

THE INDUSTRIAL RELATIONS SYSTEM
IN LARGE JAPANESE ENTERPRISES -
A COMMENT

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I. INTRODUCTION

An OECD report was published in 1977 after a Multi-national Study Group had been in Japan from September 20 until October 4, 1975. It was written by Mr. Oliver Clarke, Principal Administrator of the Social Affairs and Industrial Relations Division, OECD¹.

According to the present OECD report, the industrial relations system in large Japanese firms cannot be understood without taking into account the four accepted pillars of the system: lifetime employment, seniority wages, enterprise unionism and enterprise-centredness, i. e. the peculiarly Japanese "social norms within the enterprise"².

II. LIFETIME EMPLOYMENT

Lifetime employment as a social norm is continued employment up to the age limit without temporary lay-off; but life-time employment in its reality in Japan is a mixture between the early age limit of mandatory separation and expected employment security without consideration for seniority.

The age limit is similar to a permanent lay-off, but who will be recalled depends primarily on the employer's discretion. By April 1977, for instance, of all the large Japanese firms with 1 000 or more employees, 82.2 % could not comply with the legal minimum requirement that 6.0 % or more of the firm's total work force be employees aged 55 years or more³.

The percentage of old workers aged 55 years or more was lower in large firms than in smaller firms with 100-299 employees, i. e. 3,9 % vs. 8,3 %. The majority of those leaving large firms had to take jobs in smaller ones.

Old workers are the first to be fired and the last to be rehired, as company work rules do not guarantee "continued employment" up to the age limit, and seniority agreements do not provide job and income protection for current senior employees.

1. What is the report's evaluation of lifetime employment ?

According to the OECD report, "since neither employment nor pay is threatened, there is no reason for workers to resist technical and organisational change ... Workers ... tend to identify strongly with improving efficiency"⁴.

The lifetime employment system may, however, be weakened somewhat for the following reasons⁵:

- (1) The recent recession.
- (2) The firm's need of "greater freedom to recruit and dismiss".
- (3) Increased wage costs due to "an aging labour force".
- (4) Japanese "curiosity about foreign practices" to facilitate mobility.
- (5) Major employment problems in some declining industries "using a high proportion of imported raw materials".
- (6) Increased "workers' disposition to move".

2. What are the strong and weak points of the evaluation ?

First of all, personnel appraisal's key role in determining the following primary concerns of old workers is neglected:

- (1) Who would be rehired at the age limit ?
- (2) How often would they be rehired on an annual basis ?
- (3) Who will be transferred to growing or declining sub-contracting firms ?
- (4) What level of job positions, from chief executive officer down to a non-supervisory post, will be prepared in the relevant sub-contracting firms ?

Secondly, a mixture of the mandatory early age limit with expected employment security up to the age limit is neglected.

- (1) In 1977, of all the firms with the age limit of mandatory separation, only 4,0 % set the age limit at more than 60 years of age. However, according to the Minister of Welfare, workers of 50 years of age could expect to work physically up to age 71 in 19656. The percentage of male gainful workers aged 55-64 years amounted to 85,3 % of the male population: this figure was only 10,4 points lower than the number of workers aged 50-54 in 19787.

- (2) Of all the separations from the large firms with 1 000 or more employees, 3.3 % - 5.9 % were due to the mandatory separation age during the period 1973-1977⁸. The remaining majority of separations were due to "voluntary quitting", and the minority to lay-offs, the expiration of employment contracts, discharge, etc.

III. THE SENIORITY WAGE SYSTEM

1. What is the report's evaluation of the seniority wage system ?

According to the OECD report, the Japanese seniority wage system is far from being inflexible, and is not unresponsive to market forces. Neither does it seem to have been detrimental to overall efficiency. On the whole, it "seems likely to move still further away from its seniority basis towards a functional or ability basis"⁹.

For workers:

- (1) It fits in with the social values the Japanese apply to age.
- (2) It limits the scope for managerial favouritism in wage fixing by the "objective criteria" of age and years of service.
- (3) It lowers the annual rate of interfirm labour turnover.
- (4) However, the older worker finds it more difficult to leave, "in that he is unlikely to match his existing wage elsewhere".

