Japanese-style Management Threatened

By Morio Murakami

On December 25 last year, Japan's major dailies blared the news that Nippon Steel Corp., the symbol of the nation's industry since the Meiji era, was planning to make large-scale reductions in its work force. NSC had already given some of its workers temporary leave earlier in the year. But the new four-year plan, beginning this fiscal year, calls for shutting down the blast furnaces at Muroran, Kamaishi and Sakai, and slashing the work force by about 20,000, a full 30% of the total.

NSC is not the only major company moving to reduce its payrolls. Layoffs and firings have gained momentum since the middle of last year, and now involve many of the nation's leading enterprises. In the steel industry, all the integrated makers–Nippon Kokan, Sumitomo Metal Industries, Kawasaki Steel and Kobe Steel as well as NSC–are moving to reduce their work forces after earlier putting some employees on temporary leave. According to the Nomura Research Institute, the five makers and their affiliates will have to let go some 100,000 workers over the next four years.

In the shipbuilding industry, Hitachi Zosen is planning to trim its work force to less than one-third the peak number. The company is trying to achieve this by shedding more than 3,000 employees through early retirement, and transferring another 4,000 to a group of new subsidiaries. Ishikawajima-Harima Heavy Industries is set to cut its work force to 17,000, letting go 6,000 through early retirement. Sumitomo Heavy Industries has proposed to pare its payroll by 1,700 employees by the end of March. Mitsubishi Heavy Industries has announced plans to curtail its work force by 3,500, or nearly 10%, by the end of fiscal 1989.

In the textile industry, Toray and Teijin are planning to make 600-man cuts this year and next. Kanebo is aiming to cut more than 200, while Unitika will let go 800, Kurabo Industries 1,000 and Shikibo 100. All these redundant employees will be transferred to subsidiaries.

Payroll reductions are also planned in industries that are not regarded as "structurally depressed." Ikegai Corp., for example, has decided to slash the number of its employees by 10%. Hitachi Seiki will let go 100–150 employees. Tsugami Corp. is set to remove 100 from its payroll. All these workers will either choose early retirement or be transferred to subsidiaries and affiliates.

In the electric industry, Toyo Denki Seizo has decided to trim 150 employees. Sansui Electric, Akai Electric and Aiwa are considering similar steps. Major producers such as Hitachi, Mitsubishi Electric, Fuji Electric and Toshiba are moving to put some of their employees on temporary leave for the first time in 12 years. If any one of them decides to actually cut its work force, the others will likely follow suit.

In the auto industry, Isuzu Motors is moving to farm out 500–600 employees to subsidiaries and affiliates. Nissan Motor is to send 5,000 employees to sales companies and dealers. Nissan Diesel Motor is expected to move 100 persons to new subsidiaries. And Hino Motors is likely to dispatch 130 to Toyota Motor.

In the chemical industry, Ube Industries is seeking the early retirement of 700 employees by the end of March and an additional 630 by the end of this fiscal year. The company is also moving to farm out or reassign another 1,000 by the end of March 1988.

In industries mired in structural recession the situation is much worse. In the coal industry, many of the nation's 23,000 coal miners are expected to be thrown out of work, according to estimates based on the "Eighth Coal Policy" formulated last November.

In the nonferrous metal industry, some aluminum refining factories have been shut down for good, and mines have also been closed. The total aluminum refining work force has dropped by 2,000, leaving only 1,000 still employed. The number of workers in the nonferrous metal industry as a whole has fallen by 3,000 to the 4,000 level.

In the shipping industry, more than 1,500 employees of Japan Line, the bulk of its work force, have been transferred to a different company. Yamashita-Shinnihon Steamship has proposed early retirement for 700 employees, or 36% of its work force. Showa Shipping is planning to let go 400. Mitsui O.S.K. Lines, along with Nippon Yusen, is preparing to launch a selective retirement system designed to ease out land-based employees by adding a large premium to their retirement allowances.

Unemployment Japanese style

The total number of workers in plant-related industries, including engineering, is expected to be reduced by more than 20% over the next few years. In the cement industry, many employees are said to be redundant. They may have to go, depending on how the industry's second capacity reduction program proceeds. There are similar moves under way in the transport, hydraulic machinery, electrode and paperboard industries.

The numbers of redundant employees and redundancy rates for 465 firms listed on the first section of the Tokyo Stock Exchange were calculated by *Diamond Weekly* magazine from their value added (gross operating profits) for their most recent business terms up to March 1986 (Table 1).

An appropriate share of labor costs in value added is 50%. The redundancy rate is obtained by dividing the difference between the optimal and actual labor share of each company by the latter. The redundancy rate is a highly theoretical value that does not necessarily reflect the actual degree of redundancy with perfect precision. Nevertheless, it does provide an overall picture of the situation. Table 1 shows that 15% to 20% or more of the employees of major industries are redundant.

A similar study was made by Daiwa Securities Co. with respect to firms listed in the first section of the TSE. Labor's share for the May 1984–June 1985 business term, when value added peaked, was considered the optimal level. Redundancy rates and the number of redundant workers were calculated from these optimal shares and labor's actual shares for

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the June 1985–May 1986 period, when labor costs rose as value added declined.

