

Japan's Economic Viability and Labor-Management Relations

By Haruo Shimada

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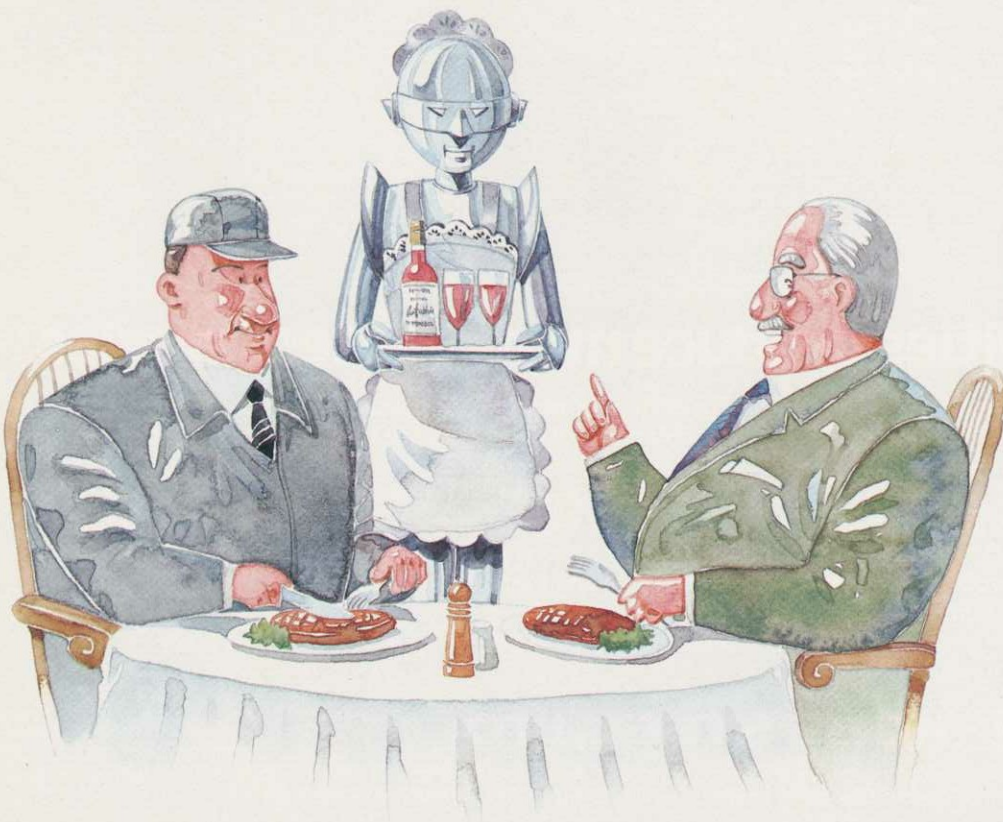
The Japanese economy during the past decade or two has attracted considerable attention from abroad primarily because it has experienced a remarkable productivity increase since the 1960s and demonstrated extraordinary resilience in overcoming the impacts of the oil crises of the 1970s.

Particular attention was focused on Japanese management and industrial relations practices. Japanese-style management, which is heavily impregnated with Japan's culture and traditions, is viewed as the principal source of the nation's industrial success.

In my judgment, however, this popular view misses critical elements in the Japanese experience. In this essay I would like to offer an alternative and more realistic explanation of Japan's industrial success.

Stereotyped image of Japanese labor-management relations

A stereotyped image of Japanese management, so popular and widely shared among foreigners, also exists among the Japanese themselves. According to this view, Japanese management has three unique features: (1) lifetime commitment of workers to the firm, (2) the length-of-service reward system, and (3) enterprise unionism as a partner in the firm. These three features, which one could legitimately describe as integral elements of industrial relations, imply that workers are immobile and committed to their employer in return for that employer's implicit guarantee of employment throughout their working careers, that wages are determined not by skill but by length of





The lifetime commitment of workers to the firm is one major feature of Japan's larger corporations.

service and age, and that unions are docile and cooperative with management.

Also implicit in this image is the notion that Japanese society embodies some anthropological peculiarities that emphasize homogeneity, groupism, harmony, and a consensual nature of the people.¹ In other words, Japanese management and workers are seen as a basically homogeneous group of people within an enterprise who cooperate harmoniously as if they were members of the same family.