For management:

- (1) It assures a stable labour force and the long-term recovery of investment in training.
- (2) The high payments made to long-service workers are likely to be balanced by the low payments made during the first years of employment.
- (3) It avoids conflicts arising from "the rate for the job".
- (4) However, "an aging labour force increases costs".

2. What are the strong and weak points of the evaluation ?

Personnel appraisal's key role in differentiating the individual basic-wage and lump-sum separation allowance under the seniority wage system is neglected.

First of all, in 1976, of all the large firms surveyed, 0.9 % determined the basic-wage by the automatic escalation formula based on three person-related factors only, i. e. length of service, age and formal education. That means, of all the large firms surveyed, 5.9 % used the three factors and 85.4 % of these firms (5.9 %) used the escalation formula, but 17.9 % of these firms (85.4 %) did not integrate personnel appraisal into the formula ($5.9 \times 84.5 \times 17.9 = 0.9$)¹⁰.

In 1977, of all the large firms with 1 000 or more employees surveyed, 5.8 % discriminated formally by means of personnel appraisal against the pay or promotion of those who had exercised their vested rights of paid vacation, guaranteed by the Labor Standards Act¹¹. The remaining 94.2 % discriminate informally against them.

The estimated chance of finding a new job with fair wages is limited because employers do not trust workers who change employers and few seniority wages exclude personnel appraisal.

Taking the straight-time monthly earnings (monthly salary) of male production workers hired by manufacturing firms immediately upon graduation from middle school as 100, the hiring salary of recruits with previous work experience elsewhere amounted to 93 at the age of 20-24, and 62 at the age of 40-49 in 1977¹².

Secondly, the report's statement that the "starting rate ... rises gradually until the time of retirement"¹³ is only relevant to about half of all the workers.

In the case of firms with 100 or more employees, the median and the highest decile monthly salary of senior high school graduates with 30 years or more of continued service reached a peak of ¥217,300 and ¥355,100 at 50-54 years of age, respectively. However, the lowest decile monthly salary of the same category reached a peak of ¥142,800 at age 40-44, and declined to ¥129,900 at 50-54¹⁴.

In the case of manufacturing firms with 1 000 or more employees, the highest and lowest decile lump-sum separation allowance for middle school graduates with 40 years of continued service was 100 and 46, i. e. ¥12,496,000 = 284,000 x 44 and ¥5,715,600 = 129,900 x 44, respectively¹⁵.

Thirdly, the essential aspect of the seniority wage system is the gap between 21 and 30 of age, i. e. between the normal age of finishing from apprenticeship and that of being able to finance the standard cost of living for workers with two dependents. This essential aspect which is neglected by the report, seems likely to remain substantially unchanged during the period 1970-77. Taking the monthly average earnings of male permanent, i. e., company-permanent, production workers aged 15-17 (elementary and middle school graduates) in manufacturing firms with 1 000 or more employees as 100, the salaries of workers aged 20-24 and 30-34 were 178 and 280 in 1970 and 175 and 255 in 1979 respectively¹⁶. The wage gap by age bracket slightly declined from 53.3 % to 45.7 %.

IV. ENTERPRISE UNIONISM

1. What is the report's evaluation of enterprise unionism ?

According to the OECD report, "the Japanese enterprise union could not be said to be dominated by management". It "owes its development not to employers but to historical chance and to the lifetime employment system"¹⁷.

However, the following may be observed:

- (1) The union's reluctance to damage the employer through industrial action may weaken the strength of the trade union.
- (2) The union's devotion to enterprise affairs may militate against achieving worker solidarity.
- (3) The split in the national labour front may disturb a united voice, although this may not be bound up with enterprise unionism¹⁸.

2. What are the strong and weak points of the evaluation ?

The report fails to provide evidence that the Japanese enterprise union has not been "dominated by management" and also to understand that it owes its development to the personnel appraisal and sub-contracting system underlying "the lifetime employment system" and enterprise-centredness.

