CHAPTER 10

Employment relations in Japan

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Japan's economic context has changed a great deal since the 1980s. In its neighbourhood, there are dynamic East Asian economies that have grown very quickly. There has generally been continuity in Japanese employment relations institutions, as well as the practices of governments, employers and unions. However, many large Japanese enterprises have become multinational enterprises (MNEs), competing in global markets with networks of overseas subsidiaries. Two decades of recession, after the burst of the bubble economy of 1990–91, have prompted Japanese enterprises to dramatically increase their overseas investments. Strategic decisions of MNEs are beyond the scope of national institutions.

Is Japan similar to a coordinated market economy (CME), or is it becoming more like a liberal market economy (LME)? This chapter starts by putting Japanese employment relations into context. It provides some historical background, then discusses the changing roles of unions and employers, and collective bargaining, as well as labour–management consultation and the Japanese employment system. Such current issues as changes of labour market institutions facing global competition with regard to corporate governance, atypical employment and working time are discussed.

With a population of 127 million people and a gross domestic product (GDP) of US$4662 billion in 2013, Japan is the third-largest economy in the world (IMF 2015). Since the early 1980s, the Japanese economy has experienced several distinct eras. First, there was a period of relatively strong growth, stimulated by buoyant domestic consumption; this led to the burst of its bubble economy around 1991. Then followed a decade of economic recessions and difficulties for financial institutions, followed by a period of slow growth up to 2008. Two major events then derailed Japanese economic performance: the post-2007 global financial crisis triggered by the bankruptcy of Lehman Brothers and the 2011 tsunami and associated Fukushima catastrophe. The post-2007 global financial crisis hit the then-booming export industries, such as automobiles and machinery, very hard, while the tsunami impacted strongly on the northern region of Japan, which suffered many casualties. This disrupted supply chains and made it necessary, for safety reasons, to stop most nuclear electricity generation, which had provided 30 per cent of total electricity to Japan.

The financial crisis of 1991 and the burst of the financial bubble were damaging. Previously, the main banks had played a pivotal role in many industrial-financial groups, exemplified by the old Mitsui, Mitsubishi and Sumitomo banks. After the bubble period, these banks and other financial institutions accumulated huge bad loans due to a large drop in asset values (real estate and stocks), and they survived only because of governmental protection and mergers of vulnerable banks. That financial crisis, together with a contraction of domestic demand, plagued the real economy through the 1990s.

In this period, prices were stable and slightly decreased in some years, reflecting technological progress, such as the increasing use of information technology (IT), a decline in consumption and appreciation of the yen. Annual growth rates (GDP) were –0.2 per cent for the period 2001–05 and –0.8 per cent for 2006–10, but in real terms 1.2 per cent for 2001–05 and 0.4 per cent for 2006–10. In 2011, GDP declined by 1 per cent in nominal terms and 0.6 per cent in real terms, mainly due to the tsunami and its aftermath.

Confronted by slow growth and sluggish domestic demand, many Japanese enterprises tried to direct more investment overseas, particularly to the United States, elsewhere in Asia and, to a lesser degree, to European Union (EU) countries. An investment drive to emergent countries—particularly to mainland China and South Asia—accelerated after the mid-1990s when these economies improved their industrial infrastructures and technological standards. Consequently, many Japanese manufacturing enterprises now operate on a global basis. Their overseas turnover may equal or surpass their domestic turnover.

LABOUR FORCE ISSUES

Japan has a labour force of 66 million and a labour force participation rate of 74 per cent, according to 2012 statistics. About 88 per cent of the labour force is employed; self-employment accounts for only 9 per cent. Japan's labour force peaked in 2000 and, if the present participation rate remains constant, an official estimate predicts a decline of 8.7 per cent (or 6 million persons) by 2030, depending on the rate of economic growth (JILPT 2013). The fertility rate remains low (between 1.3 and 1.4 per cent). About 4 per cent of the labour force works in primary industries, including agriculture and fisheries. Manufacturing, mining and construction (secondary) industries employ 25 per cent, while 71 per cent work in tertiary industries, including services, wholesale and retail, finance, utilities and government. The secondary sector decreased from 33 per cent to 25 per cent of employment between 1990 and 2012. This precipitated a loss of 5.6 million jobs, which indicates the extent to which Japanese manufacturing enterprises have moved activities overseas.

Population ageing is a serious issue on both the supply and the demand sides of the Japanese economy. On average, the Japanese enjoy among the longest lifespans in the world: 86 years for women and 80 years for men. It is estimated that the Japanese ageing ratio (the total number of people more than 64 years old divided by the total population) will be the highest among the major developed countries by the year 2025. Therefore, the government raised the public pension age to 65. Labour force participation is relatively high among elderly people: 76 per cent of men and 46 per cent of women aged 60–64 years were in employment, while 29 per cent of men and 13 per cent of women remained in the labour market after the age of 65 years. The structure of Japan's population will change substantially from a pyramid shape in the 1950s to a top-heavy shape by 2025.

Unemployment was about 1.1 per cent at the end of the 1960s, when the economy enjoyed high growth. The unemployment rate, one of the lowest among developed countries until the mid-1990s, rose to 3.4 per cent in 1997 and 5.4 per cent in 2002 before declining to 4 per cent in 2008. After the post-2007 global financial crisis, unemployment increased to 5.1 per cent in 2009 then fell to 4 per cent in 2013.

