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Human Resources Management

Stock Options becoming More Popular in Japanese Firms

Recently, the use of stock options as a means of rewarding employees has drawn considerable attention in Japan. Stock option schemes allow corporate executives and employees to purchase shares in their own company at a predetermined price for a set period of time. In fiscal 2000, 463 firms announced plans to adopt such a scheme. By March 2001, 766 firms (equivalent to 20% of the firms listed on the stock market), had introduced a stock option scheme. By fiscal 1998, less than 200 firms were planning to adopt such a scheme, but in the following year, the number of firms doing so jumped to over 400.

Just over one-third (37%) of firms introducing such a system in fiscal 2000 are listed on three newly formed stock markets: the JASDAQ (the over-the-counter market), NASDAQ Japan, and Mothers of the Tokyo Stock Exchange, up three percentage points from fiscal 1999.

Even though share prices in Japan have continued to flounder at a low level, the increasing use of stock option schemes to reward company personnel reflects the desire of management in many firms to provide incentives which will serve to increase the overall commitment of employees to raising company profits, and to enhance the ability of companies to recruit high quality workers. Particularly noticeable is the considerable number of venture companies involved in the IT industry that seem to be introducing stock options as a means of attracting IT workers.

Among the firms introducing stock options, Nissho Iwai Corporation stands out in terms of the large number of employees given access to such options (some 3,139, including directors and executives). Among other large firms, Sumitomo Corporation and Lion Corporation have also introduced such a scheme. Nikko Cordial Securities Inc. publishes the names of directors and employees in managerial posts who are entitled to purchase stock options and the number of shares they have actually purchased. From this autumn the firm will start to pay an allowance linked to its stock price to general track employees (*ippan shoku*) who are not entitled to purchase stock under the company's plan.

Despite the growing popularity of stock option schemes, it is still not clear how earnings derived from participating in a stock option plan are to be treated in terms of tax. Debate has focused on whether such earnings should be treated as occasional income or as salary income and on whether such earnings should be eligible for tax credits. Another challenge facing companies is that the value of stock is lost if the share price drops or remains low. In the case of Cyber Agent Ltd., the predetermined price of company shares fell substantially below the actual price, and the company's president had to step in and distributed personal bonds with warrants to all employees to make up for the loss. As the stock option system becomes increasingly common in Japan, there will be pressure to define the options more precisely and to set standards for how such systems might work over the longer term.

Using the Internet for Recruitment

The proportion of firms using the Internet to recruit employees varies with company size. As a whole, firms using the Internet tend to give the medium a positive evaluation.

According to the 2001 *Survey on Employment Management* conducted by the Ministry of Health, Labour and Welfare, 94.7 percent of firms with 5,000 or more employees used the Internet for recruitment purposes, whereas the proportion for all firms was only 16.1 percent (see Statistical Aspects). Of firms using the Internet, 78.0 percent did so for correspondence with applicants. In more concrete terms, 73.6 percent used the Internet to receive requests for company brochures; 71.6 percent for answering questions from job seekers; 57.1 percent for scheduling interviews; 49.8 percent for contacting successful candidates; and 35.1 percent for receiving application forms.

The advantages that firms mentioned as being associated with the use of the Internet included the ability to provide necessary information to those who need it (63.7%), the ability to access such information 24 hours a day (49.1%), and the ease of contacting applicants (43.2%). A large proportion of the larger firms also mentioned the simplification of recruitment activities and its contribution to cutting costs (see Statistical Aspects).

When questioned concerning any downside associated with the use of the Internet, firms cited the inability to employ people who do not use the Internet (36.3%), the heavy burden of responding to e-mail (21.0%), and the heavy burden of maintaining homepages (21.0%). However, compared to firms in favor of the Internet, only a small proportion cited its disadvantages; in fact, 22.5 percent of firms utilizing the Internet responded that they were experiencing no problem at all, and were favorably disposed towards the Internet as a whole.

Among firms using the Internet for recruitment, Tokyo Gas allows applicants to register on its homepage. Registered applicants are given an ID and password, together with an individually designed page. Through this personal page, Tokyo Gas says, the receipt of formal applications for jobs, notifications concerning company career forums and notices concerning the acceptance or rejection of applications can be handled efficiently.

Recruit Co., Ltd., a giant classified publishing company, maintains a website (http://rnavi.isize.com/) through which job-seeking university students can put their name and details on the application lists that are there for the many firms which use the website. By registering with various firms in this manner, students are able to obtain information on company forums and interviews, and make their own plans for attending such functions. In this regard, some critics claim the system is "too easy." Placement staff at universities have expressed a concern that students are likely to tie themselves up with correspondence with as many as a dozen companies, the result being that they end up being distracted from their studies, do not think carefully about their future careers and do not avail themselves of other information sources, such as on-campus job counselling, visiting university alumni, and attending company forums which are not on the Internet.

Labor-Management Relations

Labor Unions Adjust to Changes in the Labor Market

The Ministry of Health, Labour and Welfare recently released the findings of its survey concerning union activities. The survey was administered to 4,000 unions with 100 or more members. The usable response rate was 74.6 percent.