(1) The union's reluctance to damage the employer through industrial action:

This reluctance is due both to expected employment security and personnel appraisal. If the expected employment security is to be realized, the union's devotion to enterprise affairs becomes inevitable. Union officers at the enterprise and industry level are employees. Personnel appraisal threatens them with discharge, discrimination after their return to their place of work, and subsequent reduction of their separation allowances. No union member can keep his membership after he leaves his firm, but his firm can essentially keep on employing a worker who is expelled by his union even under the union shop clause.

Of 747 union shop agreements surveyed in 1977, 31 % set the provision of automatic discharge of those unionists expelled by their union, but few provisions were enforceable¹⁹.

(2) The union's devotion to enterprise affairs:

First of all, this devotion has not militated against achieving worker solidarity across enterprise boundaries, as far as the relations between the union of a large firm and that of its sub-contracting firms are concerned. The former is the leader and the latter are its followers, though both are organized in a union federation.

Secondly, the devotion has militated against challenging the firm's violation of labor laws and making the best use of them, e.g.:

- a. The legal minimum proportion of old workers to be employed in a firm is 6 %.
- b. Employers have to make sure that the minimum wage by law is known to all its workers, including part-time workers.
- c. Unions can be engaged in the employment service for workers.
- d. Unions can refuse overtime work agreements exceeding the legal maximum, i. e. 8 hours a day and 48 hours a week.

(3) The split in the national labour front:

First of all and contrary to the OECD report, this split is bound up with enterprise unionism as an essential part of "Japan Inc".

- a. Both Socialist and Social Democratic congressmen depend on the respective national federations (Sōhyō and Dōmei) and industrial federations for their financial contributions and election campaigns.
- b. The leadership of the national and industrial federations depends on the enterprise unions for their financial and non-financial support.
- c. The leadership of the enterprise unions depends on both the management and the rank and file for their cooperation.

The unions' "enterprise egotism" and a considerable consensus on social security are compatible because the former is not challenged by the latter.

Secondly, collective bargaining on equal footing is made impossible by the following aspects of enterprise unionism:

- a. In the private sector, the majority of workers (63.6 %) in firms with 500 employees or more, but the minority (9.0 %) in firms with 30-99 workers were unionized in 1977²⁰.
- b. Of the total union members surveyed by the Ministry of Labor in 1973, some 69.7 % participated in either the Spring Wage Offensive or in the separate Wage Offensive led by Dōmei²¹. However, the wage negotiating agencies are not the federations but enterprise unions. No industrial union, except for the Seamen's and Miners' unions, could join in signing collective wage agreements with employers, though the national and industrial federations led the offensives.

V. ENTERPRISE - CENTREDNESS

1. What is the report's evaluation?

According to the OECD report, "Japanese enterprise is viewed not merely as a profit-making instrument, but as a society of people. The duty of the employer to provide employment and generally look to the well-being of employees is matched by a willing acceptance by employees that their energies should be devoted to furthering the efficiency ... of the enterprise ... The Japanese practice of managerial decision-making demands participation by all managers concerned. This is a somewhat slow process but ... a decision ... can normally be acted upon quickly ..."²².

2. What are the strong and weak points of the evaluation?

Its strength is the observation of both social norms within the enterprise and the influence of changing social attitudes upon loosening "the reciprocities of obligation"²³.

Its weakness lies in ignoring the fact that the trend in Japan is not in favour of individualism in the sense of individual-centredness and self-help, but in favour of "enjoyment of life outside the workplace".

(1) The research sought a response to the statements "Don't think about money or fame; just live a life that suits your own tastes", and "Live each day cheerfully ... without worrying". Some 21 % and 11 % of the respondents agreed with these premises, respectively, in 1953, 32 % and 20 % in 1968, and 39 % and 23 % in 1973.

(2) There is a marked tendency to prefer the paternalistic type of department chief to the non-paternalistic one, i.e. 77 % in 1958, 84 % in 1968, and 81 % in 1973, respectively.

(3) The percentage preferring the paternalistic type of department chief was highest in the 20's age bracket and lowest among workers aged 70 or more.

