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### GENERAL SURVEY

#### Two-thirds of Working Women Leave Job upon Birth of First Baby

According to the findings of a panel survey conducted by the Ministry of Health, Labour and Welfare, two-thirds of all working women were found to have given up their jobs upon the birth to their first child.

The panel survey is being conducted on a large scale — the results of the first round have just been compiled — to provide basic data with the aim of devising measures to counter the drop in the birthrate. Directed to mothers of all children born between the 10th and 17th in both January and July 2001, the survey was conducted when the children in question were six months old. Answers were received from 47,007 women, a 87.7 percent response rate. Below are results from the 22,912 women who had given birth for the first time.

According to the findings, 25.6 percent were not working one year before childbirth, whereas 73.5 percent were.

Six months after giving birth, the figures had changed, to 74.3 percent and 24.6 percent, respectively. Of those who had jobs a year before childbirth, 67.4 were no longer working. For women who had been full-time employees one year before childbirth, the proportion who had returned to their jobs six months later was a mere 36.8 percent. (See Table 1 on page 2.) On the other hand, when the child was not the first child, the proportion of women returning to the work force was as high as 74.5 percent.

The proportion of working mothers who had taken (or were planning to take) child-care leave was 80.2 percent among full-time employees, the proportion rising with the size of the firm. On the other hand, the proportion of fathers who had taken child-care leave was a mere 0.7 percent. Since the Ministry of Health, Labour and Welfare has set targets for those who take such leave at 80 percent for females and 10 percent for males (see the December 2002 issue of the *Japan Labor Bulletin*), this means that the rate has exceeded the target for women, but is far below the target for men.

## WORKING CONDITIONS & THE LABOR MARKET

### Only Half of Granted Paid Holidays Actually Taken

According to the *Comprehensive Survey on Working Conditions* released on October 28 by the Ministry of Health, Labour and Welfare, the average regular employee took only 8.8 paid holidays in 2001. This represents 48.4 percent of available paid holidays, a record low. Although the average number of paid holidays given by firms was a record high, 18.1 days, the actual number of days taken had fallen for six consecutive years, revealing a widening gap between the system and reality. The survey was directed at some 5,300 private companies with 30 or more permanent employees at headquarters; 79.7 percent of the replies were usable.

The number of paid holidays a regular employee used was down from the previous year by 0.1 of a day, shorter by 0.7 of a day than the most recent peak recorded in 1995 (9.5 days). On the other hand, the number of paid holidays which companies granted their employees has been increasing since 1998 when the Labour Standards Law was revised, increasing by 1.1 days from the previous year to 18.1 days. Accordingly, the proportion of paid holidays actually taken was 48.4 percent, a 1.1 percentage point drop from the 49.5 percent the previous year. The ministry says that the poor utilization of paid holidays may be attributable to an atmosphere in the workplace

which makes it difficult for workers to take holidays as the recession continues and many companies undertake restructuring measures.

In terms of company size, the average number of paid holidays actually taken was 10.1 days at firms with 1,000 or more employees, 8.3 days at firms with 300 to 999 employees, 8.0 days at firms with 100 to 299 employees, and 7.5 days at firms with less than 100 employees, indicating a tendency for employees at larger firms to take more paid holidays. By sector, the average was 15.2 days in industries related to the public interest such as electricity, gas, heat supply and water supply; 10.5 days in the manufacturing sector; 8.6 days in the service sector; 6.6 days in construction; and 6.0 days in wholesale and retail, and food and drink establishments, showing enormous gaps between industries. (See Figure 1 on page 3.)

### HUMAN RESOURCE MANAGEMENT

#### Majority of Firms Agree Legal Protection Needed for Whistle-blowers

The recent spate of corporate irregularities disclosed by insiders prompted the Cabinet Office to carry out a survey of private companies concerning legal infrastructures to protect employees who blow the whistle for the sake of the public interest. The results show that 90 percent of the firms which replied to the survey agreed that a protective law related to the issue was necessary.

### Statistical Aspect

Table 1. Employment Status of Women with Six-month Old Children by Job Status  
One Year Prior to Giving Birth for First Time

Six months after childbirth	One year before first child		Number who didn't work	Number who worked	Full-time employee	Part-time/temporary worker	Self-employed/family business	Side job	Other
	22,912 people	(%)	5,868	16,850	10,813	5,164	707	65	101
			(25.6)	(73.5)	(47.2)	(22.5)	(3.1)	(0.3)	(0.4)
Number without jobs	17,034	(74.3)	96.1	67.4	59.5	88.9	30.3	60.0	69.3
Number with jobs	5,639	(24.6)	3.4	32.2	40.2	10.5	69.3	38.5	29.7
Full-time employee	4,078	(17.8)	0.7	24.0	36.8	0.9	0.4	-	3.0
Part-time/temporary worker	717	(3.1)	1.5	3.7	2.2	7.4	0.8	3.1	-
Self-employed/family business	672	(2.9)	0.8	3.7		1.2	67.6	1.5	3.0
Side job	129	(0.6)	0.4	0.6	0.4	0.8	-	33.8	-
Other	43	(0.2)	0.1	0.2	0.1	0.1	0.4	-	23.8

Source: Ministry of Health, Labour and Welfare, 2002.

Dubious corporate practices in recent years have been disclosed by “whistle-blowers” who had the courage to do so, such as food companies falsely labeling imported beef products as domestic products to qualify for government buyback measures in the wake of an outbreak of mad cow disease; an electric power company systematically covering up the discovery of cracks in the steam dryer of a nuclear reactor by falsifying records; and a leisure company providing food items past expiration dates at a theme park it runs. Many medical malpractices, also, have come to light thanks to whistle-blowers.

The exposure of corporate misdeeds by informants may well damage the subsequent business performance of the firm, but the whistle-blowers themselves at the same time tend to suffer under the threat of retaliation. In a recent lawsuit, for example, an employee of a transport company who had blown the whistle on a secret cartel concerning trucking fees claims he was transferred to a different workplace immediately after the revelation and had been given neither specific tasks nor promotion for 28 years. Also, in the case of the above mentioned electric power company, the signature of the whistle-blower was leaked to the company in documents which the former Ministry of International Trade and Industry handed over to the firm after the revelation, failing to protect the employee who had had the courage to spill the beans.

