

Title	PERCEPTIONS AND THE REALITY OF JAPANESE INDUSTRIAL RELATIONS: ROLE IN JAPAN'S POSTWAR INDUSTRIAL SUCCESS
Sub Title	
Author	島田, 晴雄(SHIMADA, Haruo)
Publisher	Keio Economic Society, Keio University
Publication year	1982
Jtitle	Keio economic studies Vol.19, No.2 (1982. ) ,p.1- 21
JaLC DOI	
Abstract	
Notes	
Genre	Journal Article
URL	<a href="https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-19820002-0001">https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-19820002-0001</a>

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# PERCEPTIONS AND THE REALITY OF JAPANESE INDUSTRIAL RELATIONS: ROLE IN JAPAN'S POSTWAR INDUSTRIAL SUCCESS\*

Haruo SHIMADA

## I. INTRODUCTION

There seems to exist a widely prevalent image of Japanese industrial relations in the Western world. Their stereotype is that the Japanese are homogeneous and concensual people, with industrial relations that are consequently harmonious, trustful and peaceful. An important implication associated with this image is that such Japanese industrial relations are highly productive as demonstrated by the remarkably successful performance of Japanese industries during the last few decades.

This paper attempts to correct exaggerations and misunderstandings associated with such a stereotyped image and provide an alternative explanation of the role of industrial relations in the process of Japanese industrial growth. I also intend to provide relevant factual information necessary for understanding the actual operation of Japanese industrial relations.

## II. THE STEREOTYPED IMAGE OF JAPANESE INDUSTRIAL RELATIONS: REVIEW AND QUALIFICATIONS

There seems to exist a rather conspicuous "stereotype" image of Japanese industrial relations, widely accepted not only outside but also even inside the Japanese society. The standard stereotype may be explained in terms of a broad contextual concept of Japanese society and a more specific descriptive concept pertaining directly to industrial relations.

The broad contextual concept essentially describes the major features of Japanese society. Such features may be expressed by symbolic terms such as *harmony*, *groupism*, and *consensus*. Underlying this perception of Japanese society is the notion that the Japanese are so homogeneous a people that they share the same

\* This paper is a sketch of preliminary ideas which the author plans to pursue in his research project entitled "An Empirical Study on the Interdependence Between the Choice of Technology and the Adaptability of Human Resources at the Workshop During the Postwar Industrial Growth in Japan." The author gratefully acknowledges a generous financial support provided by 21 *Seiki Bunka Gakujutsu Zaidan* (21st Century Cultural and Science Foundation) to carry out this research project during academic years 1983 and 1984. Synopsis of this paper was presented earlier at the conference "Effective Business Management: Lessons from Japan," held at Massachusetts Institute of Technology during November 18-19, 1982, and also similar ideas were presented at the 35th Annual Meeting of American Industrial Relations Association held at Sheraton Hotel, New York during December 28-30, 1982.

culture, ideologies, tastes, historical inheritances and even behavioral patterns.

When discussing the nature of industrial relations, these Japanese social characteristics are strongly emphasized as constituting the unique nature of Japanese industrial relations. "Western" industrial relations by contrast as exhibited in the United States or in European countries are typically characterized by such features as *adversarial labor-management relations* instead of harmony, *individualism* instead of *groupism*, and *conflicts* instead of consensus.<sup>1</sup>

The descriptive concept specific to the institutional characteristics of Japanese industrial relations may also be expressed symbolically by the three conspicuous institutional components of industrial relations system:

- (1) life-time employment,
- (2) length-of-service reward system,
- (3) enterprise unionism.

The system of life-time employment is interpreted to mean the system by which workers are employed for their life-time within a particular company and are not dismissed even when the level of business activity declines unless the decline is so deep that the company faces the danger of bankruptcy. The notion of life-time employment also connotes that workers commit themselves to the company for their life-time in return to the life-time employment guarantee granted by the employer.

The length-of-service reward system implies the system by which pay differentials within a company are determined in such a way as to increase the wage rate in accordance with the worker's length-of-service within the company.

Enterprise unionism implies that a union is organized within the realm of an individual enterprise covering both white-collar and blue-collar workers as long as they are employees of the same company. Such unions are consequently docile and cooperative to the management.

Characterized by these institutional components Japanese industrial relations are considered unique because they appear to be so economically irrational in the eyes of some Westerners.<sup>2</sup> Explanations of Japanese informants reinforce this impression of "uniqueness." Japanese scholars have asserted that the Japanese company retains its employees in spite of business fluctuations because it is governed more strongly by the principle of group cohesiveness (as solid as a family) than economic sensitivity. The Japanese company can enjoy industrial peace with a docile enterprise union as a bargaining counterpart because both management and labor desire harmony and share the common goal and interests

<sup>1</sup> A typical exposition of such a contrast may be found for example, in Hodgson, James D., "The Wonderous Working World of Japan." Reprint Series No. 81 (Speech delivered before the Industrial Research Council), Washington, D.C., American Enterprise Institute, 1977.

<sup>2</sup> Abegglen emphasized the curious fact that the Japanese unique and irrational employment and wage practices operate compatibly with rigorous Western logic of industrial production in Japanese factories. See Abegglen, James C., *The Japanese Factory: Aspects of Its Social Organization*, Glencoe, Ill.: The Free Press, 1950.

arising basically from their homogeneous natures. The length-of-service reward system serves an important function of representing a social ordering within a group organization of a Japanese company.

In what way and under what conditions did such perceptions become the standard stereotype of Japanese industrial relations?

During the 1950's when the Japanese economy was still in the process of recovering from the wreckage of the war, Japanese scholars regarded such characteristics of Japanese industrial relations as length-of-service reward system and enterprise unionism as undesirable symptoms of an under-developed capitalism.

Starting in the mid-1960's, when the Japanese economy was growing rapidly, the tone of evaluation changed remarkably. An increasing number of Japanese people, including scholars, employers and even unionists joined the group praising lifetime employment, length-of-service reward system, and enterprise unionism as being positive factors contributing to economic growth. Indeed, these practices were often referred to as the Three Sacred Treasures of Japanese industrial relations.