The employment situation includes contrasting features. Many elderly workers have difficulties finding jobs, and an increasing number of young workers are unable to find career positions that match their expectations. (They have precarious jobs or they are in atypical employment in the secondary labour market.) On the other hand, some enterprises in IT industries and low-pay enterprises in manufacturing and services find it difficult to hire workers.

The ratio of job openings to job seekers declined from 1.51 in 1990 to 0.64 in 2000, aggravating the disparity between jobs and job-seeker profiles. After 2000, this ratio recovered slowly to 1 in 2007, then declined in 2008 and 2009 before increasing to 0.97 in 2013. The ratio of 1 is an approximate labour market equilibrium. Regional differences are considerable: Tokyo and some industrial centres (Nagoya, Sendai) have a ratio above 1, whereas in rural areas it is below 1, as the employment situation in those areas is worse.

A significant feature of the post-1945 period has been a reduction in the number of average working hours. In the pre-war period, twelve-hour workdays were common. Since then, the number of hours per day has been reduced substantially. However, when the period of slow growth began, the number of working hours declined further, to around 2100 hours per year. In 1987, the legal limit of weekly hours was set at 40 hours. Since the 1990s, the average annual working hours has remained between 1950 and 2000. The increase of part-time workers has tended to lower the average working hours; if we consider only full-time workers, working hours have not declined. One-quarter of full-time male workers aged 30–49 years work more than 60 hours a week. Long working hours are still a major public concern.

THE POLITICAL CONTEXT

The post-1945 period has seen Japanese politics dominated by the conservative Liberal Democratic Party (LDP). Opposition parties have exerted influence from time to time but, apart from a brief period after the war, none obtained sufficient votes to hold office in national politics. Opposition parties are divided by ideologies. The Japan Socialist Party (JSP) was formed mainly by the radical left and some moderates who had a close relationship with the main union federation, Sohyo. The moderate and small Social Democratic Party had a link with the moderate union movement of Domei, primarily recruited in the private sector. A major political change came after the dissolution of the Soviet bloc, when socialist ideals lost political credibility in Japan, as in many other developed countries.

In the 1990s, the Japanese political scene was characterised by frequent changes of government, as successive elections resulted in fluctuating loss and gain of LDP seats in the lower house (Shugiin) and the upper house (Sangiin). In 1993, for the first time since 1955, a coalition of parties formed a non-LDP government for a short period (less than a year). Then a coalition government, including the LDP, was headed by a leader of the JSP (Tomiichi Murayama). Between 1996 and 2001, the LDP retained its power in alliance with the small but well-organised Buddhist party (Komeito). In 1998, a new Democratic Party of Japan (DPJ) was created, regrouping factions from the LDP, JSP and Social Democratic Party. Between 1993 and 2001, seven governments were formed then collapsed. The electoral basis of the LDP (rural, business and commerce) was gradually eroded during this period without giving birth to a major united opposition party. Unable to get a stable political base, successive governments could not implement the decisive political and economic reforms required to solve the financial and economic problems of the 1990s.

With the election of Junichiro Koizumi as prime minister (2001–06), there was relative political stability. The Koizumi government emphasised a market-oriented approach. Koizumi won several elections with policies such as privatisation of the postal office and deregulation. Due to Koizumi's personal popularity, his government was able to centralise decision-making processes, circumscribing LDP factions and ministerial bureaucracy. The Koizumi government constrained public expenditure by privatising public corporations and by reducing welfare costs. Koizumi resolved the financial crisis of the 1990s, but the period of strong premiership ended with his resignation in 2006.

Following two successive LDP governments, the popularity of the LDP waned so that in 2009, the opposition party, the DPJ, headed by Yukio Hatoyama, won a comfortable majority at the election of the lower house. But he was subsequently criticised for mishandling the delicate American military base issue in the Okinawa islands, and he lost a majority in the election of the upper house. The two DPJ prime ministers who succeeded Hatoyama were unfortunately engulfed in the consequences of the Fukushima disaster, which led to a large number of refugees from radiation. The issue of restarting 50 nuclear electricity plants has divided public opinion and the DPJ. Thus, four years of the DPJ government finished in disillusionment, without achieving any major reforms.

At the end of 2012, the LDP won a landslide election, first in the lower house and subsequently in the upper house, and the conservative Shinzo Abe became prime minister. His government is pursuing an unorthodox economic policy, sometimes termed 'Abenomics', which aims to stabilise the inflation rate at 2 per cent to arrest a lingering deflationary trend by radically increasing the monetary supply through the Bank of Japan. An immediate result of this monetary policy was a rapid depreciation of the yen against the US dollar and the euro (the yen fell by 22 per cent against the dollar and 26 per cent against the euro in a year). Due to rising exports and overseas revenue, many Japanese enterprises posted a very high level of profits for the fiscal year ending in 2014. However, it is too early to assess the effectiveness of the Abe government's economic and monetary policy.

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Historically, unions were associated with various parties, including the JSP, the Social Democratic Party and the Japan Communist Party, depending on their dominant ideology. Since its creation in 1998, the main union confederation, Rengo, has maintained a close relation with the DPJ. The relationship between the LDP and Rengo is more distant, but without open hostility. Successful candidates of the DPJ or other small parties are often recommended or supported by unions. Irrespective of the relationships between parties and unions, rank-and-file members of unions tend to vote for candidates of their choice. There has been an increase in voters who do not adhere to particular parties. Consequently, the influence of unions on voters has declined.

THE JAPANESE EMPLOYMENT RELATIONS MODEL

Given the continued stagnation and the slow recovery of Japan's economy, is the 'Japanese model' of employment relations still viable? From the 1970s, Japan attracted much attention for its favourable economic performance and its 'cooperative' approaches to employment relations, which some claim have supported this economic performance (e.g. Dore 1979).

