

# The Wages Of Success

By Takayoshi Hamano

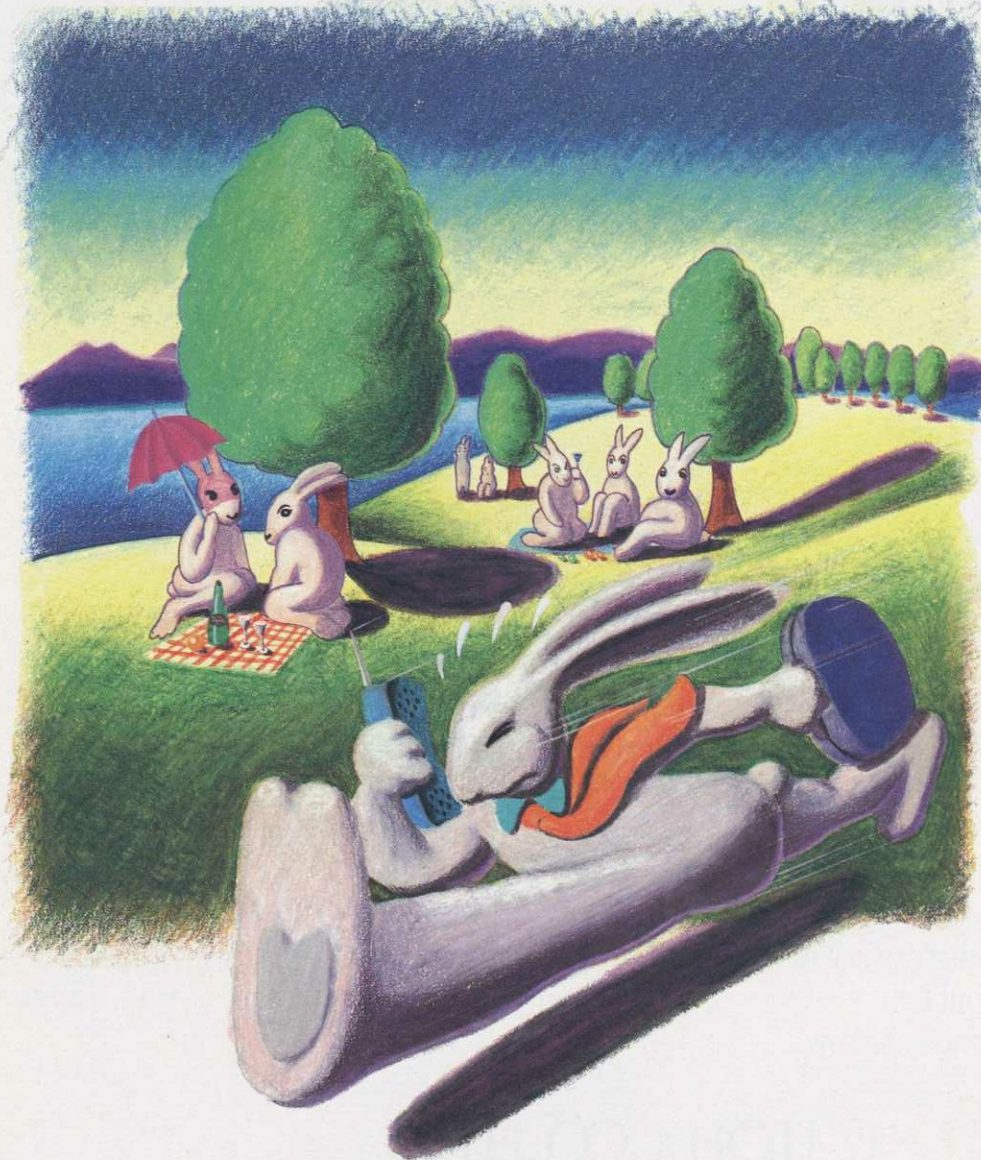
The new year has seen a new surge of calls for Japanese management to be rethought and restructured. Although we are still in mid-debate, it is worth noting that much of the initiative for this introspection has come from a desire to alleviate the friction with the United States and Europe and that the debate has had wide-ranging ramifications—affecting not only wage structures but also Prime Minister Kiichi Miyazawa's call to make Japan "a great place to live" (which was literally making Japan a "lifestyle power" by ensuring that Japan's being an economic power improved the quality of ordinary Japanese life and thus may have a somewhat different ring in English from what it had in Japanese), how the company can best be managed in recessionary times, and even macroeconomic policy.