It was also during the 1960's when the Japanese economy started to demonstrate vigorous growth, that many foreign scholars began to pay attention to Japanese industrial relations and to conduct systematic research. They accumulated ample empirical findings and tried to give new interpretations.<sup>3</sup> Through such research, some scholars pointed out that Japanese industrial relations are not as consensual or harmonious as alleged by the classical culturalists' explanation. On the basis of in-depth field work in industrial plants, one sociologist revealed that beneath the seemingly harmonious groupism there existed elements of strenuous competition, confrontation and conflicts.<sup>4</sup> Economists provided new interpretations to the seemingly traditional employment practices by saying that those practices are in fact governed by highly rigorous economic principles of competition and optimization. They tried to explain practices of long-term employment and the length-of-service reward system as outcomes of the long process of human capital accumulation within a firm.<sup>5</sup>

With more data and information made available, some scholars expressed skepticism about the alleged uniqueness of some of the features of Japanese industrial relations. They maintained that such features as a "life-time" employment, earnings which increase with the length-of-service, enterprise unions or functionally equivalent organizations which largely determine working conditions within enterprises are found not only in Japan but also in many other industrial

<sup>3</sup> One of the pioneering works of informative empirical research may be found in Levine, Solomon B., *Industrial Relations in Postwar Japan*. Urbana, Ill.: University of Illinois Press, 1958.

<sup>4</sup> Cole, Robert E., *Japanese Blue Collar*. Berkeley, Calif.: University of California Press, 1971.

<sup>5</sup> See, for example, Taira, Koji. *Economic Development and the Labor Market in Japan*. New York: Columbia University Press, 1970, and Stoikov, Vladimir, "The Structure of Earnings in Japanese Manufacturing Industries: A Human Capital Approach". *The Journal of Political Economy* 81 (March 1973), pp. 340-355.

countries.<sup>6</sup>

These interpretations commonly imply that the Japanese system is similar to other systems in terms of the functions it performs, even though its outlook may appear quite different from others. This is the position of functional equivalence, and it necessarily emphasizes universalism as opposed to particularism.

In spite of findings and interpretations proposed by experts which emphasize commonalities rather than differences, it is nevertheless undeniable that the popular view about Japanese society and industrial relations are still dominated by idiosyncratic peculiarism. It is not surprising because it probably reflects the fact that the performance of Japanese economy in recent years has been outstanding among advanced industrial economies even though the basic mechanism which drives the economy may be considered functionally equivalent. In other words, there remains something in the Japanese economy which is still not explained by functional analysts.

An OECD report on industrial relations published a few years ago suggests that there must be a fourth pillar in addition to the conventional three pillars of lifetime employment, *nenko* wage and enterprise unions and it is this fourth pillar which makes the whole system of Japanese industrial relations work effectively.<sup>7</sup> Although the report suggests that the fourth pillar is something of a unique value system which is commonly held by the Japanese people, the real content of such a thing still remains largely unknown.

Interesting is the fact that a report on Japanese economy published by the Brookings Institution of the United States at about the same time attributes the successful industrial performance to highly biased allocation of resources in favor of industrial production at the expense of welfare of the working class.<sup>8</sup> In other words the report stresses, in sharp contrast to the OECD report, "exploitation" and "powerless unions" which were unable to protect workers' interest. This conspicuous difference in evaluation for basically the same set of observations of the Japanese economy eloquently reflects the lack of well balanced and reliable information for sound analysis.

It is interesting to note in this regard that some serious scholars advocated a rather plain fact finding approach, or let-the-fact-tell approach such as Professor Dore's comparative study between British and Japanese factories and Dr. Rohlen's intensive observation of a Japanese bank, perhaps in an attempt to fill this gap.<sup>9</sup>

<sup>6</sup> One of the vocal proponents of this view is Kazuo Koike. See, for example, Koike Kazuo, *Shokuba no Rōdōkumiai to Sanka*, (Labor Unions at the Workshop and Participation) (in Japanese). Tokyo: Tōyō Keizai Shinpōsha, 1977.

<sup>7</sup> Organization for Economic Cooperation and Development. *The Development of Industrial Relations in Japan*. Paris. OECD. 1977.

<sup>8</sup> Galenson, Walter and Konosuke Odaka, "The Japanese Labor Market", in Rosovsky, H. and H. Patrick eds. *Asia's New Giant*. Washington, D.C.: The Brookings Institution, 1976.

<sup>9</sup> Dore, Ronald, *British Factor-Japanese Factory: The Origins of National Diversity in Industrial Relations*, Berkeley, Calif. University of California Press, 1974, and Rohlen, Thomas P., *For Harmony and Strength: Japanese White-Collar Organization in Anthropological Perspective*. Berkeley, Calif.: University of California Press, 1974.

Recently, in the mood of increased interest in the performance of the Japanese economy, books like *Japan as No. 1* by Professor Vogel, *Theory Z* by Professor Ouchi and *The Art of Japanese Management* by Professors Pascal and Athos gained a phenomenal popularity both in the United States and Japan.<sup>10</sup> These books attempt to explain the uniquely outstanding performance of Japanese economy which is still not well explained by the universal functional approach.

In *Theory Z*, for example, Professor Ouchi asserts that American firms do not lack in capital or technology. What they lack is the human factor, particularly, the mode of organizing human beings together in a productive way within a business organization. He maintains that in successful business organizations there exist elements of "trust", "subtlety", and "intimacy". These elements are typically observed in Japanese firms. But they are found also in some of the uniquely successful American business corporations. What the professor proposes is essentially a restatement of the classical stereotype of mystic Japanese industrial relations, whose real content is largely unknown or a black-box.

Books of this type simply reinforce conventional impressions that Japanese companies enjoy a culturally unique system. They are privileged to do so because they are Japanese companies and workers working there are Japanese. Why does this kind of stereotype persist in spite of skepticism and criticisms mentioned earlier? My view is that this is basically due to the lack of well-balanced and reliable information about Japanese industrial relations.

There are reasons why information, available to outside observers, on Japanese industrial relations had to be biased and therefore failed to convey the breadth and depth of the real complex of Japanese industrial relations.

One such reason relates to the fact that foreign visitors have had a strong bias in choosing the timing and place of their visits; namely, most of them started to visit Japan after she entered the stage of miraculous economic growth, and they visited mostly successful large business corporations in the private sector.

This implies that they ignored Japanese experiences in the difficult and painstaking period preceding the era of rapid economic growth. The crucial conditions and ground for the remarkable growth were in fact prepared in this ignored stage. By overlooking this critical period, they failed to understand genuine causes which were responsible in triggering Japan's dynamic and successful industrial development in the subsequent period.

