INDUSTRIAL RELATIONS AND PRODUCTIVITY IN POST WAR JAPAN

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Outline of presentation

1. Developments of industrial relations in post-war Japan
2. Industrial relations and productivity improvement
3. Distinctive features of Japanese industrial relations
4. Japanese industrial relations at the turning point
5. Challenges for the future
1. Developments of Industrial Relations in Post-War Japan

(1) Reshaping industrial relations in economic and social reconstruction period: 1945-1954
- Formation of enterprise unionism
- Democratization of management
- Removal of status differences within companies

(2) Formation of Japanese-style industrial relations in high-growth period: 1955-1974
- Three pillars of Japanese IR, long-term employment, seniority wages & enterprise unionism
- Formation of cooperative industrial relations
- Bottom-up type productivity improvements
- “Affluence with equity”
- Further institutionalization of Japanese employment practices
- The age of “Japan as number one”
- Emergence of bubble economy in late ‘80s

(4) Japanese industrial relations at crossroads in economic stagnation period: 1991–present
- The burst of the bubble economy followed by the “lost two decades” of economic stagnation
- Erosion of traditional Japanese style management as well as industrial relations practices
Fig. 1  Separation rates of manufacturing workers

Figure 2. Union Membership, Density, and Working Days Lost, 1921-2001

Fig. 3  Changes in real GDP per capita

2. Industrial relations and productivity improvement

- Large area of Japan’s land destroyed in World War II. Even in 1953, per capita GDP was $270, below prewar peak and only 16% of that of US.

- Improving productivity of industry was urgent issue for reconstruction of postwar Japanese economy.

- In 1955, tripartite “Japan Productivity Center (JPC)” was established. It was beginning of productivity movement in Japan.

- “Three Guiding Principles of Productivity Movement” was adopted at first conference of JPC, May 20, 1955.

- Three guiding principles aimed at embodying the human-centered spirit of ILO as seen in Philadelphia Declaration in 1943.
The Three Guiding Principles of the Productivity Movement in Japan (1955)

1. Expansion of employment
   ➢ Full employment based on flexible allocation of labor

2. Cooperation between management and labor
   ➢ Participatory management practices at enterprise level

3. Fair distribution of fruits of productivity
   ➢ Institutionalization Japanese style wage formation

Relationship of mutual trust between management and labour
Participation of trade unions in productivity movement

- Establishment of the National Trade Union Productivity Council (NTUPC) in 1959
- Trustful relationship between management and labor key factor for development of productivity movement.
- Main objective of NTUPC to deepen productivity movement from standpoint of trade unions and organization building for this purpose.
- Through 1960s and 1970s, various measures for labor-management communication as well as employee involvement schemes were introduced within firms: joint consultation committees, workplace meetings, etc.
Distinctive features of Japanese industrial relations system

1. Long term employment practice
Regular employees in major corporation or medium-scale company guaranteed employment until mandatory retirement at 60.

2. Seniority-based pay and internal promotion system
As regular employees' length of service increases, their salaries and progress up corporate ladder also increase. Under this system, annual wage hike exists for all employees at fixed time of year (normally April).

3. Enterprise unionism
Enterprise union is one whose members consist solely of regular employees of company with which union is linked. Forms basic unit of Japanese trade union structure and industrial relations system.
Institutional complementarity among HRM and long term employment practice

following areas in HRM found to be critical in supporting long term employment in Japanese firms:

(1) **Human capital development** that raises employee’s productivity over his tenure and provides managerial incentives to retain employee, e.g. corporate training, job rotations, small group activities such as quality circles;

(2) **Compensation system** that provides incentives for employees to exert effort, acquire desirable human capital, and remain with the firm, e.g. seniority-plus-merit wage, internal promotion, bonuses, corporate pensions;

(3) **Employment adjustment methods** that protect level of employment, while providing management with alternative ways to reduce labor costs during business downturns, e.g. hiring freeze, intra- and inter-firm transfers, voluntary retirement;

(4) **Internal enforcement and coordination mechanisms** that facilitate information sharing, enable employees to monitor management, and encourage labor-management cooperation, e.g. enterprise unions, joint labor-management committees, workplace socialization.
Enterprise unionism as basic unit

- Enterprise unionism is organization of single trade union within one plant or multi plant enterprise rather than within craft or industry.
- Over 90% of union members belong to enterprise union, whose membership is restricted to employees belonging to same enterprise rather than same occupation or same industry.

