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THE BURST OF THE BUBBLE AND CORPORATE RESTRUCTURING IN JAPAN

Starting in 1990 Japan entered a new era in its postwar economic development, known as the burst of the bubble. Corporations have been pressured to make fundamental restructuring to find ways to relieve their cost burdens. In contrast with the American experience, however, Japanese firms have laid off and terminated far fewer workers during this economic recession. This paper raises the following questions: Why do American and Japanese firms respond differently to economic recession? How do Japanese firms retain workers, when formal accounting rules would dictate cutting labor costs through worker termination? We offer an institutional explanation based on a conception of Japanese firms as embedded in a different economic and political institutional context which supports their approach to restructuring. More specifically, we elaborate certain "organizing principles" that inhere in Japanese organizations as indicated by their response to prolonged recession. We then discuss the institutional mechanisms that allow Japanese firms to resist terminating regular employees as a response to recession.

INTRODUCTION

The recognition that capitalism comes in different varieties is a cornerstone of the Clinton Administration's foreign policy. After the fall of the Soviet Union, the monolithic images of capitalism versus communism prevailing during the cold war years gave way to the recognition of the many varieties of economic systems camped under the big tent of "capitalism." The variations within capitalist systems are many, but one key indicator of variation is how systems respond to pressures arising from economic change. Systems' response patterns reflect priorities, commitments to different groups, and institutional configurations that underpin the relationships among business organizations, the government, and labor.

The industrialized nations have been bogged down in a prolonged world-wide recession during this past decade. Businesses have introduced structural changes often discussed under the general rubric of "corporate restructuring" to find ways to relieve their cost burdens. The general idea of corporate restructuring is to adjust the amount, allocation, and costs of facilities, capital, and labor to existing demands for products and services to derive improved output.[1] One significant trend in the recent corporate restructuring in the U.S. is worker dismissals and

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[1]"Corporate restructuring" is an ambiguously defined term. It is also an abstract term because the criteria by which organizations adjust differ by type of capitalist system. Additionally, in most cases, its definition is tautological. Whatever a corporation does under pressure is considered restructuring. A perusal of the business and organization literatures suggests various elements of corporate restructuring. Some of these include: increased investment in production technology (Shaman, 1993); elimination of product lines (Taylor, 1993); combining internal units, new stock offerings, early retirements, selling non-essential units (Treece, 1992); closing plants by eliminating employees (Anonymous, 1992); the "externalization of employment" by taking regular employees out and relying more on contract or temporary workers (Pfeffer and Baron, 1988; Pfeffer, 1994); change top executives and board members (Taylor, 1992); reallocate employees, change decision making location (centralize or decentralize) (Wrubel, 1992; Zetlin, 1993); eliminate positions through attrition, buyouts, retirement incentives, and involuntary layoffs, change incentive structures and job descriptions (Brewer, 1993).

increasing reliance on a contract, temporary work force (Pfeffer and Baron, 1988; Pfeffer, 1994). Recent layoffs of tens of thousands of workers at high profile firms like General Motors, IBM, and Kodak serve to illustrate the severity and magnitude of this pressure to restructure. Estimates from 1993 alone run between 500,000 and 600,000 worker terminations (Abelson, 1993). According to one business-research firm in Cambridge, Massachusetts, from 1983 to 1993, Fortune 500 companies eliminated 4.7 million workers, or one-quarter of their work force (Genasci, 1994).

In contrast with the American experience, Japanese firms have laid off and terminated far fewer workers during this economic recession. This is significant, given the depth and duration of the recession. This is not to say Japanese firms do not layoff workers. However, the outright dismissal of workers, especially regular employees, has been more difficult and more limited.

Why do American and Japanese firms respond so differently to economic recession? How do Japanese firms retain workers, when formal accounting rules would dictate cutting labor costs through layoffs? We offer an institutional explanation based on a conception of Japanese firms as embedded in overlapping and cross-cutting networks of business and social relations. *We contend that Japanese corporations are embedded in a different economic and political institutional context which supports their approach to restructuring.*

This paper has two goals. First, we identify and elaborate certain "organizing principles" inherent in Japanese organizations as indicated by their response to prolonged recession.

Second, we discuss the institutional mechanisms that allow Japanese firms to resist terminating workers (especially regular employees) as a response to recession.[2]

The Burst of the Bubble and Corporate Restructuring

Starting in 1991, Japan entered a new era in its postwar industrial evolution, known as the "burst of the bubble" following the sharp increases in asset prices in the late 1980s (Table 1). During the boom years of the bubble economy, corporations generated capital quickly, based on the use of overpriced land, investing heavily in new production facilities and real estate purchases in and outside of Japan. When the Bank of Japan finally tightened money supplies in 1989, interest rates soared, asset prices plummeted, and the stock market plunged by 60 percent, causing the bubble's burst. The impact of the recession is most severe in the computer, banking, insurance and securities, and automobile industries.

Intertwined with the bubble burst has been the continuing appreciation of the yen against the American dollar. In February 1985, the exchange rate stood at 263 yen to one dollar. Since

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[2] By regular employees we mean full-time workers who are known as *seisha-in* in Japan. These workers, as opposed to temporary full-time workers or part-time workers, possess distinguished statuses. There is no formal job contract guaranteeing job security, but firms have almost always assured their job security. "Life-time employment" mainly characterizes life-long careers of regular employees among large firms and those in the public sector, or about 20-25 percent of the labor force. The origin of life-time employment can be traced to personnel and management practices of late Tokugawa period of the 19th century. It was adopted in the manufacturing sectors in the 1920s and 1930s and was extended to include both white and blue collar workers among large firms after WWII.