The international interest in Japanese management and employment relations was perplexing to many Japanese people, as for most of the twentieth century Japan had tried to follow models derived from the West (e.g. the United Kingdom, the United States and Germany). Before the 1973 oil crisis, the Japanese tended to see such countries as much more advanced, and various management techniques and technologies were imported from the West.

Although interest in Japan waned after the decline of its economy in the post-bubble period of the early 1990s, some countries in Asia were still eager to 'import' the Japanese model. In the poor economic climate of the 1990s, some Japanese enterprises (e.g. Toyota, Honda and Sony) modified their management systems in an attempt to survive in competitive world markets. Some large Japanese enterprises, as well as many smaller enterprises, are now shifting their production bases to other Asian countries, including China. To what extent are Japanese production and employment relations systems transferable to other countries?

To begin to answer such a question, some historical background is necessary. Japan's feudal era ended with the Meiji Restoration of 1868. Hitherto, Japan had little contact with Western countries. Industrialisation began in the following decade, a century later than in Britain. Japan's early factories in major industries were begun by the state, but in the 1880s most of them were sold to a few selected families. This was

The labour movement developed rapidly under the GHQ's democratisation program. Although much of Japan's industrial base was destroyed during the war, union membership reached pre-war levels four months after the war's end. By 1949, there were 6.6 million union members, a peak density level of 56 per cent. There were, however, some setbacks for the unions. For instance, plans to hold a general strike by the unions in 1947 were suspended by order of the GHQ. Yet the unions recovered and reached a membership of 12.6 million in 1975, with a the origin of what was later to become the powerful *zaibatsu* groups of holding enterprises, which were based on these groups' commercial banks.

Although some unions, such as those covering printers and iron-workers, began during this period, the familial basis of industrialisation continued well into the twentieth century. Many factories, especially in the textile industry, had their own dormitories for workers. In some industries, there were master workers (*oyakata*), who were subcontractors—like the early supervisors in Western enterprises. After World War I, there was an acute shortage of skilled workers, and enterprises wanted to recruit workers directly. Hence, large enterprises intervened in the master workers' prerogative to recruit labour. With the rapid development of industries, the system of learning skills through apprenticeships was absorbed into internal on-the-job training systems in Japanese enterprises.

In the paternalistic tradition developed in the 1920s and 1930s, unions did not exert much sustained influence. Faced with pressure from the militaristic regime, unions were dissolved between 1938 and 1943, and the employers' associations were absorbed into the mobilisation for war production.

After Japan's surrender in 1945, the Allied powers' General Headquarters (GHQ) sought to rebuild the organisation of work and employment relations as part of the post-war reconstruction. Many elements of the present model were shaped by American influence after the war.

Unions

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After such peaks, union membership and density stagnated before gradually declining year after year. Density was less than 18 per cent with 9.9 million union members in 2013. Unions lost more than 2 million members in two decades. One of the main causes of this decline was a change in the industrial structure, especially the shift towards the service sector. Union density in 2013 varied by industry. Manufacturing industries had 2.7 million members with a density of about 25 per cent. Density rate was higher in the civil service (38 per cent) and in public utilities such as electricity, gas and water (57 per cent). By contrast, union density in wholesale and retail was only 13 per cent. Union membership and coverage also varied greatly according to the size of enterprise in the private sector. While the density was less than 45 per cent in enterprises with more than 1000 employees, it was negligible in enterprises with fewer than 99 employees (only 1 per cent).[2]

The reason why unionisation is relatively high in large enterprises is that most unionised enterprises adopt union-shop clauses whereby newly recruited regular employees have to join the enterprise union. Accordingly, union membership varies with the rise and fall of unionised enterprises or industries. When the firm is expanding, union membership generally rises and vice versa. These union-shop arrangements are common in manufacturing enterprises but hardly applicable to most of the service sector, where enterprises tend to be small and geographically dispersed.

Another cause of union decline has been the general improvement in living standards, which has tended to make employees less enthusiastic about union membership. Pay rises fluctuate according to prevailing macro-economic conditions. Since the peak in 1990, when the pay rise in centralised annual pay negotiations was 5.9 per cent, such pay rises have been minimal, only just keeping pace with prices. These unfavourable outcomes may have discouraged workers' interest in unions. Thus, some argue that unions have outlived their usefulness, and that the centralised mode of pay negotiations is out-dated.

Further, in recent years, there has been an increase in atypical employment, such as part-time workers, seasonal workers, temporary agency workers and fixed-term contract workers. One in three workers is currently considered to be non-regular. As most Japanese unions organise regular employees of the enterprise and exclude non-regular workers, the increase of atypical employment implies a decline in union members. Some industrial unions, such as the large industrial union UA Zensen (e.g. textiles, retails, hotels, food), have tried to organise part-time workers; currently, half of UA Zensen's members are part-time workers. But this is an exception, since the union density among part-time workers remains low—less than 7 per cent.

Why do enterprise unions not organise non-regular employees in the same workplace where they already organise regular employees? The answer relates to the special status enjoyed by regular employees. The word *sei-sha-in* is often used (meaning 'regular member of the enterprise'). The word contains nuances that do not have an equivalent in Western terminology. It means more than being a mere hired worker, and implies belonging to a community formed by people with the same interests. Hence, entry to an enterprise union is generally restricted to the members of that community.

