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## Employee-transfer as an instrument of information-transfer through vertical relations?

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## ABSTRACT

### **Employee-Transfer as an Instrument of Information-Transfer through Vertical Relations?**

by Rita Zobel

Personnel policies and strategies of Japanese companies have gathered special interest for a long time. But in a crisis like the burst of the bubble economy in the beginning of the nineties these principles are handled more and more in a flexible way. With a growing number of people in transfer to other companies in the group or to affiliated firms, the Japanese companies try to maintain their competitiveness.

Since long term relations are still significant in Japanese companies, employees cannot simply be dismissed. The transfer of employees, which is known as shukkô means not to cut, but to loosen the relations to them while going in closer contact with the group companies. One side of the transfer is to gain competitiveness in reducing the surplus of employees and to cut personnel expenses. The other side is to strengthen the relations in giving technical guidance and training in affiliated companies. This means a better flow of knowledge and information to the affiliates.

The aim of this study, which is based on the Kaisha-Database at the Science Center Berlin, is to figure out and analyse these two intentions of employee-transfer.

The data of the shukkô-companies are examined with data relating to profitability. The study is supported by interviews with managers of the personnel department and comprises case studies to give a more detailed view on the intentions.

## ZUSAMMENFASSUNG

### **Entsendungen als Instrument des Informationsaustauschs über vertikale Unternehmensbeziehungen?**

Personalpolitik und -strategien in japanischen Unternehmen haben lange Zeit besonderes Interesse auf sich gezogen. In einer Krise wie nach dem Platzen der Seifenblasenwirtschaft Anfang der neunziger Jahre werden diese Prinzipien jedoch flexibler gehandhabt. Mit einer steigenden Anzahl von Beschäftigten, die zu anderen Firmen in der Unternehmensgruppe oder zu verbundenen Unternehmen entsendet werden, versuchen japanische Firmen ihre Wettbewerbsfähigkeit zu behaupten.

Langfristige Beziehungen spielen in japanischen Unternehmen jedoch weiterhin eine große Rolle. Um Personalüberhänge bewältigen und Personalkosten senken zu können, werden Beschäftigte in andere Firmen der Unternehmensgruppe entsandt. Dieser Transfer von Beschäftigten, genannt shukkô, bedeutet keine Entlassung, sondern eine Lockerung des Beschäftigungsverhältnisses. Durch einen Transfer kann ebenso ein engerer Kontakt mit den Unternehmen in der Gruppe aufgenommen werden. Die Beziehung zum verbundenen Unternehmen wird durch technische Unterstützung und Training verstärkt, was einen besseren Informationsfluß und Wissenstransfer für die verbundenen Unternehmen bewirken kann.

Die Studie, die auf Daten aus der Kaisha-Datenbank am Wissenschaftszentrum Berlin basiert, zielt darauf ab, diese beiden Intentionen des Beschäftigungstransfers heraus zu filtern und zu analysieren. Die shukkô-Unternehmen werden anhand verschiedener Rentabilitätskennzahlen untersucht.

Interviews von Personalmanagern und Fallstudien, die einen detaillierteren Einblick in die Bedeutung des Transfers vermitteln, ergänzen die Untersuchung.

## A. Introduction

Personnel policies and strategies of Japanese companies with life time commitment and a seniority system have attracted special interest for a long time. However, after the oil shocks in the seventies flexibility has come to prominence also.<sup>1</sup> With the „Employment Insurance Act., of April 1975 state interventions to avoid unemployment have become apparent. Companies with more than 10% decline of production in the previous year have been subsidised when they implemented adjustment measures like temporary lay-offs or transfers of people to other companies.<sup>2</sup>

Since the burst of the „bubble economy., in the early nineties, the principles of long-term oriented employment have been handled in a more flexible way. A significant extension from the internal labour market of the company to the labour market of the company-group has become apparent. With a growing number of people in transfer to other companies, known as „*shukkô*., Japanese companies are trying to defend their competitiveness. In a crisis like the one which followed the burst of the bubble economy, Japanese companies are faced with a severe decline in demand. One way to cope with that problem is to reduce the surplus of employees. But long-term relations are still significant in Japanese companies, and so the number of employees cannot simply be cut.<sup>3</sup> The transfer of employees allows the company not to cut, but to loosen the relations with their employees and to get in closer contact with group-companies at the same time. So one side of the transfer is to regain competitiveness in reducing the surplus of employees and to cut personnel expenses. On the other side it is possible to strengthen the relations with group-companies by giving technical guidance and training. As a result, a better flow of knowledge and information from parent to subsidiaries or affiliated companies is possible.

The aim of this study is to figure out two aspects of employee-transfers between companies: one is knowledge-transfer and the other is employment-adjustment.

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<sup>1</sup> ERNST, Angelika: Dauerbeschäftigung und Flexibilität in Japan, Campus Verlag, Frankfurt/Main, New York 1988.

<sup>2</sup> NITSCH, Harald: Wechselkurswirkungen auf den japanischen Arbeitsmarkt, Duncker und Humblot, Berlin 1996, p. 123.

<sup>3</sup> ITAMI, Hiroyuki: Peoplism - Beyond Capitalism: Japans People Centered Enterprise System, Manuscript, Tôkyô 1993.

