

# Globalization and Enterprise Unions of Japan: The Paradox of ‘Employees as Important Stakeholders’

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*Abstract* | In the age of globalization, polarization rapidly increased in Japan. This paper examines how the Japanese enterprise unions dealt with the impact of globalization, why the unions could not stop the polarization, and the result of union behavior to the unions themselves. Japanese companies chose a strategy which was not accelerating investment or innovation, but reinforcing cost cutting, which brought about a decrease in regular workers, an increase in non-regular workers, and resulting earning differentials. The enterprise unions that were composed of important stakeholders of Japanese companies tolerated this kind of behavior. However, the cost cutting strategy and the ensuing practices of employment/compensation management might have led to the erosion of worksite capabilities (*genbaryoku*) by creating an obstacle to smooth communication and reducing spare time to carry out the *kaizen* (improvement) plans, as seen in the case study of Company A.

The paradox of ‘employees as important stakeholders’ implies that it is not enough to blame the ‘egoistic’ behaviors of enterprise unions from the viewpoint of solidarity and justice. Contrarily, it is necessary to investigate the reality that these behaviors might weaken worksite capabilities, the very basis of ‘employees as important stakeholders.’

*Keywords* | globalization, enterprise unions, employees as important stakeholders, worksite capabilities (*genbaryoku*)

## Globalization and Enterprise Unions

### 1. Globalization and Polarization

Japanese society is undergoing rapid polarization. The Gini coefficient, the most commonly used index for income distribution, increased for market income from 0.433 in 1990 to 0.532 in 2008 (Kōsei Rōdōshō 2009). The Gini coefficient

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on disposable income (income after tax and social spending) more gradually increased.<sup>1</sup> Yet it still reveals that overall, income inequality is increasing. This income polarization has created a problem with poverty. The number of welfare recipients doubled from 0.95 million in 1991 to 1.95 million in 2010 (Kōsei Rōdōshō 2011b). The relative poverty rate<sup>2</sup> increased from 13.5 percent in 1991 to 16 percent in 2009 (Kōsei Rōdōshō 2011c), which made Japan the fourth highest OECD country in terms of relative poverty in the mid-2000s, following Mexico, Turkey, and the US (OECD 2008).

To be sure, Japan's rapidly-aging population, especially aging single households, affects the growing income polarization (Ōtake 2005). Yet it is undeniable that generally-increasing social inequality, not only in income but also in assets and education, is causing polarization (Satō 2000; Tachibanaki and Urakawa 2006). An important factor is deteriorating employment quality, as exemplified by the increasing number of non-regular workers (Yuasa 2008; Woo Jong-Won 2010c).

In Japan, the number of regular workers has steadily decreased since the end of the 1990s. On the other hand, the number of female non-regular workers increased from 1980 to 2005, and the number of male non-regular workers rose sharply between 2000 and 2005. As a result, an average of 35.2 percent of all workers and 54.7 percent of all female workers were non-regular in 2011 (Sōmushō 2012).

This increase in non-regular workers, coupled with the disparity in working conditions for regular and non-regular employees, intensifies social inequality. On average, non-regular workers earn only 63 percent of regular workers' wages.<sup>3</sup> The problem is that this gap accumulates through life, as long as they remain as non-regular workers.

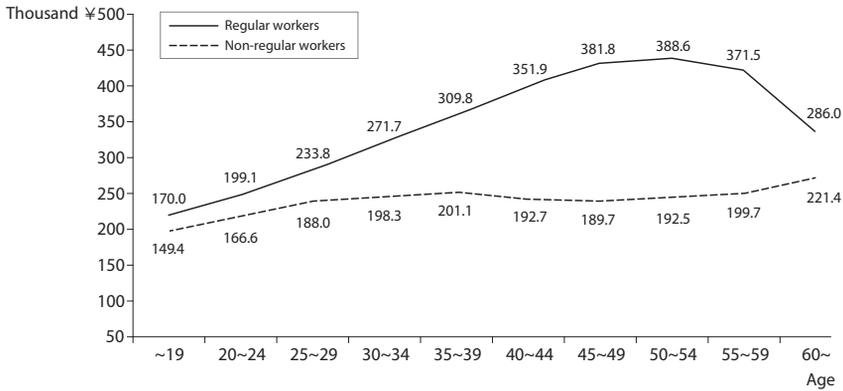
As shown in figure 1, the age-wage profiles of regular and non-regular workers show different trend curves. Regular workers' wages gradually increased until their mid-50s, whereas the wage level of non-regular workers remained almost the same despite their greater experience and age. This gap between regular and non-regular workers persisted, resulting in around 23 percent of fulltime workers to live on less than two million yen a year in 2010 (Kokuzeichō

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1. The Gini coefficient on redistribution was 0.364 in 1990 and 0.376 in 2008.

2. The relative poverty rate is the rate of people earning less than half of the equivalent median disposable income of the entire population.

3. On the other hand, the difference in corporate size also contributes to polarization. Male workers at medium-sized enterprises receive 82 percent of the average wage at large enterprises and female workers, 88 percent. For smaller firms, male workers receive 73 percent of the average wage at large enterprises and female workers, 79 percent. Refer to Kōsei Rōdōshō (2012).



Source | Kōsei Rōdōshō (2011a).

**Figure 1.** Age-Wage Profile of Regular and Non-regular Workers

2011).

The more serious problem is that this gap exists not only in income, but also in social security. According to a government survey, only 60 percent of non-regular workers received employment insurance. Similarly, only 48.6 percent received health insurance, and only 46.6 percent received a pension. A similar gap exists in the employee benefits at companies; only 10.6 percent and 34 percent of non-regular workers received the retirement allowance and bonus, respectively.<sup>4</sup>

The factor behind this widening gap is globalization, which has significantly advanced since the 1990s. In theory, globalization raises the level of welfare by facilitating market integration and efficient distribution of resources. In reality, however, it may cause socio-economic inequality if the government fails to mediate conflict of interests between the groups that gain and lose from globalization.<sup>5</sup> There is a widespread perception that the failure of such mediation, particularly decisions that neglected workers, provoked the recent economic crisis.<sup>6</sup>

4. For more explanation, refer to Kōsei Rōdōshō (2008).

5. Notable works include Stiglitz (2006) and Krugman (2007).

6. For example, Robert B. Reich (2010) claimed that the reduced or stagnant wage of the vast majority of American people made it impossible to sustain the expanded economic system and ended up precipitating an economic crisis. Job loss, wage decrease, and weakened social security led to the lack of effective demand, which caused a recession.

## 2. Research Question and Method

The question is how labor unions are dealing with this globalization and polarization. Generally speaking, globalization strongly influences the quantity and quality of employment through corporate behavior, and labor-management relations play a key role in this process. For example, the existence of labor unions (their organization rate and bargaining power), the structure of industrial relations (centralized versus decentralized, as seen in European industrial unions or in Japanese enterprise unions), and the behavior of the union (cooperative versus adversarial or employment-oriented versus compensation-oriented) influence the direction and degree of globalization's influence on employment. This paper analyzes the reactions of Japanese enterprise unions to globalization from this perspective. It questions why enterprise unions were not able to prevent polarization and how this polarization challenged the unions as a consequence.

