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Expanding Personnel Deployment beyond Corporations: *Shukkoh*

By

Hitoshi Nagano

Abstract

It is not rare phenomenon in Japanese large companies that the employees move to the different company in their middle or latter half of their working lives by the means of *Shukkoh* or *Tenseki*. In this paper, we will draw the four types of *Shukkoh*: Corporate Group Integration Type, Subsidiary Reinforcement Type, Manpower Expulsion Type and Educational and Training Type, and will analyze their problems caused by *Shukkoh* and will propose the countermeasures to resolve these problems.

Key Words

personnel deployment, *Shukkoh*, *Tenseki*, spin-off strategy, early retirement, corporate group, ageing, career

Introduction

The career pattern of entering a company upon graduation and staying with it up until mandatory retirement is typical of long-term employment (so-called lifetime employment). This form of long-term employment has already been identified as being representative of Japanese-style employment practices. However, it is no longer rare—especially in larger corporations—for employees to move to different companies in the middle or latter half of their working lives. In these instances employees are deployed beyond a corporation by means of *shukkoh* or *tenseki*, which represents the emergence of an inter-corporate personnel deployment system.

Shukkoh is the practice whereby a worker is seconded by their employer to work at another company while retaining their status as an employee of their original company. *Tenseki* resembles *shukkoh* but differs from it in that the employment contract with the original employer discontinues. For *tenseki* the intention of the employer is critical in making the often difficult differentiation between *tenseki* and voluntary separation.¹ Although *shukkoh* and *tenseki* are often administered as part of employment adjustment, they are in fact carried out on an ongoing basis even during

¹The possibility of *shukkoh* is usually covered under corporate working rules and collective agreements. It is generally thought that *shukkoh* is within the normal personnel management authority of a company. For the implementation of *tenseki*, however, the agreement of the individual employee involved is required.

periods of favourable economic conditions.

In the following we shall examine these ongoing forms of “inter-corporate personnel deployment” as they take place, mainly within large corporations, by first empirically describing the current situation. Then, concentrating mainly upon *shukkoh*, we will examine why these forms of deployment are used, the problems associated with their administration, and the countermeasures which are necessary in order to resolve these problems.

***Shukkoh* at Present**

There have been a number of surveys which provide an empirical examination of inter-corporate personnel deployment, mainly focusing upon *shukkoh*. We shall start with a review of these findings. *Shukkoh* is primarily carried out by large corporations and involves the deployment of personnel to subsidiary and other corporations related in terms of capital holdings to the same corporate group. In short, the main pattern is one of a unilateral flow of personnel from the parent company to its subsidiaries. Although not definite, it would appear that on average approximately 10% of the personnel employed in corporations which use inter-corporate deployment are subject to *shukkoh* (Koyo Shokugyo Sogo Kenkyusho, 1989).

On average over 20% of the workforce of the recipient companies are on *shukkoh*. With the inclusion of *tenseki* the percentage of personnel from the parent company is around 30%. These *shukkoh* and *tenseki* employees often hold higher managerial positions within the recipient company. For instance the position of president in 85% of the recipient companies is held by either *shukkoh* or *tenseki* personnel, and over half of all managerial positions are held by *tenseki* and *shukkoh* personnel in 60% of these companies. By contrast the weight of *tenseki* and *shukkoh* personnel working as non-managerial employees is low, with their weight reaching more than half the workforce in only 20% of all companies surveyed (Nagano, 1991).

Despite belonging to the same corporate group, employment conditions differ between sending and receiving companies. What conditions apply to the transferred employees? Here employment conditions can be divided into two types, those which remain according to the sending company, and those which comply with that of the recipient company. While compliance with the sending company is common for conditions involving monetary reward such as salary and bonus, conditions related to working conditions and time such as working schedules and work hours usually comply with that of the recipient company (Koyo Shokugyo Sogo Kenkyusho, 1989).

In the case of *shukkoh* of a union member, the employee generally retains membership in his original union despite the absence or presence of a union in the recipient company.² Where the employee holds a managerial position in the recipient company there is no fixed pattern—there being cases where union membership is maintained and others where it is discontinued (Rengo Soken, 1994).

²Labour unions referred to here are enterprise unions which represent all employees within one individual corporate unit. Where the employees involved are from a corporation without a union they retain their non-union status even when moved to a corporation with a union. For a detailed discussion refer to Rengo Soken (1994).