## **The Data**

The study is based on the sample of 104 companies in the „Kaisha-Database,, at the Social Science Research Center Berlin and on annual reports (*yûka shôken hôkoku sho*)<sup>4</sup> of these Japanese industrial companies listed at the first section of the Tôkyô Stock Exchange. The information of the reports comprises, among other data, standardised data of employees with an average in number, wage, age, time of membership and payment for male and female employees since 1985.<sup>5</sup> Out of 104 companies in the database 37 (42) companies announced *shukkô* in 1995 (1997). Compared with the data of 1985 this shows a significant increase in the number of transferees. In this study the data of „*shukkô*-companies,, are examined, while the data of companies, which do not announce *shukkô* act as the control-group. In working with these data one problem has to be faced: The announcement of *shukkô* is not a compulsory announcement. Therefore some companies do and some companies do not.<sup>6</sup>

In addition I have interviewed 15 managers of the personnel departments of Japanese companies included in the sample of the Kaisha-Database. These interviews give a more detailed view on the intentions for employee-transfer and an overview of Japanese-style employment practices.<sup>7</sup>

## **B. Employment Situation & Practices in the Company**

### **1. Long-term orientation**

So called “Japanese-style“ employment practices still show long-term-orientation, like training in the company. In the dual structure of the Japanese economy, big companies with a better stock of capital can invest more in training and education of their employees than smaller firms can do. This investment in education is still done with a long perspective. The companies provide special training for different age-groups,

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<sup>4</sup> Annual Securities Reports according to Stock Exchange Law filed with the Ministry of Finance.

<sup>5</sup> The Kaisha-Database is composed of 104 big Japanese companies in manufacturing industry from the period 1970 to 1997. The period from 1970 - 1985 has to be investigated in later works.

<sup>6</sup> About the analytical limits of empirical research with security reports see: SCHMITZ, Rudolf: „Zur Erfolgsrelevanz der internen Organisation börsennotierter Industrieaktiengesellschaften,, in: ALBACH, Horst: Organisation, Gabler, Wiesbaden 1989. He did research with „Bonner Stichprobe,, the German counterpart of the Kaisha-Database, including German manufacturing companies listed at the Stock Exchange Market.

<sup>7</sup> The 15 interviews with managers of personnel department of big companies about ‘Changes in the Japanese Employment System and *shukkô*’ have been done in autumn 1997. 10 more companies answered the questionnaire through facsimile or letter. 4 interviews with *shukkôsha* can be added.