Earlier research on Japanese enterprise unions has highlighted the following characteristics. First, as commonly seen in large companies, unions actively participate in the production management and they hold a certain level of responsibility for production (Tomita 2010).<sup>7</sup> Second, enterprise unions have started to organize non-regular workers, though it is a weak and gradual movement. Nevertheless, the purpose was not to realize 'justice' but to facilitate the smooth operation of workplaces and to sustain the company (Hashimoto 2009; Nakamura and Rengō Sōgō Seikatsu Kaihatsu Kenkyūjo 2009).<sup>8</sup> Third, trade unions' national organization, Japanese Trade Union Confederation (RENGO), is now gearing efforts to resolve the problem of non-regular workers and the problem of polarization by working closely with other social institutions through 'social movement unionism' (Takasu 2010). Fourth, despite these efforts, unions do not properly function as a determinant of the social wage levels through *shuntō* (spring wage offensive). They have no means of intervening in the labor market, such as through job placement or vocational training. For this reason, unions cannot solve the problem of non-regular workers and they are now facing a crisis (Woo Jong-Won 2010a).

This paper draws upon these findings as important references for a comprehensive analysis. Yet it acknowledges the fact that previous studies did not explain the behavior of enterprise unions with a consistent hypothesis. The

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7. Also, on the effect of the labor-management consultations in which enterprise unions play a key role, refer to Umezaki and Nagumo (2009).

8. Also, for researches conducted from the perspective of non-regular workers, refer to Kanai (2011).

aforementioned findings are not compatible. For instance, when regular workers get closely involved in management, they are likely to hire non-regular workers to lower labor cost. This contradicts the regular workers' duty to organize non-regular workers. Also, enterprise unions' emphasis on production maintenance contradicts the agenda of social movement unionism. In this regard, this study tries to offer a coherent explanation of the relationship between globalization and enterprise unions and to raise the possibility that unions' regular employee-oriented behavior is paradoxically weakening the employees' foothold in the workplace based on the following hypothesis.

The speed of globalization accelerated since the 1990s, which resulted in the polarization of the society. A specific set of corporate behavior, which is highly influenced by corporate governance, facilitates polarization through globalization. In Japan, stockholders and employees equally play the role of key stakeholders, and this influences the corporate system and policy. The employers made efforts to strengthen performance management and to adopt a performance-based wage system in order to survive global competition characterized by increasingly intense rivalry and a fluctuating business environment. However, since there is a limit to infringing the rights and interests of regular workers, they chose to hire more non-regular workers while establishing a different employment system from that of regular workers to maintain each company's competitiveness. Playing a key part as stakeholders and operating on the exclusive membership of only regular workers and on the in-house qualification system of members alone, enterprise unions tolerated this. Such behavior of companies and unions only increased wage differentials between regular and non-regular workers. Also, it had the danger of weakening 'worksites capabilities (*genbaryoku*)' to improve the productivity. The choice made for 'employees as stakeholders' ended up weakening 'worksites capabilities' that was the foothold for the employee's bargaining power. This relationship is conceptualized in figure 2.

In order to develop this hypothesis, both quantitative analysis from aggregative data and qualitative analysis on case studies are crucial. However, for this research, a case study approach may be more conducive since it allows for the observation of the headquarters and workplaces to evaluate corporate behaviors. This research examines the case of Japan's leading automaker. Most data used in this research are from the general meetings of the union.

This paper is composed of six parts. The second part briefly introduces the main stakeholder structure of 'stockholders + employees' which determined the Japanese-style response to globalization and then discusses the characteristics of enterprise unions. Section three explains the growing gap between RENGO's initiatives and each enterprise union's policy in the midst of the intensifying

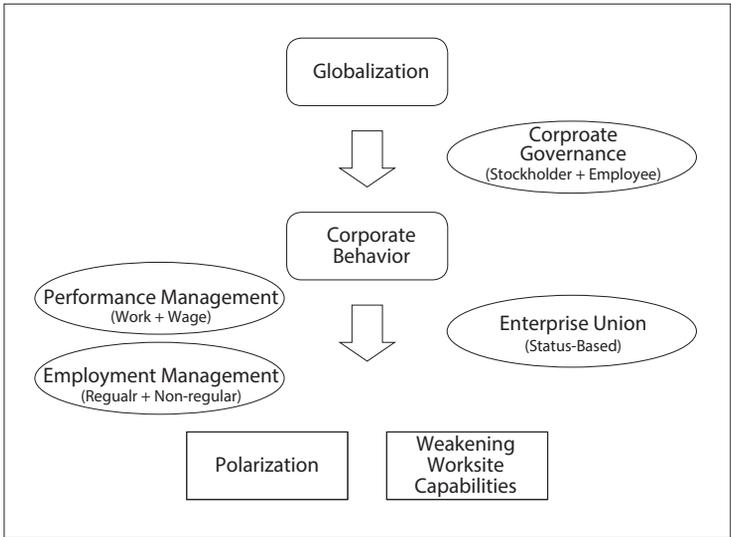


Figure 2. Globalization and Enterprise Union

polarization and weakening presence of unions. In so doing, it clarifies the unions’ behavioral principles. The following section examines the way in which individual firms are strengthening employment management and wage management due to globalization, through a case study of a Japanese automaker. Section five explains how these schemes have influenced the worksite capabilities in Japanese companies, which has been their source of competitiveness in the market. Finally, Section six discusses the implication of this research.

## Enterprise Unions: ‘Employees as Important Stakeholders’

### 1. Globalization and Competition Pressure

Globalization provides enterprises with opportunities to expand their demand base and sparks fierce supply competition at the same time. A case in point is overseas production. The main purpose of overseas production is to meet overseas demand. In the case of entering into developing countries, on the other hand, its purpose is to secure a competitive edge in supply by reducing production costs. In Japan, the ratio of the listed companies’ overseas production to total production had more than tripled, from less than five percent in 1990 to 17



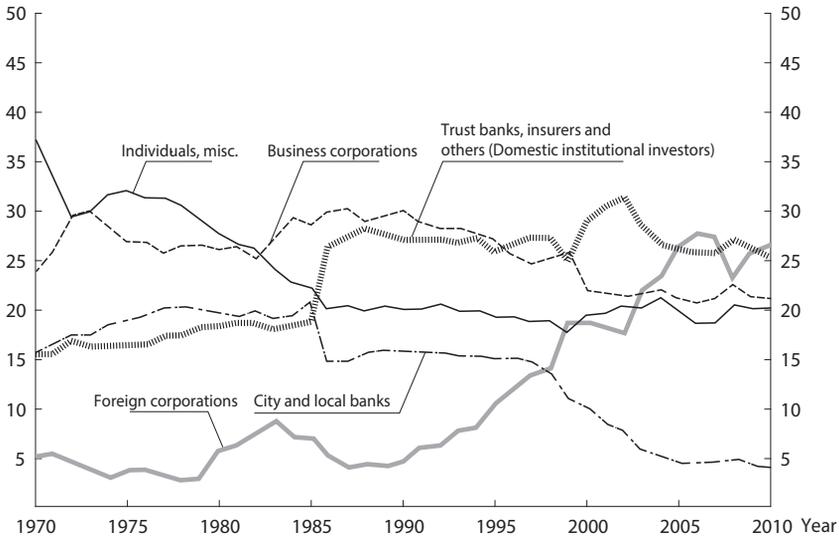
Source | Data from Nihon Jidōsha Kōgyōkai [Japan Automobile Manufacturers Association, Inc: JAMA] (<http://jamaserv.jama.or.jp/newdb/index.html>).

**Figure 3.** Automobile Production, Exports and Overseas Production

percent in 2010. In addition, that of enterprises with at least three overseas subsidiaries, including at least one production base, had more than doubled from less than 15 percent in 1990 to 31 percent in 2009 (Naikakufu 2011, 133-34).