In Japan there is no comprehensive legal protection for inside informers, with the exception of laws covering a limited range of industries, such as the Law Regulating Nuclear Reactors. Thus the Cabinet Office is now drafting a law providing legal protection for whistle-blowers, taking the consumer’s side by prohibiting unfavorable treatment of informants who have exposed “a firm’s improper acts which have a deleterious effect on consumers’ inter-

ests.” Related to this, some argue that the legal protection should be more wide-ranging so as to shield inside informers reporting corruption among civil servants and medical malpractices.

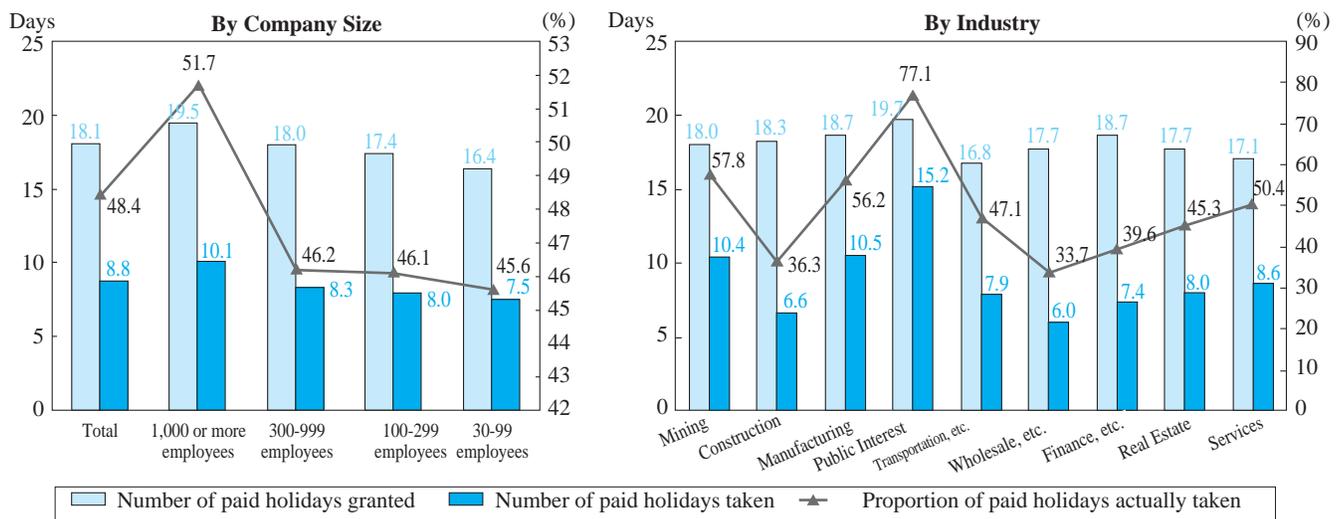
In line with this state of affairs, the Cabinet Office conducted its survey directed towards private firms concerning the current state of their efforts to comply with the law and their opinions concerning legal protection given to informers for the sake of the public interest. (The survey was sent to 1,550 private firms listed on the first section of the Tokyo Stock Exchange. Usable replies were returned by 776 firms, or 50.1%.)

According to the findings, 61 percent of the firms surveyed already had internal rules laying down corporate ethics promoting observance of the law, of which 61 percent had rules whereby employees can consult and report dubious corporate conduct for the purpose of preventing infringement of the law and nipping corporate misdemeanor in the bud. Of these firms, 47 percent (17% of all the firms surveyed) replied that they had regulations to protect informers against discrimination. At the same time, 40 percent of all the firms surveyed answered that they had a “helpline” to give advice and handle reports from employees for the same purpose.

In response to a question of whether there should be, in the public interest, a scheme legally protecting informers, the survey results also showed that 40 percent of the respondents replied “necessary” and 52 percent “in some cases, necessary.” As to the most appropriate person or institution the informer should contact, answers included “the appropriate department or section within the company” (83%), “a third-party institution outside the company” (47%), and “a governmental regulatory or supervisory body” (16%) (multiple answers possible).

Statistical Aspect

Figure 1. Trends regarding the Number of Paid Holidays Taken by Employees in 2001



Source: Comprehensive Survey on Working Conditions, Ministry of Health, Labour and Welfare, 2002.

## INTERNATIONAL RELATIONS

## Number of Full-time Employees at Foreign-affiliated Firms Tops One Million

A survey carried out in May 2002 by JETRO (Japan External Trade Organization) and published in October revealed that the number of full-time employees in foreign-affiliated companies in Japan was estimated to exceed one million. While the proportion of such workers to all permanent employees remained a mere 2.3 percent — less than half that of the U.S. (5.4%) or Germany (5.3%) — more than half of the firms replying to the survey did not have employees dispatched from their overseas headquarters, and some 80 percent answered that they were increasing or maintaining the number of their employees in Japan. This information is likely to play a significant role in Japan's labor market in the future. The questionnaire was sent to 5,113 foreign-affiliated firms and 1,565 branches of foreign companies in Japan<sup>(1)</sup>, of whom 2,066 firms and 639 branches returned replies.

As shown in Table 2, the number of foreign-affiliated firms in Japan increased sharply between 1997 and 1999, an indication that the investment climate has been improving due to factors such as the financial Big Bang in 1998, the deregulation of foreign investment in the telecommunications industry, the drop in land and property prices, and labor costs, among other things.

In terms of industry, wholesale and retail trade, and food and drink establishments — such as the French-based Carrefour Japan, U.S.-affiliated Chelsea Japan Co., Ltd., and others — accounted for 36 percent of foreign affiliated companies or branches as a whole, followed by the manufacturing sector (24%), and IT-related and other firms in the service sector (22%). As a whole, 76 percent of all the firms or branches surveyed belonged to the non-manufacturing sector, and the proportion has continued to expand each year.

By type of employee labor contract, the number of full-time regular employees at the firms or branches in

question totalled 505,554, from which the number of workers in foreign capital companies was estimated to be 1,006,493, equivalent to 2.3 percent of the figure for all permanent employees working in Japan (43.2 million<sup>(2)</sup>). By industry, 56.4 percent of all full-time jobs surveyed were created by the manufacturing sector, followed by 13.6 percent in wholesale and retail trade, and food and drink establishments, and 13.5 percent in the finance and insurance industry. The average number of full-time employees per company was highest, 445, in manufacturing, followed by 272 in the finance and insurance sector and 109 in services. In particular, telephone-based customer services, as seen in the Amazon Japan Co. Customer Center in Hokkaido, are likely to expand as major contributors in rural job markets in the future. Where the communications and transport industries are concerned, on the other hand, despite a gradual increase in the number of foreign affiliated firms since deregulation in 1998 — such as British Vodafone which invested in Japan Telecom Co., Ltd. — the proportion of full-time employees in these industry remained relatively low, 3.5 percent.