Also, by visiting only successful large firms, they ignored a great number of unsuccessful cases, unstable small firms, and problematical public corporations. This bias deprived foreign observers of opportunities to investigate critical elements which really generated successful cases and differentiated them from unsuccessful ones. These biases injected a serious distortion into foreigners' evaluations of

<sup>10</sup> Vogel, Ezra, *Japan as Number One: Lessons for America*, Cambridge, Mass.: Harvard University Press, 1979, Ouchi, William. *Theory Z*, Addison-Wesley, 1981, and Pascale, Richard T. and Anthony G. Athos. *The Art of Japanese Management: Applications for American Executives*. New York: Simon and Shuster, 1981.

Japanese industries in the sense of imposing an illusion that Japanese firms are successful because they all enjoy uniquely Japanese cultural inheritances.

The other reason relates to the attitude of Japanese informants, and, to some extent, of "Japanologists." Japanese informants have tended to introduce foreign observers to successful cases rather than failures perhaps due to their hospitality. In addition, they have had a strong tendency, both practitioners and scholars alike, to emphasize Japanese peculiarities and uniqueness rather than commonalities and international comparability. This tendency of Japanese informants has been reflected and aggravated, somewhat intentionally, by foreign specialists of Japan or "Japanologists".<sup>11</sup>

Under these circumstances, it is not surprising that information on Japanese industrial relations has been limited and biased. Now, let me look at the problem from the other end and ask what kind of information would be necessary for us to have a more-balanced and realistic picture of Japanese industrial relations? In considering this question, let me proceed in two steps: first, qualify or correct misunderstandings associated with the popular image of three Sacred Treasures or three Pillars, and then, probe which research areas should be studied additionally for us to have a more balanced view of the complex system of Japanese industrial relations.

### *Myths and the Reality of Three Sacred Treasures*

First, let me qualify the meaning of so-called life-time employment. There is in fact no life-time employment practice as such in Japan in its true sense of the word. Due to the compulsory retirement system, workers have to leave the company of their primary employment opportunity in their occupational career around the age of 57 to 60 in the case of large firms, where the practice of "life-time employment" is presumably most prevalent.<sup>12</sup> Since the majority of workers terminate their occupational career and retire from the labor market in their late sixties, this fact means that even the most privileged workers in terms of employment security, namely large firm workers who are only a third or so of the total employees, have to leave their primary employment opportunity 5 to 10 years prior to their eventual

<sup>11</sup> Sugimoto and Mourer point to such factors which have been responsible for creating an unreasonable image of the Japanese uniqueness of Japanese society. They are (1) methodological bias associated with an anthropological approach, (2) monopoly of knowledge by "Japanologists," and (3) interest of elites' class as having been responsible for creating an unreasonable image of uniqueness of Japanese society. Sugimoto, Yoshio and Ross, E. Mourer. *Japanese Society: Stereo-Types and Realities*. Papers of the Japanese Studies Centre, No. 1. Melbourne, Australia: The Japanese Studies Centre, 1981.

<sup>12</sup> According to Ministry of Labour, *Survey of Employment System*, 1982, the most recent official survey on retirement systems, 45.8 percent of all firms surveyed set their age limit for compulsory retirement at 60 and older, while 54.2 percent still set the age limit younger than 60. The proportion of large firms, with 5000 or more employees, having the age limit of 60 or older is 47.7 percent. While no firms in this size class are reported to have age limit older than 60, 52.3 percent set the age limit in the range 55 through 59.

retirement.<sup>13</sup>

Moreover, when employment is reduced due to business slowdowns it is these old workers rather than young workers who are more likely to be dismissed or sent to subsidiaries. In fact, the degree of employment protection given to old workers in Japanese employment system is much lower compared to American workers in organized sectors who can work until they reach the eligible age for old age pension benefits being well protected by seniority rights.

Mobility of labor force in Japanese labor market is not as low as one might expect from the preconception of immobile and rigid "lifetime employment" system. As shown by Table 1 below, some 10 to 20 percent of employees leave firms every year, with some systematic differentials, namely, turnover rates are higher for female than males, and higher for smaller firms than large ones. Moreover, Table 2 reveals that roughly a half of newly hired people every year are those who have had occupational experience somewhere else. Fresh school leavers account for a quarter to a third of total recruits.

These observations suggest that, quite unlike its stereotype image, Japanese employment is in fact fairly flexible and mobile. Indeed, had the Japanese labor market not had a flexible and efficient allocative function of labor force, the economy could not have attained the vigorous growth it did.

Second, consider what is really meant by "nenko" (length-of-service) wage

TABLE 1. SEPARATION RATES BY SEX AND  
SIZE OF ESTABLISHMENT

(Unit : Percentage)

	Both Sexes			Male			Female		
	1970	1975	1980	1970	1975	1980	1970	1975	1980
Size of Establishment									
Total	21.5	15.8	14.4	16.5	11.9	10.8	30.9	23.2	20.7
1000 and more	16.9	11.6	11.3	11.0	6.3	6.5	31.3	24.8	22.7
300-999	24.6	15.2	14.0	11.0	10.4	9.4	31.3	26.4	23.3
100-299		19.2	16.5	19.7	15.0	12.6	33.3	26.6	23.1
30-99	25.4	19.0	17.3	21.6	15.7	14.7	31.1	24.2	21.1
5-29	24.4	17.9	16.5	21.6	16.4	15.1	28.3	19.9	18.4

Source: Ministry of labour, *Survey of Employment Trends*.

- Notes:
- (1) The size of establishment is measured in terms of the number of regular employees.
  - (2) The classification of size for year 1970 is: 500 employees and more, 100 to 499, 30 to 99, and 5 to 29.
  - (3) The figures for total four year 1975 and 1980 include public employees.

<sup>13</sup> Those who have left the primary employment opportunity at some age between 55 and 60 maintain their living usually by combining incomes from several sources: (1) earned income from a job he finds somewhere else, which is normally paid much lower than his previous primary job, (2) discounted benefits from the public old age pension system which a worker is entitled to receive while working, if the level of earned income is lower than a certain limit, (3) lump-sum retirement payment or corporate pension benefits, and (4) other sources of income such as savings, assistance from family and so forth.