Consider the automobile industry. As figure 3 shows, domestic production reached its peak of 13.5 million in 1990 and then declined. Domestic production rose temporarily thanks to the exports bubble after 2002. But in the aftermath of the 2008 global economic crisis, it started falling and reached 9.27 million in 2011. In contrast, overseas production rose rapidly and reached 13.38 million in the same year. In particular, overseas production in Asia stood out as it marked 7.55 million, while that of North America and Europe registered 3.07 and 1.41 million respectively in 2011 (according to data from JAMA. <http://jamaserv.jama.or.jp/newdb/index.html>).

Enterprises are under pressure to cut costs and develop new products as borderless competition intensifies. Meanwhile, it becomes urgent to retain and hire employees. However, the way of responding to these issues to secure competitiveness and employment depends on the structure of corporate



Source | Shōken Torihikijo (2011).

Figure 4. Shares Held by Major Investors

governance. Further details are as follows.

## 2. Strengthened Shareholders’ Rights

Since the 1990s, Japanese enterprises have been under the influence of Americanization. Strengthened shareholders’ rights are a typical example. Figure 4 shows the types of shareholders of listed enterprises from the 1970s to today. We can find two clear characteristics from the figure. First, the number of shares held by city and local banks have decreased since the late 1990s. It means that the pivotal role of ‘main banks’<sup>9</sup> in corporate governance has diminished.

The other characteristic is that shares held by foreign corporations have soared since the 1990s. It illustrates that the management has faced increasing pressures from the stock market to focus on shareholders’ interests. In fact, attaching importance to shareholders has induced Japanese enterprises to put emphasis on short-term profits and cost cutting across the board (Rōdō Seisaku Kenkyū Kenshū Kikō 2005). As a result, enterprises employed more non-regular

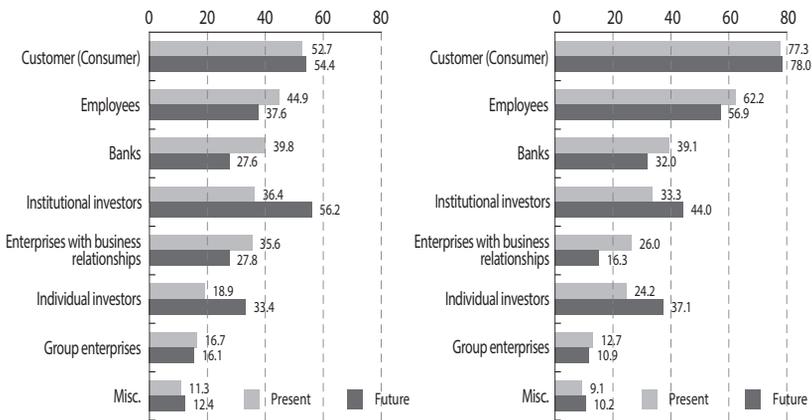
9. Today, some studies suggest that it is hard to regard main banks as a key player in the corporate governance as compared to the past research. For further details, refer to Tokyo Daigaku Shakai Kagaku Kenkyūjo (2005).

workers and adopted a performance-based system, thereby designing and operating a more flexible and individualized wage system.<sup>10</sup>

However, regulating executives through the performance of the stock market has only a limited effect. Along with main banks, cross-ownership of shares was a means to protect management rights, but it has shrunk in terms of value. In fact, although cross-ownership of listed companies accounted for 27.8 percent of market capitalization in 1991, the number fell to 6.5 percent in 2009. But the practice of cross-ownership remained in place. Half of the listed companies still utilize this practice (Itō 2010). Moreover, regulating executives with M&A was rarely seen in Japan, unlike the US (Jacoby 2007). In this regard, one thing to keep in mind is that executives will not always act as the agent of shareholders.

### 3. 'Employees as Important Stakeholders'

Employees in Japanese enterprises also have stakeholders' rights, as the shareholders do. Figure 5 illustrates the result of a survey of listed companies in 2005, when Americanization was in its mature stage. The left side shows which stakeholders have a strong influence on executives and the right side shows which stakeholders are valued by the executives. The figure shows that employees have the greatest influence on the executives, except for customers.



Source | Rōdō Seisaku Kenkyū Kenshū Kikō (2007, 22).

**Figure 5.** Stakeholders with Strong Influence on Executives (Left) and Stakeholders Valued by Executives (Right)

10. On the performance-based system, refer to Ishida (2003) and Nakamura and Ishida (2005).

Due to strengthened shareholders' rights, many respondents expected that institutional investors would have a stronger influence. But employees remained in the upper ranks when it comes to the influence on executives. The same trend is found in the figure on the right. Respondents reported that the executives would put more importance on institutional investors in the future. But employees were still the most valued stakeholders, except for customers.

#### 4. Enterprise Unions as a Representative Body of Regular Workers

Along with a growing pressure to cut costs due to globalization, the Japanese corporate governance structure that appreciates regular workers' interests through the concept of 'employees as important stakeholders' has led to a unique response of Japanese enterprises. This response was hiring large numbers of non-regular workers. It occurred because laying regular workers off or cutting the wage of regular workers has its limits. Enterprise unions as a representative body of regular workers accepted this kind of response from the enterprises. On the contrary, the acceptance has weakened enterprise unions themselves. Because of a rise in the number of non-regular workers, the organizable workers' pool has shrunk, thus weakening the unions' bargaining power and influence.

The union density rate in Japan between the mid-50s and 70s was estimated around 30 percent. But the rate fell below 30 percent in 1983 and dropped further to below 20 percent in 2003. Since 1994, the number of union members has dropped from 12.7 million to 10.05 million in 2010 (the estimated union density rate was 18.5 percent). What matters is that the gap in the density rate is significantly huge, depending on the size of enterprises. The density rate is 46.6 percent in enterprises with more than 1,000 employees, and the number is just 1.1 percent in enterprises with fewer than 100 employees (*Kōsei Rōdōshō, Rōdō kumiai kiso chōsa*, each year).

With a falling union density rate, a growing number of enterprise unions had trouble maintaining majority representation due to increased non-regular workers. It has led enterprise unions to organize part-time workers primarily in the retail and service industry. As a result, the number of organized part-time workers rose from 390,000 (estimated union density rate was 3.3 percent) in 2005 to 730,000 (estimated union density rate was 5.6 percent) in 2010 (*Kōsei Rōdōshō, Rōdō kumiai kiso chōsa*, each year). However, the unions of regular workers do not pay enough attention to non-regular workers. As of 2010, just 50.3 percent of the enterprise unions that have full-time non-regular workers sought ways to help non-regular workers, including counseling service, and only 17.8 percent of the unions invited non-regular workers to join the unions (*Kōsei*

Rōdōshō 2011d).

The bargaining power of unions for regular workers has also been weakening. Since the 1980s, Japanese enterprise unions have shifted their focus from collective bargaining to labor-management consultation. During this process, the role of *shuntō*, a major way of collective bargaining, significantly weakened. In 2003, the Japanese Business Federation (KEIDANREN) declared the end of *shuntō*, in the sense that through it, unions made demands for across-the-board wage increases via strikes and industry-wide coordination.<sup>11</sup> It is well explained by a drop in the number of labor dispute cases. In 1982, 7,000 dispute cases were reported, but the number fell to just 95 in 2010 (Kōsei Rōdōshō 2011e). Because of a weakened collective bargaining power, the social effects of setting the wage level through *shuntō* and the spillover effects of a wage increase from large enterprises to small and medium enterprises (SMEs) have dramatically decreased (RENGO, “Chingin repōto 2009 [Wage Report, 2009],” [http://www.jtuc-engo.or.jp/roudou/shuntou/2009/shuukei\\_bunseki/23chingin\\_5-9.html](http://www.jtuc-engo.or.jp/roudou/shuntou/2009/shuukei_bunseki/23chingin_5-9.html)).