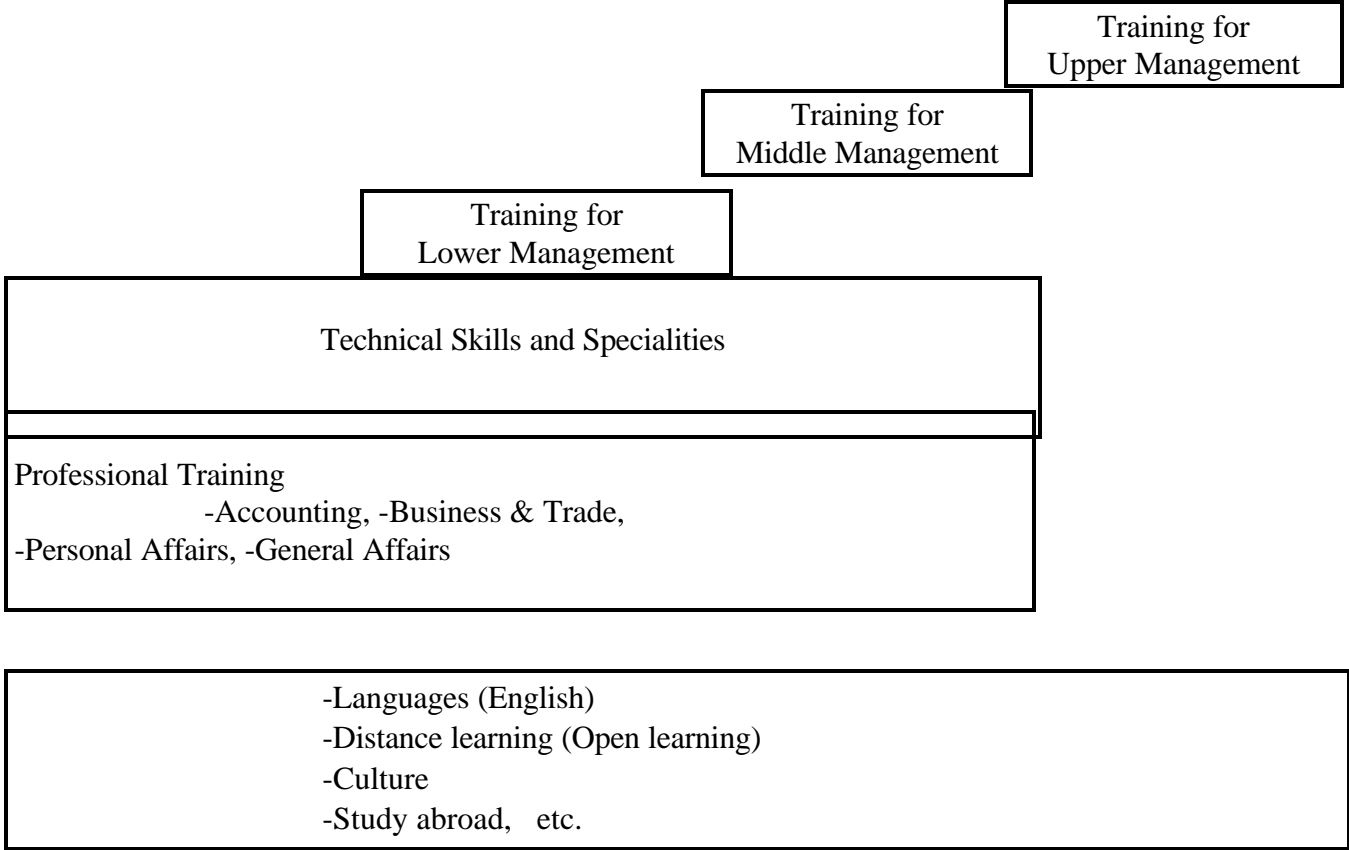
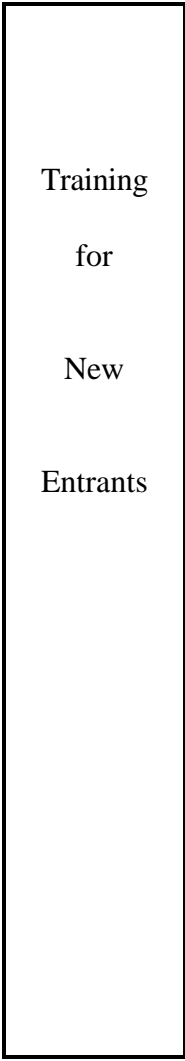
usually linked with the length of service, which can clearly be seen in sophisticated education or training plans (*kyôiku taikei*, *kenshû taikei*) (Figure 1, p. 4). In the way up on the company career track, one has to pass various ranks which include obligatory courses in the special field of work (*shokunô kyôiku*). After a time of more than ten years in the company it is possible to enter into the first management rank as an assistant manager. There is special training for different management levels (*kaisôbetsu kyôiku*) which takes place step by step. Entering the company after university and climbing up in the company hierarchy is still an important factor for the recruitment of managers. One of the problems of Japanese management is that the positions are already occupied by older employees. In former years an extensive increase in ranks took place. Now the management is forced to level these hierarchies again. Providing managerial positions in subsidiaries is one way to cope with that problem. The severe increase in age of the Japanese population is also becoming an important factor of change in the structure of the Japanese employment system.<sup>8</sup>

The year of entering the company is not only a sign or a measure for acquired abilities expected during the period in the company, but it is also a factor of identification within the group. Often meetings and other activities are held with members who entered in the same year. So the first ranks, were in reaching a certain age a certain experience is assumed, are passed in the same time. Later on it will differ and depend more on personal abilities. While experience is increasing, wage will increase as well (*nenkô seido*).

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<sup>8</sup> SEIKE, Atsushi: „Rôdôryoku no kôzô henka to rôdô shiba,, (Structural change of the workforce and the labour market), Report at the Symposium „Koyô shokugyô kenkyûkai,, (Meeting of the Research Group on Employment and Occupation), Japan Institute of Labour, Tôkyô, October 8<sup>th</sup> 1997.





But due to the specific personnel evaluation system, which considers age and capabilities (*satei*), the personal performance in the job plays an increasingly important role (*nenpô seido*).<sup>9</sup>

Job-rotation is a well-noticed element of gaining „human capital,, but it is not only a factor to support training and education. It is also an important element in the transfer and dissemination of knowledge inside the company. Usually after being in one post for three to five years, there ought to be a change of the workplace. At first rotation usually takes place inside the department. Later on it includes rotation among departments, divisions or business units. Transfers to other establishments of the company in Japan are also possible, as well as transfers outside of Japan. The aim of rotation is to widen the field of vision of the employee and to give him an overview of the company. In most companies generalists are still preferred, but some also emphasise the necessity of specialists.<sup>10</sup> In firms where the relations with the subsidiaries are very close,<sup>11</sup> the move to these subsidiaries is simply counted as change of workplace (*tenshoku*) and not as transfer (*shukkô*)<sup>12</sup>.

## **2. Different Types of Employee Transfer<sup>13</sup>**

*Shukkô* describes the type of transfer to other companies for a certain time. The usual period of transfer is limited to from one to three years. After that time there can be negotiations about an extended transfer or a return to the main company.

Young employees are mostly transferred to gather experience outside the company. So *shukkô* can have a positive effect in their individual career development plan. If *shukkô* is

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<sup>9</sup> -DEMES, Helmut: „Determinanten des Entgelts in Japan,, in: Deutsche Industrie- und Handelskammer in Japan: Personalwesen in Japan, Deutsche Industrie- und Handelskammer in Japan, Tôkyô 1991.

-ENDO, Koshi: „Sex and Creed Discrimination under the Satei System,, Lecture at the Free University Berlin, Summer 1993.