TABLE 2. TYPES AND COMPOSITION OF NEW ENTRANTS  
(Unit: percentage)

Year	New Entrants Inexperienced Workers			
	Total	New school leavers	Others	Half-way workers
1965	100.0 (3.608)	31.3	21.2	47.5
1970	100.0 (4.916)	22.6	20.3	57.1
1975	100.0 (3.361)	23.3	21.3	55.4
1980	100.0 (3.812)	24.0	25.4	50.6

Source: Ministry of Labour, *Survey of Employment Trends*.

- Notes: (1) Figures are for establishments with five and more employees.  
 (2) Figures represent total figures of male and female workers for all industries except for construction.  
 (3) Figures in parentheses are in terms of 1000 workers.

system. Wages which increase with length of service or experience are not unique to Japanese industries. Such practices are seen widely in other industrial countries. In Western industrial countries, it is common that wage rates increase with promotion. Increases in wage rates with experience in Japanese firms are also accompanied by increases in the level of skill and often promotion in status.

Figure 1 exhibits age-wage profiles for blue and white-collar workers with different educational levels both for the United States and Japan.

The figure reveals that the Japanese age-wage profiles share considerable similarity with profiles for U.S. workers except for the pattern of wage differentials for young age range. Interesting is the fact that relative differentials between white and blue-collar workers are remarkably similar between the two countries. This suggests that age-wage profiles are affected significantly by technological and organizational factors of skill formation regardless of national difference.

Third, enterprise unions. More than 90 percent of Japanese unions are organized on the basis of enterprises, and more than 80 percent of unionized workers are organized by such enterprise unions. This organizational form, particularly its overwhelming prevalence, is fairly unique to Japanese industrial relations.

However, their functions are not as unique as one might expect from their outlook. Their main function is in collective bargaining just like their American counterparts. In fact, the Trade Union Law in Japan which regulates union activities by prescribing basic requisites for unions to satisfy and privileges entitled to them was patterned after the Labor Relations Law of the United States. If we interpret the critical function of enterprise unionism as determining working conditions of its members within an enterprise through collective bargaining, *de facto* equivalent practices are found quite widely in many industrialized countries. Collective bargaining at the level of individual firms in U. S. Major industries share essential functional equivalence with Japanese counterparts.

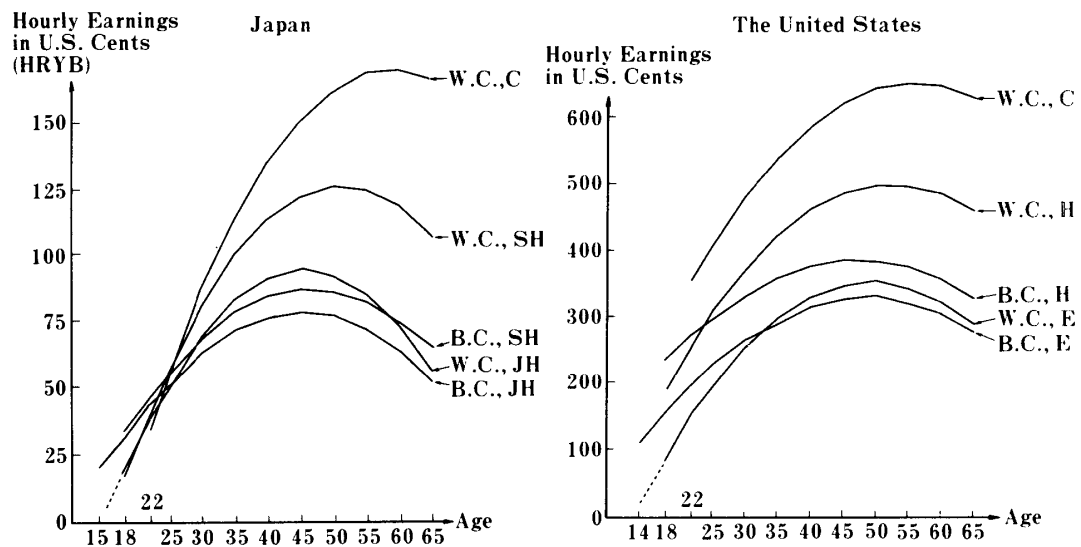


Fig. 1. Age-Wage Profiles of Japan and the United States.

Source: Quoted from Haruo Shimada, *Earnings Structure and Human Investments*, Tokyo: Kogakusha, 1981, pp. 64-65.

- Notes:
- (1) The basic data for Japan were taken from Ministry of Labor, *Basic Survey of Wage Structures*, 1967,, and for the United States, Office of Economic Opportunity, *Survey of Economic Opportunity*, 1967.
  - (2) The data are for the total of manufacturing industries.
  - (3) Notations: W.C. stands for white collar workers, B.C. for blue-collar workers, C, S.H. and J.H. respectively stand for college, senior high-school and junior high-school, and H. and E. for high-school and elementary school, respectively. HRYB denotes hourly earnings including bonuses.
  - (4) The figures are drawn on the basis of the estimated parameters of wage equations fitted to the observed data. The equation is of quadratic form with a squared variable for experience and an interaction term of education with experience.
  - (5) The basic data were edited carefully so that the data sets for the two countries may be compared as exactly as possible.

An interesting and important institutional feature of industrial relations at the level of a firm, which is worth-nothing, is the joint consultation system by which management and worker representatives, usually union officials, exchange information on various matters relating to management policies, production plans, working conditions, fringe benefits, and the like. This system is, formally, strictly distinguished from collective bargaining. It is the place for consultation and information sharing and not for bargaining or making collective agreements.

According to a Ministry of Labor survey on labor-management communications conducted in 1977, more than 70 percent of 5000 private enterprises surveyed with 100 and more regular employees reported having a joint consultation

system as a standing organ. Various surveys reveal that the system is more prevalent and more clearly defined the larger the size of firm. Another tendency is that the ratio of firms having the system is greater for unionized firms than non-unionized firms.

In many firms, the consultation meeting is held fairly regularly, say, at least once a month. The issues discussed are mostly those directly related to working conditions, fringe benefits and personnel matters, while issues reserved for managerial decisions such as management policies, financial matters, investment plans, etc., are in most cases simply explained to labor representatives.

The formation of the system and its role as an information sharing device in Japanese labor-management relations will be discussed in the next section.