## First stirrings

The discussion had been simmering for some time, but it was brought into the forefront of public attention with Sony Chairman Akio Morita's article "A Critical Moment for Japanese Management?" in the February *Bungei Shunju*. Drawing on his experiences as a member of the team from Keidanren (Federation of Economic Organizations) that visited Europe in November 1991, Morita noted that Japanese management, which has long been dedicated to producing high-quality products at reasonable prices, is under attack in Europe (and the United States) for "playing by different rules" and being irredeemably different.

From this, Morita goes on to say that, "Japanese-style management has been important in strengthening Japanese companies, but at the same time there has been a tendency to pay less attention to the ideal of ensuring that the company's profits accrue to employees, shareholders and local communities."

Among the neglected aspects, he says, is that Japanese employees have not benefited from their company's growth as





much as European and American workers have in terms of shorter working hours and higher wage levels. Likewise with shareholders, where the dividends given by Japanese companies are sharply lower than those of American or European companies. And on relations with other companies, Morita says it sometimes happens that the manufacturer of the final product puts pressure on parts manufacturers and subcontractors to accept painfully disadvantageous terms. Finally, he asserts that Japanese companies are not contributing actively to local community life.

As might be expected, this Morita thesis has come under fire to a fair degree itself—"Morita's just figuring this out? We've known that for a long time," and "If he thinks there are changes that should be made, why doesn't he start with Sony?" among them. Responding to the idea that Sony should set the pace, Morita contends that any company trying to take the lead in implementing these policies alone would soon find itself on the ropes and that very few managers would be willing to get out ahead of Japanese business norms on this. At the same time, however, he contends that improvements are under way and that changes are gradually being made.

While this Morita article does not contain any eye-opening revelations or mind-boggling new ideas, it is still a significant article for its having been written by such a prominent Japanese business leader.

Following publication of his *Bungei Shunju* article, Morita also proposed that work begin on formulating an international management charter setting down basic guidelines for corporate behavior (including wage structures and working hours) in Japan, Europe and the United States.

If such a management charter could be formulated, he says, companies that failed to meet its standards and that maintained irredeemably different practices would be barred from international trade and would thus not exacerbate the friction among trading partners. In a way, such a management charter would be akin to the capital adequacy require-

ments that the Bank for International Settlements (BIS) has set for international banks—requirements that were triggered at least in part by the Japanese banks' strong international showing.

Yet trade is a much broader field than banking is, and the vast numbers of companies involved will make it all the harder to come up with any generally acceptable set of rules for this management charter.

## Wages and working hours

With the annual spring contract negotiations about to start, labor unions quickly seized on Morita's thesis as support for their own demands for bigger paychecks and shorter working hours. While this is not the place for a detailed review of the ongoing argument, it is worth noting that the unions are arguing that labor's share has to be raised, as Morita says, if labor is to get a fairer share of the company's profits and if living standards are to rise. On the other side of the table, Nikkeiren (Japan Federation of Employers' Associations) President Takeshi Nagano has come out in total opposition to the Morita thesis—so much so that Keidanren Chairman Gaishi Hiraiwa has intervened to make peace between the two business leaders.

Given that national income by distributive shares is composed of the three categories of employment income, asset income and corporate income, Nikkeiren's fear is that raising labor's share may depress asset income and corporate income, making it more difficult for companies to continue improving their capital assets, deterring capital investment, and hence undercutting economic growth. With lower capital investment levels, productivity increases would slow and it would be more difficult to provide for shorter working hours or to maintain a strong pace of wage increases.

This whole argument, of course, is too important to be seen simply in terms of its ramifications for this spring's contract negotiations, and Morita and Nagano have quickly stopped taking potshots at each other. Yet the cease-fire between them should not be taken as meaning

A poster created for Matsushita Electric, which aims at reducing the working year to 1,800 hours by the end of fiscal 1993.

that the question has been settled. Nor, for that matter, has the question of how Japan is irredeemably different and what should be done about it.

Compared with the fledgling discussion of pay levels and profit-sharing, working hours have been in the spotlight for some years and there is at least surface agreement between labor and management on the need to do something in this area.

## Shorter working hours

As far back as 1988, the government announced in a five-year economic plan that it wanted to see the Japanese working year down to 1,800 hours by the end of fiscal 1992 (ending on March 31, 1993). Similarly, Matsushita Electric (a major Japanese consumer electronics manufacturer owning the Panasonic and other brand names) and its union have agreed on working together to reduce the working year to 1,800 hours by the end of fiscal 1993. Back in 1965, when the industry was in recession, Matsushita took the lead in switching to the five-day week. So the company does have a record of leadership in this area—and this record is buttressed by the aura that surrounds the Konosuke Matsushita legend. Not surprisingly, therefore, Pioneer has also embarked on an effort to get down to 1,800 working hours a year and other companies are looking at what they can do.