What counts is that the function of labor-management consultation is not sufficient. The size gap between enterprises explains the insufficiency. As of 2009, three quarters of enterprises with more than 5,000 employees, two thirds of enterprises with more than 1,000 and less than 5,000 employees, and almost half of enterprises with more than 300 and less than 1,000 employees had a labor-management consultation body. However, only 37 percent of enterprises with more than 100 and less than 300 employees, and just a quarter of enterprises with less than 100 employees had the labor-management consultation body. In other words, three quarters of SMEs did not give workers the opportunity to voice their opinions on labor issues (Kōsei Rōdōshō 2010). Also, only an insufficient number of enterprises gave workers enough opportunities to speak out. For example, three quarters of the labor-management consultation bodies received information on the basic business policy from the management or had an opportunity to speak up for employees. Two thirds of the consultation bodies have the same opportunity to voice their opinions about the basic plan for production and sales. However, only half of the bodies are entitled to express their views on the rationalization of workplaces or the introduction of new technology equipment. And the rest have no opportunity to state their opinions on those issues (Kōsei Rōdōshō 2010). In other words, it is hard to say that consultations on workers’ interests are sufficient.

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11. For a summary of the process, Chōsabu (2004).

## 5. Multi-Track Employment Management and Single Status

To have a better understanding of the structure of corporate governance and the function of enterprises unions, it is necessary to examine how they developed over time. When examining the development, it is important to understand that enterprise unions organize not only enterprise-based workers, but also both regular blue and white collar workers (Nimura 1987). The characteristic of 'single status' lays the foundation for enterprise unions. Single status means that white and blue collar workers receive equal treatment in enterprises. In that sense, understanding how status became singularized and what its consequences are helps one figure out employees' rights, the current situation of enterprise unions, and challenges facing them.

The concept of occupation or job was not deeply embedded in Japanese tradition.<sup>12</sup> In the West, workers in the same occupational/job group were equally treated. In contrast, the 'multi-track employment management' was developed before the war period in Japan so that blue collar workers who were in the same occupational/job group were treated unequally. The basic principle of the multi-track employment management was not to pay an equal wage for equal work, but to give equal treatment to some blue collar workers who are as loyal as white collar workers to the enterprise. Equal treatment includes a seniority-based wage system, the promotion of blue collar workers to positions similar to those of white collar staff, and granting retirement allowances.

Right after Japan's defeat in World War II, when the wave of democratization was sweeping the country, labor unions insisted on the equal treatment of blue and white collar workers. The labor unions required equal treatment for almost all blue collar workers, which was allowed only to some blue collar workers before the war period. After many ups and downs, the management accepted the union's request, thereby establishing the single status. Thanks to the single status, blue collar workers who once were regarded as outsiders became part of enterprise communities. Meanwhile, the General Headquarters of the Supreme Commander for the Allied Powers (GHQ/SCAP) ordered the purge of enterprise executives, which triggered the trend for more liberal figures to participate in the executive body and to reorganize enterprises. It has become the foundation for 'employees as important stakeholders.'

Single status encouraged workers to enhance their capabilities and to engage

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12. On to the development of the single status and its challenges, refer to Woo Jong-Won (2003, 2009).

in management, thus leading the rapid growth of the Japanese economy. After the oil crisis, the Japanese economy entered a period of stable growth and became the focus of global attention due to its high labor productivity and product development expertise, unlike the US and other advanced European countries. However, the single status began to be regarded as a burden on enterprises as economic growth ended and globalization progressed. Since the 1990s, the introduction of the performance-based compensation system separated white collar workers from blue collar ones. The multi-track system was expanded among blue collar workers due to the employment growth of non-regular workers. Usually, non-regular workers cannot receive equal pay even if they do the same job. These changes were part of the revision process of the single status system conducted by the management. The enterprise unions accepted the process with the guarantee of status security for the existing regular workers. However, as we examined before, this process led to a widening gap within Japan.

## **RENGO and Enterprise Unions**

### **1. The Agony of RENGO**

The left and right wing overcame their existing ideological conflicts, and RENGO, a trade union national center in Japan, was established in 1989.<sup>13</sup> However, since the foundation of RENGO, labor unions have become less influential, therefore placing a huge burden on the organization. Importantly, RENGO endeavored to solve non-regular worker issues and polarization in the 2000s. But it could not make any progress, thus inflicting a more intense agony on itself. The gap between RENGO and enterprise unions is behind the stagnation.

The organizational structure of Japan's labor unions is composed of enterprise unions, industrial federations, and national centers. Their roles are divided as follows: Enterprise unions improve working conditions through negotiation and consultation with the management, review corporate behavior, and serve union members to meet their needs; industrial federations share information on common working conditions of the industry and industrial policies with each other and explore ways to solve issues; national centers seek out solutions to

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13. As of 2011, RENGO was composed of 54 industrial federations and 47 Locals (prefectural associations of unions) with a total of 6.8 million members.

political and institutional challenges that cannot be tackled at an industrial and local level by consulting with government and employer's associations.

All of a sudden, an issue arose that questioned the division of these roles. The issue was unionization of non-regular workers. After its foundation, RENGO basically put industrial federations in charge of unionization during the 1990s. RENGO also established the 'Committee of the Locals for Organizational Expansion (*Chihō Rengōkai Soshiki Kakudai Suishin Kaigi*)' to deal with issues related to workers at SMEs and founded 'local unions' led by Locals in the late 1990s. With these schemes, RENGO carried out action plans for organizing unions three times under the conditions that each affiliate (industrial federation) is in charge of organizational expansion. While conducting the action plans, RENGO required industrial federations to thoroughly inform each affiliated union that the unionization of workers at the same workplace, such as part-timers, dispatched workers, or term-contracted workers is the sole responsibility of unit enterprise unions. However, it did not bring the intended results. In this regard, RENGO admitted the limitations of unionization led by industrial federations. And RENGO required each Local to strengthen its activity with each local council (*chihō kyōgikai*) as its center. Meanwhile, RENGO established the 'non-regular worker center' on its own in 2007, thereby embarking on unionization. This illustrates that unionization was a difficult task for enterprise unions. On the contrary, RENGO itself should have been in charge of unionization.

## 2. The Gap in Action Policies between RENGO and Enterprise Unions

Details about the gap in action policies between RENGO and enterprise unions are as follows: RENGO's 2010 and 2011 action policies are described below (Rengō 2009). RENGO's action policies clearly show RENGO's intentions to maintain fairness in the society and to leverage its influence on society by designing sustainable policies and a sustainable system on the one hand, while promoting solidarity with related organizations on the other.

*Let Us Build a Society with Hope and Security Through Solidarity with All Working People!*

- Deploying a socially-influential labor movement through expanding organizations, restructuring collective industrial relations, and promoting solidarity activities
- *Improving working conditions, organizing and developing the social movement for non-regular workers*
- Efforts for policies and a system which establishes a reliable society based on

*fairness and solidarity*

- Promoting *social horizontality* of working conditions, expanding safety nets, and establishing work rules
- Promoting equal participation toward the realization of gender equality and equal treatment for women and men
- Strengthening political programs for the realization of policies advocated by RENGO
- Enhancement of global activities for realizing fair and sustainable globalization (emphasis added)

Meanwhile, the action policies for 2010 of the union of Company A, an automaker for this paper's case study, are shown below (A-sha Kumiai 2010).

*Let Us Build a Promising Future Together!*

- Fostering an attractive enterprise and workplace
  - A) Consistent labor-management communication *for further growth of the company*
  - B) Efforts for comprehensive lifestyle improvement
  - C) Building safe workplaces
- Promoting welfare
- Policy reforms
- Building a vibrant workplace and union (emphasis added)

Enterprise labor unions like the labor union of Company A put the most emphasis on “consistent labor-management communication” for “further growth of the company.” A case in point of labor-management communication is shown below.