Transitions in *Shukkoh* up to the Present

It is not clear when inter-corporate personnel deployment commenced in Japan. It is clear that these deployments were in practice in the early 1960's (Rodo Horei Kyokai, 1964). A precise examination of the evolution of this process is not possible until after the first oil crisis, the period when *shukkoh* began to gain attention. Let us follow this evolution in order to examine the reason for the emergence of this deployment practice.

Several measures were taken in order to maintain employment during the rapid economic downturn experienced during the recession in the mid-1970s, following the first oil crisis. Among these the practice of *shukkoh*, whereby employees were transferred from one company to another, received wide attention in society. The *shukkoh* of this period bore the strong characteristics of an "emergency evacuation plan" for labour hoarding. Among these characteristics were the large numbers of employees involved, a concentration upon manufacturing employees, and movement of personnel outside of corporate groups (Ministry of International Trade and Industry [MITI], 1981).

With improvement in the economy and a decline in the number of *shukkoh*, another strange phenomenon appeared. In place of the huge number of transferred production employees, white-collar workers became the subject of *shukkoh* (MITI, 1981). Surprisingly this shift received very little attention from Japanese society at large.

Shukkoh again became the subject of attention during the 1980s. Older white-collar employees became the subject of *shukkoh* as the retirement age was extended (Konenreisha Koyo Kaihatsu Kyokai, 1985). It can be said that this period was characterised by *shukkoh* as a response to the aging workforce, the extension of the retirement age and a shortage of managerial posts.

With the rapid appreciation of the *yen* in the late 1980s *shukkoh* came to take on a more complex appearance. While *shukkoh* was used in structurally depressed industries as a means of employment adjustment, it was also used as a mechanism to alleviate a shortage of managerial posts caused by the aging of the baby boomers as they approached manager age.³ While both these trends followed the previous forms of *shukkoh*, a new trend in *shukkoh* became apparent in this period. Following the development of domestic demand, diversification into new corporate activities flourished, and *shukkoh* of employees to related companies established in these new areas increased. Companies which solicited suggestions for new activities from among their employees and then staffed these new enterprises from among applicants for the positions started to emerge (Ishida and Nagano, 1988). This can be interpreted as the end of the unpleasant image with which *shukkoh* had been associated and the dawn of the age in which the "*shukkoh* success story" began.

Recently, with the collapse of the bubble economy, a new development has become evident in some corporations. Amid the boom of restructuring and re-engineering, the *shukkoh*-based deployment of the past has come to be replaced with one based upon *tenseki*. As opposed to *shukkoh* whereby an employee's level of monetary reward is

³The concept of "manager age" is premised upon the concept of seniority promotion—a precept fundamental to Japanese employment practices. This does not mean that all employees are promoted when they reach a certain age, but that individuals are selected for promotion from among the members of eligible age cohorts.

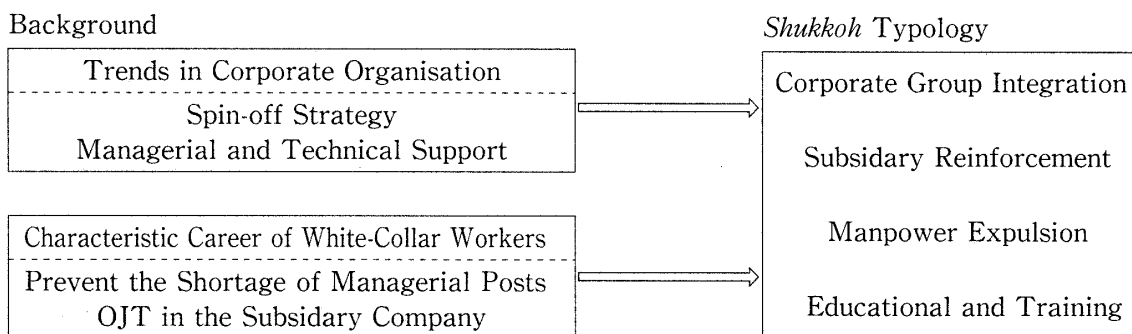
guaranteed, it is common for pay levels to fall under *tenseki*. At present a lump sum payment equal to the amount to be lost due to the transfer is added at the time of *tenseki* in order to make up for income loss.

This change may signal a transformation in Japanese employment practices (Nagano, 1995). It can be seen from this that under the effects of economic change inter-corporate personnel deployment has taken place due to a variety of trends and has come to centre upon white-collar workers.

Four Types of *Shukkoh*

What are the factors influencing inter-corporate personnel deployment? As we have already seen, even when we restrict our observations to the *shukkoh* of white-collar workers, numerous factors can be seen to be at work. In order to further explain this situation we shall propose a typology of *shukkoh* forms according to the respective factors influencing them. This typology is necessary in order to develop a policy which can respond to the different characteristics of each case. Figure 1 shows four types of white-collar *shukkoh* and the factors involved in each based upon their respective objectives.