### *Areas of Missing Information*

Let me now list some of the important areas where information has been relatively scarce or lacking.<sup>14</sup>

(1) *Conflicts*. Quite unlike the popular image of harmony and consensus, the Japanese society and industrial relations do contain ample elements of frustrations, confrontations, and conflicts. Indeed, if one examines the modern history of Japanese society he will find ample evidence of social strife that Japanese society has been far from harmonious or consensual society.<sup>15</sup>

Even if we limit our focus within the arena of industrial relations, we can refer to many incidences of bitter labor struggles at least up until the mid-1960's. Let us examine the degree of industrial conflicts by mandays lost for 10 employees during a year due to labor disputes. The average data for the 1970's in Japan was 1.1, which is much lower than 5.1 for the U.S. and 5.8 for U.K. for the same period, but much higher than 0.5 for West Germany. However, in retrospect, the data will give quite a different impression; namely, 1.0 for 1965—1969, 1.8 for 1960—64, 2.6 for 1955—1959, 4.5 for 1950—54 and 4.6 for the late 1940's. In other words, one will recognize that during the first decade after the World War II Japanese industrial relations were quite conflictive to a similar degree as U.S. or U.K., and the situation has changed markedly around the late 1950's.

Indeed, the segment of industries where people seem to enjoy peaceful industrial relations is not as large as one might think relative to the entire span of Japanese industrial structure, and even these peaceful and successful industries such as steel, shipbuilding, auto, electronics and the like did not enjoy such industrial peace until around the mid-1960's. In fact, industrial peace is maintained very carefully on a

<sup>14</sup> These areas where research has been relatively scarce are investigated and discussed in detail in a book of collaborative research by Japanese labor scholars. The book is Shirai, Taishiro ed. *Contemporary Industrial Relations in Japan*, Madison, WI.: The University of Wisconsin Press, 1983.

<sup>15</sup> A quantitative analysis of popular disturbance revealed that postwar Japan has experienced a greater degree of social conflicts than the experiences of France and West Germany in the twentieth century. Sugimoto, Yoshio. *Popular Disturbance in Postwar Japan*, Asian Research Service, Hong Kong, 1981.

very delicate power balance even for these relatively successful industries.

(2) *Unsuccessful cases.* As one can imagine from the high rate of business bankruptcies, there are innumerable cases of failures side by side with success stories. Many of these unsuccessful cases are characterized by management's poor judgements and poor leadership, hostile labor-management relations, stagnant organization, poor human resource development strategies, defective financing policies, poor policies for technological development, inappropriate management of production, cost accounting and distribution and the like. Information on these failure cases is extremely limited even within Japan in spite of their massive existence and importance. And it is this lack of information that deprives one from making systematic examinations of the critical elements and conditions which made some segment of Japanese industries and firms successful.

(3) *Small firms and sub contractors.* It is known that Japanese large firms take full advantage of the massive existence of small firms by utilizing them as sub-contractors. The automobile industry is a prime example. Again, the information as to actual conditions in these small firms is extremely scarce. Marxist economists often claim that the workers in those firms are the victims of exploitation. However, it is highly questionable whether Japanese small firms can continue innovating themselves to produce high quality parts and products as they have done constantly simply by being exploited by large firms. The real picture of technological innovation, human capital development, competition, and other important aspects of management of these small firms is largely unknown.

(4) *Public sector.* While business corporations in private industries are studied relatively intensively, much less attention has been paid to the public sector. Although the size of public sector in the Japanese economy is relatively small among advanced nations, it nevertheless exerts important influences on the general mode of Japanese industrial relations both as the largest employer in the country and is the prime pattern setter of working conditions. And this sector shares many commonalities with those of other nations in terms of organizational structure, administrative rules and bureaucratic rigidities.

If we add a sufficient amount and depth of information in these missing areas onto our already available limited knowledge, one could easily imagine that the more complete picture, constructed in this way, would not look either very unique or too different from many other industrialized countries. Differences certainly exist, but they are only a matter of degree and not really essential difference. Basic principles and structures of industrial relations and labor markets are largely similar, and as such they are amicable to essentially equivalent analytical principles.

One will also recognize that the highly successful segment of the economy, where foreigners pay much attention to its industrial relations, is actually a relatively limited section of the economy. In other words, not all Japanese do enjoy or are entitled to enjoy successful and trustful industrial relations simply because they were born as Japanese.

However, even after recognizing this heterogeneity and complexity of actual

industrial relations in Japan, and their basic comparability with industrial relations systems of other countries, one may still wish to ask why and how such successful achievement was possible for the relatively limited section of strategically important industries.

### III. THE ROLE OF INDUSTRIAL RELATIONS IN JAPANESE INDUSTRIAL GROWTH: AN ALTERNATIVE EXPLANATION

I will attempt to provide an alternative and more realistic hypothesis, than the popular stereotype, of the formation and the role of industrial relations in the postwar process of industrial development. Focussing particularly around the 1950's, the critical decade preceding the "miraculous" growth period, I will discuss five major factors in what follows.

#### (1) *Crisis Consciousness—Overlooked Experience in the 1950's*

The Japanese economy survived persistently drastic external shocks of the 1970's due chiefly to her powerful fundamentals. The robustness of these fundamentals were established through the period of vigorous industrial growth during the 1960's. Important is the fact that the basis for such a development had been laid out during the crisis ridden 1950's.

One of the serious defects associated with anthropological explanations of Japanese industrial "success" is the tendency to relate the recent remarkable industrial performance directly by a short circuit with cultural inheritances of thousands of years ago, without paying due attention to what had been done during critical gestation period preceding the rapid growth. This tendency is particularly conspicuous among foreign observers. This is perhaps due to an unfortunate imbalance of available information. While information available in foreign countries on Japan is relatively abundant during the occupation period of late 1940's, when Japan was being occupied and controlled under the Allied Forces, and the period after the mid-1960's, when the economy started to exhibit a phenomenal growth, very little is known by outside observers about what happened during the 1950's. It is in this period, however, that the critical basis was built for the subsequent growth.

The 1950's was the decade starting from Korean War and ending with an unprecedented boom which triggered the sustained rapid growth in the following years. After the termination of shallow and short-lived Korean War boom, the Japanese economy was faced with a difficult impasse. Although the economy was preparing to participate again to the world market after dampening the postwar hyper-inflation and trying to restore free market system overcoming the destruction of the World War II, it still was far from being able to attain "economic independence" on its own. Moreover, the detachment of Japan from the Asian market, particularly China, due to Korean War, threatened to jeopardize the prospect of reconstruction of the economy, which was just starting.