Among small and medium size firms, which employ nearly 50 percent of the labor force, the concept of life-time employment is difficult to apply. Small companies go out of business frequently and jobs are less secure, causing unemployment. However, the outright dismissal of regular employees is still rare for these firms. In addition, many employee exits from small and medium firms occur for voluntary reasons, such as, starting their own company. Becoming one's own boss remains an attractive career goal for workers in small and medium scale companies (Ballon, 1989: 11).

the Plaza Accord of 1985, however, the yen has appreciated more than 150 percent, making Japanese products more expensive to American consumers. In 1992 it was argued that Japanese business would not survive if the value of yen decreases below 120-125 yen to the dollar (Seasick, 1993). Nineteen ninety-four has witnessed bi-monthly prognostications of the massive failure of corporate Japan, if the yen falls below 120, then 115, then 110, . . . The current exchange rate dropped well below that level, 100 yen to the dollar, diminishing the abilities of Japanese corporations to overcome recession by relying on more exports.

Table 2 summarizes survey data on corporate response to the recession. These data come from national surveys periodically conducted by the Ministry of Labor. They compare the current recession with two previous recessions (oil shock recession of 1974-75 and the recession of 1986 caused by the rising yen). The information was obtained during a meeting with ministry officials in Japan in June 1993 and directly from the Ministry of Labor in 1994.

Comparing current restructuring efforts with the previous major economic recessions suggests an institutional logic operating as a set of selection rules governing how Japanese firms respond to economic recession. The overall average in Table 2 (last 3 columns) suggests that more than one in three companies are using some form of employment adjustment in 1994, as compared with one in four companies in 1986 and one in two in the oil shock of 1975. Thus, the impact of the current recession on employment appears more severe than 1986 but less than 1975. In addition, the distribution of employment adjustment strategies across the three recessions suggests Japanese companies have engaged in a sequence of gradual and incrementally severe employment *adjustments* for all three recessions. The survey further indicates that the strategies are designed to find the least labor disruptive cost-cutting steps sufficient to meet cost-cutting requirements. In general, these strategies include the following steps:

a. reduction of over-time work;

b. no hiring of new workers;

c. reassignment of worker positions;

d. dismissal of part-time and temporary workers;

e. allocation of extended vacations;

f. temporary factory closing;

g. voluntary retirement and dismissal of workers;

Interviews with company executives, conducted by the authors of this paper during summer of 1993, elaborated features of these adjustment measures. The hierarchical sequence of steps is not necessarily linear and discrete, but a general incremental pattern. Companies employ more than one adjustment measure at a time and do not necessarily move from one measure to the next in a mechanical way. We contend that, in the aggregate, Japanese firms tend to move cumulatively and incrementally from one strategy to the next as need dictates.

a. Overtime Reduction

Overtime reduction is usually the first strategy of employment adjustment among Japanese firms. The survey data show this is by far the most common strategy of employment adjustment for the current and two previous recessions.[3] At present, one in four companies are using this

[3] For 1975 recession, "no hiring" and "overtime reduction" were the two most popular overall strategies. However, overtime reduction was the most common method among three industries across the three recessions.

measure. A survey of businessmen in the Tokyo area in 1993 also found that one in five workers are experiencing overtime reduction ("Japanese have more family time," 1993).

While overtime reduction by itself is not a unique measure to Japan (Abraham and Houseman, 1989), it is a powerful strategy of cost-cutting in a country where 30 hours of overtime a month is not unusual among regular workers. According to one labor group, overtime reduction amounts to more than three trillion yen a year (27 billion US dollar in 1993) ("A special news report," 1993). For individual workers, overtime has been incorporated as part of a "normal" work schedule. Also, many workers have come to rely on the extra income it generates. We estimate that the overtime of 30 hours a month would amount to at least a 20 percent increase in worker's monthly income.[4] Thus, overtime reduction is often met with mixed reactions from workers--more time to spend with the family but a tighter budget with which to enjoy the extra time.

In addition to overtime reduction, the reduction or elimination of bonus payments has also been used by companies. Annual bonuses typically amount to three to six months of worker's monthly income (paid in two installments, summer and winter). Thus, bonus payments provide an additional source of flexibility for a corporation in cutting labor costs. Though this particular measure is not incorporated in the periodical national survey in Table 2, interviews with company executives as well as recent company announcements detail the popularity of such

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[4] In 1989 Japanese employees worked an average of 175 hours per month, or 2,159 hours per year. This compares with 1,957 hours for Americans and 1,646 hours for French, and 1,638 for Germans (Ministry of Labor, 1991, 1993). Thus, 30 hours of overtime represents 20 percent of the average monthly working hours.

measures. As a rule, bonuses for managerial positions are cut first before cutting bonuses for the rank and file.

b. Reassignment and Dispatching of Regular Workers

Worker reassignment (*hai-ten*) and dispatching (*shukko*) appears to be the second most prevalent employment adjustment strategy during the current and previous recessions. Nearly one in five companies reported to have used this measure in early 1994.

Worker reassignment occurs when employees are reassigned to different sections or divisions within a firm. Re-assignment itself does not necessarily lead to pay reduction. Assignment to an entirely new job is not unusual. Japanese companies are known for their generalist-oriented job training by which workers are expected to move from one type of job to another throughout their careers. Job rotation programs have been widely used to enhance productivity and career development among blue-collar workers whose jobs are more clearly defined. However, at present, some companies are re-assigning white collar workers to blue-collar jobs, which is a radical departure from the past conventions. Mazda, for example, shifted 500 white collar workers to assembly line jobs, previously performed by temporary workers (Pollack, 1993g).