Figure 1. Four Types of *Shukkoh*



Source: Nagano (1989)

The first type of *shukkoh* is the "Corporate Group Integration Type." This type is mainly concerned with trends in corporate organisation. For instance, establishing a part of a corporation as an independent company, and establishing a subsidiary company as part of a move towards diversification employs a process of spin-off. This form of spin-off is an attempt to utilise the intermediate area between what in the economics of internal organisation is called organisation and market. It represents an attempt to include the advantages of market transaction within that of organisational transaction (Imai, Itami and Koike, 1982). Specifically, spin-off carries the advantage of enabling a corporation to concentrate upon a narrowly defined corporate activity, to achieve rapid decision making, and to make the financial situation readily understandable. However, because spin-off only means the establishment of another organisation, unless countermeasures are taken, the systematic management of the corporate group can become difficult. In this situation the efficient exchange of information, and the development of trust between the parties concerned becomes difficult and opportunism, an impediment associated with market transactions, can

also emerge. In order to avoid such impediments it is essential that transactions can be made in trust by the parties concerned. For this it is necessary that action be taken to integrate the group itself. It is for this reason that personnel transfers with the objective of strengthening the relationship and information exchange between parent and subsidiary companies are implemented. Such transfers are included in this type of *shukkoh*.

The second type of *shukkoh* is the "Subsidiary Reinforcement Type." This type can be attributed to the "dual industrial structure," a characteristic of Japan's industrial organisation which has been identified over many years. Within this form of industrial organisation the technological and managerial level of the companies within the corporate group is a matter of prime concern for the parent company. This is because the quality of goods produced by the member companies has a great influence upon the quality of the finished products of the parent. Within the Japanese labour market the ability to recruit good personnel varies greatly according to corporate size. As a result the recruitment ability of the relatively small corporate members of the group is weak and they are often unable to provide training at the same level as that of the parent company. As a result there is often a shortage of personnel capable of improving the technological and managerial level within the group members. In this case *shukkoh* is implemented in order to support and develop the technological and managerial levels of the member companies. The subsidiary reinforcement type of *shukkoh* has just such an objective.

Type three is the "Manpower Expulsion Type." This type can be attributed to the characteristic career of white-collar workers. The career of white-collar employees involves being promoted while undergoing OJT (on-the-job training), and receiving increases in pay as skills develop. At present many corporations, however, are faced with an increase in the number of older workers and the attainment of baby boomers of the age of promotion to managerial positions. If left untouched this situation will lead to a delay in the promotion of younger workers and a corresponding delay in their skill formation. This is because the timing of OJT that results from promotion would be delayed. In order to avoid this outcome a countermeasure whereby older post-holders are removed from the organisation is used. This countermeasure prevents the shortage of posts and removes the need to slow the career progression of younger workers. Moreover, this also makes possible an alleviation of the payroll burden caused by large numbers of older workers on seniority-based salaries. However, despite the fact that these are managerial employees, their discharge is not a simple process under Japanese employment practices. It is here that *shukkoh* is used to remove these employees from the corporation without firing them.

Shukkoh also serves as an effective human resource development technique. This is because *shukkoh* enables employees to gain experience (in other words to undergo new forms of OJT) that would otherwise not be possible within their own corporations. For instance, the most effective method for training employees in the management of people is to place them in a position where they are required to manage people. However, with a shortage of such posts in their own company, such chances are limited. By *shukkoh* it is possible to place such employees in advanced managerial positions at the receiving company and develop their personnel management skills. This is one example of the fourth type of *shukkoh*, the "Educational and Training Type," aimed at developing the transferee.