The percentage of firms which did not employ representatives from overseas office is 63.6 percent; the same was true for 45.2 percent of the branch offices surveyed. Thus it seems that foreign companies more or less leave their business operations in Japan to employees taken on domestically.

As for their recruitment plans in the future, some 80 percent of all the firms and branches surveyed showed positive attitudes: 50 percent answered that they were planning to increase the number of employees within this fiscal year or in the future, and 30 percent that they would retain the current level of employment. Among reasons given by the firms for increasing the number of employees, the highest proportion, 30 percent, hoped to strengthen their sales performances, of which 95 percent were targeting experienced office and engineering workers rather than new graduates, revealing a tendency to expect new workers to contribute immediately to the company.

## Statistical Aspect

Table 2. Number of Foreign-affiliated Firms in the Japanese Market by Year (Industrial Breakdown)

	~1948	1949-1951	1952-1954	1955-1957	1958-1960	1961-1963	1964-1966	1967-1969	1970-1972	1973-1975	1976-1978	1979-1981	1982-1984	1985-1987	1988-1990	1991-1993	1994-1996	1997-1999	2000~
Total	52	16	23	16	41	56	45	64	121	113	82	100	139	241	216	216	270	426	331
Manufacturing	16	4	8	6	16	21	17	23	40	33	24	26	32	41	44	46	56	99	71
Transport and communications	4	1	5	2	7	5	3	9	12	12	10	3	10	9	16	11	15	30	15
Wholesale and retail trade	12	5	6	4	11	21	14	15	35	44	32	48	70	111	91	98	108	132	82
Finance and insurance	16	5	1	2	2	0	1	7	11	5	7	6	5	35	14	15	24	49	35
Services	3	1	3	2	5	9	9	9	16	19	9	16	22	43	47	42	65	111	123

Source: Japan External Trade Organization

**Notes:** <sup>(1)</sup>The difference between a foreign-affiliated company and a branch of a foreign company is that the former is registered as a corporate body in Japan whereas the latter is not. They are similar in the sense that they are based on foreign capital. A foreign-affiliated company is defined as a firm whose foreign capital is 10 percent or more.

<sup>(2)</sup> This figure is based on the May 2002 issue of the Monthly Survey of the Ministry of Health, Labour and Welfare.

## PUBLIC POLICY

### Most Individual Labor Dispute Cases Close within Three Months

On October 22, 2002, the Ministry of Health, Labour and Welfare published a report on the effectiveness of the Law for Promoting the Resolution of Individual Labor Disputes since its one year enactment. According to the report, 90,000 individual labor disputes were brought before 250 counselling desks set up in local Labour Bureaus, Labour Standards Inspection Offices, and other administrative bodies. Of these, 90 percent of the disputes which sought resolution outside the courts via advice or guidance, or conciliation either saw a settlement or came to an end within three months.

The most common request for counselling concerned “dismissals,” accounting for 28.5 percent of the total. This was followed by “the lowering of wages or other working conditions,” (17.4%), and “demand for ‘voluntary’ retirement” (5.9%). In such cases, counselors provide information and encourage the individuals and firms involved to resolve the question on their own accord, but if these methods fail, they call for advice and guidance from the

director of the local Labour Bureaus or for conciliation by dispute adjustment committees. A total of 4,026 cases applied for either advice and guidance or conciliation: 1,911 for advice and guidance and 2,115 for conciliation. This exceeds the 3,567 figure for civil suits involving labor relations brought to district courts across the country in 2001.

Where conciliation as a whole was concerned, the largest number of cases again concerned dismissals, 41.8 percent, followed by a deterioration of working conditions (14.3%), and bullying and harassment in the workplace (5.3%). Of the 2,115 disputes calling for conciliation, necessary procedures were completed in 1,791 cases by September 2002. Of these, 40 percent reached an agreement, 14 percent were withdrawn due to a voluntary settlement between the parties involved, and 45 percent were terminated due to, for example, the refusal of one party involved to join in the necessary conciliation process. As for the time required to handle these cases, 59.4 percent were settled within one month, and 36.6 percent from one to three months, which means that more than 90 percent of the conciliation cases were dealt with within three months. Workers accounted for the vast majority, 98 percent, of applicants seeking conciliation; of these 77.3 percent were regular employees, 10.4 percent part-time or *arubaito* (temporary) workers, and 8.2 percent dispatched (agency) or fixed-term contract workers.

With the number of individual labor disputes increasing, the Ministry of Health, Labour and Welfare is calling to increase allocations in the next fiscal year to increase the number of dispute adjustment committee members (from the current 174 to 300), in the hope of strengthening still further the functioning of dispute resolution.

## Statistical Aspect

### Recent Labor Economy Indices

	October 2002	November 2002	Change from previous year (November)
Labor force	6,717 (10 thousand)	6,684 (10 thousand)	-96 (10 thousand)
Employed <sup>(1)</sup>	6,355	6,346	-84
Employees <sup>(1)</sup>	5,336	5,350	-22
Unemployed <sup>(1)</sup>	362	338	-12
Unemployment rate <sup>(1)</sup>	5.5%	5.3%	-0.1
Active opening rate <sup>(1)</sup>	0.56	0.57	0.05
Total hours worked <sup>(2)</sup>	154.7 (hours)	157.6 (hours)*	-0.8 (%)
Monthly cash earnings <sup>(2)</sup>	284.7 (¥ thousand)	291.0 (¥ thousand)*	-1.6 (%)

**Notes:** <sup>(1)</sup> Seasonally-adjusted figures.

<sup>(2)</sup> Figures refer to establishments employing five or more people.

\*Preliminary figures.