Union membership share by type of organization

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise union</td>
<td>91.2%</td>
</tr>
<tr>
<td>Craft union</td>
<td>2.9%</td>
</tr>
<tr>
<td>Industrial union</td>
<td>4.9%</td>
</tr>
<tr>
<td>Other</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Basic figures of Japanese unions

- Total membership in 2013 was 9,875,000; union density 17.7%.
- Organized into as many as 25,532 unions.
- Average size of unions only 387 members.
- Union density differs widely between types of employment and sectors
  - Large enterprises (more than 1,000 employees): 44.9%
  - Small enterprises (less than 100 employees): 1.0%
  - Full-time workers: 21.4%; part-time workers: 6.5%
  - Utility industry: 57.0%; finance: 43.8%;
  - Manufacturing: 26.7%; wholesale & retail: 13.3%
Enterprise unions do not exist in isolation: they are often part of various federations as shown in following example of JTUC (RENGO), biggest national center with 6.8 million members.

```
National level
RENGO HQ
Industrial Federation HQ
Enterprise Union HQ

Regional level
RENGO Branch
Industrial Federation Branch
Enterprise Union Branch

Toyota Union HQ etc.
RENGO Osaka etc.
JAW Osaka etc.

Toyota Union
XXX Branch etc.
```
Joint consultation system as channel of communication

- One feature of IRs in Japan is joint consultation system: standing body for discussing various managerial issues between labor and management.

- Penetration of joint consultation system:
  - 39.6% in enterprises with 30 or more employees,
  - 83.3% at unionized companies, 19.9% at non-union

- Issues to be discussed include:
  - Management strategy and plans in short & long terms
  - Changes in corporate organization and HRM
  - Capital investments as well as R&D activities
The image of union-management relations in Japan

Typical style of union-management relations in joint consultation system:

Different from both of the following:

**Arms-length relations** or **same interest**

Sit across

**Management**

**Union**

Sit aside

**Management**

**Union**

On the same table

**Management**

**Union**
Structure of corporate democracy

**Industrial democracy within firm “from bottom to top”**
Industrial relations system and productivity

- Competitiveness of enterprises in 21\textsuperscript{st} century resides in skills and performance of workforce.

- Information sharing, collaborative processes, stakeholder consultations important processes that affect enterprise performance, productivity and employee motivation.

- Quality and productivity tend to increase when employees more involved in arriving at decisions at point of production.

- Participation is great motivational tool because it gives people degree of control, recognizes personal worth, and provides scope for personal growth.
Productivity of unionized firms 10-20% higher than non-union firms.

Morikawa (2008), "What Do Japanese Unions Do for Productivity?"
Outcome of Japanese industrial relations system based on long-term employment

- Long term employment enabled firms to accumulate higher human capital.
- It contributed to achieve greater productivity which brought benefits to both management and labor in form of higher profit and greater employment security.
- Government endorsed these corporate practices as they brought about economic development and industrial peace at relatively low social welfare cost to state.

**Attainment of “affluence with equity”**

*which motivated “economic growth by middle class, for middle class”*
4. Japanese industrial relations at turning point

Prerequisites of Japanese employment system
a. Balanced age composition of workers
b. Growing business
c. Certainty of future existence of firms
d. Stable economic growth and industrial structure
Changing environment

(1) Demographic change
   Decreasing and rapidly aging population

(2) Economic stagnation
   Japan as “the lost one”

(3) Growing uncertainty of firms
   Bankruptcy, corporate reform, M&A, etc.

(4) Unstable economy with big structural changes
   Low growth with big fluctuations
   Changing industrial & occupational structure
   ➢ All these factors shaking prerequisites of Japanese employment system
However, long term employment still supported by both managers and workers

Attitudes of firms towards long-term employment practice

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2003</th>
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<tbody>
<tr>
<td>Maintain current system</td>
<td>34.0</td>
<td>36.1</td>
</tr>
<tr>
<td>Have to revise partially</td>
<td>44.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Need to revise thoroughly</td>
<td>17.0</td>
<td>15.3</td>
</tr>
<tr>
<td>No lifetime employment even now</td>
<td>4.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Cannot forecast</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td>Unknown, no response</td>
<td>-</td>
<td>3.3</td>
</tr>
</tbody>
</table>

### Attitude of employees towards long-term employment practice

<table>
<thead>
<tr>
<th>Age</th>
<th>Favor strongly</th>
<th>Favor somewhat</th>
<th>Disfavor somewhat</th>
<th>Disfavor strongly</th>
<th>Not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>33.2</td>
<td>43.0</td>
<td>14.2</td>
<td>5.0</td>
<td>4.7</td>
</tr>
<tr>
<td>20-29</td>
<td>21.8</td>
<td>42.2</td>
<td>20.8</td>
<td>5.9</td>
<td>9.2</td>
</tr>
<tr>
<td>30-39</td>
<td>22.2</td>
<td>50.3</td>
<td>19.5</td>
<td>5.2</td>
<td>2.7</td>
</tr>
<tr>
<td>40-49</td>
<td>22.7</td>
<td>51.8</td>
<td>16.0</td>
<td>5.0</td>
<td>4.4</td>
</tr>
<tr>
<td>50-59</td>
<td>33.9</td>
<td>45.0</td>
<td>11.0</td>
<td>5.9</td>
<td>4.1</td>
</tr>
<tr>
<td>60-69</td>
<td>44.4</td>
<td>34.0</td>
<td>13.5</td>
<td>4.6</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Collective disputes have decreased drastically in last three decades