This stereotype has been criticized by serious industrial relations scholars² who have pointed out some *facts* about the Japanese employment system—that it is governed not by traditional culture but by market forces,³ that there is ample evidence of elements of conflict in Japanese workshops,⁴ and that the implicit employment guarantee for older and long-service workers is found more typically in American and European firms than in their Japanese counterparts.⁵

Nevertheless, the stereotype persists in spite of all the empirical criticism, and recently it appears to have gained even greater popularity among foreigners as well as the Japanese themselves—but with a new connotation. The new implication is that the recent performance of the Japanese economy is “proof” that Japanese-style management is highly conducive to productivity improvements since it effectively involves and motivates employees to work toward corporate goals by taking advantage of the employees’ commitment to the firm and their harmonious cooperation within work groups.

Responding to current worries over stagnating productivity in Western countries, some even go so far as to propose that Japanese-style management be transplanted and adopted as a new management technique.⁶

Criticism

In my view, this recent assertion that Japanese-style management is the key to Japan’s industrial success has serious defects in terms of both methodology and policy implications.

Methodological deficiencies include the following: (1) the management style of successful firms is misinterpreted as being the *cause* of their success; (2) other, and often independent, factors that contribute to the industrial success of Japanese firms are neglected; (3) the many cases of unsuccessful Japanese business corporations that also have typical Japanese-style management systems are ignored, consequently depriving the observer of an opportunity to identify the real factors that differentiate the successful from the unsuccessful cases; and (4) an understanding of the dynamic evolutionary process of Japanese industries and business is lacking.

Why, then, is this impressionistic view of Japanese management asserted so often, and why has it gained such phenomenal popularity? I suspect that the explanation can be attributed to the absence of well-balanced and comprehensive information on relevant aspects of the total complex of the Japanese industrial relations system.⁷ While much has been written on labor-management relations in large, successful private firms, very little is known about the public sector, female workers, or small firms, for example—nor have these areas even been investigated.

Another serious deficiency is the paucity of information on, and the lack of an adequate understanding of, the historical and dynamic process of development, particularly during the 1950s, when a sense of crisis gripped the nation and efforts were concentrated on constructing an economic and technological foundation which generated subsequent industrial growth. A discussion that sheds some

light on this phase alone could suggest an alternative interpretation of the causes of Japan’s industrial success and a radically different policy implication. Let me now proceed to elaborate on this subject.

An alternative explanation of Japan’s industrial success

Emphasis on quality goods

The most important and promising tactic conceived by industry managements and policy-makers under the prevailing conditions of economic hardship in the early 1950s was to improve the quality of Japanese products. Production of high-quality goods at low cost was thought to be the key to winning in the international competition, and corporations thoroughly and systematically mobilized both their human and their physical resources to work toward achieving this goal.

They pursued it by introducing foreign technological and managerial know-how, on the one hand, and, on the other, by investing in new capital equipment in order to make the best use of the technological innovations. In this process of technology transfer, Japanese industries introduced a number of useful innovations of their own which helped to adapt the new technologies to actual production processes so that they would work most effectively under local conditions. An example of this adaptation is the efficient parts-supply system, now widely practiced by Japanese auto makers, with its minimum inventories and many tiers of suppliers. The development of a system

such as this may be considered a notable advance in social engineering.

Fostering new labor-management relations

To involve and motivate workers in the effort to achieve Japan's "economic independence," the corporations needed the understanding and cooperation of the unions. Up until the mid-1950s, labor-management relations were far from peaceful and harmonious, as the popular stereotype of Japan's industrial relations implies. Unlike today, annual man-days lost per 10 employees were 4.6 for the late 1940s and 4.5 for the first half of the 1950s, figures roughly comparable to the American experience of the 1970s.⁸

During the hyperinflation and economic disorder in the years following World War II, the unions, which had emerged spontaneously in most large- and medium-sized enterprises, frequently resorted to violent strikes and even attempted to implement worker control of production in their efforts to further the economic welfare of their members. *Sanbetsu-Kaigi* (Congress of Industrial Unions), organized in 1946 on the initiative of communist leaders, quickly became the instigator of radical disputes in various sectors of the economy, and over the next several years almost every major industry was involved in bitter strikes.⁹

Beginning about the mid-1950s, however, the tide began to turn. Both at the level of individual firms or plants and the national labor federation level, "economic" unionism, with realistic and reasonable platforms, became increasingly more popular than "political" unionism, with its radical and revolutionary slogans. This process of change was neither smooth nor easy. It may be viewed as the eventual outcome of repeated experiences with prolonged labor disputes, strike defeats, union splits, and internal union struggles during a stagnant and difficult phase of the economy.