Fluctuation in production was considerable in the first and second half of 2009, as it had been in 2008, and various production strategies were proposed. We discussed how to improve the current status and confirmed various sales strategies, production leveling, and stable production operation. We confirmed a keen interest in mass production of global compact vehicles, electric vehicles, and hybrid electric vehicles inside and outside of the enterprise as well as the advancement of mass production through a seamless, stable system. (A-sha Kumiai 2010)

This shows how much Japanese enterprise unions engage in the process of maintaining and improving production and sales.

**Table 1.** Shift in Action Policies of RENGO and the Union of Company A

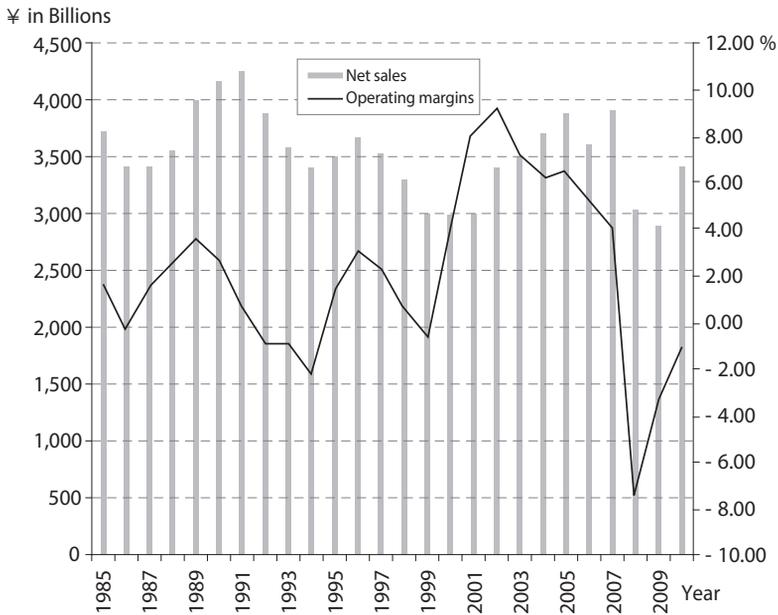
Period	The Main Goal of RENGO	The Main Goal of the Union of Company A
The Early 1990s	Realizing a prosperous and comfortable society	Fostering attractive workplaces by reducing working hours and improving the company's fundamentals
The Late 1990s	Securing employment and improving working conditions of SMEs	Strengthening labor-management consultation to improve the company's fundamentals
The Early 2000s	Launching the social labor movement to restore confidence	Labor-management consultation for further growth and sustainable profitability
The Late 2000s	Promoting solidarity among all workers, including non-regular workers	Reviewing management for healthy growth and giving recommendations for improvement

Source | Compiled by author based on Rengō, *Teiki taikai giansho* and A-sha Kumiai, *Taikai giansho*, each year.

### 3. A Widening Gap over Time

What is notable is that the gap between RENGO and the labor union of Company A has been widening over time. Table 1 shows the action policies of RENGO and the union of Company A in the 1990s and 2000s. In the early 1990s, the main goal of both RENGO and the union of Company A was to secure time to spare and to reduce working hours. This means that there was a consensus in the labor union movement about transforming the existing 'enterprise-centered society' into a 'worker-centered society.' But, recognizing the prolonged economic recession, RENGO focused on employment and SME-related issues in the late 1990s. In contrast, the top priority of Company A's union was to improve the company's fundamentals. Since then, the gap between RENGO and the union of Company A has widened.

Since 2000, RENGO has prepared to wage a social labor movement, realizing that it should overcome the weaknesses of enterprise unions and that labor movements focusing on non-regular workers, including part-time workers, are needed to escape from the crisis of labor movements. In contrast, the union of Company A put forward the slogan of "Enterprise with continuous profit." Therefore, the gap between RENGO and the union of Company A has been



Source | A-sha, *Yūka shōken hōkokusho*, each year.

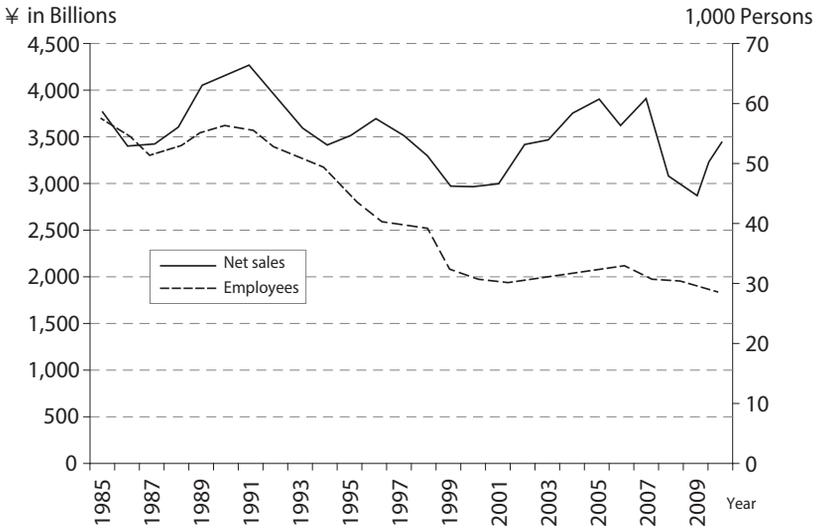
**Figure 6.** Net Sales and Operating Margins of Company A

growing. In the late 2000s, RENGO promoted solidarity among all workers, focusing on fairness and equal treatment. But the union of Company A continuously insisted on ‘healthy growth for the enterprise.’ Despite RENGO’s recommendation that the equal pay for equal work leads to solidarity, other enterprise unions, except those of supermarkets, did not change their stance. Then what situation were enterprise unions in? And how are they dealing with the situation? What follows is an in-depth case study analysis on Company A.

## Employment Management and Wage Management of Company A

### 1. Response to Globalization

Established in 1933, Company A, an automaker, now has 605.8 billion yen in capital and about 30,000 employees. When the bubble burst in the 1990s, the company experienced a management crisis, but performance has improved since 1999 when Company A formed partnerships with a foreign enterprise.



Source | A-sha, *Yūka shōken hōkokusho*, each year.

**Figure 7.** Net Sales and the Number of Employees of Company A

Figure 6 shows Company A's net sales and operating margins. Net sales peaked in 1991 and dropped rapidly until 2000, but then the sales soared until 2007. Operating margins were in the red between 1992 and 1994, but temporarily improved until it showed a loss again in 1999. The margins picked up until 2007, turning a greater profit. Fluctuations since 2008 reflect the impact of the global financial crisis.