Over past three years, 45.7 percent of the unions surveyed reported the firms their members work for had reorganized or downsized. Of those experiencing such changes, 82.2 percent reported they had been involved in the changes. Many of those unions felt that changes to working conditions should be minimal even when firms were downsizing (46.5%). Other unions felt they could accept their firm's plans to reorganize and rationalize in other ways as long as employment was maintained (29.9%). A third group (20.1%) responded that they saw reorganization and other policies as necessary for the sake of the survival of the company. Only one percent responded that they saw no need for reorganization or other corporate policies to improve operations. In the financial and insurance sectors and in real estate, 36.9 percent of the unions saw reorganization or other steps as being necessary for the survival of the company.

The unions which had in the previous three years accepted revisions to the wage or retirement allowance system were asked what was the most important consideration shaping their response. The overwhelming majority (60.1%) replied they were most concerned with ensuring that personnel assessment schemes were transparent and that fairness and justice were maintained in their implementation. Another 15.0 percent indicated that they were concerned with avoiding the creation of a sense of unfairness among their members owing due to increased inequality.

With regard to the tendency of firms to push ahead with ability-based evaluations and ability-linked wage schemes, 47.9 percent of the unions surveyed, felt the move in that direction was acceptable as long as it was implemented in a fair manner. Another 32.6 percent answered that the trend was inevitable, but that mechanisms must be put in place to ensure that workers were not put in a disadvantageous position by such systems.

In the service sector, 21.5 percent of unions indicated that many problems had occurred with the introduction of ability-based evaluations and wage schemes, and the current scheme was better left as is.

Service and Distribution Federation Formed

On July 4 and 5, the Japan Federation of Service and Distribution Workers Unions (JSD) held its inaugural meeting in Tokyo. The new organization brings together the Japan Federation of Commercial Workers Unions (JUC), the Chain Store Labour Unions' Council (CLUC), and the Seven Department Store Unions' Council. The new union has some 180,000 workers in the service and distribution industries, covering department stores, supermarkets and so on. The federation has under its wing most major department stores and is the second largest union of supermarket workers (the biggest being Zensen-domei [Japanese Federation of Textile, Garment, Chemical, Commercial, Food and Allied Industries Workers' Unions]). Mr. Mitsuo Nagumo, former president of JUC, was designated as president of the new union and Mr. Takaaki Tsutsui, a former general secretary of CLUC, became its general secretary. Since the basic plan for the merger was confirmed in June 1999, the three partners discussed concrete plans for the new organization and its policies.

The new federation will emphasize the importance of industrial policy. Concerning the government's plan to finalize the writing-off of non-performing loans, the new organization intends to investigate the issue thoroughly and to call for safety-nets and rebuilding plans as a prerequisite for any settlement. As for the recent trend towards longer business hours, the union has declared its intention to check the introduction of unlimited business hours. In particular, it announced that it will put pressure on employers' associations to refrain from doing business on New Year's Day.

The union also plans to positively promote meetings with employers' associations such as the Japan Department Stores Association, the Japan Chain Stores Association, and the Japan Supermarkets Association as a means of exchanging information and opinions and promoting research on topics of mutual interest and further developing a framework for industrial relations.

Since large numbers of part-time workers and dispatched workers are engaged in the service and distribution industry, another crucial task for the federation is to organize non-regular workers. The JSD intends to proceed with the organization of such workers on a step-by-step basis, with concrete targets and schedules. It is looking broadly at the service sector, including foreign capital firms which have begun operating in Japan and service industries such as hotels, restaurants, and financial institutes as other organizing possibilities.

Since the unionization rate in the service and distribution industries is less than 10 percent, JSD also plans to press ahead with the organization of non-organized workers and to continue the on-going discussions with Zensen-domei for the reorganization and merging of distribution-industry unions with an eye to further mergers. Zensen-domei is currently planning a merger with CSG Rengo (Japanese Federation of Chemical, Service and General Trade Unions) in 2002. If it also merges with JSD, then an industry-based union with a membership of over one million will be formed and become the largest such federation in Japan.

Public Policy

Enactment of the Law for Promoting the Resolution of Individual Labor Disputes

The Law for Promoting the Resolution of Individual Labor Disputes has been enacted. Reflecting the increasing number of individual labor disputes occasioned by reorganization of companies, the diversification of personnel and human resource management, and other factors, the law allows Local Labour Bureaus and the related administrative bodies to take part in the resolution of such disputes. So far, some administrative organizations – such as the Labour Standards Inspection Offices, the Equal Employment Departments, the Equal Opportunity Mediation Commissions, and the Labour Policy Supervising Offices – have dealt with individual labor disputes. However, these bodies have had only limited authority to handle such disputes and it was generally felt that they could not be relied on in the future. The new law is of great significance for the resolution of labor disputes in that the Prefectural Labour Bureaus and other administrative bodies can now cooperate with each other to find solutions, and to establish counselling desks, thereby providing a kind of "one-stop service" to handle general questions about labor issues. (The practical idea of counselling desks was made public when the draft of the law was completed.)