Under such constrained circumstances, Japan had to seek measures to attain both economic independence and improvement in the standard of living. Reflecting a national crisis consciousness and a popular desire to catch up with the advanced Western nations, the principal strategy chosen was to promote exports by means of thorough "rationalization" of industries.

It is often observed for any country that the public consciousness of national crisis helps mobilizing human and physical resources much more powerfully toward some national goal than normal times. The Japanese experience in the 1950's may be viewed as one such example. Interestingly, this kind of public consciousness has been relatively long-lived in Japan and often revived in response to various external shocks such as the recent "oil shock".

Although this may not have been the most important factor in generating the vigorous industrial growth, it certainly was helpful in reinforcing the effects of other factors. Noteworthy is the fact that basic conditions for the subsequent industrial growth and remarkable increase in productivity had been prepared during this period, which include: (a) technological know-hows to improve quality of products, (b) cooperative labor management relations which are now predominant in export-oriented major industries, (c) information sharing system within the internal labor market of corporate organization, and (d) the pattern of industrial structure with abnormally developed sector of basic material input industries. Let me review in some detail the formation and working of these factors in turn.

## (2) *Emphasis on Quality Goods*

Management believed that the most important and promising strategy to get out of this hardship was to improve the quality of products. Production of high quality goods at low costs was thought to be the key to winning international competition. Corporations systematically mobilized their human as well as physical resources to achieve this goal. The target was pursued by earnest introduction of foreign technological and managerial know-how on the one hand and massive investments to attain "rationalization" on the other.

Business corporations eagerly learned industrial engineering techniques from the United States and European countries. They constantly kept sending their engineering and managerial staff to their advanced counterparts to learn such techniques. Just to name a few well known examples of such technological transfer, we may recall assistance of ARMCO to Fuji Steel Co., GE to Toshiba, Austin to Nissan, and Philips to Matsushita.

Investments for the purpose of rationalization during the 1950's were also remarkable. An outstanding example was the first five year plan of rationalization of the steel industry which started from 1951. By the completion of this project, major steel corporations have established the integrated mass production system equipped with strip mills. This achievement was succeeded by the second rationalization plan. By the late 1950's the waves of large scale investments and technological innovation spilled over throughout the key industries such as electric

power, ship-building, petroleum chemical, auto, electric equipments etc. Such investments were instrumental in materializing technological innovation.

However, simply introducing such techniques from foreign countries does not really help improve production. What is important is how to implement such techniques and industrial know-how to the actual process of production. The experience of Japanese auto makers is interesting in illuminating this point. Japanese auto makers utilize the unique system of supplying parts and materials incorporating systematically both outside suppliers and intra-firm organization for the purpose of minimizing inventories. The system operates under the principle of “just-in-time” which is most symbolically exemplified by the case of the “Toyota method of production.”

The basic principle of “Just-in-time” or minimizing inventory itself is nothing new as a know-how of production management. What was significant for Japanese auto-makers was that they seriously attempted to construct a complex social and technical system organizing many tiers of sub-contracted parts suppliers and various branches of plant organization following faithfully basic principles of production and cost management and yet gearing most effectively to the specific local conditions. In order to achieve such a goal, the corporation had to secure the maximum degree of understanding and cooperation by the employees and people in the local community.

Efficient production can only be attained by full utilization of human and physical resources. It is for this reason that full cooperation of workers and unions is deemed crucial to achieving the given goal. To understand their motivation and to secure their understanding, Japanese corporations took advantage of re-shaped labor management relations and information sharing systems.

### (3) *Fostering New Labor-management Relations*

Labor-management relations up to the mid-1950's was far from “peaceful” or “harmonious” as implied by the popular stereo-type of Japanese industrial relations. Quite to the contrary their relations were hostile and adversarial. Labor unions were dominated largely by leftist or communist leaders. Strike incidence was quite high, as mentioned earlier, and unlike today strikes sometimes lasted for a long time.

Under the hyper-inflation and economic disorder in the years immediately following World War II, unions, which emerged spontaneously in most large and medium-size enterprises, resorted to labor disputes or even workers' control of production in order to protect workers' economic lives. *Sanbetsu-Kaigi* (Congress of Industrial Unions), organized in 1946 by the initiative of Communist leaders, quickly gained leadership in organizing radical disputes at various sectors of the economy. Within several years, until the mid-1950's bitter labor disputes swamped almost every major industry.

To mention just a few of the more notable disputes as a quick illustration; 56 day strike of Toshiba unions, power industry strike in 1946; an attempt at a general

strike led chiefly by public sector workers in 1947, which was quickly banned by the order of SCAP (Supreme Commander of Allied Forces). A postal workers strike, antidismisal disputes by Hitachi, a strike by National Railway workers in the late 1940's, a 63 day strike of coal miners, a power industry strike in 1952, a 113 day strike of miners, a Nissan strike in 1953, steel workers strikes in 1954, etc. The data of average man-days lost per 10 workers of 4.6 and 4.5, respectively for the latter half of the 1940's and the first half of the 1950's, reflect the turbulent situation in those years.

Since around the mid-1950's, however, a change in the tide of the labor movement became increasingly obvious. Although it is difficult to provide a complete explanation of the causes, one may certainly describe critical facets of such a change.

In many instances, in the prolonged process of bitter struggles the enterprise union was split, and consequently hostility and antagonism developed among confronting segments of workers. Facing the hardship, platforms of leftist leaders grew more radical and extreme. Rank-and-file workers, on the contrary, grew increasingly skeptical about the reliability and usefulness of dogmatic platforms of such leaders. Reflecting such a tendency, the second union often gained more popularity than the original one in the subsequent development.

It was at this time that in some industries such as steel, auto and ship-building conscious attempts were made to foster new management-labor relations by young and alert labor leaders. They admit the necessity to plan ahead for the future cooperating together with the management. The management side in response helped and backed them up to pave the way for their organizing activities. Through bitter struggles and painful experiences, this new group of labor leaders gradually acquired popularity among increasingly broader segments of key industries. Many current or recent influential leaders in major export-oriented industries grew out of this movement.