Worker dispatching (*shukko*) is the movement of regular workers from one company to its subsidiaries or affiliates. Broadly speaking, there are two kinds of dispatching: one is geared toward job training and career development, and the other is part of the official retirement and post-retirement career of a worker. In the latter case, workers who are past 50 years of age become prime candidates for dispatching. Dispatched workers are kept at dispatched companies until reaching mandatory retirement age set by each firm (usually 60). When the dispatched workers retire, they may be offered a second career job that entails less responsibility and pay. Or, dispatching may involve reduced salary in exchange for the postponement of retirement to age 65.

In addition to the merit of keeping the company lean, dispatching can lead to substantial cost savings. Typically, workers are dispatched from larger to smaller firms. Since smaller firms pay a lower salary than do larger firms, larger firms pay for the differences (20-30 percent of worker's original salary). Nippon Steel, for example, reduced 22 percent of its work force (or 14,652 positions) through dispatching from 1985 to 1993. Nearly 70 percent of this dispatching took place to Nippon Steel's 200 subsidiaries and affiliates ("Shin-nihon seitetsu," 1994).

It has been suggested that dispatching provides an important liaison between the company and its subsidiaries or affiliates by maintaining a high technical standard and a network of communications that enhance corporate performance. As the current recession continues, however, it has become more and more difficult for large firms to find room for dispatching among their subsidiaries and affiliates. This constraint was met with a new business, approved by the Ministry of Labor ("Hitode busoku," 1994). In December 1993 several large firms and banks jointly created a company that specializes in job placements of dispatched workers.

c. No Worker Hiring

Employment adjustment through no hiring is another prevalent strategy among companies during these three recessions (Table 2). At present, more than one in seven companies are resorting to such a measure. No hiring of workers appears to be a straight-forward cost cutting measure. The use of this particular measure is more prevalent today than in 1986, when only

7 percent of the companies surveyed were not hiring workers. However, the current level is still lower than in 1975, when as high as 37 percent of companies did not hire any workers.

Nevertheless, the job market continues to deteriorate for the new graduates during the current recession. There were only 89 job openings for each 100 job seekers in February 1993, the lowest level since 1987 ("Japan's jobless rate climbs," 1993). By March 1994, it continued to slide to 65 openings for each 100 job seekers (Ministry of Labor, 1994).[5] The job market is even tighter for female college graduates. There were 1.81 jobs for every male college graduate, but only 0.79 for each female college graduate in March of 1994 ("Kyuju-yonen no daisotsu," 1994).

Unlike hiring practices in the U.S., Japanese firms hire new employees only once a year. Recent graduates of high schools and colleges all start in a company on the same day, forming the freshman cohort and climbing the career ladder together. Each cohort is a basic building block of the Japanese seniority system. No hiring of new workers, therefore, eliminates a slice of the cohort pyramid and can disrupt the promotion clock for the internal labor market of an organization. Also, this strategy is not taken lightly because of its effect on the company's reputation as an employer.

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[5] Table 2 includes statistics for no hiring of any employees. The hiring of "new employees" is a special subcategory including only recent graduates. Large firms hire "new employees" only once a year, during the fall. National surveys, conducted by the Ministry of Labor, assess employment conditions periodically (every 3 months or so) and thus, the question of new hire, specifically, is not included in the regular survey.

d. Dismissal of Part-time and Temporary Workers

The temporary and part-time workers constitute nearly 20 percent of the non-agricultural labor force in Japan.[6] Most temporary, part-time workers are women.[7] The temporary work force acts as a safety valve, swelling during peak periods and shrinking in slack times. Dismissal of part-time and temporary workers has been the fourth most prevalent employment adjustment strategy during all three recessions. Over one in ten companies reported having terminations of temporary work in the 1975 survey. During the present recession, 6 percent of companies are resorting to this measure (Table 2).

Although not as prevalent as in 1975, the dismissal of part-time and temporary workers can still be substantial because many part-time and temporary workers put in long hours of work. According to a national survey of 3,000 part-time workers conducted in 1990, part-time workers, on average, worked 5.9 hours a day for five days with the average daily commuting time of 20 minutes (Special Committee to the Minister of Labor, 1991). Married women, who constitute 80 percent of part-time work force, brought income equal to 20-25 percent of the

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[6] The size of part-time work force is not any larger in Japan than in the U.S. According to Fortune (1/24/94), 25 percent of the labor force in the U.S. involve temporary, part-time workers. Pfeffer (1994) reports that temporary workers constitute one-quarter of the non-agricultural labor force in the State of California. In California, the demand for labor in non-agricultural sector increased by 54 percent between 1970 and 1990. During the same period, the number of workers involuntarily employed part-time increased by more than 120 percent. In Japan, various national surveys indicate that many temporary workers, especially women, select this form of work rather than working as full-time, regular workers (Usui, 1993).

[7] According to the Ministry of Labor (1992:247), in 1987, 8 percent of males in non-agricultural labor force and a staggering 49 percent of females were part-time, temporary, or some type of contract workers.

family income. Thus, the loss of part-time jobs can lead to considerable decline in family income, similar to the impact of overtime reduction on worker's income.

e. Allocation of Holidays/Extended Vacations

In some instances the allocation of extra holidays and extended vacations are used to cut costs. As indicated in Table 2, over four percent of companies surveyed carried out such measures during the current recession. Starting in the fall of 1993, Nippon Steel Corp., for example, instituted two extra paid-holidays per month by closing its companies. While taking holidays, workers received about 80 to 90 percent of their pay (Pollack, 1993g).