The law is premised on the assumption that individual disputes should eventually be resolved by the people and firms involved. It assigns the Director of Prefectural Labour Bureaus to offer information or give guidance, and to help labor and management prevent disputes or to encourage their resolution. The legislation authorizes the Director to give the necessary advice or guidance when asked for such support by people and firms involved in a dispute. It authorizes the Director to establish dispute adjustment committees to offer conciliation as requested and as found necessary. Finally, it provides for the dispute adjustment committees to be established in Local Labour Bureaus and to consist of academic members. The dispute adjustment committees are authorized to hear testimony from people involved (and, if necessary, from others who may be able to provide information about the dispute), and to seek opinion reports. In addition, the committees are now able to seek the testimony of representatives of local labor and management bodies upon a formal request from the parties involved.

A proposal for revisions agreed to by both the ruling and the opposition parties has been incorporated into the law. The proposal empowers Local Labour Commissions (which are to be nominated by prefectural governors) to resolve individual labor disputes via counselling and conciliation. This measure is attributed to the urging of Rengo (Japanese Trade Union Confederation) which called for the establishment of a means for settling labor disputes by revising the roles of the Local Labour Commissions.

Nevertheless, it is doubtful whether the law will function immediately from October 1, 2001 when it was to be implemented because several questions still remain to be resolved. They include the difficulty of foreseeing how the nature and number of individual labor disputes will change; how to bring employers to meet with the committees when they are obstinately uncooperative in resolving a dispute during the process of conciliation; and how Local Labour Bureaus and Local Labour Commissions should share and collaborate in the performance of their duties.

Whatever problems may still exist, this new step to promote the establishment of a system of dispute resolution outside the courts is significant. To function in a most effective manner, the establishment of carefully thought-out criteria for executing the law will be important, as will the flexible and meticulous application of the law once it comes into effect. (On related matters, see the June 1996, October 2000, June 2001 and September 2001 issues of the *Japan Labor Bulletin* concerning labor disputes, particularly the resolution of individual labor disputes.)

Special Topic

Joint Accounting System and Human Resource Management by Company Group

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1.0 Introduction

It is generally believed that small and medium sized firms are used as an employment buffer for large firms in Japan. Although not confirmed, academics and journalists have debated this hypothesis from time to time in the past. A recent change of the Japanese accounting system has contributed to a resurgence of this debate. The basic question was whether or not the change of accounting system nullifies the employment buffer mechanism, assuming that the mechanism functioned as believed in the past.

The Japanese accounting system had been based on single-firm accounting, which is unconsolidated, although consolidated accounting had been used as a supplement. Partly because of the international pressure to converge with the Western standard, and partly because of domestic pressure to become more stringent on irregularities of accounting practice, the Japanese system had completed its transition into one of consolidated accounting, although unconsolidated accounting is still used as a supplement, by 2000. Domestic pressure had its root in the repeated incidence of financial statement manipulation, some of which resulted in the bankruptcies of major Japanese firms. In most cases, those firms had transferred their large losses to their subsidiary companies or their related companies by claiming a large real or dummy sale to those subsidiaries and the related companies.

In theory, this type of loss transfer has a positive effect on employment in the parent firm. If the transfer is undertaken by an unwanted purchase of the parent firm's product or service by its subsidiaries, it helps keep the business of the parent firm at a higher level than would otherwise be the case. Alternatively, if the transfer is made by a false sale claim by the parent firm, it still helps the parent company's books look better to its stockowners, as well as to the financial market in general. In either case, pressure applied to trim the workforce, thereby leading to the labor costs of the parent firm is wiped out, or at least reduced.

There is another way subsidiary firms can be used as an employment buffer for their parent firms. It is by transferring redundant workers in the parent firms to their subsidiaries. This practice is commonly called *shukko* in Japan. The *shukko* transfer has two variations. In one type of *shukko*, called *zaiseki shukko* or just *shukko* for short, parent firms formally retain their transferred employees on paper, while they are transferred to and work at their subsidiaries. Usually, those workers are assumed to be recalled back to the parent firms when the transfer period is over. In another type of *shukko*, called *tenseki shukko*, or *iseki* for short, the transferred workers terminate their employment relationship with the parent firms and are formally re-employed by their subsidiaries. In either case, the parent firms can trim their workforce when those workers have become underutilized or redundant by one of those *shukko*, consequently helping the firms reduce their labor cost either temporarily or permanently. However, unless those workers are productively used by their new employers, the transfer of workers means a transfer of labor cost from the parent firm's accounting books to their subsidiaries' books, the consequence of which is the same as for the loss transfer.

In this paper, we address the following question. Does the change of the Japanese accounting system in the past few years affect the employment stability of large firms? We shall answer this question by asking two specific questions, namely:

1. Did the unconsolidated accounting system in the past facilitate in stabilizing the employment levels of large Japanese firms?
2. Will the new consolidated accounting system reduce the leverage the large Japanese firms possessed in moving their workers to their subsidiary and related firms?