According to this study, 98,000 employees in 11 industries, including steel, textiles and shipping, are redundant. In other words, six in every 100 workers are unwanted. Daiwa's redundancy rate is much lower than *Diamond Weekly*'s findings of 18.6%, or 353,212 employees. However, in certain industries the redundancy rate is extremely high–57% (5,723 employees) in the oil industry, for example.

Economic uncertainty is forcing some of Japan's major industries to make drastic employment adjustments.

According to a study announced by the Sanwa Research Institute last November, an estimated 900,000 workers in manufacturing industries are redundant due to the business slump caused by the yen's appreciation since the autumn of 1985. If these workers lose their jobs, says the institute, the unemployment rate will likely reach 4.2%, compared to a rate of 2.8% in November 1986.

The Economic Planning Agency, in its so-called "mini economic white paper" *(The 1986 Economy in Retrospect and the Future Outlook),* estimated that about 300,000 employees in the manufacturing sector, or 4.1% of the work force, were redundant in the July–September 1986 quarter. The EPA survey covered manufacturing enterprises employing 30 or more persons (the total number of employees stood at 7,686,000).

In January–March 1975, immediately after the first oil crisis, a similar EPA survey found an estimated 770,000 people to be redundant, accounting for 13.3% of the total work force. The number dropped to 400,000 (5.9%) in October–December 1982 following the second oil crisis. It is now generally believed that there are more than the 1982 level of surplus workers–more than the number in the latest EPA survey–because the employment situation has worsened since the poll was taken. Whatever the exact number, the fact remains that Japanese companies have a very large number of redundant workers because of changes in the nation's industrial structure and the continuing sharp appreciation of the yen.

Employers have been trying their best to avoid outright firing. Instead, they have adjusted employment in the Japanese way, using reassignment, temporary transfer to subsidiaries, dispatch to other companies and temporary leave. When such measures have been exhausted, the remaining surplus employees are encouraged to take early retirement or selective retirement (voluntary retirement at an earlier age set by management). In both cases, premiums are added to the basic retirement allowance. Companies also help retiring employees find new jobs. These are Japanese ways to cut the work force while causing a minimum of human suffering.

As the business climate continues to deteriorate, however, these traditional methods of getting rid of surplus labor are reaching their limits. The redundancy problem is now spreading to clerical and technical white-collar workers with higher educations.

The Labor Ministry considers surplus employees the "invisible unemployed." A ministry survey published last November, covering companies making employment adjustments involving 100 or more people, put the total number of such "Japanese-style new unemployed" at more than 51,000. The shipbuilding industry had more redundant workers than any other–26,870. Next came the steel industry with 13,500, followed by shipping (2,850), textiles (2,800), nonferrous metals (1,880) and paper and pulp (510). In addition, 3,050 employees were redundant in other industries, including autos and electric machinery.

These figures do not include temporary and short-term employees such as part-time workers, nor does it count surplus employees in the coal industry, ocean-going shipping and small and medium enterprises. If these were added in, the total number of surplus employees would be much greater.

Table 1 Redundant Employees and Redundancy Rates

	Number of companies	Redundancies (persons)	Redundancy rate (%)
Foodstuffs	37	17,727	18.2
Textiles	41	14,696	15.4
Paper/pulp	9	2,587	17.8
Chemicals	47	13,459	15.8
Pharmaceuticals	23	9,767	15.6
Oil, rubber	11	8,246	20.8
Glass, stone	17	7,248	21.3
Steel, nonferrous metals	59	39,496	15.1
Machinery	62	36,405	21.9
Electric appliances	80	103,453	18.5
Transport equipment	46	79,980	20.1
Precision instruments	14	8,926	21.3
Other manufacturing	19	11,262	26.1
Total	465	353,212	18.6

Notes: 1. The survey covers 643 manufacturing companies listed on the first section of the TSE.
2. Survey by *Diamond Weekly.* Redundancy rate calculated from the share of labor cost in value added for the most recent business term.

Impact of overseas siting

Companies that implement employment adjustment measures are entitled to government unemployment allowances called "employment adjustment subsidies." The number of sectors eligible for such payments is now approaching 150, more than three times the number in fiscal 1985. Since June 1984 the number has exceeded 130 for the first time in two and a half years.

The Ministry of International Trade and Industry expects more companies to adjust their employment, and at least one reason is the predicted increase in the number of companies setting up overseas offices and factories. Overseas siting by

Table 2
Increases in Overseas Siting in Processing and Assembly Industries

(%)

	1980–1984 (actual)	1985–1990 (estimates)	1990–2000 (estimates)
Basic materials	12	6	6
Processing and assembly	22	22	19
Total manufacturing	15	16	14

Notes: 1. Percentages are annual averages for dollar-denominated cumulative investment values.
2. Estimates from the "Survey on the International Strategies of Corporations and their Effects on Industrial Structure," conducted by MITI in September 1986

Japanese companies, and particularly by manufacturers, was pointed out as essential to correct the nation's large external imbalance in the Maekawa Report published last April by the Committee on Economic Structural Adjustment for International Harmony. A similar view fleshing out the Maekawa Report was expressed in an interim report published in early December by the Ad Hoc Economic Structural Adjustment Division of the Economic Council, an advisory body to the prime minister.