Industrial disputes in post war Japan

- Number of participants (thousands)
- Number of disputes (cases)


- Red line: number of participants
- Blue line: number of industrial disputes
However, individual labor disputes rapidly increasing in recent years

Growing number of irregular workers

### Composition of non-executive employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Regular staffs</th>
<th>Irregular workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>83.1</td>
<td>16.9</td>
</tr>
<tr>
<td>1987</td>
<td>80.3</td>
<td>19.7</td>
</tr>
<tr>
<td>1992</td>
<td>78.3</td>
<td>21.7</td>
</tr>
<tr>
<td>1997</td>
<td>75.4</td>
<td>24.6</td>
</tr>
<tr>
<td>2002</td>
<td>68.1</td>
<td>31.9</td>
</tr>
<tr>
<td>2007</td>
<td>64.5</td>
<td>35.5</td>
</tr>
<tr>
<td>2012</td>
<td>61.8</td>
<td>38.2</td>
</tr>
</tbody>
</table>

Source: Employment Status Survey

* Irregular workers include “part-time workers”, “arbeit (temporary workers)”, “dispatched workers from temporary labour agency”, “contract employees”, “entrusted employees”, and “others”.
Japanese trade unions at crossroads, loss in overall union membership

Two phases of union decline

- First phase of union decline:
  Decreasing union density
  From late 1970s onwards, overall union density rate in Japan has trended downward, falling below 30% in 1983, 25% in 1991 and 20% in 2003.

- Second phase of union decline:
  Decreasing absolute number of unionized workers
  Absolute number of unionized workers in Japan peaked at just under 12.7 million in 1994, after which it continued to fall at ever-increasing rate. Union membership in 2013 stood at 9.9 million workers, representing loss of 2.8 million (-22.0%) since peak in 1994.
Trade union membership and union density in post war Japan

First phase of union decline
Decreasing union density since mid 1970s

Second phase of union decline
Decreasing absolute membership since mid 1990s

* Employees, union membership: left scale (tens of thousands)
Union density: right scale (%)
Causes of union decline

Major causes for union decline include:

(1) **Reduced pace of new unionization**
    Union’s effort to recruit new members not sufficient

(2) **Change in employment structures**
    Employment growth in low union density industries and jobs

(3) **Change in worker awareness**
    Workers becoming reluctant or indifferent to join unions
5. Challenges for future

Progress in organization of part-time workers

Overall union density (%), left scale

Part-timers union density (%), right scale

Increase in Part-timers membership (10,000, left scale)
Coping with globalization, corporations crossing border

- Half of listed companies operating overseas

<table>
<thead>
<tr>
<th>Plan Status</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already operating overseas</td>
<td>51.3%</td>
</tr>
<tr>
<td>No plans for overseas operation</td>
<td>43.0%</td>
</tr>
<tr>
<td>Planning for overseas operation in near future</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

Source: Survey on Overseas Operation (2012). Japan IT System Association
CSR should be global

- Supply chains spreading globally
- Corporate social responsibility (CSR) should be global
- Core labor standards especially important
Enterprise unions in MNCs discussing with management on global CSR

Two examples of global framework agreements
1. Takashimaya Union (large department store in Tokyo)
2. Mizuno Union (global athletic goods company)

Global Framework Agreement (GFA)
Between
Takashimaya Company Limited
and
Takashimaya Labor Union, JSD (Japan federation of Service And Distributive workers unions), UNI

This was first case of GFA in Japan.
Union response to corporate reform

Trustful relationship still exists

- Framework for frequent communication between labor and management based on mutual trust, which became entrenched after 1970s, still basically maintained.
- According to RENGO survey in 2005, many unions were active in expressing opinions not only on matters directly related to employment but also management policy and business plans based on it.
- Most unions responded that they had joint consultation system to discuss management policy and managerial measures in which various strategic issues of management were dealt with.
Towards new model of corporate democracy

- **Furthering internal democracy within corporations**
  - Corporate management should take into account interests of variety of stakeholders, including employees, consumers and regional community.
  - Internal democracy within corporate community can and should contribute to form stakeholder corporation which takes care of every stakeholder in civil society.

- **Open up corporate community**
  - Japanese corporate community has played vital role in formation of Japanese industrial relations system.
  - However, it has been exclusive and closed in nature. It should open up its membership to various types of irregular workers. It should widen its perspective towards employment protection at industry and national level.
Thanks for your attention!