The creation of extra holidays and vacation time can be a welcome gift in a country where two-day weekend holidays are not fully instituted. As of 1992, only 14.5 percent of all companies (with thirty workers or more) had two-day weekend holidays. Another 33 percent of enterprises surveyed had bi-weekly two-day weekend holidays (Ministry of Labor, 1992: 286-87; Ministry of Labor, 1993: 382). Whether the taste of extra rest and leisure would foster new values for leisure, or whether workers return to be "working dogs" when the recession is over, remains to be seen.

f. Temporary Factory/Business Closing

Temporary factory closing was a substantial employment adjustment strategy for manufacturing firms in the 1975 recession. During the current recession, the use of this measure is considerably limited, as only one in twenty firms adopted it. This measure is sometimes taken with the assignment of extended vacations and holidays.

It must be pointed out that temporary factory closing may lead to permanent closure. Permanent factory closing is a severe form of corporate restructuring. Japan has closed many factories and removed excess capacities in industries which lost international competitiveness (e.g., textiles, ship building, and aluminum) (Pollack, 1993d). When a company closes a factory, regular workers are usually offered the options of job transfer or voluntary retirement with extra benefits. While this principle of business closure may not be strictly followed by smaller-scale companies, large companies have made efforts to honor lifetime employment principles and to minimize the social and economic impact of factory closure to a geographical area. A famous example involves the Nippon Steel's shut-down of its oldest furnace town, Kamaishi, built in 1857 and closed gradually in the mid-1980s. The company tried to transfer workers to other plants, as well as to create jobs to employ the former steel workers. Recently, Nissan Motors announced the closure of its oldest assembly factory in Zama, offering job transfers for 2,500 regular workers (Pollack, 1993d).

g. Voluntary Retirement and Dismissal of Regular Workers

According to the survey, voluntary retirement and dismissal of regular workers is the least prevalent of all the employment adjustment strategies (Table 2). Also, interviews with corporate managers suggest that active encouragement of voluntary retirement is used but is almost always kept as a last resort. They also indicated that the dismissal of regular employees is difficult because it violates the fundamental sense of trust, bonding workers and the company. They further contend that it damages the reputation of the company.

Some forms of "voluntary" retirement are essentially forced resignations, or a stricter version of *kata takaki* (meaning, tap on the shoulder) which is a customary procedure used to facilitate voluntary departures of workers. Anecdotes have circulated that some companies go to great lengths to force people out (Pollack, 1993b). The case of Pioneer, a top manufacturer of audio equipment, illustrates the point. In December 1993, the company approached its 35 managers to "consider" voluntary retirement (with increased retirement benefits). However, these voluntary retirement packages were essentially forced resignations. Pioneer's approach was met with harsh media criticisms. The issue is not that occasional layoffs and worker dismissals do not occur; only that their scope, infrequency and the public response to dismissals underscores the prevalence and constraint on this strategy. Later, we consider the effect of drastic restructuring strategies, especially worker dismissals, on social reputation of companies.

In sum, during the three major recessions, Japanese firms have engaged in an organizing logic that is pro-employment--particularly of regular workers. This organizing logic is indicated by a set of selection rules that minimize the disruption to the worker-company relationship. Employment adjustment needs are spread broadly across different measures and within company networks (as in the case of dispatching). We contend that these selection rules cannot be taken out of context. These are not universal selection rules of employment adjustment that might be applied anywhere. These selection rules are maintained and supported by institutional features of Japanese society. In the remainder of the paper, we discuss some of those institutions within which the firm is embedded and how they support and circumscribe the firm's ability to resist laying off employees during economic downturns.

Institutional Response

By some measures, the most efficient solution to recession driven overcapacity is to cut labor costs. So, how can Japanese firms retain employees, when formal accounting rules would dictate cutting labor costs? We argue that the institutional environment in which Japanese companies operate provides important clues to the pattern of Japanese responses that differ from those in the U.S. We propose the following points on the "economics of the firm." These points provide a broad outline of the institutional network allowing Japanese firms to retain employees until the most dire of circumstance. First, the economic activities of Japanese firms are socially embedded in networks of institutions and do not operate as atomized actors pursuing their own particular interests. Second, economic activity is social action and cannot be separated from the quest for social approval, affiliation, political influence, and reputation of the firm (Granovetter and Swedberg, 1992). Although, these principles are universally applicable, they are more pronounced in a country like Japan.

Governance Structure of the Japanese Firm

Labor relations scholars point to the "sacred" labor institutions--life time employment, seniority, and enterprise unions--as one important explanation of pro-employment corporate responses. Nevertheless, the importance, or the sacredness, of these institutions should not simply be taken-for-granted. These labor practices continue partly because they are supported by the governance structure of Japanese firms. A governance structure that is quite different from that of the typical American firm (Aoki, 1987; Dore, 1993; Gerlach, 1992; Useem, 1993). The differences involve several parameters: the dominant constituency of the firm; the source and level of firm ownership; and the level of independence of the firm's management. The different configurations of these dimensions of internal organization result in different organizational policies designed to adjust to economic recession.