Japan is now experiencing an unprecedented high unemployment rate. The prospect of further aggravation of the employment situation by the change of accounting system is everybody's concern. We hope to address this important question by looking at the effects of accounting systems on the company group employment so that we can answer it in this short article.

The article is structured as follows. In Section 2, we analyze the effect of the transfer of financial loss on the parent firms' employment stability, followed by Section 3 which documents the effect of worker transfer from parent firms to their subsidiary firms on the employment stability of the parent firms. In Section 4, we evaluate the changes of information contents contained in the financial statement, particularly the contents of labor-related information under the old and new accounting systems. Then we close this article by making an assessment of the effect of these changes on the employment stability.

2.0 Effect of Loss Transfer on Parent Firms' Employment Stability

In order to evaluate this effect on employment stability, we must first understand the basic rules of the old Japanese accounting system, which were effective until March 2000. The old system included two rules or principles, which are suspected to be easily abused in manipulating a financial statement. One is an insignificant value attached to the consolidated accounting, which is often called the unconsolidated-as-a-principle rule. The rule reflected the almost exclusive attention of investors on the unconsolidated accounting outcome. This rule is also reflected in the way the consolidated accounting is carried out. Instead of producing the consolidated accounting figures based on its own rules, it was produced by adding and subtracting the unconsolidated numbers for related companies. Another rule is the principle of importance, which allows parent firms to choose arbitrarily those included in their consolidated accounting from their related and subsidiary companies by claiming that those firms are important for the parent firm's business activities. Then how do those rules allow or induce the Japanese firms to manipulate their financial statements? First, the parent firms are pressured to make their unconsolidated accounts look good, since their investors check only the unconsolidated figures. Second, they can remove the related firms to which they transferred their loss by using the principle of importance.

While the arguments presented above are all theoretical, the actual numerous occurrences of accounting manipulation and the consequent bankruptcy of those firms does indeed prove the theoretical argument to be true. We created a brief list of the major occurrences, as well as the policy responses to them in Table 1. The table shows that over the last four decades, the Japanese unconsolidated accounting system gradually evolved into a consolidated system in response to the repeated occurrence of accounting manipulations.

Table 1. Changes to Public Accounting Rules in Japan

Period	Facts and Social Requirements	Changes to Accounting Rules
1960s	1965: Many manufacturers declare large-scale bankruptcies due to hidden huge losses resulting from imposed large scale purchases to subsidiaries, such as Sanyo Special Steel (This caused a fury on stock market.)	1967: Publication of "Statement on Consolidated Financial Sheets" in response to an inquiry by the Minister of Finance. (This created the foundation for the institutionalization of consolidated accounting.)
1970s	1978: Fuji Sash declares bankruptcy due to window dressing accounting settlement.	1971: Revised Securities Exchange Act requires firms to attach financial sheets from their important subsidiaries' to their own individual financial sheets. 1975: Publication of "Statement on the Institutionalization of Consolidated Financial Sheets." 1976: Legislation of "Rule on Consolidated Financial Sheets." (This established consolidated accounting rules.)
1980s	1984: Riccar declares bankruptcy due to window dressing accounting settlement. 1989: Bubble boom	1983: Full enforcement of the Equity Method. (This obliges firms to report equity investments to associated companies.) 1988: Consolidated financial sheets are now required to be delivered with their individual ones simultaneously to Ministry of Finance.
1990s	1991: Burst of the bubble Mid-90s: Accumulation of firms' bad debt. Latter half of 90s: Growing investor demand for financial information from their investing firms. End of 90s: Growing international pressure on Japan to converge its accounting rules to the global standard.	1990: New requirement to disclose segment information. 1991: New requirement to include consolidated financial sheets into firm's own individual financial sheets. 1993: Expansion of coverage of related firms to consolidated accounting due to abolition of the principle of importance, the so-called the 10% rule. 1997: Publication of "Statement on the Reconsideration of the Consolidated Financial Sheets." (Place consolidated information before the unconsolidated and adoption of the substantial standard for inclusion of related firms.)

Next, we wondered how such manipulations would affect the employment stability of Japanese firms. To answer this question we need to ask if sales or a financial loss of a firm affect the employment of its workers. Fortunately, in the last several years, there has been an accumulation of empirical as well as theoretical analysis of the employment adjustment behavior of large Japanese firms. They include, for example, Suruga (1997), Komaki (1998), Abe (1999), Urasaka and Noda (2001), and Nakata and Takehiro (2001). Some used panel data analysis for a group of large firms, while others analyzed some of those firms individually. A common analytical method, namely a partial employment adjustment model and its application to firm data, was used by all these researchers to estimate the employment adjustment functions. The results are unanimous in indicating that the amount of a firm's sales is a principal determinant of an individual firm's labor demands. Therefore, if a firm can increase its sales volume by forcing their related firms to purchase its products, this transaction increases the firm's labor demand. The employment size of the parent firm thus is maintained at a high level relative to when such a transaction was not realized.

