptability" and the

other on “entrepreneurship.” Throughout the symposium some 150 participants from government, labor, and management in Japan and the EU countries, including people from foreign embassies in Japan, engaged in lively discussions.

The first session on “adaptability” opened with keynote addresses by Japanese and EU experts.

Takashi Araki, Associate Professor of Law at Tokyo University, described the idea of “adaptability” as an approach to increasing productivity and competitiveness whereby labor and management use flexible employment patterns such as part-time work and flexible workplace practices to adjust to social and economic change. He stressed the importance of balancing work flexibility with job security. Prof. Araki analyzed the diversity of approaches in Japan, the EU countries and the U.S. While American companies simply seek their own flexibility and leave employment issues to the labor market, in the EU such flexibility is developed through labor-management negotiations. In Japan, too, large companies seek to balance flexibility and employment security through negotiations with labor unions. However, such negotiations generally occur between the two parties within the same company and this method of achieving a balance in the large-scale sector does not work properly for small- and medium-sized firms where unions have not been organized. Thus, it is left to governmental policies and legislation to lay down the principles governing Japanese workplaces as a whole, and the function of labor-management negotiations is limited compared to the EU.



Dominique Anxo, Associate Professor at Göteborg University in Sweden, described the situation in the EU. He indicated that a growing number of European enterprises are introducing new methods of organizing production in accordance with structural changes in society and the economy resulting from economic globalization and the introduction of new technologies. He said they need to reconsider ways of regulating working hours in response to the shift away from traditional approaches to work organization and production systems, to new and more flexible ones. This was seen as involving a greater commitment on the part of workers, a reorganization of hierarchical structures, and a shift away from mass production to new forms of team production. He provided three categories for considering the diversity of

ways working hours were regulated in the European Union: statutory provisions and regulations, agreements at the industry level and agreements at the enterprise level.

The lectures were followed by a panel discussion in which the participants from Japan and the EU vigorously debated ways to achieve a balance between flexibility and employment security. Some EU panelists stressed the importance of improving both flexibility and stability, and how essential it was for labor and management to attain consensus through negotiations. A similar opinion was voiced by the Japanese participants who stressed the need to improve both flexibility and stability if the two thrusts were to be reconciled. They argued strongly that flexibility should be promoted while employment stability was safeguarded.

The second session on “entrepreneurship” followed the format of the first session. Keynote addresses by Japanese and EU experts were followed by a panel discussion.

Yoshio Higuchi, Professor, Department of Business and Commerce at Keio University underlined the need for support for entrepreneurs in connection with job creation. The need for job creation policies was explained through a comparison of business opening and closure rates in Japan and the U.S. While young companies in Japan have a high rate of job openings, older firms have a low rate. However, the high rate of business closures among younger companies serves to maintain the high proportion of mature firms. The outcome is lower employment absorbability as a whole. This was likened to the problem of having fewer children and the aging of society at large. Prof. Higuchi also referred to the results of a survey concerning the job creation effectiveness of subsidies based on the Law Concerning the Promotion of Local Employment Development, etc. which the government implemented in the late 1980s. He emphasized the need for policy assessment in the future and the importance of following up policy implementation with assessment.

Peter Van Der Sijde, Senior Project Manager, Entrepreneurship and Technology Transfer Programme, University of Twente in the Netherlands, highlighted education and culture as factors substantially influencing the development of entrepreneurship, citing differences in the entrepreneurial cultures prevailing in Japan and the EU, on the one hand, and in the U.S., on the other. As for the educational aspects, he pointed out the positive relationship between the magnitude of investment in entrepreneurial education institutes and the business start-up rate, and cited an example of a comprehensive program to encourage entrepreneurship, which University of Twente had run since 1984. The program has led to the setting-up of some 250 companies and the creation of some 1,200 new full-time jobs.

The panel discussion focused on approaches to support potential entrepreneurs and the effects of that support on job creation. The EU side noted the importance of developing human

resources in the form of business starters and employees, and of following up on the job-creation effects of various supporting policies. The Japan side, on the other hand, suggested that entrepreneur assistance has become a popular concern, but that attention needed to be given to the kind and quality of support measures required, not just the quality of jobs created.

This year, experts from Japan and the EU had conducted some joint research and released the reports prior to the symposium. This approach was highly assessed by participants who felt they were able to have meaningful discussions concerning the policy approaches of both regions. Participants also appreciated having the opportunity to listen to the various arguments presented at the symposium.

Apart from this symposium, the Japan Institute of Labour conducts various projects to promote exchanges of opinion between labor, management and government in Japan and their counterparts in the EU. Through such exchange projects the Institute hopes to promote mutual understanding between those concerned with the organization of work in Japan and the EU.