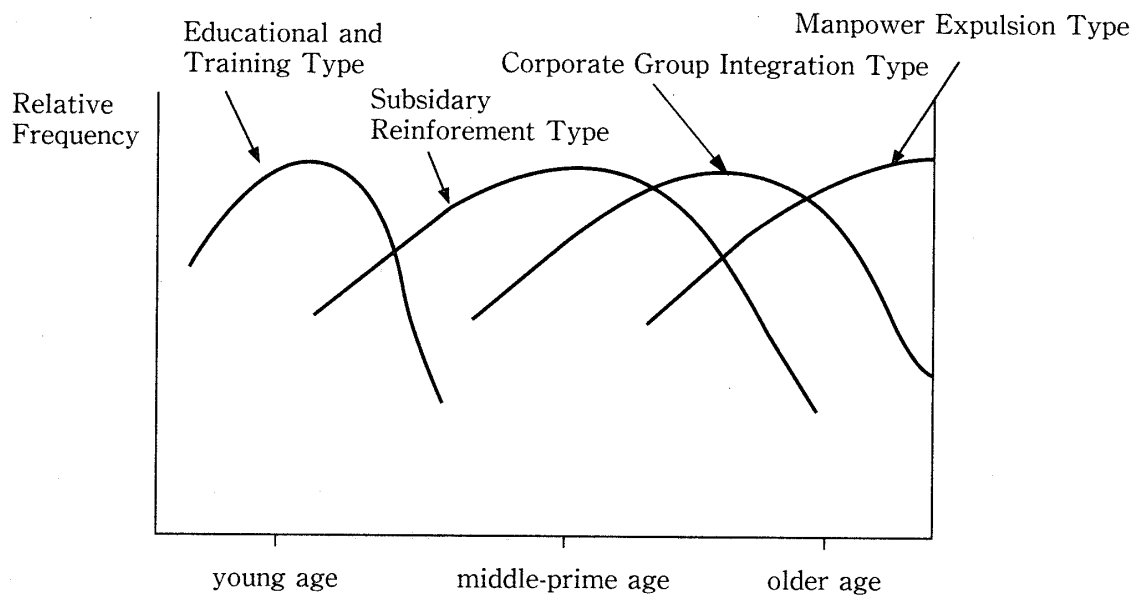
None of these classifications represents a pure type. Rather, they are differentiable upon the basis of those characteristics which they most strongly display.

Several Variations of *Shukkoh*

Type Composition by Age Structure

Based upon the above typology, an examination of survey data of actual transferees shows a different composition across the types by age. Figure 2 gives an approximate illustration of the respective compositions by age.

Figure 2. Different Composition of Transferees by Age Groups



Source: Nagano (1993)

The younger cohorts are characterised by the prevalence of the “Educational And Training Type” which is aimed at the growth and development of the individual transferee. This can be explained by the fact that the impact of a variety of work experiences are greater when gained at an early age and by the fact that such an age makes it easier to obtain returns on such educational investments. This type of *shukkoh* declines rapidly with age and can not be seen to any significant extent among the prime age cohorts. The most common form of *shukkoh* for the prime age cohorts is that of the “Subsidiary Reinforcement Type” with its goal of managerial and technological support and guidance. This result can be said to reflect the fact that the prime cohorts are active on the “front line” of their companies. For the older cohorts the “Corporate Group Integration Type” is most prevalent. Unlike the clear goals of the *shukkoh* of the prime cohorts, the “integration” objective of the older cohort’s *shukkoh* can be seen as being somewhat vague. Furthermore, as age and retirement come to be considered, the increasing use of the “Manpower Expulsion Type” cannot easily be ignored (Nagano, 1993).

Problems as Seen by Age

How do the problems associated with *shukkoh* differ by age? In order to address this issue we can refer to a survey of both the transferring and the receiving companies. The age classifications here, however, are somewhat broader than those used above.

Let us start with the results from the transferring side. The problem most frequently indicated by the younger and the prime cohorts was "difficulty of adjusting employment conditions." This, for instance, refers to the difficulty of settling pay levels in cases where the receiving companies work hours are longer than that of the transferring company. For the older cohorts the main problem indicated was "limitations in the number of receiving companies." This was a reference to an increasing difficulty in finding placements for these employees. What is particularly interesting here are the results from the receiving companies. The receiving companies gave an unexpectedly low response to "at the limits for receiving *shukkoh*" for the older cohorts, and a surprisingly high response for "insufficient *shukkoh* of appropriate personnel" (Koyo Shokugyo Sogo Kenkyusho, 1989). This could be interpreted as meaning that companies would like to take in appropriate personnel, but with the majority comprising inappropriate personnel, companies are unwilling to receive *shukkoh*.

Differences in *Shukkoh* by Pull and Push

Apart from an age-based analysis, *shukkoh* can also be examined in terms of which side's needs are being used as the basis for transfer. *Shukkoh* according to the needs of the transferring company can be termed "push type," while that made in light of the receiving side's needs can be called "pull type."

Seen in terms of these two types, little difference can be identified in the composition of either "Corporate Group Integration Type" or "Educational And Training Type." By contrast, "Subsidiary Reinforcement Type" is frequent in the pull type and "Manpower Expulsion Type" is frequent among the push type. The point to notice here, however, is the decline in the frequency of "Manpower Expulsion Type" for older cohorts in the pull type. A similar pattern can be seen repeated in the problems with *shukkoh* for the older cohorts, with "no particular problems" increasing in frequency in the pull type, and "limitations in *shukkoh* placements" being frequently cited in the push type (Nagano, 1989).

