

## Research notes

# Realities of Restructuring Enterprise Organization in Japan: Frontlines of Industrial Relations

OH, Hak-Soo

## I. Research background

Since the collapse of the economic bubble in the early 1990s, restructuring enterprise organization has been one of the most crucial developments affecting labor in Japan. Starting in 2007, I met with a number of workers individually in studies on resolution of individual labor disputes, and conducted interviews on the occurrence and resolution process of problems such as dismissal and worsening labor conditions. The case studies included those associated with corporate restructuring, which became an opportunity for me to find the realities of corporate restructuring as a research theme and start to conduct a full-fledged survey on it. Before that time, with the introduction of consolidated accounting system in the fiscal year ended March 2000, companies were strengthening group management, and restructuring of subsidiaries and sub-subsidiaries was actively carried out under the leadership of core companies. How is this restructuring affecting industrial relations at companies? It is one of the important labor research themes.

One type of corporate restructuring is the introduction of a pure holding company. Regarding this type, I investigated four cases at the request of the Ministry of Health, Labour and Welfare (MHLW) in 2002 and 2003.<sup>1</sup> In addition, as part of a research project of JTUC-RENGO (The Japanese Trade Union Confederation), I surveyed trade unions affiliated with Kikan Roren (Japan Federation of Basic Industry Workers' Unions, JBU), Unyu Roren (All Japan Federation of Transport Workers' Unions), and UA Zensen,<sup>2</sup> concerning unions' response to

corporate restructuring and related challenges.<sup>3</sup> I thought that it would be necessary to study corporate restructuring for enhanced understanding of Japanese industrial relations.

## II. Research method (Intensive interview: Listening directly to opinions from labor and management)

While having been able to get a picture of the realities of corporate restructuring in the context described above, I felt it was necessary to conduct a more extensive survey and research. In 2015 there was an urgent request from MHLW's Committee on Countermeasures for Labour Relations in the Face of Organizational Changes to JILPT (The Japan Institute for Labor Policy and Training) to investigate about 10 cases. I assembled 22 case studies and conducted interviews, utilizing all the connections I had made so far. The interviewees kindly cooperated, even though the process of corporate restructuring, including company splits, mergers, transfers and so forth, is not an easy topic for the parties involved to discuss. Writing a book about corporate restructuring based on direct and intensive interviews with labor and management and the material they provided was the first attempt for me and an opportunity that might not come again. I approached it with a great deal of enthusiasm.

## III. Six types of restructuring

The seven case studies of corporate restructuring that I eventually wrote about and published included six company splits, one of which was also a merger, and one transfer. It is not possible to grasp the

realities of restructuring without investigating them in detail. Each case study had its own distinctive characteristics in terms of the restructuring environment and process, and in terms of industrial relations. For example, examination of the most common reasons for and forms of restructuring reveals that they can be classified into the following six types.

Type 1: “Poorly-performing division split and integration with competitor” Restructuring

Type 2: “Split division’s specialization and its integration with competitor” Restructuring

Type 3: “Split profit utilization/strategic business selection and concentration” Restructuring

Type 4: “Division split and integration with subsidiary in the different industry for synergy” Restructuring

Type 5: “Division split and integration with subsidiary in the same industry for synergy” Restructuring

Type 6: “Unprofitable division split and transfer to competitor” Restructuring

In the first type, the split company has difficulty keeping the divided division due to deteriorating business performance, and an attempt is made to maintain and develop the division through a merger with the same business division of another company. A case in which two major electronics companies split and merged their semiconductor divisions to form a new company was typical in 2003. The merger of this newly established company with another company’s semiconductor subsidiary took place under a similar background in 2010.

Second, there is the type in which, for further growth, a division is split from a company and integrated with another company, achieving economies of scale. In one typical case, two companies decided that rather than both maintaining thermal power divisions, it was better to split both divisions and integrate them into a new company so as to rank among the world’s top companies in this industry. There were two other similar cases, both of which were company splits with the goal of further growth, with support from government agencies.

In the third type, a division is highly profitable,

but in order to advance a management strategy of selection and concentration on specific business sectors, the division is separated in order to utilize profits derived from the split. In such cases, profits from the sale of the split division were effectively utilized for further investment in concentrated business areas, as well as for repayment of interest-bearing debt that was placing a strain on business operations.

The fourth type is one in which a company splits a division in order to integrate it with a subsidiary in another industry so as to generate synergy. In this case, a sales division was split and integrated with an engineering subsidiary and a maintenance service subsidiary, with accompanying restructuring so as to effectively and efficiently provide solution services to customers.

The fifth type is a company split to obtain the synergy effects of integration of a divided division with a subsidiary in the same industry. In one example, a company split four manufacturing divisions (factories) and integrated them with a specialized manufacturing subsidiary to achieve higher quality and productivity.

The sixth type is one in which unprofitable divisions are separated and transferred to another company in the same industry. There was a case in which the poor business performance of a company handling semiconductor post-processing did not improve even after measures such as closing some factories were taken, and the factories were transferred to a competitor.

These various types of corporate restructuring can be broadly classified into restructuring within a corporate group and restructuring involving parties outside the group. Cases of restructuring within a corporate group can be sub-classified into three types. The first is where both the split company and the successor company involved in the restructuring belong to a specific corporate group (the split company owns 100% of the successor company’s shares). In the second type, holding 50% or more of the successor company’s shares, the split company has authority over the said company, and includes it in the scope of consolidation. And third, there are

cases where the split company initially held 50% or more of shares of the integrated entity, but its share declines and the new entity is not included in the scope of consolidation. Cases of restructuring outside the corporate group include those where the split company holds less than 50% of shares in the successor company from the start of restructuring, and those where it holds no shares at all.