<sup>10</sup> For example Aiwa and Sony prefer specialists. They do not change positions often.

<sup>11</sup> At Kaneka or Matsushita Electric Industrial the transfers take place very often. In the latter it is also part of the policy of the company to change the business field (for example from production to sale).

<sup>12</sup> The intensive use of job-rotation might be seen as a factor for the acceptance of *shukkô*.

<sup>13</sup> -For a more distinguished description see: NAGANO, Hitoshi: *Kigyô gurupu nai jinzai idô no kenkyû*. (Research of the transfer of abilities inside the company group), Taga Shuppan, Tokyo 1989;

-dto.: *Nihon kigyô chinkin to koyô* (Employment and Pay in Japanese Companies), Chûo Keizaisha, Tôkyô 1996.

used in starting of new businesses, it is not limited to a certain time and can last several years. *Shukkô* then has the effect of easily transplanting an organisational structure in the new company.

With increasing age the possibility of returning to the main company becomes smaller. Employees over 45 years of age are often asked to think about a „second career,, in an affiliated company or supplier, where they are often offered higher positions though at lower salaries than in the main company. One aim is to provide specific skills and special knowledge, which cannot be recruited in the subsidiary or affiliated company. This is also done on demand of the subsidiaries. Another aim is to reduce personnel costs in the parent company, which has become common practice during the last years of recession where a surplus of employees had to be handled.

Temporary transferees (*shukkôsha*) are still registered as members of the main company which means that they are also paid by the main company, while the receiving company pays about 70% of the total wage sum back to the main company. Before a transfer happens the company union has an eye on the conditions in the receiving company to ensure that the actual status of the transferee is not worsened.

After some years of *shukkô* the responsibility for older employees is frequently passed to the receiving company (*tenseki*) whereby a clear cut in the relation takes place, resulting in the employee being totally transferred to the other company. In most cases this cut is made upon reaching retirement age.

### **3. Relevance of Firm-Size**

In the dual structure of the Japanese economy the integration of companies is strongly related to firm size. *Shukkô* has an obvious direction from big companies to smaller firms. It mostly takes place inside the vertically integrated company group (*keiretsu*), from parent company (*oya kaisha*) to subsidiaries (*kogaisha*) and affiliates (*kankei gaisha*, *kanren gaisha*), and, to a lesser extent, to suppliers (*shitauke*). If companies without financial relations are concerned, it is at least a business partner (*torihikisaki*). There are also *shukkôsha* from smaller companies to bigger ones, but in a less significant number.

Table 1 (p. 7) shows that the direction of the transfer of employees is determined by firm-size. Most sender-companies have more than 1000 employees. The number of employees dispatched to them (*ukeire*) is much smaller than the number of employees

sent away. While an average of 51.7% is hired out from companies with more than thousand people, an average of 11.7% is received.

**Table 1**      **Number of *shukkôsha* by Firm-Size**

in thousand (and in %)

		Total	over 1000	100-999	1-99
1988	Sender	67.4 thousand (100%)	35.2 (52.2)	16.0 (23.7)	12.7 (18.8)
	Receiver	67.4 thousand (100%)	5.5 ( 8.2)	29.3 (43.5)	29.6 (43.9)
1989	Sender	52.0 thousand (100%)	22.2 (42.6)	12.4 (23.7)	13.1 (25.0)
	Receiver	52.0 thousand (100%)	5.8 (11.1)	21.8 (41.9)	22.6 (43.4)
1990	Sender	69.8 thousand (100%)	33.1 (47.4)	15.7 (22.4)	16.0 (22.8)
	Receiver	69.8 thousand (100%)	5.2 ( 7.4)	18.1 (26.1)	43.8 (62.6)
1991	Sender	68.1 thousand (100%)	33.6 (49.3)	10.6 (15.5)	19.7 (28.8)
	Receiver	68.1 thousand (100%)	5.6 ( 8.2)	18.1 (26.4)	43.8 (64.2)
1992	Sender	56.6 thousand (100%)	34.7 (61.3)	11.6 (20.4)	5.2 (14.4)
	Receiver	56.6 thousand (100%)	9.4 (16.6)	23.0 (40.5)	20.3 (35.7)
1993	Sender	82.9 thousand (100%)	48.9 (59.0)	15.6 (18.9)	10.0 (23.8)
	Receiver	82.9 thousand (100%)	12.0 (14.5)	25.4 (30.7)	35.8 (43.2)
1994	Sender	72.1 thousand (100%)	45.3 (62.8)	11.0 (15.3)	13.5 (18.2)
	Receiver	72.1 thousand (100%)	9.8 (13.6)	37.2 (51.6)	21.1 (29.3)
1995	Sender	93.1 thousand (100%)	36.4 (39.1)	17.2 (18.5)	24.9 (26.7)
	Receiver	93.1 thousand (100%)	13.2 (14.2)	27.5 (29.5)	47.9 (51.4)
Average	Sender	70.3 thousand (100%)	36.2 (51.7)	13.7 (19.8)	14.4 (22.3)
	Receiver	70.3 thousand (100%)	8.3 (11.7)	25.1 (36.3)	33.1 (46.7)

Source: Ministry of Labour: Report of the Survey on employment tendencies (*Rôdôshô: Koyô dôkô chôsa hôkokusho*), 1996.