Most unions in Japan are organised not by occupation or by job but by enterprise or establishment. An enterprise union usually consists solely of regular employees of a single enterprise, and includes manual workers and non-manual staff. Excluded are managerial positions (as the law does not permit managerial staff to join unions, to prevent employer interference). Union membership also excludes most of the workers in non-regular status positions (part-time workers, temporary agency workers or fixed-term contract workers).

Many enterprise unions grew sporadically in the period of turmoil after 1945. Some of them developed from the factory- and enterprise-based wartime production committees. As most unions are organised for enterprises or individual plants, there are many unions—more than 25,000, according to the official statistics (2013). Although there are other types of unions, such as industrial, craft and general unions, they are exceptions and play only a marginal role.

Compared with industrial unions, enterprise unions have greater resources and are more powerful. Enterprise unions are autonomous in running their organisations and in promoting their members' interests. They are financially independent and self-supporting. Most union activities occur at the enterprise level, rather than at the federation level. In general, key official union positions are held by regular employees on a temporary secondment from the enterprise—typically of one to three years.

As the enterprise's success greatly influences members' working conditions and employment opportunities, enterprise unions generally have a cooperative attitude towards management. Most employees usually identify with their employer in making decisions that would enhance the competitiveness of the enterprise. A key aspect of the work environment in Japanese enterprises is interdependence, and the belief that the enterprise is a 'community of shared fate', where 'everyone is in the same boat'. The relatively modest pay differentials between managers, non-manual workers and manual workers tend to reinforce the workers' sense of identification with the enterprise. In addition, senior managers, directors and executives, including the chief executive, are likely to have been promoted internally after many years of service. This contrasts with Western countries, where there may be more class differentiation and much larger pay differentials.

Are enterprise unions really independent of the control of the employer? If an enterprise is unionised, the enterprise union is usually the only organisation that is recognised as representing the employees at the enterprise. Financially, unions are independent from the employer, since full-time union officials are paid from union fees. Employers usually offer various facilities to the union, including an office, but such facilities are offered on a voluntary basis after negotiations between the parties. The availability of these facilities helps establish a basis for cooperative labour–management relations in enterprises.

An advantage of enterprise unions is that their policies are adapted to each enterprise, rather than reflecting sectional craft or political inclination. Employment relations based on enterprise unionism tend to be more flexible than those based, for example, on craft unionism. On the other hand, there are disadvantages from a union's point of view. Newly employed workers automatically acquire union membership and their union dues are 'checked off' from their pay. Thus, employees' union consciousness is generally less than their enterprise consciousness. Union membership usually ceases on retirement, which also reduces the workers' commitment to the union.

Most enterprise unions within the same sector join a sector-specific federation of unions. There are more than 100 such federations. The major functions of these federations include coordinating the activities of the member enterprise unions with the aim of improving pay and working conditions; dealing with problems common to a whole sector; guiding and assisting member unions in specific disputes; and political lobbying in the interest of workers.

These federations belong to national centres, of which Rengo (Japan Trade Union Confederation) is the largest (6.8 million members). There is a small second national centre called Zenroren, which includes some more radical union federations (0.8 million members).

At the national level, unions were long divided into two rival national centres: the left wing Sohyo and the moderate Domei. The first significant step to unite these centres began in 1982, when major union federations of the private sector pertaining to both national centres formed a loose gathering under the name of Zenminrokyo (Japanese Private Sector Union Council). Public sector unions were not included because they were seen as too radical. However, this organisation developed into a larger union centre, Rengo, which did include public sector unions. The new Rengo was established in 1989, when it comprised 78 sector federations with nearly 8 million members. Public sector unions used to be more political and have more power than those in the private sector, but their membership and power diminished after 1978 due to the privatisation of public corporations and the trimming of public services. In the twenty-first century, the most powerful unions are in the private sector.

Rengo has pursued cooperative labour–management relations with employers. Initially, Rengo tried unsuccessfully to play a political role to form an expanded liberal democratic league. During the long recession, its role was restricted to participation in different policy-making and consultation processes at the national level. During four years of the DPJ government, Rengo had regular consultation on political agendas with the government, but after the severe defeat of the DPJ in 2012, Rengo has kept its distance from the Abe government.

The end of lifetime employment?

The employment system in large enterprises is a complex mix of practices, of which 'lifetime employment' (long-term employment) and seniority-based pay are the best known. Other practices include a policy of recruitment whereby entry to the firm is limited to new graduates without occupational experience. The system also includes on-the-job training, internal promotion and mandatory retirement—generally at 60 years of age. A key role is played by a centralised human resource management (HRM) department, which has strong control functions and reports directly to the chief executive.

Such internal labour market employment systems were consolidated after World War II, particularly during the high-growth period (1955–73). In tight labour market conditions, enterprises had a clear interest in promising regular employees a career in which they expected to be promoted to higher ranks with higher pay related to their length of service. Employment protection was further enhanced by case law concerning limitations on dismissal.

Although the law was silent on collective dismissals (an employment contract could be terminated with advance notice by either party to the contract), the courts ruled that employers should not abuse their right to terminate the employment contract. Dismissals could be justified under specified conditions: reasons for dismissals should be valid; all efforts should be made to avoid dismissals; criteria for choosing workers for dismissal should be fair; and there should be advance consultation with unions. Thus, the court reversed the logic of free employment contracts. Accordingly, large enterprises tend to regard regular employees as fixed costs.

Regular manual and non-manual employees are employed not for specific jobs or occupations, but as general employees. Enterprises prefer to employ new school leavers or university graduates rather than experienced workers who have been trained in other enterprises. Their induction program is designed to encourage them to conform to the enterprise's norms and expectations.