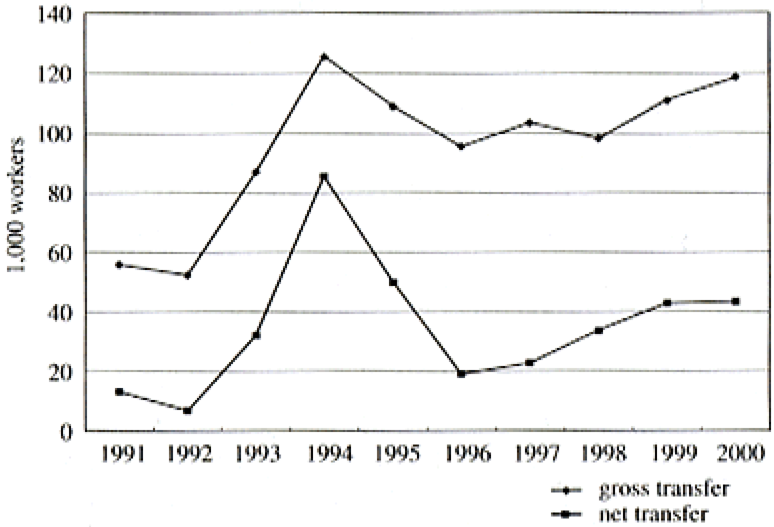
We therefore conclude that the possibility of manipulated sales between a parent firm and its related firms under the old accounting system did exist and had a positive effect on the employment stability for the firms who did manipulate sales.

3.0 Effect of Worker Transfer on Parent Firms' Employment Stability

According to the definitions of subsidiary firms and related firms, it seems plausible that the parent firms do retain the ability to transfer their workers to their subsidiary and related firms. The old accounting rules define a subsidiary firm as one whose decision-making is effectively controlled by another firm, even if the other firm does not possess more than one-half of that subsidiary firm's stocks(1). Therefore, it is natural that parent firms can dictate their subsidiary firms' employment policies. Even where their related firms are concerned, the parent firms seem to possess similar control. The old consolidated accounting rules define a related firm as one whose financial as well as business policies are influenced by a parent firm through employment, financing, technology and purchasing(2). Thus, a parent firm is assumed to possess leverage on the related firm's level of employment. Now we move to the real world to prove that redundant workers are indeed transferred from parent firms to their subsidiary and related firms.

When workers are transferred from their employer's premises to those of others, the transfers are called *shukko* in Japanese if they retain their employment relationship with their original employers. In other words, the *shukko* workers are moved to other employers on a temporary basis. On the other hand, if workers are terminated from their employment relationship with their original employers and are moved to a new firm to be employed there, we call the worker transfer *iseki*. As the separate statistics for *shukko* and *iseki* are not readily available, we instead refer to Figure 1. It shows the trends of these two types of transfer combined in the '90s. The gross transfer in the figure shows a combined annual transfer of *shukko* and *iseki*. The net transfer is the difference between the combined annual transfer and those who returned from *shukko* to their original employers. In other words, the accumulated net transfer shows the size of *iseki*. Both figures show a clear upward trend, although there is a spike in 1994 when the Japanese national income had stagnated. If we compare the first year and the last year, ignoring year-to-year fluctuations, both figures increased more than twofold. As the '90s were marked by a continuous economic stagnation with its pace accelerated toward the end of the decade, and with a rather discontinuous downturn in 1994, we see a clear correlation between these transfers and the economic condition.

Figure 1. Trends in Gross and Net Transfer of Workers



Source: Ministry of Health, Labour and Welfare, *Koyō Dōkō Chōsa* (Survey on Employment Trends), respective years.

We now address more explicitly our question about the reasons for these worker transfers. First let us examine the reasons why *shukko* occurred. These seem to be rather diverse, but worker redundancies appear to be the primary reason, as shown in Table 2, below.

Table 2. Reason for *Shukko* Transfer (% among respondent firms)

	1997	1999
Employee training	3.0	1.2
Assistance to recipient companies	39.1	41.0
Reduction of workforce	34.5	29.8
No promotion opportunity	17.5	16.8
Response to reduced sales	N.A.	8.1
Others	5.9	3.1

Sources: Sangyō Koyō Antei Senta (Industrial Employment Stabilization Center), *Shukko Iseki Jittai Ankeito Chōsa Hōkokusho* (Survey Report on *Shukko* and *Iseki*), 1997, Simple Tabulation 15 for firms which send workers.
Sangyō Koyō Antei Senta (Industrial Employment Stabilization Center), *Shukko Iseki no Okuridashi Nizu Chōsa Hōkokusho* (Survey Report on *Shukko* and *Iseki* Needs), 1999, Table 28.

In the 1997 *Shukko* Iseki Survey, two reasons are most frequently chosen as the reasons for worker redundancy, namely reduction of workforce and no promotion opportunity. They are combined to constitute 52 percent of responding firms' reasons. In 1999, this share increased to 54.7 percent as response to reduced sale was added to the redundancy reasons. All these figures prove that *shukko* transfer is indeed primarily used for reducing the numbers of redundant workers in parent firms.