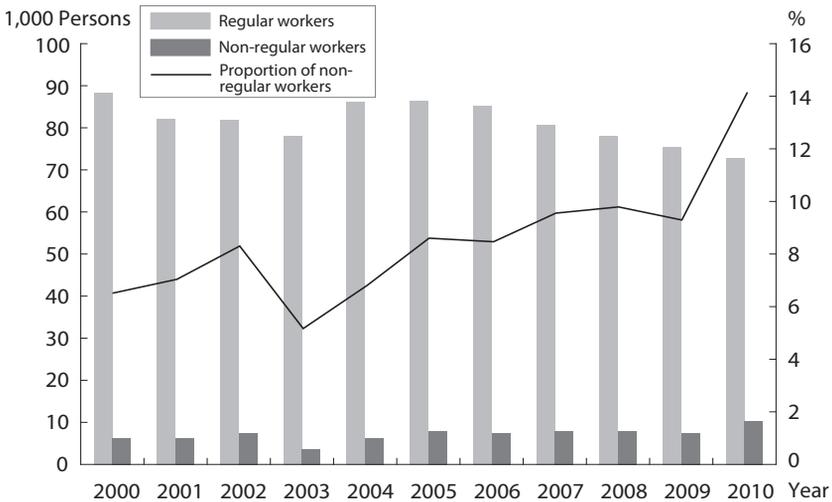
Company A was able to improve corporate performance thanks to its proactive response to globalization. First of all, production and sales have risen in overseas markets. Local production and sales in the major North American market surged, as well as in China. As a result, the number of employees of Asian enterprises that are part of the same consolidated accounting group as Company A exceeded 40,000 in 2004, surpassing that of North America and Europe which stood at 30,000 and 10,000, respectively. Second, Company A carried out a thorough cost-cutting program. The existing seven factories and 16 production lines were integrated into four factories and 10 production lines through renovation in 1999. Along with business restructuring, target costing<sup>14</sup>

14. 'Target costing' is to plan product development costs and production costs before the manufacturing process and to make sure the plan is fully implemented in the development and manufacturing process. For further details, refer to Ishida, Tomita, and Mitani (2009).

and exhaustive purchase management for cost-cutting<sup>15</sup> were systemically conducted.

## 2. Employment Management

The expansion of production and sales in global markets, along with cost-cutting, has led to a particular employment management practice—hiring more non-regular workers and not hiring regular workers. Figure 7 shows net sales and the number of employees of Company A. The relationship between the solid and dotted line of figure 7 before and after 2000 changed. Between 1991 and 2000, both net sales and the number of employees fell. In fact, the number of employees decreased from 56,000 in 1991 to 31,000 in 2000. What matters is that from 2000 to 2007, net sales surged while the number of employees remained unchanged during the same period. During this period, Company A hired almost no employees and filled the employment vacuum with 4,000 to 6,000 non-regular workers, such as dispatched workers. Company A responded



Source | A-sha, *Yūka shōken hōkokusho*, each year.

**Figure 8.** Company A's Domestic Consolidated Regular Workers and Non-regular Workers

15. For instance, Company A started Company A Revival Plan (ARP) in 1999, aiming at reducing 20 percent of purchase costs for the next three years. For the background and implications of ARP, Ghosn and Ris (2005).

to globalization with this strengthened employment management.

What we need to consider is that since the 2000s, Japanese enterprises have downsized themselves by actively utilizing consolidated subsidiaries. In 2002, automakers such as Toyota, Nissan, and Honda had almost four times as many employees in subsidiaries than in parent companies. In 2010, the number of employees of each automaker's subsidiaries was 7, 5.5, and 4.5 times more than that of parent companies (each company, *Yūka shōken hōkokusho*). It indicates that parent companies did not hire employees, while subsidiaries hired relatively more, thus widening the gap in the working conditions within the automobile industry.<sup>16</sup> However, the number of workers in the industry would remain the same or rise if the number of newly hired employees increases, even though they work for subsidiaries. But the problem is that this might be not the case.

Take figure 8. It illustrates Company A's domestic consolidated regular and non-regular employment. Since the 2000s, the number of consolidated regular workers has fallen. Meanwhile, the proportion of non-regular workers has gradually increased to 14 percent in 2010. But it only shows directly-employed non-regular workers. Therefore the percentage would increase when taking into account indirectly-employed dispatched workers. In conclusion, Company A is losing its job creation capability, even including domestic consolidated workers.

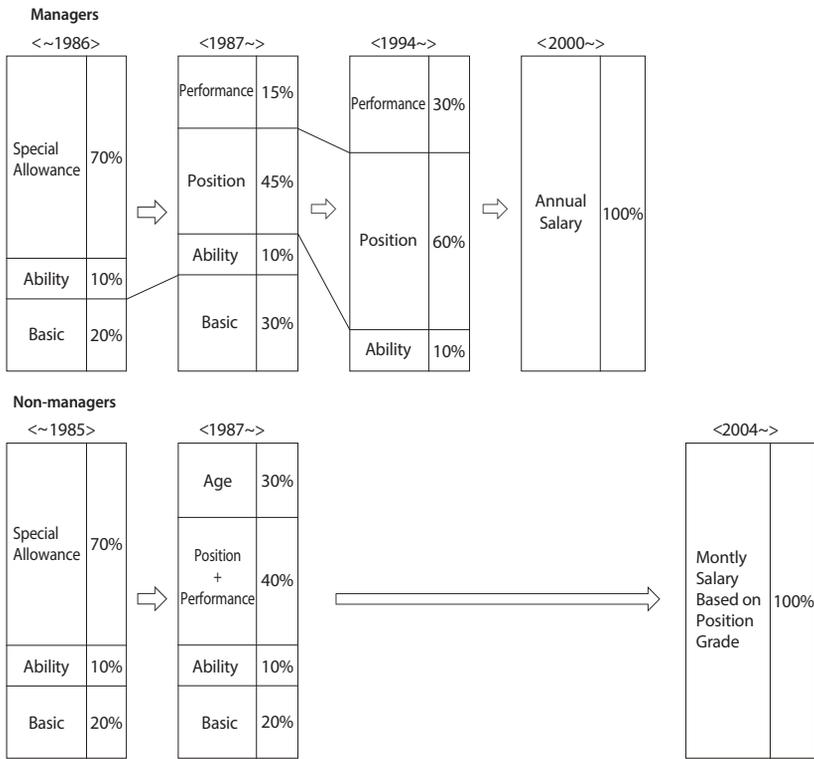
### 3. Wage Management

Company A enhanced its performance-based wage management for regular workers while avoiding hiring them.<sup>17</sup> Figure 9 shows the transformation from a seniority-based wage system to a performance-based wage system of Company A. This system was applied to managers in the late 1980s, and the system's coverage has widely expanded to other positions since the 2000s. Since 2000, the 'annual salary' system has been applied to managers, and non-managers have earned wages under the 'monthly salary' system based on 'position grade' since 2004. It means that wages are paid in accordance with employees' roles and performances, not by age or years of service which were reflected in the point of 'basic' or 'special allowances' of the previous system. The union of Company A accepted the new wage system. Yet the union demands that the management continuously strive to help employees enhance their competency, which is needed for higher performance.

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16. In the automobile industry, workers at parts suppliers with less than 100 employees earn just 60 percent of their counterparts at automakers (Jidōsha Sōren 2011).

17. For a detail development process, refer to Woo Jong-Won (2010b).

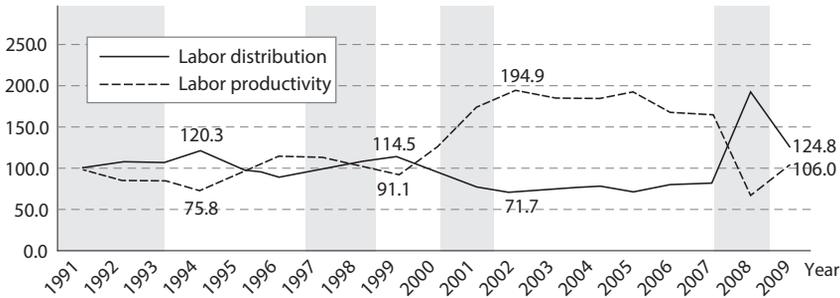


Source | Woo Jong-Won (2010b, 167).

**Figure 9.** Introduction of Performance-Based Wage System to Company A

A strengthened performance-based wage system impacted the wage structure and the wage level of employees. First, the slant of the age-wage profile became flat as intended. Importantly, the wage level of employees in their 50s used to be the highest, but the level relatively decreased. Company A also separated the treatment of managers from that of union members and made progress in individualizing the managers' treatment. This affected the average age-wage profile, including that of non-managers, to become more flat. However, employees had complaints about the transparency of evaluation standards and whether standards were properly applied.