US\$1= ¥120 (January 1, 2003)

**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), *Maitsumi Kinrō Tōkei* (Monthly Labour Survey).

## Special Topic

# Impact of Labor Shedding on Stock Prices\*

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## 1. Introduction

While the Japanese economy was mired in recession in the 1990s, labor shedding via “voluntary” retirement and the curbing of new recruitment became quite common among Japanese firms, which hitherto had attached great importance on employment stability. In March 1995 and October 1999, Nissan Motor Co. effected large-scale restructuring, cutting jobs by 7,000 and 21,000, respectively. In 1998 banks resorted to labor cuts to enable them to receive public money to deal with a huge amount of bad loans. In 2001, various firms in the electronics and machinery industry called for large-scaled voluntary retirement. One example is Matsushita Electronic Corporation and its four affiliated firms where the number of employees applying for voluntary retirement is expected to reach somewhere around 8,000. Meanwhile, Fujitsu announced that it would cut 16,400 jobs, including 5,000 jobs within Japan, while Toshiba Corporation announced cuts of as many as 20,000 jobs across its group companies located at home and overseas.

Labor shedding via dismissals and calls for voluntary retirement is the very last resort for Japanese firms in streamlining their structures, and was considered to be a measure which only firms in critical condition would resort to. And in fact, as Koike (1983) and Suruga (1997) pointed out, labor cuts via such methods were carried out in cases where firms had been in the red for two consecutive years. Thus, the announcement of labor cuts was taken as a signal that the firm would face a deterioration of business performance in the near future, which would affect the company’s rating and send its share prices downward.

Since the 1990s, however, people have come to believe that large-scale labor shedding raises a company’s rating. This was, for example, reflected when credit rating firms lowered the ratings of bonds when a company insisted it would maintain employment. As the number of foreign investors buying stocks in the Japanese market increases and the cross-holding of stocks by companies in the same corporate group decreases, management structure has undergone changes, as has the attitude toward employment adjustment.

Some newspapers did in fact report that an announcement of labor shedding plans had led to an increase in stock prices. The July 6, 1999 issue of the *Nihon Keizai Shimbun* quoted the growth rates for stock prices of firms

which had announced planned labor cuts between the date of the announcement and July 5 (see Table 1 on page 7). The list included Mitsubishi Chemical Corporation, Mitsukoshi Ltd., NEC Corporation, Sony, Nippon Paper Industries Ltd., Hitachi Ltd., Nissan Motor and Kajima Corporation.

As labor shedding began to be evaluated positively, Okuda (1999) raised an objection to hasty labor cuts, claiming that they would break up the relationship of trust between the firm and employees, making it impossible to hold on to quality workers, resulting in a loss of competitiveness.

However, despite Okuda’s claim, no academic research has been undertaken which indicates how company announcements of labor shedding have affected the Japanese stock market. The state of the market as a whole impacts on the fluctuation of individual stock prices, and even when employment adjustment announcements are not made, stock prices are affected by various factors. Many factors need to be controlled if one is to analyze the impact of labor cuts on stock prices.

The aim of this article is to clarify what impact labor shedding has on stock prices. The method we used to determine this is known as event study (to be explained later), an analytical method utilizing CAPM (Capital Asset Pricing Model) which examines trends in the rates of excess returns before and after a particular event, excluding any shock that would affect the portfolio in the overall stock market. CAPM uses the overall risk in a market portfolio (the rate of return of TOPIX in this article) as a criterion in calculating the expected rate of return from individual stocks, making use of Beta, the measure for gauging risks in investing in a single stock market — that is, the rate of return from an overall market portfolio. This article analyzes market evaluation and reaction following announcements of labor shedding.

Some event studies have already been conducted concerning the relationship between labor shedding and the rate of return of stock in the U.S. market (see Table 2 on page 8). Interestingly, this series of studies indicates negative reactions to announcements of labor cuts on stock prices. Farber and Hallock (1999), for example, analyze the relationship between announcements reporting labor cutbacks and the rate of return of stocks over a long period. They discovered that during the years covering the beginning of the survey which started in 1970, the aver-

**Table 1. Major Firms Announcing Labor Shedding Plans and Their Stock Prices after the Announcements**

Name	Number of cuts (people)	Date of newspaper announcement (1999)	Last trading figure on July 5 (¥)	Change (%)
Mitsubishi Chemical	2,000	February 10	430	68.0
Mitsukoshi	600	February 18	532	85.4
NEC	*15,000	February 20	1,640	55.6
Sony	*17,000	March 9	13,700	36.3
Nippon Paper Industries	*2,150	March 11	625	27.6
Hitachi	6,500	April 2	1,158	25.9
Sapporo Breweries	1,000	April 8	555	-0.9
Nissan Motor	*5,000	April 17	582	27.4
Kajima	1,500	April 30	495	37.1
All Nippon Airways	2,200	May 29	376	4.4

**Notes:** The asterisks (\*) indicate that the figures include labor cuts made in group companies as a whole; otherwise, the figures apply only to the head company. In calculating rates of change, the final trading values of the day before the announcement of the cuts are used as denominators. (-) indicates negative values.

**Source:** *Nippon Keizai Shimbun*, July 6, 1999, morning edition.

age response to lay off announcements was to send the rate of return into negative territory; however over the span of 28 years, this gradually moved towards zero. Their reasoning was as follows: labor cuts in response to sagging demand for a company's product has a negative impact on stock prices, whereas cuts to improve efficiency have no impact. As the underlying rationale for labor shedding in recent years has been to improve competitiveness, labor cuts have had a negligible impact on stock prices.

This paper seeks to analyze what impact labor shedding carried out by Japanese firms in the 1990s had on the rate of return of their stock, making use of the event study method. Our research reveals that labor cuts have had, if only slightly, a positive impact on stock prices since 1993.

At the same time, it was observed that the impact labor shedding has on stock prices varies depending on the specifics, such as which industry the firm belongs to, the method used, the scale of the cuts, business performance and timing. In the latter half of the 1990s, announcements of labor shedding have affected stock prices in a haphazard way. And, while "attrition" — reducing the number of employees by refraining from hiring new employees and not replacing those workers who retire — does have a positive effect on stock prices, a larger effect could be observed in cases where reductions are accomplished by calling for voluntary retirement. Analyses of the impact of two conditions — the size of the cuts and business performance — show that there is a positive impact when firms with increasing current profits reduce the number of employees, or where firms on the verge of business difficulties carry out mass

labor cuts.