The reasons for *iseki* show exactly the same distribution as for *shukko*. In 1999, the combined redundancy reasons constituted 55 percent. Temporarily or permanently, worker transfer is used as an important tool to adjust parent firms' employment, just as the buffer theory predicted.

Our next questions are: To which firms are those workers transferred? Are they transferred to subsidiaries and related firms? Or do large firms have enough leverage even to send their redundant workers to firms whose stocks are not owned by them, probably using their monopsonistic or monopolistic power over those small and medium sized firms? We need an answer to this question, because otherwise we cannot evaluate the effect of the accounting system change on this practice precisely. The answer is given in Table 3. It is true that the recipient firms are not limited to those whose stocks are owned by the sender firms. As a dominant seller or buyer, large firms do retain some power to send their redundant workers to some small and medium firms. However, the subsidiary and related firms take in most of the *shukko* workers, as we expected.

Table 3. Types of Recipient Firms of *Shukko* and *Iseki*

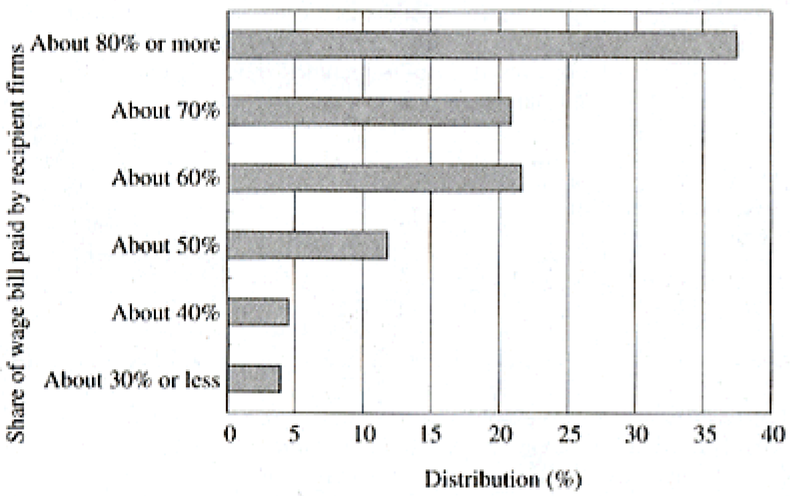
	Subsidiary and related firms	Sellers and buyers	Those with minimal relationship	Others
Shukko	89.4	31.3	11.0	2.3
Iseki	85.7	26.7	9.3	1.7

Note: Multiple answers allowed.
Source: Sangyō Koyō Antei Senta (Industrial Employment Stabilization Center), *Shukko Iseki no Okuridashi Nizu Chōsa* (*Shukko Iseki* Needs Survey), 1999, Table 26 and 33.

Our last question in this section relates to the effect of *shukko* and *iseki* on the labor cost of the sender firms. It seems there is no ambiguity as regards the *iseki* case, as those workers are legally and physically transferred to the recipient firms. However, on paper, *shukko* workers are still employed by the sender firms, so it is not clear who should pay their wages. Recipient firms have a reason to pay because those workers are working for them. Sender firms also have a reason to pay because those workers are their workers, who were sent to the recipient firms by their order.

What are the realities? As Figure 2 shows, only one-third of recipient firms pay more than 80 percent of those workers wages. Two-thirds of recipient firms pay less than 70 percent of the actual wage and 20 percent of the recipients pay only one-half, or less than one-half, of the transferred workers' wages. In other words, the sender firms can divest themselves of those redundant workers by continuing to pay a sizable part of those workers' wages, after the workers have been transferred.

Figure 2. Distribution of *Shukko* Recipient Firms by Share of Wage Bill



Source: Sangyō Koyō Antei Senta (Industrial Employment Stabilization Center), *Shukko Iseki Jittai Ankeito Chōsa Hōkokusho* (Survey Report on *Shukko* and *Iseki*), 1997.

In concluding this section, we can summarize that large Japanese firms indeed use their subsidiaries and related firms as an employment buffer by sending them their redundant workers when their financial condition necessitates it and they are ready to pay the price.

4.0 Changes of Information Content Contained in the Old and New Financial Statements

In this section we will evaluate the change of information content available in the financial statement, particularly as regards labor-related information, under the old and new accounting systems.

In short, the change is characterized as moving from an accounting system centered around an unconsolidated statement, to a more consolidated statement. Therefore, the information contained in the statement has also been changed accordingly. The essence of the informational shift is that there is more coverage of subsidiaries and related firms. In the old system, the share of stocks owned by a parent firm was the most important criterion, and thus manipulation of this share allowed an arbitrary definition of those included in the consolidated statement. Under the new system, however, this criterion is replaced by the so-called effective control. This means that stock ownership is no longer a means of leverage of a company group definition. In other words, any firm that can be used as an employment buffer by a parent firm will be included in the consolidated statement in theory.