Comparing American and Japanese modes of corporate governance, various authors have identified "capital" as opposed to "labor" centered models of governance. American firms are "capital-centered models of corporate ownership" (Gerlach, 1992: 222) operating in "stock-market-centered capitalism" (Dore, 1993). The firm exists primarily for the benefit of stock-holders of publicly traded firms among all the firm's constituencies (i.e. workers, suppliers, creditors, customers, regulators, etc.). Useem (1993:7-8) contends this priority means that corporate structure and policy is "defined and evaluated according to the criteria of shareholder value" (high dividends and stock price appreciation). The top priority of management is to maximize capital returns.[8]

The experience of the 1980s exaggerated the governance structure of American firms: a prolonged period of profit decline in the 1970s; the emergence of corporate "raiders" and the ascent of large aggressive institutional investors (pension funds, investment companies, insurance companies and bank trusts) increased the control of stockholders over the priorities of American firms (Useem, 1993). First, low profits after President Reagan's deregulation of the early 1980s forced close scrutiny of entrenched management, internal structure, and business strategy. Poor performance came to be blamed on American management that was unresponsive to shareholders' concerns (i.e., dividends and appreciation). Second, the "leveraged buyouts" of the 1980s (taking publicly traded firms, private) where companies' shares were purchased on collateral of the acquired company were the most complete form of ownership control (cf. Useem 1993:24). R.J.R. Nabisco in 1988 dramatized the mechanics of this form of control at

[8] Even though American firms would emphasize 'growth' as the principal goal, a survey of 500 major American and Japanese companies found that executives of American firms placed return on investment as their principal corporate objective. Share price increase and market share was ranked second and third. In contrast, executives of Japanese firms placed market share first, and return on investment second and the refreshment of the product portfolio third. Share price increase came last in Japan (Abegglen and Stalk, 1985: 176).

the highwater point of the strategy's popularity. Third, large pension fund shareholders emerged in the 1980s actively taking control of corporate boards of directors, structures, and policy to reflect their interests. Shareholders expect to receive a significant share of profits in the form of dividends and share price appreciation.[9] Dividends are taken as a sign of "successful operation and competent management" (Abegglen and Stalk, 1985: 183). Stock price appreciation provides pension fund managers with validation of their stock portfolios. The recent example of the California Retirement System changing the General Motors board of directors had rippling effects on other major American firms.

The 1980s saw attention focused on shareholders' interests, with frequent and radical "redeployment" and "rightsizings" of an additional 500,000 to 600,000 in 1993 alone. The capital-centered model dictates that in times of economic recession, primary effort is devoted to protecting shareholder value. This means dividends must be protected and stock prices maintained continuously. Worker payroll, capital investment, R&D are cut before dividends are cut. From the viewpoint of neo-classical economists, "management unilaterally chooses its employment and investment policy in order to maximize share price posterior to individual or collective wage bargaining" (Aoki, 1987: 266).

Japanese firms, by contrast, are characterized by a "strategic" or "labor" centered model of corporate ownership (Gerlach, 1992: 223) where dividends, profits, and rates of capital return are relatively low. Legally speaking, firms are the property of shareholders, but in practice, firms exist more for the benefit of the employees than shareholders. Shareholders stand as

[9] According to Abegglen and Stalk (1985: 183), most American companies support a dividend payout rate of 50 percent of earnings.

investors rather than controllers of a firm (Abegglen and Stalk, 1985). In time of a recession, Japanese firms cut dividends before cutting payroll. In fact, cutting the dividends are customarily done without the consent of the shareholders in Japan (Japan Update, 1992: 4).[10] The major feature of the Japanese model, according to Aoki (1987: 266), is its emphasis on "the mediation postulate, according to which management, possibly in cooperation with the enterprise union, coordinates wage determination and managerial policy making simultaneously in order to achieve an efficient outcome."

This governance structure, in conjunction with other institutional supports, allows Japanese firms to adjust to recession and overcapacity in ways that may seem peculiar to Americans. The Japanese firm's ability to resist worker termination is indicated by the swelling number of redundant workers within firms, known as *in-house unemployment*. Various sources estimate that the internalization of redundant workers now involves more than 1 to 1.5 million regular workers, or 1.5 to 2.3 percent of the labor force ("Kigyonai shitsugyosha," 1993; Stewart and Dowling, 1994; "Japan's jobless rate unmasked?," 1993). Sumitomo Research Institute estimates its number as high as 3 million (or 4.8 percent of the labor force) ("Kigyonai shitsugyo," 1993). These figures suggest the severity of overcapacity in Japanese firms.[11]

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[10] Although a common view states that Japanese shareholders receive low profits and meager dividends. Compared with shareholders in the U.S., Abegglen and Stalk (1985) report dividends are paid in Japan to "reassure shareholders that the company is healthy." Japanese companies commonly pay dividends equal to about 10 percent of the par value of the stock, even by borrowing money or selling assets to assure this payment. Moreover, Abegglen and Stalk's (1985: 169-174) analysis of stock price appreciation in the U.S. and Japan in sixteen out of twenty-one industry leaders shows that Japanese shareholders fared better than their U.S. counterparts.

[11] Anecdotal evidence suggests that *in-house unemployment* involves social and psychological humiliation. Americans might ask why these underemployed workers do not

Japanese management is not driven by shareholder interests in dividends and appreciation because they are embedded in economic, political, and social relations that subsumes capital interests. First, many of the large and medium sized firms in Japan are affiliated with one of several *keiretsu*. These affiliations have several implications, but one is that most Japanese company stock is not publicly traded, but is held by other affiliated companies. The ownership of company shares is carried out through a network of known firms with durable relationships, not anonymous securities markets.[12] Second, pro-employment government policy is implemented through employment subsidies to firms, funds to targeted industries, and administrative guidance.[13] Third, the media in Japan constrains company policies because it shapes, in large measure, the reputation of Japanese firms.