#### **4. Changing Employment Situation in the Company**

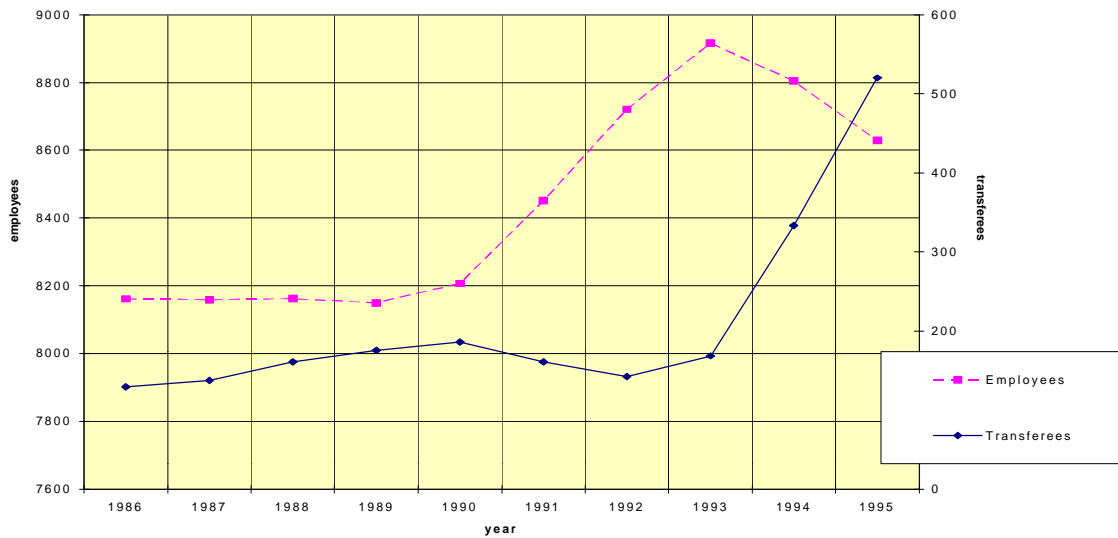
To provide a clear view of the situation in the company, the changing number of employees in the Sample of the Kaisha-Database from 1986 to 1995 is investigated.<sup>14</sup>

Starting in the fiscal year 1986 with an average number of employees of around 8160 there is a small decline in 1989, but during the bubble economy a significant increase, with its peak in fiscal year 1993, took place. This increase is followed by a drop until the end of the period observed.

The number of *shukkôsha* shows a wonder-running development (Figure 2, p. 8). A moderate increase until 1990 is followed by a reduction during the years of bubble economy. But after the burst of the bubble an enormous increase in the number of *shukkôsha* occurred.

<sup>14</sup> A time lag due to company reporting procedure has to be taken into consideration.

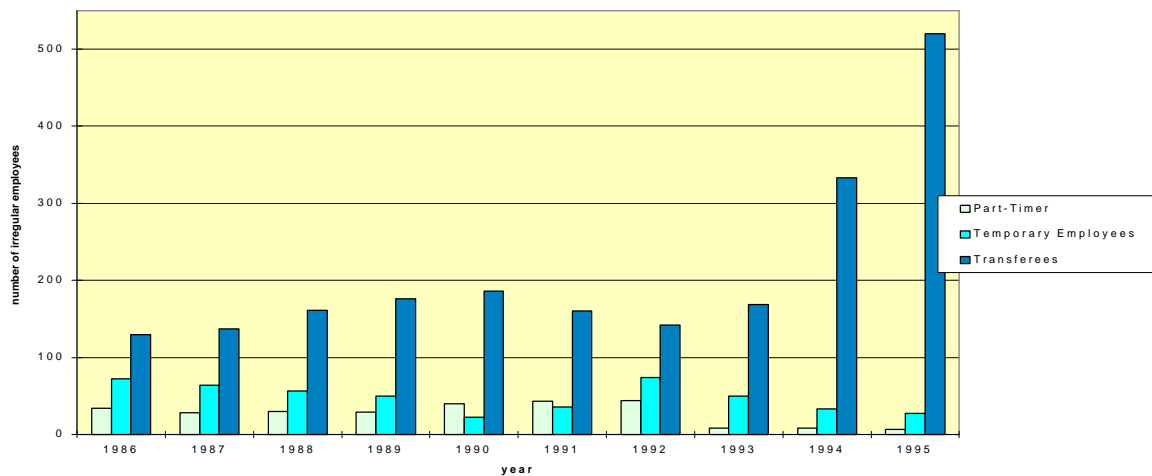
**Figure 2 Development of Employees & *Shukkôsha***



Source: Kaisha-Database (own calculations)

In the crisis after the appreciation of the Yen<sup>15</sup> *shukkô* was a measure taken to cope with the problem. The reduction of regular employees since 1993 goes hand in hand with a huge amount of *shukkôsha*, while the number of temporary employees and part-timers is decreasing as well.<sup>16</sup>

**Figure 3 Number of Irregular Employees**



Source: Kaisha-Database (own calculations)

<sup>15</sup> According to Plaza-Agreement in 1985.