One such example is the case of the steel industry. In the fall of 1957 the steel industry federation of unions, led by leftist leaders, organized a 98 hour strike which failed to win any concession from the management side. In an attempt to restore the loss, the union federation again organized in 1959 a much longer 47 day strike selectively at Nippon Kokan and Fuji Co., and was again defeated. As a result, the leftist leadership eventually had to give way to a new, more realistic leadership led by Yoshiji Miyata. In this process of struggles, those who are critical against radical leftists were organized at workshops gradually but steadily, and constituted the supporting basis to establish the new leadership. This development was backed up in various forms by the management who, from their own interest, wished to develop new and constructive labor-management relations.

At the level of national organizations, too, signs for change grew apparent. Criticism by four industry federations of unions within *Sōhyō* (All Japan General Council of Labor Unions) against strikes of coal miners and power industry workers in 1952 eventually resulted in the formation of *Zeōnrō-Kaigi* (All Japan Congress of Unions), a confederation of more moderate unions. The top leadership



of *Sōhyō* also shifted through the 1954 and 1955 elections from Minoru Takano, who emphasized political unionism involving community actions, to Kaoru Ohta and Akira Iwai, who advocated economic unionism and proposed Spring Labor's Wage Offensive.

The new labor-management relations promoted by these movements, particularly at the levels of firm and workshop, now provided a place where intensive and productive interactions between management and labor could take place.

#### (4) *Development of Information Sharing Systems*

Taking advantage of the new labor-management relations, a number of new labor-management devices, which are now commonly observed in successful Japanese industries, have been developed and put into practice. Three notable examples are the joint consultation system, the role of first line supervisors, and well-known QC circle activities.

The joint consultation system is an important vehicle of communication between management and labor on critical issues affecting the corporation and therefore workers themselves. Unlike collective bargaining, joint consultation is utilized not as a place of negotiation but as a place where the management and worker representatives sit down together and discuss a broad spectrum of issues ranging from such large topics as investment and production plans to more specific issues like revisions of housing allowances and the like. In some cases, the top management releases highly confidential information to union leaders through the organ of joint consultation at a relatively early state of decision making process in order to pave the way to secure full-fledged cooperation from the union. In other cases, worker representatives provide their own alternative plan for management strategy of the corporation in order to make their standpoint clearer and seek better understanding on the part of the management.

Introduction of Joint Consultation System was once proposed by the management side shortly after the war as a means to counter attempts of workers' control of production advocated by the radical labor movement at the time. It was, however, after the mid-1950's when the new type labor-management relations were constructed centering around the major manufacturing industries, that the system started to prevail broadly. The campaign of the Japan Productivity Center, founded with U. S. help in 1955, was highly instrumental in promoting this trend.

Currently, as mentioned earlier, more than 70 percent of private enterprises with 100 or more employees adopt the system as a standing organ. Many large firms have a well developed and well defined joint consultation system which is clearly distinguished from collective bargaining, while the distinction becomes less clear as the size of the firm gets smaller. At any rate, the joint consultation system is an important element of the complex system of information sharing.

The role of first line supervisor is also quite important as a pivoting point between the management and rank-and-file workers. First line supervisors have dual roles in Japanese business organizations; they are the lowest level management on the one

hand and top leaders of production teams at the workshop on the other.

The formalization of the first-line supervisor's role was also developed during the 1950's. In the early 1950's, responding to the desire of management to restore systematic order at the workshop level management attempted various training programs, such as the TWI method imported from the United States, with the backing of Japan Federation of Employers Associations. Although this movement did not develop further for various defects associated with the program, the need to establish a systematic order in work organizations at the workshop was felt even more keenly as "rationalization" of industries proceeded. Responding to such a need, various attempts have been made seriously in many industries to enrich and strengthen the role of first-line supervisors toward the end of the 1950's. A well known example of such developments is the introduction of the foreman system, learned from the United States, into steel corporations (Yawata Co. 1956, and Nippon Kōkan Co. 1959).

Although the foreman system was patterned after the United States model, the Japanese forman system has an important practical difference. It is in the fact that Japanese foremen are almost always promoted from the ranks of production workers after accumulating long service and broad experiences, and consequently they are very well informed about the business organization as well as their subordinates. Foremen often perform an integral role in transmitting information back and forth between management and labor and in pivoting information among workers themselves in the workshop. In the case of the United States, in contrast, this role of foreman is limited partly because many of them acquire the position without necessarily accumulating as much experience in the workshop as their Japanese counterparts and partly because their role as the management is much more emphasized vis-a-vis the role of the leader of the work group.

The well known QC circle activities are designed to improve quality of products. QC circles can contribute to quality improvements by means of finding out the most optimal way of combining heterogeneous traits and talents of members of the work team. In the process of finding out different traits of workers by working and learning together, the activity also plays the function of mutual communication and information sharing within the basic unit of work-organization at the workshop.

While the number of QC circles registered with the national headquarters of QC circle movement was insignificant at the beginning of the 1960's, it has grown acceleratedly to the order of 33000 (400000 participants) in 1970 and 115000 (more than a million participants) in 1980. This reflects the rapid spillover of information sharing systems in the workshop through informal group activities developed on the basis of structural reforms of work organizations promoted in the 1950's.

These are only a few examples of an elaborate fabric of communication channels and information sharing which are spanned at various levels and aspects of workshop organizations and corporate hierarchies. Before proceeding to the next section, let me call our attention to an important structural factor which has been quite instrumental for these information sharing systems to operate effectively in

realizing corporate goals: which is the structure and working of internal labor market, or to put more specifically, the structure of jobs and the pattern of promotion.

One of the outstanding features, and perhaps the most important feature, of Japanese business corporations is found in their highly internalized system of human capital development of production workers. The practice of long-term employment and internal promotion is not unique to Japanese corporations. It is found widely in large corporations in the United States and European countries. However, the uniqueness associated with the Japanese practice is the relative breadth of occupational experience across different jobs while serving within the same company.<sup>16</sup> This means that a Japanese production worker is typically rotated among a relatively broader range of different job assignments within a company compared to his European or American counterparts. An important implication of this practice is that Japanese workers tend to have greater opportunities to learn about relationships among different jobs and contents and tasks of related jobs. This aspect is constantly reinforced by repeated in-company training and education.