[EU-JAPAN SYMPOSIUM Information]

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## Special Aspects

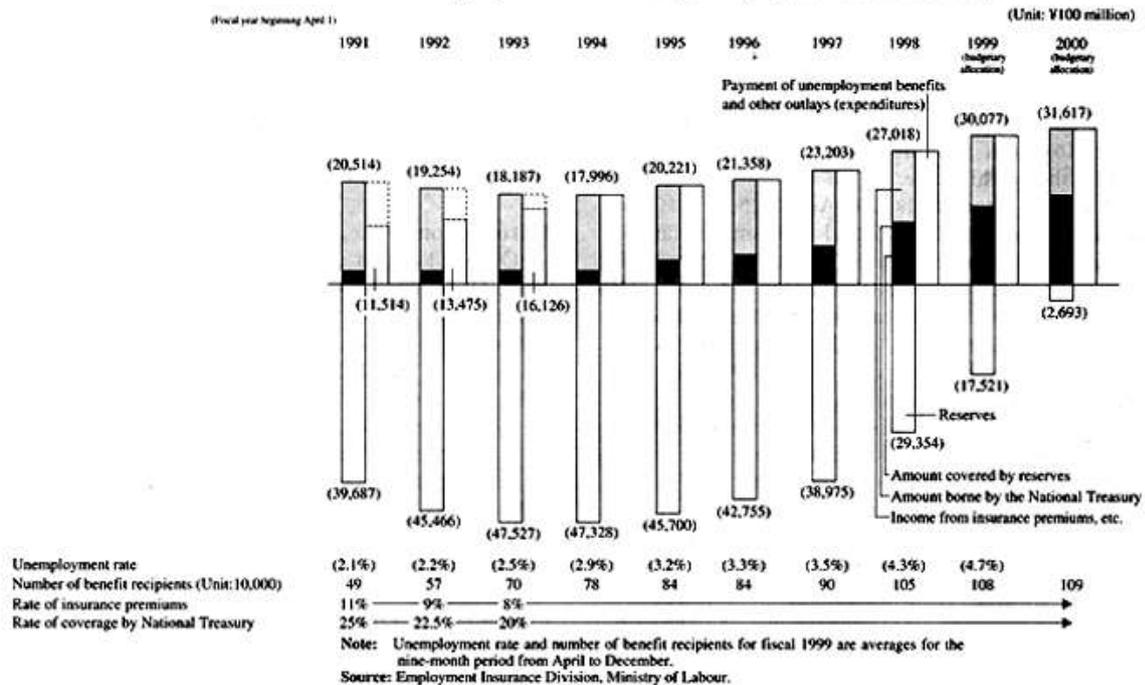
### Recent Labor Economy Indices

	April 2000	March 2000	Change from previous year
Labor force	6,786 (10 thousand)	6,694 (10 thousand)	-25 (10 thousand)
Employed	6,440	6,345	-29
Employees	5,299	5,301	2
Unemployed	349	346	4
Unemployment rate	5.1%	5.2%	0.1
Active opening rate	0.56	0.53	0.03
Total hours worked	157.4 (hours)	159.8 (hours)	0.2
Total wages of regular employees	(¥ thousand) 266.4	(¥ thousand) 265.9	0.7

Note: \* Denotes annual percent change.

Source: Management and Coordination Agency, *Rōdōryoku Chōsa* (Labour Force Survey); Ministry of Labour, *Shokugyō Antei Gyōmu Tōkei* (Report on Employment Service), *Maittsuki Kinrō Tōkei* (Monthly Labour Survey).

### Balance of Accounts for Employment Insurance (Unemployment Benefits, etc.)



(Unit: ¥100 billion)

fiscal year	1993	1994	1995	1996	1997	1998 (anticipated balance)	1999 (budgetary allocation)	2000 (anticipated allocation)
Receipts	18,187	17,797	18,593	18,413	19,423	17,397	18,244	16,789
Insurance Premium Contributions	12,266	12,270	12,457	12,650	12,923	12,929	12,959	12,708
From National Treasury	2,810	2,672	3,374	3,273	4,388	3,078	4,012	3,354
Disbursements	16,126	17,996	20,221	21,358	23,203	27,018	30,077	31,617
Payments of Job Applicant Benefits	13,977	15,806	17,327	17,952	19,326	22,739	23,031	23,617
Surplus	2,061	▲199	▲1,628	▲2,945	▲3,780	▲9,621	▲11,833	▲14,828
Balance of Payments (Reserves)	47,527	47,328	45,700	42,755	38,975	29,354	17,521	2,693

Notes:

- 1) The figures for fiscal 1999 are those of the second supplementary budget.
- 2) Disbursements for fiscal 1999 and 2000 include reserve funds.