Keiretsu Affiliation

The historical roots of the Japanese model of corporate ownership date back to the 1950s after SCAP (Supreme Commander of Allied Powers) purged the power of *Zaibatsu* by removing

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collect retirement benefits and seek other jobs. Many *in-house unemployed workers* stay with the company for three reasons: First, leaving a company would risk economic security. There is no guarantee of finding a new job. Second, employment institutions, built on the bases of in-house training, make it difficult for middle aged and older workers to move from one company to another. Worker's skills are often firm specific and not transferable to other companies. Third, horizontal network systems among Japanese corporations (e.g., *keiretsu*) make job mobility between firms of comparable size and across different groupings difficult.

[12] In addition, stock ownership is often reciprocal, blurring the distinction between owner and owned. Finally, stock ownership loses meaning in Japan because it is only one of many different types of relationships taking place simultaneously between any two affiliated firms (e.g. purchases, sales, debts, directors, etc) (see Gerlach, 1992:225-227).

[13] Chalmers Johnson (1982: 267) writes that during previous recessions MITI's administrative guidance was implemented through industry "cooperative discussion groups." These industrial cartels set production quotas, barriers to entry, market control and investment strategies to stave off the consequences of recession.

family control of major holding companies (Dore, 1993; Aoki, 1987). Shares held by the *Zaibatsu* families were liquidated and 40% of the total shares were sold. No one was allowed to acquire more than 1 percent of any company and old managers of the *Zaibatsu* were replaced with young technocratic managers. Further, top corporate executives were prohibited by law from receiving stock options in their companies, a significant contrast to the American practice (Abegglen and Stalk, 1985: 187).[14] The Antimonopoly Law of 1947 imposed a 5 percent ceiling on bank holdings in the stock of any single company, but subsequent legislation raised this ceiling to 10 percent.

Liberalized foreign investment along with the stock market crash of 1964-65, sent widespread fear of unfriendly takeovers by powerful foreign, especially American, companies (Johnson, 1982). To insulate the management from outside takeovers, Japanese companies bought each other's shares (primarily among *keiretsu* affiliated firms) so only about a quarter of the total shares issued by a company were publicly traded. If any predatory corporate raider came in and tried a takeover, no more than 20-25 percent of the firm's shares were publicly available for purchase. T. Boone Pickens' unsuccessful attempt to takeover Koito Manufacturing in 1992 illustrates the effectiveness of this strategy. By the 1980s, 66 percent of all corporate stock in Japan was owned by corporations (Kerbo, 1991: 436).[15]

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[14] This legal regulation partly explains the modest earnings of corporate executives, as the income gap between the top executive class and the entry-level employee class was 7:1 in Japan compared to 37:1 in the U.S. in 1984 (Kerbo, 1991: 431).

[15] Various authors have noted that family stock ownership in Japan is much lower than that in the U.S. In the early 1980s, half of all corporate stock was controlled by families and individuals in the U.S., whereas it was 27 percent in Japan (Kerbo, 1991: 435).

The key differences between the U.S. and Japan is that stock is privately traded and owned by other corporations within the same *keiretsu* affiliation in Japan. In the U.S. it is publicly traded and controlled by financial firms (pensions, investment houses, insurance, and bank trusts) that are in reality owned by worker pension funds (Kerbo, 1991: 436). Aoki (1987: 280) suggests that "member-firms (*keiretsu* affiliated) of corporate groups are more risk averse than independent firms and that grouping functions as a mutual insurance scheme." Mutual shareholding, long-term relationships, interlocking directorates and president's club memberships cement the bonds among firms and provide mutual monitoring mechanisms.[16] One important result of the differences in corporate structure is that Japanese firms are not subjected to pressures from pension managers, accountants and stock analysts for quarterly financial gain.

Government Influence

There is a growing recognition that Western governments give money to workers after they lose jobs, but in Japan the government pays distressed companies not to lay off workers. In fact, the government has taken a number of measures, most notably, various subsidy programs to employers. In 1974, the government revised the Employment Insurance Law and created the Employment Stabilization Services. It was the time when the first oil shock hit Japan and caused the most severe recession in post-war history.

Employee contributions fund these services. The contributions are equal to 1.25 percent of worker's salary. The funds provide subsidies to companies in designated industries for a

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[16] Recent studies provide evidence that earnings of employees at member-firms of corporate groups are on the average significantly lower than at independent firms, indicating the tradeoff between earnings and job security (Gerlach, 1992).

number of employment adjustment measures mentioned above (step a through h) and in Table 2. Known as the Employment Adjustment Subsidy, it is a program created to secure employment stability of workers and promote the smooth transformation from an industrial structure that is depressed into other more promising industries. When a firm restructures without resorting to the dismissal of regular workers, subsidies are paid either for temporary release of workers from work, worker training, or temporary transfer to other firms (*shukko*). For example, subsidies now pay three-fourths of the worker's wages to small or medium size firms, and two-thirds of the wages to large firms for worker training.[17] Starting in 1994, the Ministry of Labor further strengthened the existing employment adjustment measures (The Total Plan for Employment Adjustment) by relaxing a number of eligibility requirements for receipt of subsidies as well as the duration of receipt (Ohashi, 1994). Under the new regulations, a company can receive subsidies for up to three years, extended from the previous rule of two years.[18] In addition, the expanded programs support dispatching of workers aged 45 and older by paying one-quarter of wages to large firms and one-third of wages to small or medium firms. The total cost of these employment adjustment programs was about $747 million (86 billion yen)

[17] What is considered small or medium size depends on type of industry. In the manufacturing sector, for example, business establishments with 300 workers or less qualify for a small/medium firm designation. In sales, the cut-off point is 50 workers (for wholesale, it is 100) (see Ohashi, 1994: 32). In addition, the amount of subsidies were raised in April 1993 to present levels. Previously, two-thirds of the worker's wages were paid to small or medium size firms, and one-half of the wages were paid to large firms ("Koyou chosei joseikin," 1993). The government raised the amount of subsidies because of the deterioration in the economy.