Young recruits start at a comparatively low level of pay, which is based on their educational qualifications. Their pay rises in proportion to their length of service up to a certain age limit. Promotion is based largely on length of service, which is assumed to correlate with the employee's level of skill developed within the enterprise. Therefore, it is disadvantageous for workers to change employers and for employers to lay off employees who have accumulated specific skills required in that particular enterprise. Typically, in the primary labour market, comprising permanent or regular employees working for large enterprises, there is a tacit understanding about the long-term, two-way commitment between employers and employees.

How many employees are really in this lifetime employment system? Official statistics do not give an exact answer. Labour force surveys collect data by types of employment—that is, regular or permanent employment and other types of employment (e.g. fixed-term and part-time employment). Approximately 65 per cent are in regular employment and about 35 per cent in non-regular employment.[3] Regular employment amounted to approximately 80 per cent of total employment in 1990, so it declined significantly after that time, reflecting a change in industrial structures and HRM practices.

Not all regular employees are working in large enterprises that have superior remuneration and career opportunities. Around 35 per cent of employees work in establishments employing more than 500 workers or in the public sector. Employees in large enterprises do not all enjoy good conditions of employment. Supermarkets and package services, for example, tend to employ atypical workers. Given that many large manufacturing enterprises have production sites and replace regular workers with atypical employment, the extent of high-quality career employment has been reduced. Some studies of job tenure suggest that long-term employment patterns continue, despite the long recession and much restructuring. This is probably because long-term employment is a core feature of HRM in Japanese enterprises (Kambayashi & Kato 2011).

The employment system has developed on the basis of a model of male breadwinners. The prototype of the current seniority-based pay system, known as the Densan pay method (1946–47), was designed to cover living expenses of a male employee. Female workers were excluded. In the twenty-first century, female employees are not formally excluded from career employment, but in practice they are still handicapped by the possibility of career interruptions. Only a small minority of female employees reach higher managerial positions.

Employers and their organisations

During the period immediately after 1945, there were many violent industrial disputes. These reflected the economic disorder, particularly the shortage of food and daily necessities. Neither employers nor workers had much employment relations experience. To counter the union offensive and to establish industrial peace and order, employers organised regional and industrial associations. However, partly due to the 'democratisation' policy of GHQ, employers were often obliged to yield to union pressure, and thus also to an erosion of their managerial prerogatives.

To restore managerial authority, Nikkeiren (Japan Federation of Employers' Associations), was founded in 1948. It was the most important employers' organisation in terms of employment relations, and had multiple functions. It played a major role up to the 1970s, when annual pay negotiations had a significant impact on the national economy. However, the importance of these negotiations waned in the 1980s and 1990s. Business groups felt that a specialised employers' federation in labour matters was no longer necessary. Hence, in 2002, Nikkeiren was merged with the powerful Keidanren (Japan Federation of Economic Organisations) to form Nihon Keidanren (Japan Business Organisation). Most of the functions formerly conducted by Nikkeiren are now the province of Nihon Keidanren, which mainly covers large enterprises.

Nihon Keidanren coordinates and publicises employers' views on employment relations, selects employer representatives to various government commissions, councils and the International Labour Organization (ILO), and provides its member organisations with advice and service on employment relations practices. Nihon Keidanren's members include employers' associations organised at the regional and industry levels. Each year, at the time of Shunto (the Spring Labour Offensive), Nihon Keidanren releases guidelines for employers to follow when dealing with demands from unions during collective bargaining. In this way, although many of them do not have a direct role in bargaining, employers' associations play an important role behind the scenes (Levine 1984).

In the past, three factors strongly influenced the magnitude of Shunto: demand and supply conditions in labour markets, consumer price levels, and business conditions or the enterprise's performance (Ministry of Labour 1975). In recent years, however, the main determinant of the outcome of collective bargaining has been the individual enterprise's business performance. Enterprises that are performing well tend to reward good results in the form of six-monthly bonuses instead of a general pay increase. In contrast to the declining power of unions, employers have increased their influence over employees. Many large enterprises in the automobile, electrical machinery, construction and banking sectors have resorted to downsizing, but most enterprise unions have remained quiescent.

Collective bargaining

What is the form of collective bargaining used in Japan? First, it takes place at the level of enterprise. This means that there is no collective bargaining (collective agreement) at the sector or national level. Federations may coordinate the process of negotiations, but individual enterprises and enterprise unions have autonomy to make their own decisions.

Second, in most unionised enterprises, there are elaborate joint consultation mechanisms, in which union representatives participate. Joint consultation machinery was developed in the 1950s at the initiative of the Japan Productivity Center, which advocated industrial peace in enterprises through dialogue.[4] Joint consultation is seen as a means of information sharing, but many employment relations and related issues are discussed at consultation meetings. The distinction between collective bargaining and joint consultation is blurred, since the same people (top managers and union officials) attend consultation and negotiation meetings.

Third, collective bargaining focuses on pay levels, particularly during the annual pay round. Pay agreements may be concluded separately from agreements on other matters. Most unions conduct pay negotiations during the Shunto annual pay negotiations in March, April and May, while negotiations on other subjects may be conducted at other times. Shunto began in the 1950s at the initiative of major unions. By concentrating annual pay negotiations in spring, the unions wanted to overcome the weakness of dispersed enterprise negotiations. In general, leading sectors negotiate at an early stage to set a pattern for that pay round. Weaker sectors negotiate later to benefit from a spill-over effect. Until the end of the 1970s, Shunto was a national event, as its results influenced the economy in terms of demand and prices. A decline in union density and a sluggish economic climate have helped to change the characteristics of Shunto. Its relative importance in national pay bargaining has declined, with the focus of pay bargaining shifting towards the enterprise level. Increasing differences in the profitability of enterprises, reflecting increased global competition, have been a major reason for this change. However, Shunto is still a significant collective bargaining institution. It includes information sharing and coordination within and between employers and union federations, as well as within enterprises.