It can be concluded from these results that the problems with inter-corporate personnel deployment at present are primarily concerned with push-type *shukkoh* that do not suit the needs of the recipient, and with the "Manpower Expulsion Type" which is particularly prevalent in this case. This is indicative of the problems which arise when the parent company forces upon its subsidiary and related companies those employees which it cannot profitably employ itself.

Necessary Countermeasures

What is needed to make *shukkoh* as it is currently implemented more attractive? A corporate system which makes possible the profitable employment of older workers is needed. The prevention of the transfer of employees no longer profitably employable is essential for the elimination of push-type *shukkoh*.

First, a "Specialist System"⁴ (*Senmon Shoku Seido*) must be established which permits employees to contribute even without attaining a managerial position. For this it is necessary for the corporation to clearly identify such specialist positions, and to give them employment conditions that are equal to or even exceed those of managerial positions. This is necessary in order to abolish the current impediment found in existing specialist systems whereby the status of incumbents is low and few employees are willing to take on these positions. It should be added that in order to accommodate such a system it is necessary to enable employees to attain their own specialities from an early age. The second point involves modifying the current employment system so as to make it possible to shift from a reward system which increases pay according to age and tenure, to one which gives more consideration to ability and achievement. One suggestion for this is to reconsider the management-by-objectives reward systems of the U.S. These countermeasures will redress the managerial position shortage and payroll burden problems that are the focus of the push type and the "Manpower Expulsion Type" of *shukkoh*.

However, these countermeasures alone are inadequate. It should be kept in mind that inter-corporate personnel deployment is fundamentally a highly beneficial corporate practice. It is also necessary to introduce policies which serve to enhance these benefits. The first of these beneficial functions is the role of *shukkoh* as an effective means of human resource development. It is a fact that the recipient companies provide an opportunity to experience work not possible in the parent company, as well as providing the opportunity of interacting with personnel not to be found in the parent. Furthermore, this benefit is felt not only by the individual transferred but also by those he works with at the receiving company. This is because the employees of the receiving company are therefore also able to interact with new and fresh personnel. Considering this beneficial effect it would be desirable to develop a "Personnel Interaction Network" which permits not only the unilateral flow of personnel from the parent to subsidiary companies, but also from subsidiaries to the parent and between subsidiaries and related companies. This would serve to enhance the human resource development dimension of *shukkoh*.

The second benefit of *shukkoh* is that it provides experienced employees with the opportunity to exercise the specialist knowledge and skills which they have developed over their long careers. Provided with the opportunity to exercise their own specialist skills, the number of personnel willing to undertake *shukkoh* should increase. The reason for the scarcity of such people in the past has been due to the strong trend for the parent to use *shukkoh* as a means to force personnel upon its subsidiaries, and because of the tendency for there to be little connection between the work a transferee performed at the parent with that assigned to them at the recipient company. There is also no need to restrict the specialist system discussed above to use within individual companies. It is essential to establish a "Corporate Group-Wide Specialist System" which allows employees to pursue their work in a certain field despite movement between corporations, thereby allowing them to develop their careers. Transferees with such specialist knowledge should be made welcome by the recipient company as

⁴The "specialist" referred to here is one in which an employee oversees no subordinates but performs advanced work using their own professional knowledge and skills. A "specialist system" is a system in which such specialist roles are clearly identified, and placed on a par with that of line managers.

well.

By these means a positive personnel deployment regime should be made possible. For this it would also be desirable to standardise employment conditions within the corporate group. Where it is impossible to attain the same level throughout the group, the same system should at least be introduced for the management of the workforce. This is important because imbalances within labour conditions and systems serve to undermine effective inter-corporate personnel deployment. It is also vital to ensure care and follow-up for transferees during their *shukkoh*, as well as establishing a clear system for personnel appraisal for those on *shukkoh*.

With regards to *shukkoh* as a mode of employment adjustment, it is necessary to expand the opportunities for utilising personnel beyond the limits of a corporate group. This is because *shukkoh* and *tenseki* make it possible to achieve the "turnover of personnel without entailing unemployment" (Itami and Matsunaga, 1985). In practice, however, it is difficult to obtain information relating to personnel needs from workplaces outside of individual corporate groups. In order to develop this function it is necessary to promote the information exchange beyond groups. Although organisations to promote such information flows have already been formed, these functions must be expanded even further in the future.

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