Yet it is proving more difficult than most people had thought it would to



achieve this 1,800 hours/year target. At Matsushita Electric, the average working year was 2,036 in fiscal 1990, meaning that they will have to reduce this by more than one-tenth. If you assume an eight-hour day, this 236 hours is equivalent to more than a month of work.

Japanese workers currently work longer than workers in the other industrial countries—2,159 hours in Japan compared with 1,957 in the United States, 1,638 in former West Germany, and 1,646 in France (all figures for 1989). As seen, Japanese workers work more than 500 hours longer than their French or German counterparts do.

Since 1989, of course, there has been considerable discussion in Japan about the need for shorter working hours, and the Japanese average was reduced to 2,016 in 1991. Just this year, a bill has even been submitted to the Diet calling for special measures to promote the shortening of working hours. Side by side with this international disparity, there is also a disparity within Japan, as men work 278 hours longer than women do—2,114 hours a year for men compared with 1,836 hours a year for women.

Much of the lower figure for women is accounted for by the fact that many women hold only part-time jobs. In fact, some people have speculated that the

1,800 hours a year target may well be achieved by cutting back on part-time work for women and leaving the men's long hours unchanged. In addition, some companies have adopted zero-overtime days only to see employees taking their work home with them when they are evicted from the office.

It will take a major transformation in Japanese thinking—not only on management's side but also among ordinary workers—before Japanese companies can dispense with overtime.

### Increased costs?

Compounding this problem is the fact that shorter working hours and higher wages are bound to entail higher costs for the company. How are companies facing this prospect in these recessionary times?

One of the elements being discussed in this reexamination of Japanese management practices is the question of whether it might not be possible to lengthen the Japanese product cycle and bring out new-model automobiles, electrical and electronic appliances and other products less frequently. Introducing new models faster does, it is true, make for more competitive products, but it also imposes major strains on the design and development sections and requires a very

flexible production system. Thus lengthening the interval between models would, it is argued, lessen this burden on the company, reduce production costs, and ultimately offset the higher costs of shorter working hours.

Looking at the automobile industry, for example, it is standard for the companies to come out with new-model mass-market compact cars every four years. This is one or two years faster than most overseas automakers. Thus some people within the industry are asking if it might not be possible to lengthen this by one year to five years.

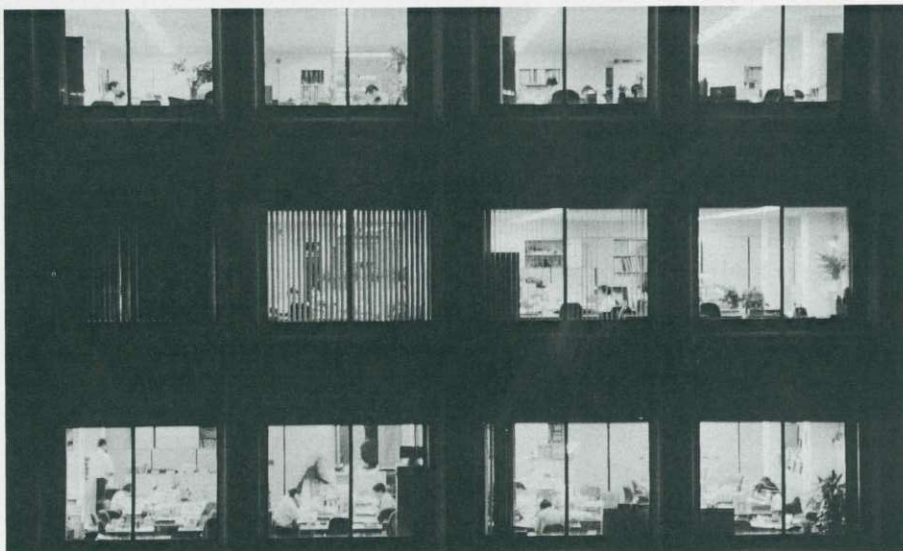
Consumer electronics present an even more extreme picture. Companies come out with new washing machines every 18 months on average. For television sets, the cycle is more like 12 months—and less for the up-market models. New VCRs come out every 11 months. And the rate of innovation in personal word processors is such that today's new models will be old hat in just three months.

This fierce pace of product competition has come to be accepted in industry after industry, and it will take a brave company indeed to break ranks and to slow the pace of new product development. Yet just as one company going it alone runs the risk of falling behind, an industry-wide agreement to hold new products off the market could well run afoul of the Antimonopoly Act.