The structure of enterprise unions usually corresponds to the organisation of the enterprise and its establishment, department or divisional grouping. If collective bargaining takes place at the central level of a particular enterprise, consultation on safety or conditions of work may be held at the establishment level. In the case of a large group of enterprises, collective bargaining is generally carried out at the group level.

Grievances are often settled informally without recourse to formal procedures. Managers attempt to subdue tensions and conflict, and reinforce a feeling of community. Management and unions established these informal procedures, which seek to avoid formal conflicts, after the late 1940s and early 1950s, when there were many large-scale and lengthy disputes in the mining and manufacturing industries. Radical left-wing leaders led some strikes. Many of these disputes left wounds in employment relationships that were not easily healed.

Although there were many stoppages up to 1975, industrial conflict decreased substantially thereafter. Disputes are usually settled directly between the parties concerned, sometimes with the assistance of a mediator. The central and local labour relations commissions provide conciliation machinery for the private and public sectors. Special commissions act for public sector employees and for seafarers. Nearly all the disputes brought before these commissions are settled by either conciliation or mediation, and relatively few disputes require arbitration. Most disputes presented to the labour relations commissions are those that extend beyond the limits of labour–management relations at the enterprise level. The relative importance of the commissions has declined, as there has been an improvement in cooperation between labour and management at the enterprise level.

Contemporary employment relations are relatively stable, and relations between the parties are generally cooperative. Some see this in a positive light. Others have a more critical perspective, arguing that enterprise unions are too dependent on employers, and that the relationship is one of collaboration and incorporation of unions and employers by the employers. Some enterprise unions are well organised and influence most important managerial decisions, while in other enterprises unions are ineffective.

As many employees expect to work for many years for the same enterprise, they tend to place an emphasis on the improvement of their own working conditions. This may be an unfortunate characteristic of traditional Japanese enterprises, where regular employees want to maintain their positions even at the expense of non-regular employees, such as part-time workers and temporary workers, who are disproportionately female.

Why has the relationship between unions and employers changed so fundamentally since the 1950s? There has been increased global competition, improved standards of living and a shift towards a service-oriented economy. Public opinion is also more conservative than it was in the 1950s. The 1970s oil crises further accelerated the trend in this direction. Despite the long recession since the early 1990s, the number of industrial disputes has not increased. In 1975, the total number of industrial disputes reached a peak of 8435. However, there were only 596 disputes, involving 12,000 workers, in 2012. One of the changes is that most disputes are individual rather than collective. There have also been increased levels of labour turnover. These developments represent challenges to unions as well as to the employment relations system.

CURRENT ISSUES

Changes in labour market institutions facing global competition

The geographical context around Japan has changed greatly. Two generations ago, China was still a developing country with a strong socialist legacy. In the twenty-first century, China has become an economic power with a huge appetite for energy, raw materials and new technologies. Korea and Taiwan are strong competitors in many hi-tech industries. Thailand has become a regional centre for certain types of vehicle production (e.g. pick-up trucks) for Japanese car MNEs. Japan used to have a considerable technological and economic advance, but these neighbouring countries have become both competitors and partners. However, Japanese enterprises can also benefit from the proximity of these dynamic markets.

Inside Japan, the social and economic situations are also changing, revealing some long-term problems. There is an ageing population and a decline in the fertility rate, which will result in a decline in the labour force and the total population. There is a sporadic debate about immigration policies, but the issue of foreign workers is currently dormant. Female participation in the labour market has been growing, but many women take up part-time jobs without good career prospects. However, the distinction between regular and non-regular workers, as well as between typical and atypical employment, generates much debate.

In the field of labour law, several important legislative reforms have been adopted since the 1980s: equal opportunity (1985), reduction of statutory hours of work (1987), temporary agencies (dispatching agencies) (1985, 1999), child-care leave (1995) and an amendment to the law of stabilisation of employment (2004), which requires enterprises to offer employment up to the age of 65 years. Two reforms have had considerable impact on the labour market. The amendment to the law of the stabilisation of employment was made in response to the ageing population and the change of the full pensionable age, which was raised from 60 to 65 years. The amended law requires that enterprises should offer employment up to 65 years for all workers who wish to stay in employment. This legal reform was introduced in stages between 2006 and 2013.

Previously, 60 years was the mandatory retirement age in both the private and public sectors. As the law does not specify that the mandatory retirement age should be raised to 65 years, most enterprises have maintained the retirement age of 60, after which they offer a fixed-term contract. This is preferred by enterprises, because upon retirement the open-ended employment contract is terminated and the workers concerned are removed from general pay scales. Hence, enterprises can offer a new fixed-term contract with substantially lower pay, though employees' incomes may be maintained through private pensions and other allowances.

The temporary agency work law is typical of Japan's approach to relaxing regulation. The initial law on temporary agency workers in 1985 (law on dispatching agencies) was aimed at restricting agency workers to be dispatched only to certain technical jobs or specified occupations. After several successive amendments, which enlarged the list of occupations allowed for agency workers, an amendment in 1999 provided that all occupations were open to agency workers, unless forbidden by law (initially this was the case in manufacturing and construction). Since 2004, the use of temporary workers has been legal even in the manufacturing sector, in line with the deregulation policy of the Koizumi government.