## 2. Event Study

The event study method is a standard method widely used in case studies of company finances. Specifically, we have made use of CAPM to estimate the relationship between the rate of return of the market and the rate of return on individual stock as seen from 60 days up to 30 days prior to the announcement of labor shedding plans. The difference between an expected rate and the actual rate of return on individual stocks is called the rate of excess return. In short, event study is an analytical device for detecting the movement of the rate of excess return before and after the announcement of plans to reduce a labor force. Indices used for the analyses are the sum of the rate of excess return during the period before and after the event, and the daily average of such rates.

### 2.1 Periods of Estimation of Coefficients in CAPM

The event study calculates the rate of excess return before and after the event based on the estimation of the correlation between the rate of return from the market and rates of return on individual stocks during a normal period when the rates of return are not affected by the event under investigation. The period marking the parameters of CAPM within the period unaffected by the event is known as the "estimate period." This article follows Farber and Hallock (1999) in setting the estimate period at 30 days — from 60 days up to 30 days prior to the event.

### 2.2 Setting of Event Windows

Event windows are definable as time spans during

**Table 2. Previous Studies of the Same Issue**

Author(s) (Year of publication)	Period Examined	Number of Cases	Type of Cut	Average Rates of Cumulative Excess Return
Abowd et al. (1990)	1980 and 1987	125	Dismissal Manufacturing sector Factory closures All types	-0.368
Caves & Krepps (1993)	1987 ~ 1991	513		-0.900
Kalra et al. (1994)	1984 ~ 1987	132		-0.500
Worell et al. (1994)	1979 ~ 1987	194		-0.400
Farber & Hallock (1999)	1970 ~ 1997	3,878	All types	-0.376
	1970 ~ 1979	1,503		-0.647
	1980 ~ 1989	1,491		-0.261
	1990 ~ 1997	884		-0.112
Ohtake & Tanisaka (2002)	1990 ~ 1998	746	All types	0.024
	1990	12		-0.035
	1991	5		-0.024
	1992	61		0.001
	1993	153		0.008
	1994	73		-0.008
	1995	109		0.036
	1996	97		0.083
	1997	66		0.013
	1998	170		0.028

which the event in question — the announcement of labor shedding — may affect the stock price around the day when it occurs. This article deals with three types of event windows: the 21-day window, 11-day window, and a one-day window.

**2.3 Data Sets**

The event study here relies on three data sources: the *Nippon Keizai Shimbun* newspaper CD-Rom, *Kabuka* (stock price) CD-Rom and *Kaisha Shikiho* (Japan Company Handbook). Information concerning the announcement of labor cuts at firms listed on the Tokyo Stock Exchange is gained from articles in the *Nippon Keizai Shimbun*. More specifically, we checked articles between 1990 and 1998 on the newspaper’s CD-Rom,

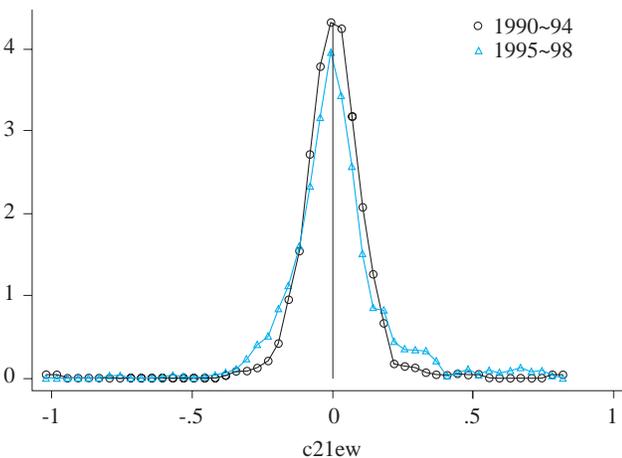
searching for firms which were listed on the Tokyo Stock Exchange and had conducted labor cuts. We found 746 samples meeting these conditions. For these sample firms, the rates of excess return on stock prices around the time of the announcement of labor shedding were calculated, and samples were categorized in terms of the fiscal year in which the labor cuts were carried out, the industry to which the firms belonged, the state of current profits, and how the labor force was reduced.

**3. Trends in the Rate of Return in the 1990s**

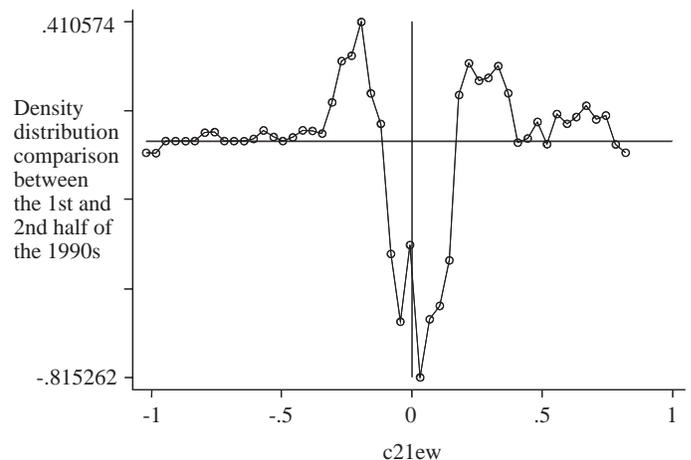
**3.1 Trends in Average Rate of Cumulative Excess Returns**

The bottom right cell of Table 2 shows the average

**Figure 1A. Distribution of Cumulative Excess Return**



**Figure 1B. Comparison of Distributions between 1990~94 and 1995~98**



annual rates of cumulative excess return on stock prices in the 1990s. An upward trend is observed throughout the decade, the average rates shifting to a positive figure in the latter half of the 1990s. As far as the average rates are concerned, the announcement of labor cuts had a positive effect on stock prices. But these represent no more than the movement of averages.

Figure 1 shows density distributions of rates of cumulative excess returns in the first and second half of the 1990s (Figure 1A) and a comparison of the two distributions (Figure 1B). The comparison reveals two noticeable features: the rates in the latter half of the 1990s are spread more unevenly than in the first half; and in the latter half, an increase is apparent in the vicinity of 0.5 in the positive excess returns. In other words, although the average rates show an upward trend in the 1990s, they are at the same time spread more unevenly. This does not support the conclusion that the announcement of labor shedding has, on average, a positive effect on stock prices.