How then does this change alter the labor-related information contained in the financial statement? Do we have more information on the workforce of a company group defined by consolidated accounting? Or more specifically do we know the transfer of workers within a company group firms? Our tentative answer is no. We summarized the availability of all labor information under old and new accounting system in Table 4 for our reference. Indeed, there are some areas where more information is available, such as the numbers of regular employees and non-regular employees in the consolidated financial sheet. However, almost all kinds of labor cost information are the same as before. What is worse, some of the labor information has now been withdrawn either completely or partially from publication, such as information about *iseki* and *shukko* directors in subsidiaries and related firms. In short, the change has not reinforced our expectations of information openness by Japanese firms, leaving some room for the Japanese firms to use *shukko* and *iseki* transfer as a substitute for lay-off.

5.0 Concluding Remarks

In this short article, we have addressed the question of what is the impact of the changing accounting rules on employment stability among large Japanese firms. Now we shall endeavor to answer this question. In the past, the Japanese accounting system included some loopholes, which allowed some company groups to manipulate their financial statements, as well as to shuffle their redundant workers from their parent firms to their subsidiaries and related firms. The consequence for employment was an enhanced level of stability for the parent firms.

Now that those loopholes are more or less closed under the new accounting system, what would we expect to happen? It is clear that parent firms cannot transfer their loss to their subsidiaries and related firms easily, thus the ability of parent firms to stabilize their employment level is reduced. But it is still possible for parent firms to hide the redundant worker transfer from investors' eyes under the new system.

In order to assess the overall impact of this closure, we tried a small experiment. For many years even before the accounting system had made a transition, some Japanese firms had published a consolidated financial statement, including information on consolidated labor. In a sense these firms have undertaken their business activities in accordance to the present accounting rules for many years. We thus used this information to estimate what labor economists call a partial employment adjustment model for those firms. This statistical experiment provided us with information about how a firm or a group of firms adjust their employment levels according to changing production and relative labor costs. In other words, by means of this experiment, we can assess how firms adjust their employment levels responding to external market conditions under the new accounting system. We estimated this model for five large firms in trading and supermarket sectors, respectively, using both unconsolidated and consolidated information.

The results show very clearly that those firms who publish consolidated data do show an economically rational employment adjustment at the consolidated level, but not at the unconsolidated level. The results are consistent with the hypothesis that a firm or a group of firms tries to behave in accordance with the information it reveals to the market. It is premature to make any definitive statement, but we are hopeful that the recent change of accounting system will give investors in the financial market more access to the wider activities of contemporary Japanese firms, so that they can make those firms more conscientious, including a rational adjustment of employment level in a consolidated firm group. The downside of this pressure may well be less stable employment levels within large Japanese firms.

Notes:

(1) Kigyō Kaikei Shingikai (Corporate Accounting Council). *Renketsu Zaimushohyō Gensoku Shinkyū Taishō hyō* (Comparative Table of Old and New Consolidated Financial Statement Rules), June 6, 1997.

(2) Ibid.

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JIL Symposium Information

Employment and Social Policy for Older Workers

-Japan/U.S./EU Joint Research-

Friday, November 30, 2001, 14:00 - 17:30

The JIL Hall (25th floor, JIL, Tokyo)

Panelists:

Sara E. Rix, AARP, U.S.
Alan Walker, University of Sheffield,UK
Anne-Marie Guillemard,
University of Paris V Sorbonne, France
Gerhard Naegele,
University of Dortmund, Germany
Bert de Vroom,
University of Twente, The Netherlands
Gunnar Olofsson,
University of Vaxjo, Sweden
Yoshio Higuchi, Keio University, Japan
Kunihiko Saito, JIL, Japan

Secretariat encourages on-line or Fax registration by **November 12**.
(Fax: **+81-3-5991-5074**; Email:milpro@jil.go.jp)

JIL News and Information

Seminar on the Labor Economy in Eastern Europe: Measures to Make Use of Elderly Workers — A Case Study of Yokogawa Electric Corporation

Since 1998, the Japan Institute of Labour has been conducting on-the-spot seminars for the purpose of assisting in the establishment of labor market mechanisms to accompany the development of the market economy in eastern Europe. The theme of this fiscal year's seminar in the Czech Republic was the employment of elderly workers, making use of the experience of Japanese companies. This article provides a summary of a lecture concerning company employment policies for elderly workers given by Manabu Sasada, head of the General Personnel Affairs Section and Vice President, General Manager of Human Resources & Corporate Service Division of Yokogawa Electric Corporation.

Founded in 1915, Yokogawa Electric Corp. is a manufacturer of control systems (industrial computer systems, sensor systems and so on) with 6,035 employees at its head office and 19,000 employees at all of its operations. The average age of its employees is 42.4. It has 57 related companies at home, and 69 abroad. Its market share is the largest in Japan and the second largest in the world.