Some labor scholars have described this process as merely the political battles among labor leaders, the defeat of post-war "independent" unionism, or the

emergence of union "racketeers" aided by management. However, it is difficult to conceive that unionism as a mass movement could be easily realigned only by the political maneuvers of a handful of union leaders or by the manipulations of companies. A more plausible explanation is that the redirection was largely a spontaneous choice of the working mass responding to the perceived economic crisis. Capturing sensitively this increasingly popular sentiment among workers, young and alert leaders formulated a new model of unionism, and to the extent that the new model was compatible with the interests of management, management backed the unions and worked with them in fostering a new kind of labor-management relationship.

In other words, cooperative labor-management relations were not bestowed upon Japanese corporations from the beginning; rather, they were constructed deliberately, and at considerable cost, through the interactions of some union leaders and management in the limited segments of industries who responded to and took advantage of the revealed choice of the workers.

Development of information-sharing systems

The new labor-management relationships thus constructed now provided a highly functional basis on which to build an elaborate fabric of information exchange and sharing, not only between management and labor but also among the workers themselves.

Let me mention three notable components: (1) a *joint consultation system*, which operates as an effective channel of information exchange between management and labor on a wide range of issues affecting business activities and workers' interests; (2) an *enriched role of first-line supervisors*, who act as effective pivot points in the information flow thanks to their dual function as both the lowest level of management and the most experienced leaders in the workshop; and (3) the *small-group activities* within the workshop, such as the well-known QC circles,

which operate as the basic unit of information-sharing among workers as well as performing their primary function of improving product quality.

It should be borne in mind that the well-structured internal labor markets of Japanese corporations have been highly instrumental in making these organizational devices operate effectively. In such labor markets, since skills are developed largely through internal training and experience encompassing a broad range of different, yet related, jobs, workers tend to learn and understand more than they otherwise might about the relationship of their jobs to other aspects of the complex corporate organization and activities.

This pattern of internal labor markets originated in the early phase of Japanese industrialization within a limited segment of Japanese industry and was diffused widely among major firms during the inter-war period, around the 1930s. However, it should also be emphasized that many of the organizational arrangements mentioned here were introduced and developed during the 1950s and were effective in mobilizing the existing stock of human and physical resources to revitalize the Japanese economy out of the wreckage of the war.

This information-sharing network, containing these and other organization arrangements, has been indispensable in mobilizing and motivating employees toward the achievement of chosen corporate goals. As mentioned above, most of these arrangements were introduced and developed during the 1950s, as the parties took advantage of the new labor-management relations climate.

Industrial structure and industrial policies

Finally, let me call attention to a very important, yet often overlooked, factor that contributed substantially to increasing the productivity of Japanese industries—that is, the industrial structure of the economy with its unusually large and well-developed sector of intermediate-input industries such as steel. Taking full advantage of economies of scale, these indus-

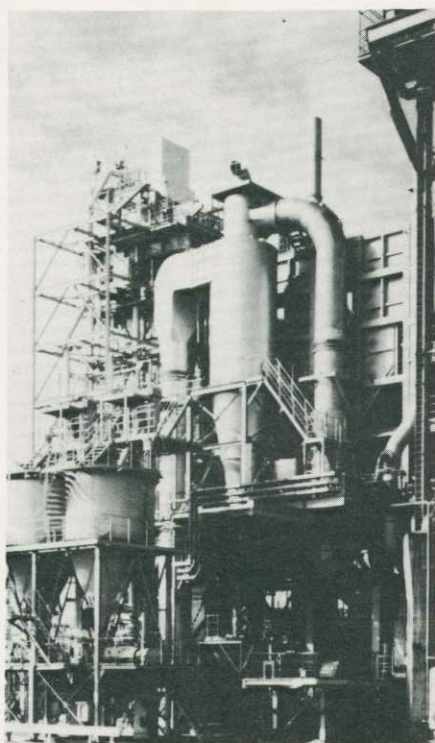
tries produced cheap and high-quality basic inputs which, in turn, reduced material costs for other industries, enabling them to increase productivity.

Moreover, the oligopolistic, yet strongly competitive, organization of individual industries has also helped low and competitive product prices to materialize. Here, again, the basic patterns of industrial structure and organization were constructed during the 1950s, aided by the government's industrial policies.