The regulation of temporary agency work is very loose; there is no limitation on the renewal of a contract except for a maximum duration of three years. Accordingly, the number of agency workers increased from 0.5 million to 1.3 million between 2004 and 2008. This development was curtailed by the post-2007 global financial crisis, when large manufacturing enterprises reduced production by terminating many temporary work positions. These massive layoffs triggered a public debate for re-regulating temporary agency workers. However, no progress was made during the four years of the DPJ government, because opposition parties had a majority in the upper house. It is estimated that there were nearly a million agency workers in 2012, some 60 per cent of whom were females. Agency workers are paid much less on average than regular workers.

While changes in the legal framework have been only gradual, large enterprises have experienced a transformation in their structures and governance. In the 1980s, most large enterprises in Japan exported their products, but in the twenty-first century many of them are MNEs with production sites in China and elsewhere in East and South-East Asia, the United States and Europe.

Toyota illustrates this transformation. This auto maker, which perfected the famous 'just-in-time' system, had a conservative approach to internationalisation until the 1980s. Toyota opened its first large factory in the United States in 1987 following much US–Japan trade friction. Two decades later, Toyota had a global network of production. In most cases, Toyota's parts makers (e.g. Denso, Aishin) are as globalised as Toyota. By 2012, the total production of Toyota cars was 8.7 million. Overseas production comprised 5.2 million, compared with 3.5 million in Japan. Asia accounted for 2.6 million, followed by North America with 1.7 million and Europe with 0.5 million.

In the same year, 44 per cent of Toyota's profits were from Japan and 56 per cent from overseas subsidiaries. There is a tendency to develop overseas production in other sectors, albeit to a lesser extent. According to an official survey of Japanese enterprises with overseas activities by the Ministry of Economy, Trade and Industry, among manufacturing enterprises a third of their turnover was in overseas subsidiaries in 2012.[5] It had been only 20 per cent in 1995. The number of people employed in Japanese overseas subsidiaries also increased in this period, from 2.3 million to 5.6 million. In manufacturing, two segments alone accounted for 40 per cent of job creation in overseas subsidiaries: transport machines, with 1.4 million, and telecommunication equipment, with 0.8 million. Geographically, most such employment was in Asia, of which China accounted for around a half, followed by Association of Southeast Asian Nations (ASEAN) member countries.

This impressive employment creation outside Japan contrasts with a large reduction in employment in manufacturing in Japan, where total employment was 14 million in 1995 but declined to just over 10 million by 2013. However, job creation abroad should not necessarily be equated with job losses in Japan. Various econometric studies of the employment effects of overseas expansion are inconclusive about those effects in Japan. For example, one study of Japanese MNEs and their overseas subsidiaries for the period 1991–2002 found no correlation between overseas job creation and the employment situation in Japan (Yamashita & Fukao 2010). It may be that those enterprises developing overseas activities are also creating employment in Japan. Nevertheless, in view of the rapid erosion of employment in the manufacturing sector in recent years, there are continuing debates about the implications of overseas expansion for employment in Japan.

Another change is the structure of enterprises. During the late 1990s, many enterprises reorganised themselves through mergers and acquisitions. In addition, sweeping changes in Japan's legal system contributed to the increase in corporate reorganisations.[6] These changes make it easier for enterprises to restructure themselves. Traditionally, large Japanese enterprises did not have an overriding objective only to maximise shareholder value, but they also aimed to further the interests of other stakeholders, including employees. Top managers would put much emphasis on employees' interests.

Yoshimori (1995) surveyed middle managers in five countries (France, Germany, Japan, the United Kingdom and the United States). Respondents were asked to assess the objectives of their firm in relation to the maximisation of shareholder value. More than 70 per cent of managers in the United Kingdom and the United States answered that their enterprise's objective was to maximise shareholder value while only 2.9 per cent gave the same answer in Japan. This result is consistent with other observations which claim that Japanese managers place a higher value on the welfare of their employees. Mergers proposed by top executives have subsequently been cancelled following protests by employees. Some enterprises have introduced anti-takeover measures, or a 'poison pill', to protect the interests of the various stakeholders.

Although employees have limited legal power over top managers, there are several types of employee participation, such as joint labour–management committees (JLMCs), and employee stock ownership plans. JLMCs serve mainly as channels for management to communicate with employees about the business of the firm, any problems and their possible solutions, and management programs or plans for future investment (Shirai 1983). Though not compulsory, most large enterprises have a JLMC to discuss various issues in addition to employment relations, such as investment plans, plant relocation and the introduction of new technologies. According to a survey on labour–management communication, approximately 75 per cent of enterprises with more than 5000 employees had a JLMC. It is assumed that enterprises achieve better performance by having a JLMC (Morishima 1991; Kato & Morishima 2002).

Several changes have occurred that have altered the balance of power between shareholders and employees. First, legal changes have made it easier for enterprises to restructure, such as through mergers and acquisitions. The *Financial Instruments and Exchange Act*, revised in 2007, regulates those who plan to acquire a large proportion of listed enterprises. The *Company Act 2005* established procedures for enterprises to reorganise themselves by various measures, such as mergers and divesture. These changes have made it easier for enterprises and investment funds to acquire shares in other enterprises, through tender offers. Neither of these laws requires enterprises that are restructuring to consult with employees, except in limited cases.