VI. WHAT IS TO BE LEARNED?

1. What are the implications of Japanese experience?

According to the OECD report, "there are some signs of convergence" between Japan and Europe, i.e.:

(1) in Japan, the weakening of lifetime employment, seniority wage and

enterprise-centredness, and greater authority at the industry-wide level of trade unionism;

(2) in Europe, improved job security and greater worker participation.

However, "the significance of the cultural differences ... make it difficult ... to transplant social institutions"²⁴.

2. What are the good and weak points of the evaluation ?

Its strength lies in the unique integration of convergence and non-convergence theories by providing objective criteria of a "good industrial relations system", i. e. the system's "durability" based on "the satisfaction of the parties", and its "effectiveness in non-inflationary wage determination"²⁵.

Its weakness is its convergence theory that other countries can learn from the implications of Japanese experience without taking into account personnel appraisal, the sub-contracting system and Japan's vertical social background.

(1) Has national prosperity co-existed with improvements in workers' conditions due to the single-minded cooperation of labor and management ?

Not, if workers' conditions include overtime work and exclude personnel appraisal. It was not until May 1978, after international criticism against Japan's export drive had become stronger, that the Director of the Labor Standards Bureau warned of unhealthy overtime work. Of 5,112 plants surveyed in 1977, 86.7 % had agreements with employee representatives on the upper limit of overtime hours of work per day, but 12.6 % of all the agreements set 10 hours or more as the upper limit. Some 32.9 % of the agreements concluded by the large plants with 1,000 or more employees set the same limit²⁶. The refusal of overtime work leads to unfavorable personnel appraisal.

(2) Have important decisions been reached by consensus with employee representatives ?

A few important decisions have always been reached by consensus, even in large firms with 1,000 employees or more. According to research carried out in 1975, of 50 responding large firms with joint consultation systems, 11.3 % required consensus in the case of job rotation and 16.5 % required consensus in the case of criteria to be applied in personnel appraisal. However, 70.0 % and 69.4 % respectively required consensus in the case of changing the wage payment system and mandatory separation age²⁷.

(3) Will confidence in continued employment and seniority wage facilitate technical innovation and the optimal use of resources ?

Not, if these two pillars are not supported by personnel appraisal and the sub-contracting system.

a. The firm is willing to elevate the workers' skill level, since the firm's investment in training will not be lost "on account of the worker moving to another enterprise". Their inter-enterprise mobility is very low, mainly because the lifetime wage income of those employees in large firms with 1,000 or more employees who had moved to other large firms at age 40 and 50 was, according to 1978 statistics, respectively 87 % and 95 % of that of permanent employees who did not change their employer between the ages of 18 and 60²⁸.

b. The workers' intra-enterprise mobility is very high not only because neither wage reduction due to mobility nor sharp jurisdictional definition of job duties is probable and possible²⁹, but also because resistance to mobility is punished by cancelling the promotion, reducing the automatic escalation rate of the basic-wage and transferring the worker concerned to declining sub-contracting firms or subsidiaries.

According to research conducted in 1977 of more than 30,000 workers in private industries with 10 employees or more, those satisfied with their monthly wage level amounted to about 30 %, i. e. 29 % in 1951, 32 % in 1949, and 33 % in 1952; however, those dissatisfied amounted to more than 50 %, i. e. 67 %, 61 % and 59 %, respectively³⁰.

c. The optimal use of resources by the large Japanese firms is impossible to explain without referring to the sub-contracting system, at the enterprise level, and to the early age limit, at the national level. The OECD report recognizes that in practice "enough flexibility" within lifetime employment "is achieved by reducing sub-contracting ...", but it writes, with reference to the national stock of skills, that "there seems to be no grounds on which to consider Japan deficient ..."³¹.

The Japanese Ministry of Labor, however, finds skill deficiencies in plants of all sizes: In 1975, 35 % of those plants with 30-99 employees and 8 % of those with 1,000 employees or more found their stock of skills being deficient³². This deficiency is thought to be partially offset by the effect of the early age limit upon the redistribution of skilled workers, formerly concentrated in large firms.