Table 3 shows the average cumulative excess returns and the proportion of samples with negative values during the three periods into which the 1990s are divided. The average excess returns assume negative values in the early period (1990~92), and turn to positive values in 1993 and afterwards. However, even at the beginning of

the 1990s, the proportion of sample stocks where excess returns assumed negative values was more than half, 54 percent. In the mid-1990s, both the average and the median assumed positive values, whereas in the late 1990s, the former was positive but the latter negative. Thus, it is not necessarily true that large-scale labor shedding had a positive effect on stock prices. Comparing this to the figures in the U.S. study shown in Figure 2, where average rates of return assumed negative values on a substantial scale, one can conclude that the average rates of excess returns in Japan are minimal and have hardly any impact on stock prices.

### 3.2 Cumulative Excess Returns Coinciding with Labor Cut Announcements

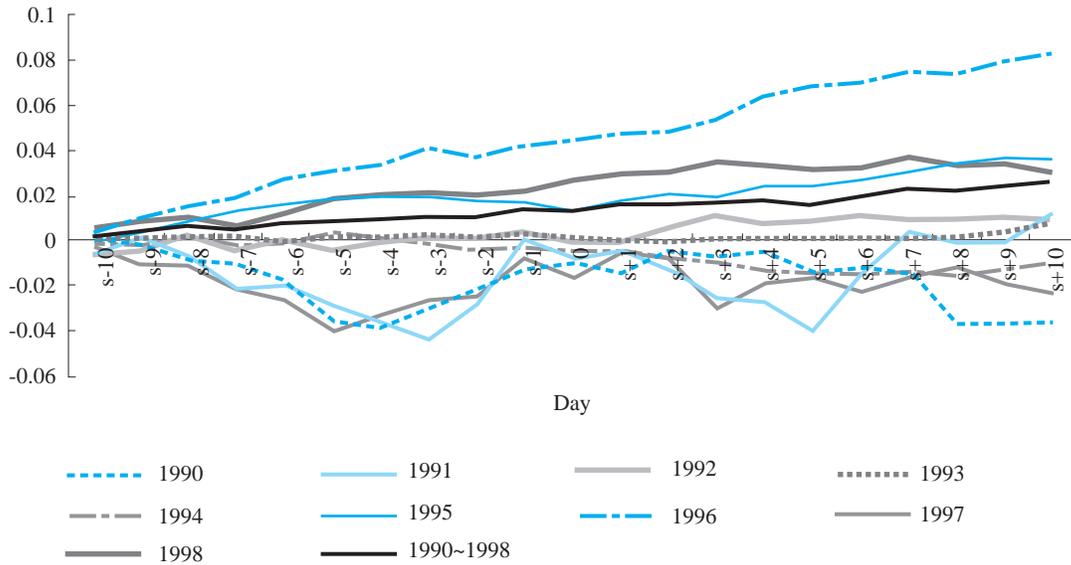
To examine the nature of the effects of labor shedding on stock prices, let us now trace trends in returns on stock prices around the date of the announcement. Figure 2 shows the movement of cumulative excess returns around the time of the announcement by fiscal year. The graphs were produced by calculating the average rate of excess returns for each day and sum of the averages for 10 days preceding and 10 days following an article concerning labor cuts. If the articles concerning labor cuts are accepted as good news and increase stock prices, the graph shows an upward trend; if they are seen as bad

**Table 3. Average Rates of Cumulative Excess Return; 21-day Window**

	1990 ~ 1992	Proportion of negative value	1993 ~ 1995	Proportion of negative value	1996 ~ 1998	Proportion of negative value
<b>Total</b>	-0.007	0.54	0.013	0.48	0.041	0.52
<b>By Industry</b>						
Mining, Construction & Manufacturing	-0.005	0.54	0.003	0.49	0.021	0.52
Transport & Communications; Electricity & Gas	-0.030	0.33	0.062	0.40	-0.015	0.55
Finance & Insurance; Real Estate	-0.014	0.63	0.011	0.59	0.056	0.53
Wholesale & Retail Industries	0.064	0.00	0.045	0.31	0.294	0.38
<b>By Business Performance</b>						
Deficits for 2 consecutive years	0.088	0.50	0.027	0.40	0.049	0.52
Decrease in current profits	-0.013	0.60	0.002	0.49	0.006	0.57
Increase in current profits	-0.003	0.45	0.079	0.44	0.076	0.47
<b>By Method</b>						
Voluntary retirement	0.011	0.60	0.041	0.49	0.066	0.51
Reallocation of employees	-0.005	0.50	0.018	0.41	0.043	0.46
Attrition	0.006	0.45	0.011	0.44	0.023	0.49
Other	—	—	0.041	0.23	0.051	0.25
Unknown	-0.026	0.61	-0.024	0.63	0.005	0.53
<b>By Size of Cut</b>						
Large	0.004	0.50	0.004	0.50	0.131	0.41
Medium	0.024	0.53	0.024	0.53	-0.001	0.50
Small	-0.002	0.47	-0.002	0.47	0.035	0.55

**Note:** The table shows average rates, standard deviations, and the proportions of negative values in all fiscal years. If the proportion of negative value is more than 0.5, this means that more than half of all cumulative excess returns assume negative value. Because the data do not follow the normal distribution, the averages are not necessarily representative of values as a whole. Accordingly, it is important to note the proportions of negative value together with the averages. The sign (-) within the table indicates data was not available.

**Figure 2. Cumulative Excess Returns by Fiscal Year**



news and decrease stock prices, the graph shows a downward trend. In the same fashion, if the reports are neutral about stock prices, the graph stays horizontal.

A glance at Figure 2 reveals a gentle upward slope during the 1990s as a whole, which implies that the market evaluated labor shedding as a favorable event. However, stock prices did not fluctuate promptly around the date of the event, which suggests that information had been leaked before the official announcement. In terms of fiscal year, cumulative excess returns showed an upward trend in fiscal 1995, 1996 and 1998, while in other years they stayed more or less horizontal.

**4. Type of Industry, Method of Labor Shedding, Business Performance, and Scale of Cuts**

**4.1 Differences among Industry Types**

The sample firms were categorized in accordance with 33 industry types, using *Kaisha Shikiho*. For analysis here, these industries were sorted into four groups: mining, construction, and manufacturing industries, transport and communications, and electricity and gas industries, finance and insurance, and real estate industries, and wholesale and retail industries.