What is noteworthy is that despite the individualization of treatment, the wage of rank-and-file members of the union, a majority of the union, remained 'collective.' In fact, the age-wage profile of employees in their early 40s remained



Source | A-sha, *Yūka shōken hōkokusho*, each year.

Figure 10. Company A's Labor Productivity and Labor Distribution Rate (1991=100)

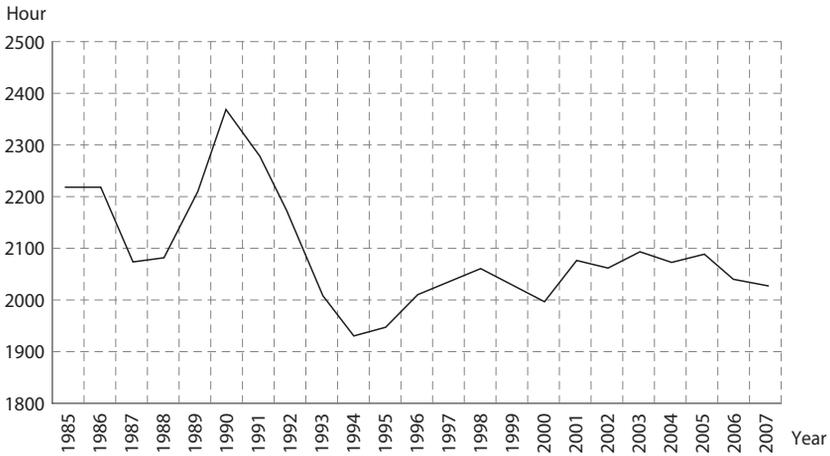
systematically the same in practice, and the gap between employees is not huge because the union recognizes that ‘collectivity’ is the foundation for maintaining teamwork in the workplace (Zen Nihon Kinzoku Sangyō Rōdō Kumiai Kyōgikai, each year). In this way, the union retained solidarity among regular workers of the union, thus protecting the basic interests of its members.

However, it is true that the distribution function of enterprise unions has weakened. Figure 10 illustrates Company A's labor productivity and labor distribution rate since 1991. It shows a growing gap between labor productivity and distribution rate since 2000. Compared to 1991, labor productivity has gone up almost two-fold, but the labor distribution rate stood at around 70 percent during the 2000s. It implies that the basic principle—“boost productivity through labor-management cooperation and fairly distribute the benefits of improved productivity”—that has supported the Japanese labor-management relationship did not properly work.

## Worksite Capabilities

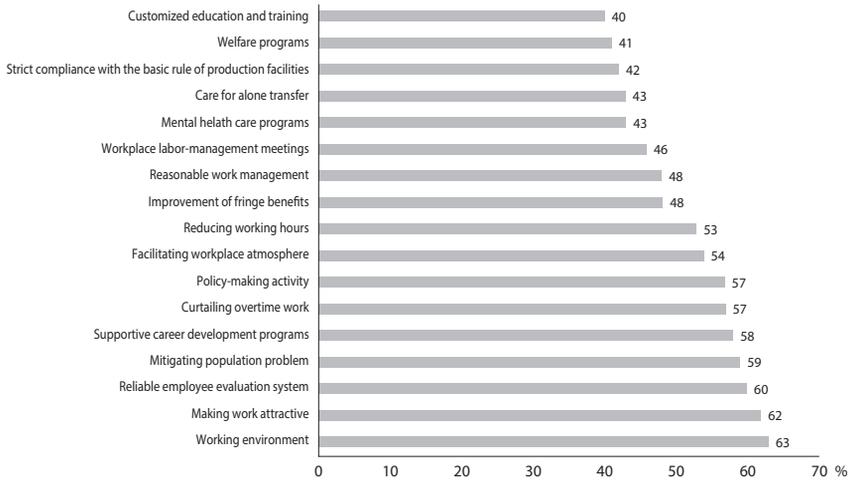
### 1. Loss of Time to Spare

The strengthened employment and wage management impacted worksite capabilities that had been the basis of Japanese manufacturing. The definition of ‘worksite capabilities’ might vary, but in this paper, it is defined as “worksites’ capabilities to continue to perform *kaizen* (improvement).” The recent corporate behavior has multifaceted effects on worksite capabilities. For instance, the introduction of the performance-based wage system, with strict task management



Source | Zen Nihon Kinzoku Sangyō Rōdō Kumiai Kyōgikai, *IMF-JC kamei kaku kumiai rōdō sho jōken ichiran*, each year.

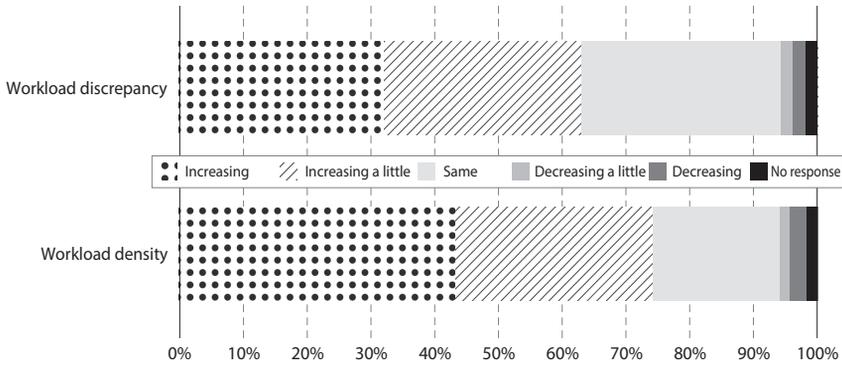
Figure 11. The Actual Working Hours of Company A



Source | A-sha Kumiai (2006).

Figure 12. Survey Result on “What Should the Union Improve?”

that covers even the lowest level of the corporation, is contributing to the creation of even more effective worksites. In reality, however, the strengthened employment and wage management have had negative impacts on worksite



Source | A-sha Kumiai (2010).

**Figure 13.** Survey Result on Work Density and Workload Discrepancy

capabilities across the board. The first negative impact is reduced time to spare, due to the rise in non-regular workers in the midst of employment curtailment. Further details are as follows.

Figure 11 shows the actual working hours of Company A. The actual working hours hit the highest level at 2,368 hours in 1990. But since then it dramatically dropped during the early 1990s and recorded 1,935 hours in 1994. The reason behind the drop was an amendment to the Labor Standards Law. The law was amended in 1988, by which enterprises had to gradually reduce working hours to 40 hours a week to comply with the revised law. However, since the mid-90s, working hours have risen. In the 2000s, exports bounced back, and the actual working hours came close to 2,100 hours. The Confederation of Japan Automobile Workers Unions (JAW), an industrial federation, pushed for 1,800 working hours. The Union of Company A also called for shorter working hours, but the union could not achieve what they wanted.