[18] Of course, firms must apply every year for the continuing receipt of subsidies.

in 1993 and is expected to rise to about $3.26 billion (326 billion yen) in 1994 (Ohashi, 1994: 33).[19]

Two hundred specific industries were designated for the employment stabilization services, compared with some 160 industries receiving government subsidies during the recession of 1986 ("Koyou chosei," 1993; Pollack, 1993d). The industries included automobile manufacturing, computer software, and electronics industries. In September of 1993, subsidies provided the wages of about 132,000 workers released from their jobs temporarily and 17,000 workers undergoing retraining. In our calculation, the number of workers receiving subsidies in September 1993 corresponds to about 0.23 percent of the labor force.[20] Since the onset of the recession, 4 million workers, which is equivalent to 6.3 percent of the labor force, received the subsidies at one time or another ("Daifukyo," 1994). It is reported that the projected budget for 1994 ($3.26 billion) may support job security and job transfer for an additional 1 million workers (Ohashi, 1994).

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[19] Calculated by authors of this paper based on 1$=115 yen for 1993 and 1$=100 yen for 1994.

[20] To double check the figure, we obtained information on subsidies in Gifu prefecture for the period beginning June 1992 to April 1993. The information was given to the authors of this paper from the prefectural government officials in June, 1993. Gifu prefecture is centrally located (north of Nagoya and east of Kyoto) with a working population of about 1 million. The number of workers who were temporarily laid off under the employment stabilization program ranged from the lowest of 544 in August 1992 to the highest of 2,900 in April 1993, with the average of 1,426 persons per month, or 0.14 percent of the labor force. On the average, workers took 3.5 days off per month. The number of workers who participated in training under the employment stabilization program ranged from the lowest of 418 in March 1993 to the highest of 1,356 in December 1992, with the average of 670 persons per month. On the average, training took 1.4 days per worker. The combined average of 2,096 (1,426 plus 670) equals to about 0.2 percent of the total working population in Gifu prefecture, a figure that is in agreement with the national statistics.

Media and Public Opinion

The media has a powerful effect on the employment policies of Japanese firms. A company's employment records and labor relations are vital to its reputation and ability to attract qualified workers. Once a company breaks with employment routine, it cannot recruit first-class workers for years to come. Extensive reporting on employment records and company performance serve as guides to job applicants. College graduates consider job security and company reputation as the two most important factors in selecting their prospective employers (Economic Planning Agency, 1992). It is expected that companies honor job security of regular employees in exchange for their loyalty to companies through good and bad times. In bad times, company managers are expected to cut their own benefits and positions when cutting labor costs of the general workers. Ideals, by definition, are not always realized, but as a standard by which to compare employment adjustment strategies.

In Japan, a person's primary social identity is closely tied to one's membership with groups. Thus, joblessness poses a serious social distress. It has been said that Japanese life consists of movement from "house" (*ie*) to "house." One's primary identification is his/her membership in the house (including a company) or houses. Without a house/company identification, others do not know what to make of that person, how to relate to that person; and neither does he/she.[21] The person without a house/company identification becomes a *ronin*, literally a wandering person. In Japanese language, another form of the word "house" (*uchi*) is the

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[21] A Japanese worker when introducing oneself will always say, "I am Isoda Corporation's Yamada Akira" rather than "I am Akira Yamada from Isoda Corporation" as most Americans would. The introduction is unconscious and ingrained from youth. It is far more than a matter of semantics.

personal pronoun for "I" and "we." House identity, once established, is almost never jeopardized, and the betrayal of one's house is perhaps the worst offense within Japanese society.[22]

Until very recently, no employee of a major company would think of moving to another major company. Indeed, "defectors" would be treated with suspicion by any subsequent employer, having proven they were not to be trusted. Consequently, Japan had no trade secret law, at least until 1990. However, recently, as companies began quietly laying off regular employees; workers began pursuing sequential employment; and pay began to be linked to performance.

Even so, corporate employment practices and public expectations built up over four decades are difficult to change overnight. The recent cases of corporate restructuring caught widespread publicity because they were taken by big players, symbolizing very fundamental changes in the Japanese labor relations and employment systems (Table 3).[23] Among 24 high-profile companies listed in Table 3, eleven (or 46 percent) announced the elimination of more than a thousand regular workers through a combination of measures such as no hiring of new workers, worker dispatching, voluntary retirement, and worker dismissal (JAL, Nissan, Sakura Bank, Oki Electric, IBM Japan, Sanyo Electric, Hitachi, Nippon Steel, TDK, Sumitomo Metal,

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[22] The Japanese Penal Code, for example, prescribes a penalty of not less than three years' imprisonment for murder, but murder of one's lineal ascendant carries a mandatory sentence of life imprisonment or death (article 200). In contrast, Americans are more frightened by random violence caused by unrelated persons, and penalties for these crimes tend to be more severe (Reidel, 1993).

[23] Data were compiled by one of the authors (Chikako Usui) from several sources during 1993. Information on company characteristics were also added by the authors of this paper.