In terms of these four groups, from 1996 to 1998 wholesale and retail industry firms reacted the most to proposals for labor cuts. The rates of returns shifted some time around the day the measures were announced, showing a positive attitude. As seen in Table 3, the average rate of cumulative excess returns is relatively large, 0.294. What is more, the proportion of rates assuming negative values stands at 0.38. In short, as far as this case is concerned, the announcement of labor cutting plans

raised the companies' stock prices.

Concerning the finance and insurance, and real estate industries, the rates of returns show an upward trend in the latter half of the 1990s, and the average rate of cumulative excess returns, seen in Table 3, assumes a relatively large positive value, 0.056. However, this is not the case for the other two industry groups. Although announcements registered a positive effect on the rates of return in transport and communications, and electricity and gas industries in the mid-1990s, the rates in other industries showed little change.

Most of the sample firms from wholesale and retail industries were in crisis in 1997, including firms which filed for protection under the Corporation Reorganization Law. In that year, a financial crisis occurred and a majority of the firms from finance and insurance, and real estate cut their labor force to qualify for aid from public funds.

**4.2 Different Methods of Labor Shedding**

Of all labor shedding methods, voluntary retirement accounts for some 20 percent. Another common method is attrition, which in fact was the most common among the sample firms, accounting for some 35 percent. Labor cuts also come in various other forms, including personnel rotation within a firm, dispatching and transferring employees to affiliated or related companies, and corporate spin-offs. Some 20 percent of all the labor-shedding announcements involved these methods.

The average rates of cumulative excess returns shown in Table 3 assume positive values in cases of voluntary retirement, personnel rotation and attrition. Only in cases of attrition and personnel rotation does the proportion of rates assume negative values of under 0.5 point. Labor

cuts via voluntary retirement can increase stock prices, but are more likely to reduce them.

### 4.3 Differences in Business Performance

Business performance in Table 3 indicates the average rates of cumulative excess returns and the proportion of rates assuming negative values in terms of the business status of the firms adjusting their labor force. The use of current profits in gauging the business status of the firms concerned is because the phrase “current profits in the red” is frequently used in the *Nihon Keizai Shimbun* newspaper, and also because, as Koike (1984) and Suruga (1997) among others have shown, it is current profits in the red that trigger labor shedding.

Focusing on current profits, we evaluated the business performance of the sample firms in the following way: the firms were classified into three groups in accordance with their profits for one year and two years before the announcement of labor cuts. The first group covers firms which logged current profits in the red for the two successive years; the second group covers those which saw a fall in their current profits during the period; and the third group covers firms showing an upward trend, that is, those that saw an increase in their current profits.

Looking at the business performances of the firms which reduced their workforce within particular fiscal years, some 60 percent of all the firms which conducted labor shedding in the 1990s saw a reduction in their current profits. On the other hand, some 30 percent of the firms which increased their current profits carried out labor-cutting measures. The proportion among firms in critical condition, with current profits in the red for two consecutive years, is a mere eight percent. Despite an increase in current profits, some 60 percent of the firms in this category announced labor cuts in fiscal 1990 and 1991, some 40 percent in fiscal 1996, some 30 percent in fiscal 1997, and some 50 percent in fiscal 1998.

Where the average rates of cumulative excess returns in Table 3 are concerned, the firms which saw an increase in their current profits showed positive values since 1993, and the proportion of rates assuming negative values was below 0.5 point. With those that experienced current deficits in two consecutive years, the average rates assume positive values, but the proportion of rates assuming negative values is above 0.5 point.

In short, an announcement of labor shedding plans by

firms with increasing current profits increases stock prices, whereas one by firms experiencing current deficits in two consecutive years decreases stock prices. In other words, labor adjustment in a firm in good shape is oriented to more efficient business management, which the stock market judges as conduct likely to improve the firm's profits in future.

### 4.4 Differences in Scale of Cuts

Okuda (1999) states, “In today's Japan, it is rather fashionable to fire employees ... The more employees a firm fires, the higher its stock prices go up.” Let us, then, examine the correlation between the scale of cuts and the growth rate of stock prices. We have calculated the percentage of employees to be fired out of the total number of employees, and divided the distribution of the percentage ranking into three groups. The results, presented in Table 3, show that since 1996, large-scale labor cuts do in fact lead to a positive average rate of cumulative excess returns, while the proportion of rates assuming negative values is under 0.5 point, which is consistent with Okuda's claim.

### 4.5 Business Performance and Scale of Cuts

Table 4 shows the average rates of cumulative excess returns in relation to business performance and the scale of labor cuts. In cases where current profits are increasing, the announcement had a positive effect on stock prices, irrespective of the magnitude of the cuts. Among firms which carried out small-scale reductions, the announcement had a positive effect when current profits decreased. For those firms which saw a reduction in their current profits, the announcement is likely to be evaluated more highly when the scale of labor cuts is smaller. In cases where current profits went into the red for two successive years, an announcement of a large-scale labor cutting increases stock prices.

## 5. Conclusions

This article has analyzed the impact that labor cuts had on stock prices in the 1990s. It was observed that in the latter half of the 1990s labor cuts tended to increase stock prices. Above all, if firms enjoying an increase in their current profits carry out labor cuts, these clearly have a plus effect on stock prices. This trend may well have an effect on corporate management in encouraging

**Table 4. Scale of Labor Cuts and Average Rates of Cumulative Excess Returns, by Business Performance**

Magnitude of cuts	Deficit for 2 consecutive years	Decrease in current profits	Increase in current profits
Large-scale	0.090	-0.002	0.170
Mid-scale	-0.058	0.003	0.047
Small-scale	-0.035	0.015	0.027

\* Authors' estimates

early labor cuts.

According to interviews with security analysts by Professor Yoshio Higuchi of Keio University (unpublished), analysts' comments were not influential in the first half of the 1990s, but gained in influence in the latter half of the decade. This is mainly due to the fact that they examined and classified the nature of labor shedding into positive and resigned restructuring; this in turn reflected positively on the former type, resulting in an increased influence on stock prices. Following this, firms themselves began to consider ways to announce cuts, and this is symbolically reflected in the changed manner in which firms publish their plans. While in the first half of the 1990s such announcements were the responsibility of the personnel in charge of accounts, in the latter half the presidents of a firm took over the responsibility of publicizing the announcement. This change, Professor Higuchi discovered, is consistent with the results of analysis in this article which shows that in the latter half of the 1990s an increased number of firms with current profits announced large-scale labor cuts, resulting in an increase in their stock prices; and that the announcements of labor cuts at the same time had different effects on stock prices.