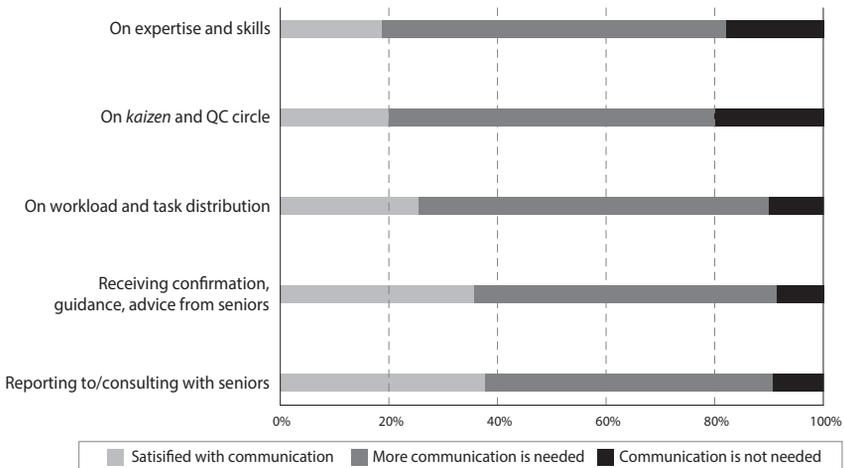
Under these circumstances, the lack of spare time became the biggest issue. Figure 12 is the result of a survey that asked union members about what the union should improve. What union members wanted the union to improve were as follows: HR related matters including ‘reliable employee evaluation system,’ and ‘supportive career development programs,’ as well as issues related to working environment and working hours including ‘working environment,’ ‘making work attractive,’ and ‘curtailing overtime work.’

Indeed, the increase in the number of non-regular workers despite the decline in the overall number of workers led to high work density and a large workload discrepancy. Figure 13 shows the result of a survey of union members

on work density and workload discrepancy. Union members indicating an increase in workload discrepancy and workload density were 60 percent and 70 percent, respectively.

Meanwhile, workers experienced even greater mental stress. For example, the number of mental health counseling cases reported to the union of Company A rose from 600 in 2001 to 900 in 2004 (A-sha Kumiai 2005). The union pointed out that the lack of communication in the workplace and heavy workload were the main causes of the increase. On human resource management, 70 percent of the union members answered that “the pressure of meeting the performance target is heavy” (A-sha Kumiai 2007). It shows that the strengthened employment and wage management not only expanded physical workload, but also put more psychological stress on workers.

The loss of spare time in the workplace caused supervisors to work in the production line, although they were not supposed to. Rather, the role of the supervisors was to oversee whether the work proceeded as scheduled, to train workers, and to make progress in the *kaizen*. But as mentioned, a high work density and workload discrepancy led to the supervisors’ involvement in the production line to fill the vacuum. The supervisors ended up spending half of their working hours in the line. As a result, the union called on the labor and management to “improve the workplace environment so the supervisors could fully focus on their work” (A-sha Kumiai 2010). This implies that the strengthened



Source | A-sha Kumiai (2006).

Figure 14. Survey Result on Senior-Subordinate Communication

employment and wage management weakened the worksite capabilities.

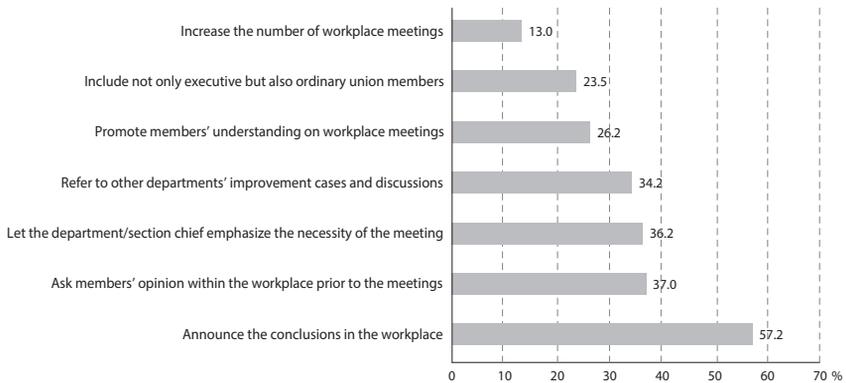
## 2. Weakened Communication

The second negative impact from management changes on the worksites is weakened communication. This weakened communication is clearly shown in both senior-subordinate and labor-management communication.

Figure 14 shows how satisfied union members were with senior-subordinate communication. In regards to 'reporting to/consulting with seniors' and 'receiving confirmation, guidance, advice from seniors,' those who reported 'more communication is needed' outnumbered those who chose 'satisfied with communication.' For 'on workload and task distribution' and 'on *kaizen* and QC circle,' more members selected 'more communication is needed' than 'satisfied with communication.' Communication related issues are clearly serious enough to weaken the worksite capabilities.

On labor-management communication at the factory workplace, the labor union of Company A strategically promoted the workplace labor-management consultation meetings, placing an importance on the workplace. These meetings are usually held within sections, with the department and section chiefs from the management and the executive members, secretary, and vice secretary of the workplace from the union taking part. At the meetings, the main topics are usually workplace environment issues, such as holidays and installing air conditioning systems. The meetings brought productive outcomes and their frequency rate climbed from 50.7 percent in 2001 to 63.5 percent in 2008 (A-sha Kumiai, *Taikai giansho*, each year). However, what matters is that the meetings were not held annually and rarely took place at some workplaces. The main reasons behind the lack of meetings were fluctuations in the workplace, such as organization restructuring, overseas support and position transfers, and increased overall workload.

What is noteworthy is that the workplace consultation meetings were not as productive as they should be. Details on the content and procedure of the meetings are as follows: First, let's consider the content; three quarters of those surveyed reported that they wanted the consultation meetings to cover issues related to working hours, workload, and holidays (multiple choices possible); by contrast, less than half of the union members chose commuter buses, the parking lot, restrooms and the cafeteria or non-workplace issues such as the air conditioning, lighting, and work space. The result of the survey showed that requests for time related issues were outstanding (A-sha Kumiai 2008). In other words, workers expressed their discontent over the consultation meetings that



Source | A-sha Kumiai (2008).

**Figure 15.** Survey Result on “How to Improve the Workplace Labor-Management Consultation Meetings”

fail to meet workers’ desperate demands for work density, workload, and spare time.

Secondly, regarding the procedure of these meetings, figure 15 shows the result of a survey of union members on “how to improve the workplace labor-management consultation meetings.” As figure 15 shows, 57.2 percent of those surveyed chose “announce the conclusions in the workplace” (multiple choices possible). This means that conclusions from discussions between the chief of department/section and union executives at the worksite were not properly delivered to the rank-and-file union members. Meanwhile, 37 percent of union members chose “ask members’ opinion within the workplace prior to the meetings.” This shows that ordinary union members’ opinions were not properly collected. Overall, the result of the survey implies a weak communication between rank-and-file workers and the management of the workplace as well as between ordinary members and the executives of the union.

## Conclusion: The Paradox of ‘Employees as Important Stakeholders’

With the above analysis, the relationship between globalization and Japanese enterprise unions can be summarized as follows: Japanese firms have responded to globalization not through increasing investment or strengthening innovation, but rather through cost-cutting. This eventually increased the social polarization.

The enterprise union was one of the central pillars of corporate governance. Thus it tolerated such corporate behavior and did not actively try to solve the problem of non-regular workers. However, this behavior by the management and union paradoxically weakened worksite capabilities, which used to be the strength of Japanese firms.

Considering themselves as the company's stakeholders, employees behaved in order to benefit their company. Yet such behavior ultimately undermined their basis. We can call this phenomenon 'the paradox of employees as important stakeholders,' which has the following implications: It is justifiable to criticize the weaknesses of enterprise unions, particularly the selfishness of regular workers from the perspective of workers' solidarity and social fairness, for it is imperative to protect non-regular workers by establishing laws or social systems that generally prohibit discrimination. This view or action, however, is not enough to induce changes in the behavior of enterprise unions. This is because enterprise unions secure another form of legitimacy by protecting the employees' rights and interests, and they show behavioral patterns that adhere to this legitimacy. Therefore, it is necessary to show that 'employees as important stakeholders' are weakening the foundation of worksite capabilities. When this connection becomes clear, there will be a possibility for enterprise unions to change.

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