<sup>16</sup> The number of part-timers declines much more than the number of temporary employees.

Employees affected by *shukkô* as an instrument to reduce the work-force, usually used in a crisis, are mainly over 45 years old. Table 2 shows an increase of *shukkôsha* in the age group 45-54 years soon after the end of the bubble economy.

**Table 2** Number of Transferees (*shukkôsha*) in different age groups  
in thousand (and in %)

	total	- 24 years	25-34 years	35-44 years	45-54 years	+ 55 years
1988	67.4 thousand (100%)	5.3 (7.8)	15.5 (23.0)	19.1 (28.3)	17.5 (26.0)	10.0 (14.9)
1989	52.0 thousand (100%)	4.7 (9.1)	11.8 (22.7)	15.0 (28.8)	15.2 (29.2)	5.2 (11.0)
1990	69.8 thousand (100%)	9.3 (13.3)	17.0 (24.4)	16.4 (23.5)	17.5 (25.1)	9.5 (13.7)
1991	68.1 thousand (100%)	5.2 (7.6)	16.3 (23.9)	14.8 (21.7)	23.5 (34.5)	8.3 (12.2)
1992	56.6 thousand (100%)	3.7 (6.5)	11.0 (19.4)	11.8 (20.8)	21.7 (38.3)	8.3 (14.6)
1993	82.9 thousand (100%)	4.7 (5.7)	14.7 (17.7)	17.3 (20.9)	32.9 (39.7)	13.5 (16.3)
1994	72.1 thousand (100%)	5.3 (7.5)	15.1 (23.0)	16.2 (22.5)	25.8 (35.8)	9.7 (13.5)
1995	93.1 thousand (100%)	6.3 (6.7)	23.9 (25.7)	18.4 (19.8)	28.9 (31.0)	15.7 (16.9)
<i>Average</i>	<i>70.3 thousand</i> <i>(100%)</i>	<i>5.6</i> <i>(8,0)</i>	<i>19.1</i> <i>(22,5)</i>	<i>16.1</i> <i>(23,3)</i>	<i>22.9</i> <i>(32,5)</i>	<i>8.8</i> <i>(14,1)</i>

Source: Ministry of Labour: Report of the Survey on employment tendencies (*Rôdôshô: Koyô dôkô chôsa hôkokusho*), 1996.

The retirement age of 54 years was extended to 60 years in accordance with the „Law Concerning the Stabilisation of Employment for Elderly People,, (1986), accompanied by a strong campaign of the Ministry of Labour during the eighties. More than 90% of companies accepted the mandatory retirement age of 60 years<sup>17</sup>, and in some companies a temporary re-employment (*sai koyô*) on a part-time basis became possible.

Because of the higher wages earned by elderly people in a still seniority-oriented system, *shukkô* is a measure often used to cut personnel costs.

Although there is a tremendous increase in transferees, the average age, wage and length of service are still rising, in spite of the fact that *shukkô* mainly affects the older workforce. While in 1986 the average age is 36.9 years, in 1995 the average age rises to 38.1 years (men: 39.5 years; women: 29.1 years). After 1994 the average nominal wage

<sup>17</sup> SEIKE, Atsushi: „Ageing Workers,, in SATÔ, Hiroki, SAKO, Mari: Japanese Labour and Management in Transition, Routledge, London 1997, p. 151-167.

increased faster than it did in the years from 1991 to 1993. Also the average length of service rose from 15.2 years in 1986 to 16.3 years in 1995 (men: 17.6 years; women: 8.1 years). These factors can be interpreted as signs of the severe ageing of society, which causes a structural change of the workforce.<sup>18</sup>

It is also a signal of the lack of younger people in the company. Dirks shows that the very first measure taken in recessions is overtime reduction, followed by reduction of new hirings. This is done even before transfers, dismissal of temporary and part-time employment is considered. Mid-career hiring is discontinued and voluntary retirement contracts are made.<sup>19</sup>

### **C. *Shukkô* and its Impacts on Competitiveness**

Compared with Western companies Japanese companies are known for more process-oriented innovations.<sup>20</sup> New knowledge about the production process, especially if process information is concerned, can only be gained through experience inside a company. Because outsiders do not know the details and secrets of the production process in one company, this knowledge cannot be imitated by them.<sup>21</sup> An effective transfer of knowledge and information will lead to shorter innovation times and strengthens competitiveness in the market. If *shukkô* is used as an instrument of information transfer the results must have to be interpreted as a source of competitiveness in the market.

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25 % of the Japanese population will be over 65 years old in the year 2020. KANEKO, Yoshihiro: „The employment of aged workers and the finance of unemployment insurance,, Presentation at the Social Science Research Centre (WZB), July 20<sup>th</sup>, 1997.

<sup>19</sup> DIRKS, Daniel: Limits and Latitude of Labour Adjustment Strategies in Japanese Companies, Paper presented at the International Symposium: Between External shocks and Internal Evolution: Towards a New Phase in Japanese Management Practices, Tôkyô, Oct. 30<sup>th</sup> to Nov. 1<sup>st</sup> 1997, p. 4.