Notes:

- 1) Organization for Economic Cooperation and Development (OECD): The Development of Industrial Relations Systems: Some Implications of Japanese Experience, Paris: OECD, 1977.
- 2) Ibid., p. 10.
- 3) Nihon Keizai Shimbun, 5 Dec., 1977.
- 4) OECD, op. cit., pp. 17-18.
- 5) Ibid., pp. 35, 18, 21.
- 6) The Ministry of Labor, Rōdō Tōkei Yōran (Selective Labor Statistics), 1974, p. 54.
- 7) The Ministry of Labor, Rōdō Hakkusho (Labor's White Paper), 1979, Reference, p. 25.
- 8) Ibid., Appendix, p. 22.
- 9) OECD, op. cit., p. 21.
- 10) The Ministry of Labor, Comprehensive Survey on Wage and Working Hours Systems, 1977, pp. 17 and 82-83.
- 11) The Ministry of Labor, Rōdōjikan tō ni kansuru Chōsateki kantoku no kekka ni tsuite: Sokuhō (Results of the Survey and Supervision regarding Working Hours, etc.: A Report), 1978, p. 12.
- 12) Japan Productivity Center, Katsuyō Rōdō Tōkei (Effective Labor Statistics), 1979, p. 63.
- 13) OECD, op. cit., p. 19.
- 14) The Ministry of Labor, Labor's White Paper, 1979, App., pp. 42-43.
- 15) Ibid., App., pp. 42-43, 156.
- 16) Japan Productivity Center, op. cit., p. 60:

$$\frac{280-178}{178} \times 100 = 53.3 \%, \quad \frac{255-175}{175} \times 100 = 45.7 \%$$
- 17) OECD, op. cit., p. 23.
- 18) Ibid.
- 19) The Ministry of Labor, Rōdōkyōyaku to jittaichōsa kekka no gaiyō: sokuhō (Outline of the Field Research on Collective Labor Agreement: A Report), 1978, p. 9.
- 20) Japan Productivity Center, op. cit., p. 149.

- 21) The Ministry of Labor, Labor's White Paper 1974, p.431.
- 22) OECD, op. cit. , pp.10-11.
- 23) Ibid. , pp.30, 33.
- 24) Ibid. , p.39.
- 25) Ibid. , p.40.
- 26) The Ministry of Labor, Results of the Survey and Supervision regarding Working Hours, op. cit. , p.10.
- 27) Japan Productivity Center, Nihon no Rōshi Kyōgisei; Sono Jittai to Kadai (Joint Consultation System in Japan, Its Realities and its Tasks), 1976, pp.61-63.
- 28) The Ministry of Labor, Labor's White Paper, op. cit. , p.152.
- 29) OECD, op. cit. , p.17.
- 30) The Ministry of Labor, Kinrōsha no Shokygyō Seikatsu Ishiki (Working Life Consciousness of Workers), 1978, pp.17 and 37.
- 31) OECD, op. cit. , pp.16-17.
- 32) The Ministry of Labor, Selective Labor Statistics, op. cit. , 1978, p.57.

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NEUERSCHEINUNG

Wolfgang Klenner

**ORDNUNGSPRINZIPIEN IM
INDUSTRIALISIERUNGSPROZESS
DER VR CHINA**

Planung - Organisation - Unternehmenskonzept

In der vorliegenden Studie werden die strukturellen Grundlagen der VR China und das aus Originalquellen interpretierte System der zentralen und betrieblichen Planung ökonomischer Prozesse dargestellt. In einem zeitbezogenen Analysenteil werden dann die Organisationsformen im mikro- und makroökonomischen Bereich erarbeitet, wobei der Wandel im ordnungspolitischen Konzept im Rahmen des aus den folgenden drei Zielsetzungen gebildeten Spannungsfeldes erklärt wird: Steigerung der Produktion, Erhöhung der Planungs- und Verwaltungseffizienz sowie Dynamisierung gesellschaftlicher Strukturen, d. h. Abbau entwicklungshemmender Hierarchien.

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