A number of hypotheses have been proposed to explain why this type of employment practice has grown prevalent in large Japanese corporations. Some attribute this practice to the fact that many of Japan's leading corporations, which started out by importing foreign technologies in pre-war days, had to foster skilled workers within their internal labor markets since no relevant skilled workers were available outside the firms. Others emphasize that the role of postwar social reforms and union movement by which the status of workers were elevated appreciably and they began to assume at the workshop a much greater role than blue-collar workers used to play in the past.

At any rate, it is worth noting that these employment practices, and emphasis on internal training, provided Japanese workers with basic aptitude and capacity to share information with the management and to participate willingly to improve production procedure at the workshop, which have prepared a helpful condition on which to mobilize corporate resources effectively.

##### (5) *Industrial Structure and Industrial Policies*

Finally, let me refer to a peculiar feature of the Japanese industrial structure, which has contributed importantly in improving the productivity of Japanese manufacturing industries and firms. That is, in short, the industrial structure with highly developed sector of intermediate material input industries.

It is known that production of intermediate input materials such as steel and petro-chemical products can enjoy economies of scale. This means that the larger the capacity of production, the higher the productivity and thus the cheaper the price can be. Japan, which has to import most raw materials for industrial production, has sought to overcome this disadvantage by pursuing the benefits of

<sup>16</sup> A detailed comparative analysis between Japan and the United States is found in Koike, *op. cit.*

economy of scale to a full extent in the process of postwar development. As a consequence, Japan has established the industrial structure with an abnormally large sector of intermediate input industries which are equipped with large scale production facilities.

This naturally provides price advantages not only to these intermediate input industries themselves but also to fabricating industries which utilize these intermediate inputs. Take the case of steel as an example of such intermediate inputs, such industries as auto or ship-building can improve their productivity and quality of products taking advantage of cheap and high quality steel sheets.

Moreover, the oligopolistic and yet highly competitive nature of Japanese industrial organization was instrumental in keeping low prices through strenuous competition among producers, and also supplying parts and materials which are geared precisely through careful coordination to the need and specification of firms purchasing them. The government has played integral roles in the form of various industrial policies to guide the formation of this type of industrial structure on the one hand, and maintained a reasonable degree of competition within industries on the other.

Industrial policies of the Japanese government attract broad attention in the world, with a notorious connotation of "Japan Inc." The image suggests that very close ties exist between the government and businesses just as though they are the headquarters and production department of a single large organization. Although it is true that the Japanese government exerted strong direct controls over industrial activities during the phase of reconstruction immediately after the war, the mode of control has shifted later with the development of the economy more in the direction of utilizing the autonomous competitive function of markets. In fact, the most significant nature of Japanese economic and industrial policies may be found in the fact that the government collects, interprets, and disseminates relevant information to certain sectors of the economy essentially to pave the way for the market to operate efficiently under the given resource constraints. In fact, had the Japanese industrial policies not operated in this manner of taking advantage of autonomous market functions, it would not have been possible for Japan to materialize such a vigorous growth during the 1960's.

One should bear in mind that the pattern of industrial structure and inter-firm and inter-industry coordination can have a significant effect on the productivity of industries and firms. In the case of Japan, the unique industrial structure and the mode of coordination necessitated by strenuous competition have apparently contributed appreciably in increasing the productivity of manufacturing firms. Although this aspect is often overlooked in the discussion of corporate performance, it might have been the single most important factor responsible for productivity improvement of Japanese firms. Notable is the fact that this factor, again, was prepared in its original form during the 1950's.

To explain the remarkable industrial growth of the postwar period, several background factors are often cited. They include: (1) total physical destruction by

the war which, paradoxically, provided Japanese-industries an opportunity to equip themselves with new and more productive facilities than their competitors, (2) social and political impact of the defeat in the war which were also helpful in introducing somewhat idealistic legal frameworks to maintain reasonable competitive functions in labor and product markets, (3) the abundant supplies of young and well educated labor force, and (4) the lack of domestic resources which made the Japanese look for cheap overseas raw materials and energy resources, etc. However, the five factors discussed so far have been critical, in my view, in bringing these background factors together to generate dynamic industrial growth in the 1960's. Indeed, without active and positive efforts on the part of entrepreneurs, workers and policy makers, these background factors may well have worked not as helpful factors but as hindrances. It is on the basis of this powerful industrial achievement that some segments of Japanese firms now enjoy peaceful, harmonious and productive labor-management relations.

#### IV. *Concluding Remarks*

The style of Japanese management and industrial relations appear to be strongly influenced by peculiarly Japanese anthropological characteristics and cultural inheritances, as it is true for industrial relations of any country to a certain degree. However, the fact that there exist many companies in Japan which do practice typically Japanese style management and industrial relations and yet perform economically only poorly indicates that such a "style" and "industrial success" are two different things.

Important is the point that Japan's industrial success has been attained by constructing the basic conditions, which I have discussed in some detail so far, intentionally with considerable costs and efforts. The structure and organization of production built within the Japanese economy during the preparatory 1950's and the rapid growth 1960's is perhaps a monumental achievement in the industrial history of the world both economically, technologically and also from the viewpoint of social engineering. The "success" which attract foreigners' attention is simply the result of the operation of such a remarkable system, and as such, it is neither luck or miracle. And if this is indeed the case, we may find two important policy implications.

One is the transferability of such experiences. As far as the industrial success has been achieved through intentional and rational efforts of the Japanese in an attempt to overcome a perceived crisis rather than destined by anthropological and cultural traits, Japan's experience should contain transferable elements which can be shared usefully with other countries. The sharing, however, is not in the form of superficial "management style" as such but rather in the sense of how economically and technologically rational choices were realized in actual social and political processes of the society by intentional efforts of people.

The other relates to the future choice of Japan. To the extent that the success has

been achieved under certain conditions in the past, the success will not necessarily be guaranteed automatically for the future. Indeed, in sharp contrast to relatively successful industries such as auto and electronics, basic material industries such as petro-chemical, aluminum, copper, paper and pulp, and various branches of chemical industries are suffering seriously from changes in external conditions. And even the so far relatively successful industries, which have now acquired a large share in the world market, will not be able to operate without taking into account more seriously their impacts on affected countries. Whether "industrial success" of Japan can be maintained for the future will depend critically upon whether the Japanese economy and society could adapt itself effectively to new and different external as well as domestic conditions in the future.

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