<sup>20</sup> ALBACH, Horst: Culture and Technical Innovation. A Cross Cultural Analysis and Policy Recommendations, Walter de Gruyter, Berlin, New York 1993, p. 100.

<sup>21</sup> ALBACH, Horst: „Information, Zeit, Wettbewerb“, in Neumann, M. (ed.): Unternehmensstrategie und Wettbewerb auf globalen Märkten und Thünen-Lecture, Jahrestagung des Vereins für Socialpolitik, Gesellschaft für Wirtschafts- und Sozialwissenschaften in Münster, Berlin, Sept. 29<sup>th</sup> to Oct. 1<sup>st</sup>, 1993.

To get a clear view of the situation, the *shukkô-sample* was divided into various groups.

Each sample has been compared in terms of averages on

- 1) **Operating Profit to Sales**
- 2) **Profit (before taxes) per Employee**
- 3) **Sales per Employee.**

### **1. Groups According to Time of Shukkô-Announcement: Continuous-Shukkô-Group vs. 91-Shukkô-Group**

Sample 1 includes one group of companies, which announced *shukkô* since 1986 (Continuous-*Shukkô*-Group). It was supposed that these companies may have other reasons for *shukkô* than work-force reduction.

The other group comprises companies, which announced *shukkô* after 1991 (91-*Shukkô*-Group). Because of the higher share of *shukkô* in the latter sample, which followed the crisis of the bubble demise, it may be assumed that the main purpose was to gain back competitiveness over work-force reduction.

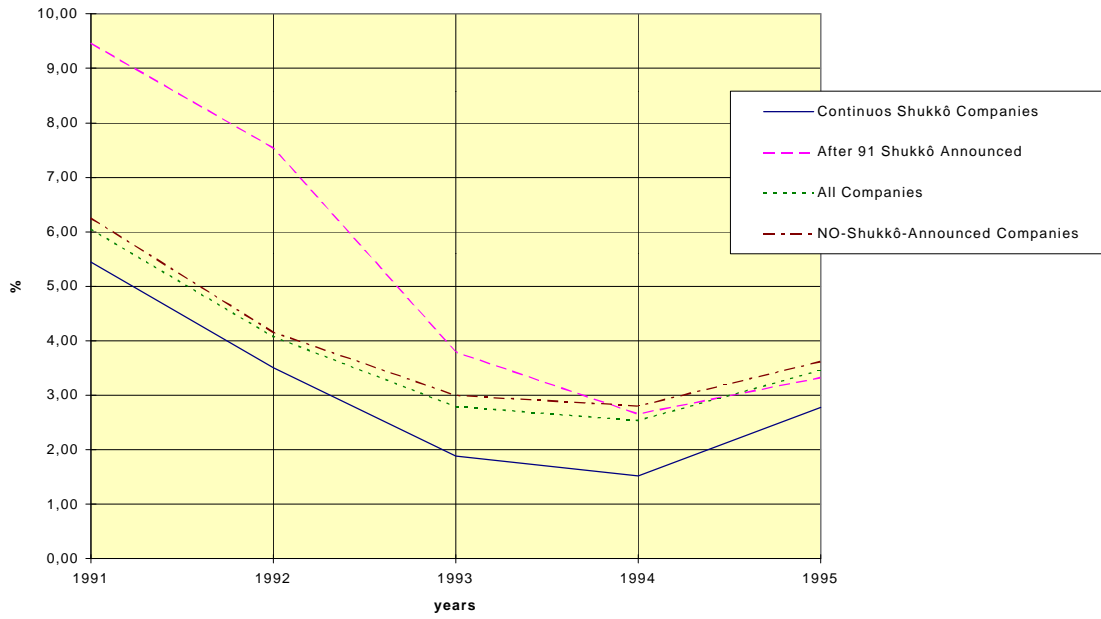
Sample 1 has been compared from 1991 to 1996 in terms of averages on operating profit to sales, profit (before taxes) per employee and sales per employee.

The first results show much higher values for the so-called 91-*Shukkô*-Group compared with the Continuous-*Shukkô*-Group. While the 91-Group showed an average rate of operating profit over sales of 5,19%, the Continuous-Group only had 3,05% (Figure 4, p. 12). Also the profit per employee was around Yen 2,448 in the 91-group, but only Yen 1,479 in the latter group (Figure 5, p. 12).

Only in terms of sales per employee does the Continuous-group show better results, namely Yen 55,451 to Yen 52,805 in the 91-group. Their sales per employee were low before 1991 (after the revaluation of the Yen in 1985), but in 1994 they gain first position (Figure 6, p. 13). Compared with the average of companies of the whole sample over the time observed, the Continuous-*Shukkô*-Group had the lowest values in terms of operating profit to sales and profit per employee, while the 91-group showed the highest values. These results do not change if the companies which do not announce *shukkô* („No-*Shukkô*-Group“) are taken into consideration.