#### **IV. Policy implications**

These various cases are characterized not only by the context and type of restructuring, but also by the nature of industrial relations. The surveys and research summarized in Oh 2019 shed light on this topic.<sup>4</sup> Specific procedures for industrial relations pertaining to restructuring are outlined in the Act on the Succession to Labor Contracts upon Company Split. According to the law, the first step is to take measures to obtain the understanding and cooperation of workers regarding the company split and labor contract succession (so called the “Article 7 Measure”), the second step is to hold discussions with individual workers regarding the content, etc. of contract succession (so called the “Article 5 Consultation”), and the third step is to notify the content, etc. of succession (so called the “Article 2 Notice”). For this survey, I primarily researched the Article 7 Measure and the Article 5 Consultation, and policy implications based on the survey results are as follows.

First, the Article 7 Measure ought to be upgraded from obtaining the “understanding and cooperation” of workers to reaching a “de facto agreement” with workers. This is because when companies discuss and negotiate with labor unions for the purpose of the Article 7 Measure, the unions provide de facto written or verbal consent. With regard to the Article 5 Consultation, if we assume that “consultation” written in the Act means that workers can convey their opinions freely on an equal footing with the company and have them actually reflected in discussion, it can be hardly said that there exists “consultation” under current circumstances. There are only orders handed down by the company. Thus I would say that the Article 5 Consultation is virtually

nonexistent. Company splits and labor contract successions are extremely important for workers as they mean a change of employer. If labor unions which represent them discuss with the company on an equal footing and make de facto agreements, it serves to protect workers and facilitate smooth restructuring.

The second policy implication is the need for flexible application and implementation of laws and regulations according to the actual state of industrial relations and its degree of trust. It is no exaggeration to say that industrial relations are completely different at companies with majority labor unions (labor unions consisting of a majority of workers) and companies without them, and this applies to cases of restructuring as well. Applying the same laws to all companies, therefore, may not be effective. For example, with regard to “Article 7 Measure,” if there is a majority union, the union discusses with the company many times, summarizes the contents in an official union paper, explains them to union members, and reflects their reaction in the next round of discussion, with a de facto agreement eventually reached. However, this cannot be expected where there is no majority union. If equality is the basic principle of industrial relations, it is essential to create an environment where labor and management are equal, and policy measures for that purpose (for example, legislation on the establishment of a committee system as in Germany) are required.

Third, the Act on the Succession to Labor Contracts upon Company Split is premised on the assumption that labor and management will not abuse the provisions of the law. In other words, it assumes a relationship of mutual trust between labor and management. However, the foundations of trust between labor and management are completely different at companies with and without majority unions, and it is thought to be meaningless to apply the same law across the board. The degree of trust in industrial relations should be measured. The current system can be applied if it is above a certain level, but measures have to be taken to ensure that laws and regulations are properly observed

through involvement and checks by regulators if it is not. In short, policy measures are required for flexible application and implementation of laws and regulations, depending on the degree of trust in industrial relations, meaning deregulation when it is high, and strengthening regulations when it is low.

In addition to the above-mentioned policy implications, Oh 2019 discusses what kind of labor-management relationship at individual companies should be emphasized at a time of restructuring from the viewpoint of solid, trust-based industrial relations as “two sides of one coin” (or, in the Japanese phrase, “two wheels on one cart,” i.e. two inseparable parts of one whole, as many Japanese companies consider them to be). The significance of this is considered when enumerating the points that labor and management should focus on at a time of restructuring. And, Oh 2019 illuminates the realities of restructuring enterprise organization, its policy implications, and the desirable mode of industrial relations during restructuring, and gives companies effective tools to consider how to make the most of

restructuring in business management.

1. Hak-Soo Oh, *Roshikankei no furontia: Rodokumiai no rashinban (zohoban)* [Frontiers of industrial relations in Japan: Compass for labor unions (enlarged edition)] (Tokyo: JILPT, 2012).
2. UA ZENSEN is the largest industrial union in Japan, representing 1.79 million members from 2,333 affiliates (as of Sep. 2019). It covers various industries which are closely related to people’s daily life, such as textile, garment, pharmaceutical, cosmetic, chemical, energy, ceramic, building material, food, commerce, printing, leisure, service, restaurant, welfare, medical, as well as temporary agency and contract work. <https://uazensen.jp/english/>.
3. These results were summarized in Hak-Soo Oh, “Kigyososhiki saihen eno roudokumiai no taio to kadai” [Labor unions’ response to restructuring enterprise organization and related challenges], in *Korekarano shudanteki roshikankei wo tou: Genba to kenkyusya no taiwa* [The future of collective industrial relations: Dialogues among labor, management, and researchers], ed. Michio Nitta and JTUC-Rengo (Japanese Trade Union Confederation) (Tokyo: Eidell, 2015), 206–250. They also appear as an addendum in Hak-Soo Oh, *Kigyososhiki saihen no jitsuzo: Roshikankei no saizensen* [Realities of restructuring enterprise organization in Japan: Frontiers of industrial relations] (Tokyo: JILPT, 2019).
4. For details, see Hak-Soo Oh 2019 mentioned in note 3.

### OH, Hak-Soo

Assistant Research Director, The Japan Institute for Labour Policy and Training. Research Interest: Industrial Sociology, Labor Relations.

<https://www.jil.go.jp/english/profile/oh.html>