A further important aspect of corporate governance is the change in the ownership structure of enterprises. Japanese enterprises and banks used to have large, stable shareholders. Cross-shareholdings, in which enterprises own each other's shares, declined from more than 15 per cent in 1995 to only 9 per cent in 2008 (Miyajima & Nitta 2011). In addition, ownership by foreigners increased from less than 5 per cent in 1970 to 28 per cent in 2012.

More enterprises are appointing outside directors. Traditionally, a board of directors had several characteristics: there was a strict hierarchy within enterprise boards; the directors were classified as chairperson, president, vice-president, senior executives, executives and non-titled directors; all of these directors were full-time members of the board; and former employees might be promoted to become a director of the firm. Because of these features, boards of directors may have failed to monitor the performance of their firm's president, since presidents faced little pressure from outside directors. Although the proportion of outside directors is still only small, it is increasing. The number of listed enterprises that did not have an outside director declined from 2577 in 2004 to 1623 in 2013. Thus, top managers, aware of the fact that mergers and acquisitions are increasing, face more pressure from financial markets to focus on shareholders' interests.

Another controversial change in HRM relates to the introduction of performance-related pay. Although the definition of performance-related pay varies across enterprises, evidence suggests that increasing numbers of enterprises have been trying to introduce new kinds of pay systems to strengthen the link between pay and performance.[7] A survey of pay determination found that enterprises increasingly place emphasis on performance, with 219 (or 86 per cent) of 254 enterprises having introduced performance-related pay (JILPT 2006). About 62 per cent of enterprises in the survey claimed that performance had become more important in determining pay than before, and 60 per cent said that an employee's ability has more importance than previously. By contrast, for more than 30 per cent of enterprises, the importance of age, education and length of service criteria was decreasing. Less than 10 per cent of enterprises said they put more emphasis on such criteria than before.

Survey-based studies have examined employer responses to performance pay. The 2010 General Survey on Working Conditions asked how enterprises evaluated the introduction of performance-related pay: 23 per cent said 'good', 42 per cent said 'good but needs to be modified', and 24 per cent said 'needs major revision'. The survey also showed that the main problem with performance pay was the performance appraisal: 38 per cent of the enterprises' respondents reported that managers did not have enough skills to evaluate their subordinates. In addition, 53 per cent claimed that it was difficult to compare the appraisals of employees who worked in different divisions of the firm.

One survey asked employees whether they agreed with the general principle that pay should be determined by individual performance (JILPT 2003). More than a quarter (28 per cent) of employees agreed, 60 per cent said that they agreed but were anxious about such a policy, and only 7 per cent of employees said that they did not agree. Among those who felt anxious or who were opposed to this policy, 79 per cent said that they were not confident that their performance or skills were evaluated fairly. In addition, 51 per cent said that performance might depend on the job assigned, rather than on their effort. Nearly two-fifths (38 per cent) were anxious that their income might fluctuate.

Growth of atypical employment

Atypical employment has tended to increase as regular employment has decreased. About one-third of employees are non-regular workers. Atypical employment covers a wide range of jobs and workers: it includes part-time workers, fixed-term contract workers and temporary agency workers.[8] One of the most important differences between regular and non-regular employees is job security. While most regular workers have an open-ended contract, which is difficult to terminate, similar guarantees are not given to people in atypical employment.

According to the Employment Status Survey (Ministry of Internal Affairs and Communications 2012), regular employees' share of total employment decreased from 78 per cent in 1992 to 62 per cent in

2012, while non-regular employees' share increased from 22 per cent to 38 per cent in that period (see Figure 10.1). The great majority of non-regular employees were part-time workers and in *arubaito* (temporary jobs, such as student jobs). An increasing share of non-regular employees were 'dispatched workers from temporary labour agency (agency workers)'. In the same period, the share of contracted workers increased from 18 to 26 per cent.

Why has atypical employment grown so rapidly in recent years? The reasons are complex and varied. The growth of the service sector is one of the major reasons. For instance, employment by large retail and wholesale enterprises accounts for 11.7 million people, manufacturing for 9.2 million, and medical and welfare services for 6.1 million. In retail and wholesale, chains of convenience stores are major employers of part-time workers and students. Similarly, supermarkets and department stores employ a large number of part-time workers. In these sectors, enterprises like to employ low-paid part-time workers, who may also have more flexibility in terms of their availability.

On average, part-time workers are paid only around 44 per cent per hour of regular workers' pay. With an ageing population, the care industry is also rapidly growing, relying on female part-time workers. Many enterprises may seek to cut their labour costs by replacing regular employees with agency workers or fixed-term contract workers or by subcontracting. There are instances where new factories in the electronics field are operated by a majority of non-regular employees, as automated processes require less qualified personnel than previously.

According to the Survey on the Diversification of the Forms of Employment (Ministry of Health, Labour and Welfare 2010), the most frequent reason why enterprises employed non-regular workers was to save pay costs (44 per cent). This was followed by the need 'to adjust employment volume according to business fluctuations for a day or a week' (34 per cent), 'to save the labour costs' other than pay (27 per cent) and 'to secure qualified or easily disposable workers (24 per cent). (The survey allowed multiple answers.) By replacing regular workers with different types of non-regular workers, enterprises realise cost savings as well as flexibility of employment.

The growth of atypical employment provides an employment opportunity for those who might not otherwise be able to participate in the labour market. Such workers may be older workers, mobile young people (*freeters*), those who experience difficulty finding a first job after school or women who interrupt their career for family reasons, even if they have high educational qualifications. The growth also means that the secondary labour market is getting larger. Entry to regular employment