Conclusion and future prospects

The Japanese postwar industrial success is largely the result of the operation of the basic social, economic, and engineering systems of industrial production which were constructed in the 1950s and developed further in the 1960s. We should not, of course, underestimate the basic stock of human and physical capital resources and the level of industrial technology that Japan had already accumulated before the war. However, it is undeniable that strategic choices and intentional efforts which the actors in industrial relations systems pursued during the postwar reconstruction period were critical in mobilizing and activating such resources toward vigorous industrial growth. The peaceful and harmonious industrial relations that have attracted the attention of foreigners rest on the successful performance of such remarkable systems.

The single most important lessons we could extract from the Japanese experience, and one which is perhaps universally valid, is the effective development and utilization of human capital in corporate organizations, particularly human resource management strategies which include at least the following three elements: (a) systems for acquiring skills through both systematic training programs and continuous on-the-job training; (b) flexible allocation and reallocation of human resources through various forms of transfers across job lines; and (c) securing the workers' understanding of



Efforts were concentrated in Japan during the 1950s toward building strong economic and technological foundations.

the constraints and priorities of corporate operations through joint problem solving between management and unions.

To the extent that success has been achieved by intentional efforts to construct an appropriate industrial system, at a particular historical phase, the same success will not necessarily be guaranteed automatically for the future. Indeed, since the mid-1970s basic material industries such as petrochemical, aluminum, and various chemical industries have been suffering hardships from changes in external conditions. And even the so-far relatively successful industries such as auto and electronics, which have now acquired a large share of the world market, will not be able to operate without taking into account more seriously their impacts on and repercussions from affected countries. Domestically, there are growing problems and symptoms, such as the rapid aging of the labor force, large government deficits, increased friction and mismatches in the labor force.

Factors which had supported vigorous industrial growth in the past have gone or at least are giving way to new elements. While surrounded by intensifying difficulties, however, there are new possibilities unfolding. The gravity of the economy is shifting rapidly away from basic material processing toward knowledge and service intensive activities. Waves of technology development and the increased education of the labor force provide basic conditions to materialize such changes. Internationally, outflows of capital, tech-

nology and human resources from Japan are increasing markedly as the degree of international interdependence of the Japanese economy increases.

Whether the Japanese "industrial success" will become a story of the past or continue to be maintained in the future depends on whether Japanese society can employ another set of new and appropriate strategies to adapt its structure viably to these increasingly visible external as well as domestic challenges. ●

Notes:

¹ A typical conceptualization of such cultural peculiarities of Japanese society may be found in Chie Nakane, *Japanese Society* (University of California Press, Berkeley, 1970).

² A pioneering work that opened the door for subsequent empirical research was Solomon B. Levine, *Industrial Relations in Postwar Japan* (University of Illinois Press, Urbana, 1958).

³ Koji Taira, *Economic Development and Labor Markets in Japan* (Columbia University Press, New York, 1970).

⁴ Robert E. Cole, *Japanese Blue Collar* (University of California Press, Berkeley, 1971).

⁵ Kazuo Koike, "Internal Labor Markets: Workers in Large Firms," in *Contemporary Industrial Relations in Japan*, ed. Taishiro Shirai (University of Wisconsin Press, Madison, 1983).

⁶ For example, see William Ouchi, *Theory Z* (Addison-Wesley, Reading, Mass., 1981) and Richard T. Pascal and Anthony G. Athos, *The Art of Japanese Management: Applications for American Executives* (Simon and Shuster, New York, 1981).

⁷ Shirai, T. et al. *Contemporary Industrial Relations in Japan* attempts to provide a comprehensive treatment of the total complex of Japanese industrial relations, covering in particular the aspects relatively ignored in past research.

⁸ In the 1970s, average annual man-days lost per 10 employees in Japan was 1.1, in contrast to 5.1 for the U.S., 2.0 for France, and 0.5 for West Germany.

⁹ Some of the notable examples include the 56-day strike of Toshiba unions and strikes in the power industry in 1946; a widely publicized attempt at a general strike led chiefly by public-sector workers in 1947; a large-scale strike of postal workers in 1947; antidismisal disputes and strikes by the Hitachi union and by the National Railway workers in the late 1940s; a 63-day strike of coal miners; a power industry strike in 1952; steel workers' strikes in 1954, etc.