Mr. Sasada began by emphasizing that the various measures for personnel management were taken on the principle that Yokogawa regarded its employees as one of its most important assets. Accordingly, he stated the firm believed that it had a duty to safeguard its employees' jobs and had not dismissed employees at the company's convenience. Several years ago, when the company was obliged to carry out restructuring measures in order to survive, it got through the crisis by carrying out various kinds of cost reductions such as wage cuts. The company's employees were well aware of its policy and were cooperative in the measures. In this regard, the firm had done away with inequitable treatment of elderly workers, and regarded them as equal to other workers. His basic belief was that the mandatory retirement age scheme should be abolished in the future when the social security system and the Labour Standards Law are reassessed.

Mr. Sasada then described company measures to make use of elderly workers.

Yokogawa Electric Corp. currently sets the mandatory retirement age at 60, but also has what is called a "life-long welfare personnel management policy," whereby workers can maintain a connection with the firm as long as they wish. Thus, even after age 60, workers continue to be employed at an affiliated company on the basis of an agreement accommodating the worker's needs and working conditions within the firm.

Every year the firm sees some 150 employees reach retirement age. Some 30 percent of those employees are then employed at "Yokogawa Elder," a company established in the group for retiring workers. Yokogawa Elder employs some 300 workers whose age averages 66, contracting them to the main company, mainly to workplaces where they worked before retirement. The exact details of their deployment are worked out in accordance with recommendations from the workplaces and the wishes of the employee. Another 30 percent of retiring employees are re-employed at various affiliate companies which are suitable for elderly workers, including a think tank. Another 20 percent find jobs outside Yokogawa, and the remaining 20 percent leave the labor market.

In preparation for these employment opportunities after age 60, employees under 60 are offered various forms of training. At a certain age, they are given fixed days off on a regular basis to reconsider their working lives and to reorient themselves for working after the age of 60. Another program allows employees to experience various kinds of duties rotating among affiliate firms.

Considering issues to be resolved, Mr. Sasada mentioned two matters. With the rapid graying of the population, it is becoming increasingly difficult to take elderly workers into the firm. At the same time, an increasing number of elderly workers are finding it difficult to keep up with changes in the work environment, such as the increasing requirement that all employees have computer skills. To solve these problems, the company has taken a determined stance that it will conduct career counselling, and introduce more jobs outside the company group as employees may wish. The company, in addition, has a centralized database with individual information on all 13,000 employees at the company and affiliates in Japan, so that the skills of elderly workers may be better utilized within the group.

Mr. Sasada concluded his lecture with a look at the future. As a basic approach to the maintenance of employment, he stressed, it is a social responsibility for firms to endeavor to develop the human resources it employs by providing the appropriate training systems and by facilitating the existence of various working patterns in order to properly employ elderly workers and to give meaning to their lives after retirement.

OPINIONS REQUESTED

The editor invites readers to send their views and comments on the contents of *JLB* via e-mail to akuwa@jil.go.jp or via fax to +81-3-5991-5710.

Statistical Aspects

Recent Labor Economy Indices

	July 2001	August 2001	Change from previous year (August)
Labor force	6,783 (10 thousand)	6,780 (10 thousand)	-11 (10 thousand)
Employed	6,397	6,402	-36
Employees	5,392	5,376	16
Unemployed	338	334	27
Unemployment rate	5.0%	5.0%	0.4
Active opening rate	0.60	0.59	-0.01
Total hours worked	156.5 (hours)	p148.9 (hours)	p-0.5
Total wages of regular employees	(¥ thousand) 432.4	(¥ thousand) p305.7	p-3.2

Note: * Denotes annual percent change.
p: Preliminary figure
Source: Ministry of Public Management, Home Affairs, Posts and Telecommunications, *Rōdōryoku Chōsa* (Labour Force Survey); Ministry of Health, Labour and Welfare, *Shokugyō Antei Gyōmu Tōkei* (Report on Employment Service), *Maitsuki Kinrō Tōkei* (Monthly Labour Survey).

Proportion of Firms Using the Internet for Recruitment and the Advantages

Company Size	Proportion of Firms Using the Internet		Advantages of Using the Internet							
			Able to provide necessary information	Simplification of recruitment activities	Contribution to cutting costs	Ability to access 24 hours a day	Ease of contacting applicants	Ability to hire various kinds of workers	Other Reasons	No answer
Total	16.1	100.0	63.7	33.3	27.9	49.1	43.2	42.9	3.6	4.5
5,000 or more workers	94.7	100.0	77.3	62.1	50.0	58.7	52.5	47.8	6.5	2.5
1,000 ~ 4,999 workers	79.2	100.0	68.7	52.8	38.1	53.7	54.3	42.9	4.9	2.2
300 ~ 999 workers	52.9	100.0	63.3	39.5	31.8	43.5	44.8	39.8	3.4	3.7
100 ~ 299 workers	25.5	100.0	38.3	31.8	26.0	45.9	41.3	39.3	2.5	3.9
30 ~ 99 workers	8.0	100.0	57.5	24.6	23.5	53.8	40.7	47.9	4.4	6.3