NTT). In two cases, hiring of new graduates, which had been completed, was canceled (Northwest Airlines, Kodak Japan). Six (or 25%) targeted directly managerial ranks (Cosmo, Sanyo, Itochu, Pioneer, TDK, Hitachi).

The media and the public responded with intense discussions, especially on the "fairness" of dismissing long-time workers only by paying extra retirement benefits but without helping them in finding a new job (e.g., "Kigyonai shitsugyo," 1993). The media called into question the procedures some companies used in forcing people out. For example, companies were harshly criticized for their "casual" handling of worker termination and job cancellation of new graduates. Workers expressed a "special" kind of anguish for being suddenly forced out (see for example, Okumura, 1993).[24] The media also questioned the active use of voluntary retirement in restructuring, by citing cases where worker's felt betrayed; morale went down; and most qualified workers took voluntary retirement and left the company ("Kondokoso," 1993).

A perusal of Table 3 will quickly suggest the scope of the issue. The companies are large, but the numbers of employees effected by these employment adjustment strategies is relatively small. However, the events must be understood in the context of contemporary Japan. These employment strategies are drastic to the Japanese, because they have not happened in post-war Japan. The Japanese perceive these events as "unthinkable" or "disgraceful" and even "shameful" on the part of the companies. The Japanese do not view the termination of the

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[24] On January 9, 1993, the New York Times featured an article with the headline "Shock in a Land of Lifetime Jobs: 35 Managers Dismissed in Japan" which read that "the unthinkable has happened in Japan, and it has touched a nerve in the ranks of the nation's middle managers" (Pollack, 1993a). It reported the degree of shock and public outrage described in daily newspapers in Japan. In March 3, 1993 the New York Times again featured an article with the headline "Layoffs and Factory Closing Shaking the Japanese Psyche" (Sanger, 1993).

relationship between a company and "new hire," much less a long standing employee in a casual fashion. To the Japanese, termination of a new hire is like canceling a wedding at the altar.

Surprised by the intense public outcry and harsh media criticisms, many of the companies listed in Table 3 overturned their decisions to dismiss workers later. Pioneer and TDK, for example, were "taken aback by the publicity surrounding its decision" and canceled their plans (Sanger, 1993). The magnitude of the restructuring, the media's reaction, and the reversal of active voluntary retirement/worker dismissal by large firms is indicative of the importance of media pressure and Japanese firms' sensitivity to their public reputation.

Discussion

Despite the severity and duration of current economic recession, Japanese companies have resorted to a combination of restructuring measures that are less disruptive organizationally and socially. The examination of employment adjustment measures taken by corporations reveals the institutional environment in which companies are embedded as existing as social actors concerned with approval, social status, and political influence. Japanese firms are subjected to less pressure for layoffs, given the distinctive governance structure embedded in a network of keiretsu affiliations. In addition, the Japanese government has shown a propensity to work with business firms to help relieve employment problems. This strategy lessens disruptions by offering money to companies for worker retaining, allocation of extra holidays, and temporary business closure.

It may equally be said that one of the biggest obstacles to restructuring among Japanese companies is their inability to terminate regular workers (Schlesinger, 1993). Critics argue that the difficulty of worker termination leads to a slow and ineffective restructuring of corporations (see for example, Okumura, 1993). Others criticize government subsidy programs as delaying changes that are necessary for companies ("Kara yaburenu," 1994). These views, in part, may be valid. Yet the social and psychological costs of massive worker dismissals may equally be costly. Many corporate managers acknowledge the need to overhaul employment institutions but they also caution the danger of short-sighted solutions.[25]

Much more needs to be studied about how employment and labor practices will change. Currently, there is a growing view that large corporations are shifting from "lifetime employment accompanied by promotion within" to a more specialized system where occupational roles and shorter tenure are supported in a more flexible labor market. Honda, for example, announced a drastic reform in its internal promotion of managers by fastening a career clock of regular employees. Under the new system, whether a worker will be promoted to top managerial ranks can be ascertained as early as 37 years of age, rather 45 years of age under the old system. Those who will not be promoted to top managerial positions in the future may retire at that point for better careers elsewhere ("Sanjuu nanasai no," 1994). Whether the labor market becomes flexible enough for those seeking mid-career changes remains to be seen. However, Honda's and other recent corporate announcements indicate a clear departure from the concept of life-time employment that existed for four decades.

Rapid aging of the Japanese work force will pose additional pressures on corporations with life-time employment and seniority-based promotion systems. Since the mid-1970s, the

[25] According to a survey conducted by a leading business organization, 41 percent of executives think Japan 'must thoroughly revise the lifetime employment system.' They contend that the concept of life-time employment and seniority-based promotions were critical in achieving post-war economic growth but they became increasingly inefficient and obstacles to corporate flexibility (Williams, 1994).

government lobbied corporations to raise mandatory retirement age to at least 60 years, and since 1986, to 65 years.[26] As in employment adjustment subsidies, the government has given subsidies to companies to keep older workers employed (e.g., subsidies for re-training and retirement preparation). In view of current increases in the number of companies offering voluntary retirement options as early as age 45, the government's pro-employment policies counter with business' responses of pro-retirement approaches. The issues of employment, unemployment, and retirement are intricately related, and the relationship between the corporate world and the government may produce another peculiar Japanese response to economic and aging problems.

[26] As of 1992, 77 percent of Japanese firms with 30 employees or more have raised the retirement age to 60. Over 90 percent of the firms have adopted such a policy to be implemented by 1997.

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