Even if production costs can be cut by lengthening the product cycle, there is no guarantee that companies will pass that saving along to workers in the form of shorter working hours. It will not be easy to reform Japanese management, nor to ensure that the benefits of these reforms are felt at the level of the ordinary worker.

### Price hikes

The perception has taken hold within Japanese business and the mass media that any effort to restructure Japanese management practices is bound to cost money and that these higher costs will have to be passed along to consumers in the form of higher prices. Yet how are prices to be raised? Most companies seem



In the Otemachi district of Tokyo, offices are lit up late into the evening, a symbol of the dedication to work that has been essential to the success of Japanese companies.





Photo: Kyodo News Service

Office workers streaming out of Tokyo Station on their way to work in the Marunouchi business district of Tokyo. Sony Corp.'s Akio Morita suggests that Japanese employees benefit less from company growth than their European and American counterparts.

to assume that it is safe to raise your prices so long as the competition also raises theirs, but nobody wants to go first because of the fear that the competition will break ranks and opt to pick up market share instead.

What are we to make of this? While the old Japanese management practice of thin margins and massive volume is being called into question, this is no excuse for willy-nilly price hikes. When Japanese companies were faced with the oil crises and the yen's appreciation, they put their thinking caps on, rolled up their sleeves, and managed to hold price increases to a minimum. Surely no one has forgotten these valiant efforts and how they laid the groundwork for today's prosperity.

Companies should make every possible effort to absorb the higher costs entailed in restructuring Japanese management. In automobiles and consumer electronics, for example, they could start by stretching out the product cycle, by using more off-the-shelf parts, and even eliminating some of the almost-infinite options that are offered. There is much that can be done. Only after every other avenue has been exhausted should companies think of raising their prices.

It is instructive here to look at sports as a model for how competition is organized. Many of today's most popular sports were created in Britain in the 19th century. Even baseball, which is regarded as an American game, has its roots in cricket and rounders. During these same years that European and American sports were being elaborated, traditional Japanese sports have stayed simple. There is one class for all, and that is why a small *sumo* wrestler such as Mainoumi draws such a roar of approval when he defeats

one of his bigger opponents. But as seen in boxing, wrestling and even golf, many of the American and European sports create classes and provide for competition among equals. As judo has become an international sport, eight weight classes have been created and separate competitions established for men and women.

While this looks like a digression, I suspect it is indicative of a fundamental difference in how Japanese and European peoples perceive competition—a subtle difference that Japanese companies may have to take into consideration when they compete in the United States and Europe. In effect, all of this discussion about reforming and restructuring Japanese management is really a discussion about equalizing the competition—not about eliminating competition.

## Quality of life

Morita closes his *Bungei Shunju* article by strongly endorsing Prime Minister Miyazawa's call to make Japan a great country to live in and calling this effort crucial to Japan's future. If companies can contribute to making this dream come true, he says, they will have attained greatness.

Perhaps as a result, the restructuring of Japanese management is often discussed in terms of its impact on the quality of Japanese life. For example, when Miyazawa commented on Americans' supposedly deficient work ethic, there were some in the media who questioned his criticizing the American work ethic at a time when the Japanese people are not fully benefiting from Japan's economic growth and nothing is being done to improve the quality of Japanese life.

On the other side, there have also been warnings that a better quality of life can only be achieved through enhancing productivity in the backward sectors, and that it could be dangerously inflationary to raise wage levels before this is done.

Japanese labor productivity is, to be sure, among the world's best when the numbers are converted using current exchange rates, but the picture is somewhat different when the more honest—more honest in the sense that they reflect actual living standards better—purchasing power parity figures are used.

Setting Japan's 1989 labor productivity (defined as GDP per employed worker) index at 100, the Ministry of Labor found that the figure for America was 141, France 120, former West Germany 108 and Britain 105. (German figure for 1988 and British figure for 1987.) All of these countries had better labor productivity than Japan did.

Japanese productivity varies considerably from industry to industry. While it is higher than that of the other industrial countries in utilities and construction, manufacturing is only average, and commerce and agriculture are way behind. As a result, productivity has to be raised in these backward sectors if we are to be able to hold down prices, revitalize the economy, and improve Japanese living standards.

Because many of the sectors where productivity is the lowest are the same sectors that are protected by government regulations or from international competition, it might also be argued that improving Japanese living standards demands abandoning these protectionist regulations and opening Japan's doors to greater competition. Yet that alone is not enough. Japanese living standards can only really be improved if land prices come down and the entire society is transformed away from its company-first orientation and toward a new mindset with the priority on better living.

There is much to do, and it is time to get started. ■

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