MITI estimates that overseas direct investment by Japanese companies will rise at an average annual rate of more than 10% up to the year 2000, particularly in the processing and assembly industries (Table 2). The rate of increase should be much higher than the average in the years leading up to 1990. Conversely, this means that investment in Japan will be correspondingly reduced, causing a further decline in employment.

In fact, overseas siting by Japanese firms is accelerating, led by autos and electric and other machinery. Overseas expansion by makers of finished products is being followed by similar moves by parts and materials producers. Eventually basic materials producers will follow suit. This pattern is already evident in moves by automotive and electric parts and materials suppliers to build factories in the United States. Even Nippon Steel is planning to produce sheet steel for cars in the U.S. Some companies, such as Tomy, a major toy maker, have shut down their plants in Japan and shifted the bulk of production overseas.

At the pace overseas direct investment is expected to grow, MITI estimates that roughly 700,000 to 800,000 job opportunities will be lost in Japan by the year 2000. According to the EPA, the weight of overseas production in the manufacturing industry is estimated to rise to 20% in the year 2000 from the present level of about 2–3%. Based on this estimate, domestic employment should drop by 360,000 persons if exports from Japan fall by the equivalent of 30% of overseas production. Job losses will reach 600,000 if exports are reduced by 50% of overseas production, and 850,000 if reduced by 70%.

The Sanwa Research Institute says a 10% drop in domestic productive capacity due to increased overseas production would throw about 1.2 million people out of work. Sumitomo Bank says 1.35 million jobs will be lost in the manufacturing industry between 1986 and 1990 if positive measures are not taken to expand domestic demand.

"Mismatches" in unemployment

According to some projections, the unemployment problem is not likely to become very serious because new jobs will be created simultaneously in the tertiary industry. A study by the Industrial Bank of Japan estimates that 3 million jobs will be created in the service industry in the next five years, while the EPA projects an increase of 6 million jobs in the same industry during the rest of the century. The agency, therefore, rules out an overall drop in the number of employment opportunities.

According to an estimate by Sumitomo Bank, 3.4 million people will be newly employed in nonmanufacturing sectors between 1986 and 1990. But since the overall labor force population is expected to increase by 3.04 million, simple arithmetic shows that there will still be a large number of jobless. Therefore, the unemployment rate is forecast to rise rapidly to 5.6% in 1995, they say.

Given the uncertainty over government measures to stimulate domestic demand, the greatest factor contributing to the solution of the domestic unemployment problem will be the capacity of nonmanufacturing industries, and particularly the tertiary industry, to create new jobs. Over the short term, the outlook is discouraging—the sector's job-creating capacity will be practically nil except for software-related technical work. If that is true, fiscal 1987 jobless rates at the 3% level are a conservative estimate. That is the order of unemployment projected by MITI, the Labor Ministry and the Mitsubishi Research Institute.

If all of the "Japanese-style unemployed" were actually thrown out of work, however, the jobless rate would likely exceed 4% or even 5%. According to the British formula used by the Japan Wages Research Center, whereby the number of job seekers is divided by the labor force population, the unemployment rate was as high as 7.1% last October with 4,310,000 people out of work.

The crisis in employment is likely to hit middle-aged and older people and workers in outlying areas particularly hard. The average age of employees is noticeably higher in sectors where employment is being adjusted downward. It is middle-aged and older workers who are bearing the brunt of employment adjustment. More than 170 cities, towns and villages have been designated by MITI's Small and Medium Enterprise Agency as qualified for government relief under the Law on Temporary Measures for Small and Medium Sized Enterprises in Specified Areas. In addition, nearly 130 cities, towns and villages are designated by the Labor Ministry as "Areas in Need of Emergency Employment Stabilization Measures." In all these areas, the average age of workers is considerably higher than for the total labor population.

Over the medium and long terms as well, job opportunities in promising new business areas will be offered mainly to young people in the big cities. Consequently, the looming unemployment problem in Japan stems largely from "mismatches" in job opportunities—imbalances that reflect, on the one hand, the presence of an aging labor force in depressed outlying areas and, on the other hand, the presence of young labor in the thriving cities.

Japanese-style management is characterized by lifetime employment, a seniority-based wage system and intracompany labor unions. In light of the changing employment situation, however, these traditions are clearly becoming obsolete. In order to solve the mismatches in unemployment, it is necessary to promote vocational training and the dispersion of industry out of the big cities. Japan will be engulfed in structural unemployment unless adequate measures are taken in these fields. The job crisis could become even more serious as a result of an influx of foreign labor and the expansion of imports.

Clearly Japan is entering a "new age of employment." In order to cope, the traditional systems of Japanese management are going to have to change. ●