The fact that labor shedding measures heighten the value of companies at times when their business performance is sound, rather than when it has started deteriorating, seems a noteworthy point when considering what form regulations on dismissals should take. What should be borne in mind, however, is that labor shedding is not good news for stock prices worldwide; it is not, for example, the case in the U.S.A.

**Note:**

This is a revised, translated version of an article by Ohtake and Tanisaka (2002). The authors are grateful for detailed comments from Naoki Mitani, Masako Kurosawa, Yuji Genda, Yoshio Higuchi, Hiroki Sato and Yoshifumi Nakata.

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## ***JIL NEWS AND INFORMATION***

### **JIL Seminar: Trends and Case Studies in Wages and Personnel Evaluation Systems in Foreign-affiliated Companies (Part 2)**

In this issue, we continue the report from the Japan Institute of Labour seminar entitled “Trends and Case Studies in Wages and Personnel Evaluation Systems in Foreign-affiliated Companies.” The case of Toys“R”Us – Japan, Ltd., as reported by Ms. Riuko Mori, manager of the Human Resources and General Affairs Department, is described here.

Toys“R”Us – Japan, Ltd., founded in 1989, currently has 133 retail stores across the country, selling a variety of children’s products. During the last seven years, the company has tripled in size, in terms of sales, number of retail outlets, and number of employees.

The first retail store opened in 1991; by around 1995 the company had some 300 employees and since then has opened more than 10 stores each year. To facilitate such rapid expansion and growth of its business operations, since fiscal 1995 the company has adopted varied human resource management systems, which form the basis of the current system. The current HRM takes the form of a merit system, focusing on job grades, achievements and the skills expected to be fostered with repetition which are reflected in wages and other treatment. The evolution of this HRM started in 1995 with phase one when they adopted a merit system based on job grades; an evaluation scheme in accordance with the “Management by Objectives” (MBO); and a point-based scheme of retirement allowances reflecting the merit system. The second phase started in fiscal 1998, when the job grades were reviewed together with the salary ranges linked to the grades. At the same time, because employees did not immediately take to the assessment scheme, the process was reorganized and the company put more effort into training those responsible for assessing subordinates. The third phase, which started in fiscal 2001, restructured the assessment scheme again, and launched a new project whereby the idea of “competency,” that refers to the characteristics of behavior producing good performance, was to be incorporated into the MBO system. The following is an account of the measures the company has been undertaking since fiscal 2001, involving a remodeling of the evaluation

scheme into a new system known as “TACTICS” (Toysrus Accountability, Competency and Target Integrated Compensation Systems).

The recent revisions were necessitated by various problems inherent in the previous systems. First, the previous evaluation was based solely on an employee’s work performance, so that the appraisals tended to overly rely on statistical “figures” and concrete results such as sales at individual stores. Thus, it was difficult to assess the true quality of work and the accumulation of know-how, so that the assessment was not an accurate gauge when promoting employees to higher posts. Second, the systems tended to neglect to provide systematic training and guidance to employees. In addition, since the company was quite new, many workers joined after working for other firms, and thus there was no “corporate culture” to serve as a basis for training newly hired employees.

To overcome these problems, a plan to overhaul the assessment systems was set up in the fall of 2001, a summary of which follows. Within the framework of the job grade system, the existing MBO system was combined with an evaluation system based on “Competency,” improving the HRM system by expanding its practical application from only “treatment” (wages and incentives) to also taking into consideration posting, promotion and transfers, together with development of potentiality and training. In other words, whereas the former system — the MBO system — focused on assessing to what extent employees had achieved individual targets, the new system assesses employees along two lines: to what degree the employee has achieved the expected results together with what types of “competency” he/she displayed, in short, “result” and “process.”

The factors taken into consideration when evaluating employees’ achievement and competency were determined as follows: initially, questionnaires were given to 33 employees, including managers and employees at headquarters, distribution centers, and retail stores. The answers were used to ascertain a desirable approach for the company in the future, its

strategies and directions, and its current role of each employee. The questionnaires were also used to ascertain in detail the steps necessary to realize such elements; these were analyzed, then the items used to evaluate “competency” in relation to the current state of the company and the abilities, behavior, and competencies currently lacking in the employee were incorporated as elements in assessing competence.

Now the company faces the need to develop new ideas to further increase sales, it believes that leveling-up employee competency may improve its business performance. Another belief is that exchanges of opinions among employees concerning not only the results but also the process as such should lead to developing employee ability, and facilitate better competency management in individual workers.

The human resource management department spent six months in planning and introducing the new human resource evaluation system, incorporating the notion of “competency.” One task now is to design an effective strategy to get the system accepted among employees as a whole; this will be, in a

sense, more crucial than the planning itself. Since the introduction of the new system, the company has been holding briefing sessions, and conducting thorough training addressed not only at those responsible for assessing subordinates but also those being assessed. Such training has shed light on sections of the system that were not very obvious during the planning stage, and verbalized the opinions of employees, leading to further partial revisions.

At the moment, the evaluation system is being carried out on a trial basis, and will be used to actually assess competency from January 2003. Follow-up training will continue, and the new system will be fully deployed to cover promotion and grade schemes, and training schemes.

Meanwhile, Toys“R”Us – Japan, Ltd. was listed on the Japanese JASDAQ in 2000, and at the same time began shedding the influence of the head company in the U.S. and acquiring its own identity. Currently, the company looks to the U.S. company simply for reference in rebuilding its human resource management system.

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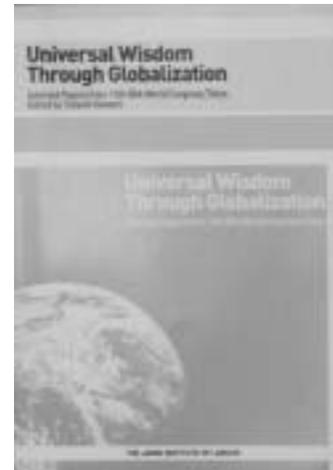
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**Correction:** The ad for *Labor and Employment Law in Japan* which appeared in the December 2002 issue of the *Japan Labor Bulletin* gave the wrong price and number of pages. The book is 234 pages and costs ¥2,800 (tax not included). We apologize for the error.

**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](mailto:akuwa@jil.go.jp) or via fax to +81-3-5991-5710.

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