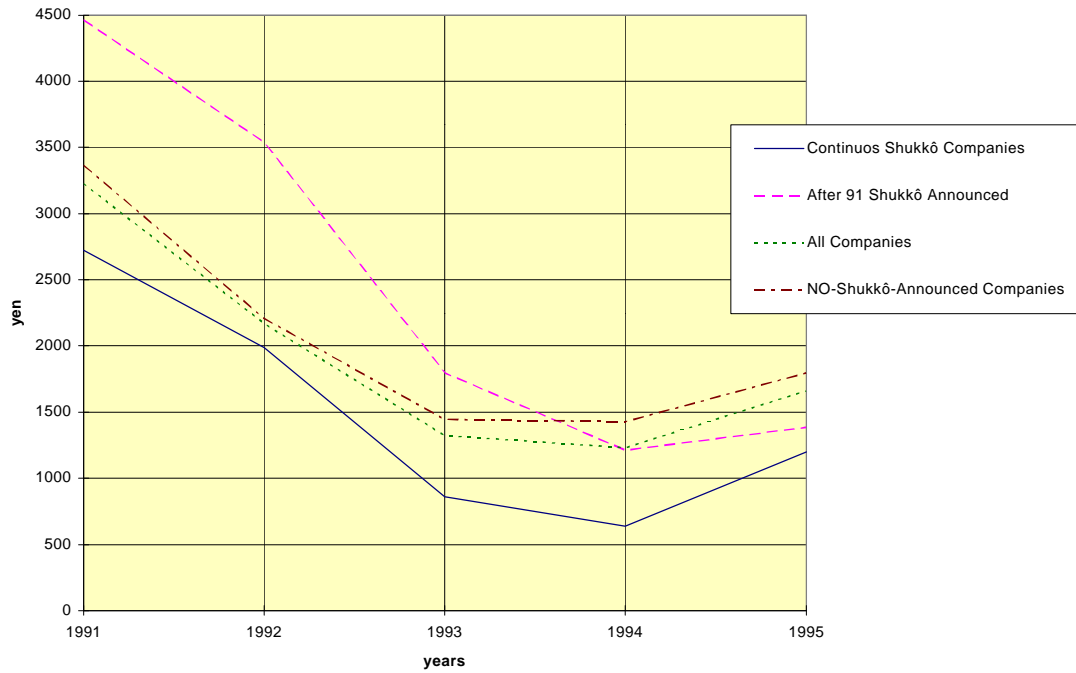


**Figure 4 Operating Profit to Sales**



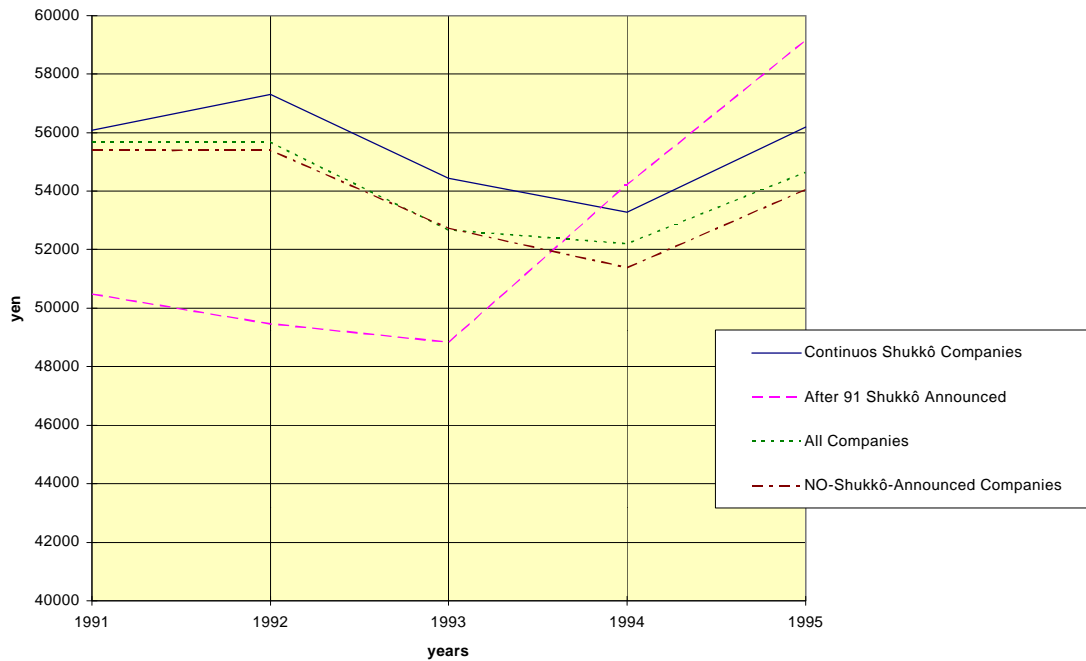
Source: Kaisha-Database (own calculations)

**Figure 5 Profit (before taxes) per Employee**



Source: Kaisha-Database (own calculations)

**Figure 6 Sales per Employee**



Source: Kaisha-Database (own calculations)

If we look at the data concerning employees, we must also note that age, wage and length of service are highest in the Continuous-*Shukkô*-Group and lowest in 91-*Shukkô*-Group. If, again, the companies without *shukkô*-announcement are considered, the group with no announcement only has lower values in terms of service duration.

In both *shukkô*-groups the number of transferees is highest in 1995. If the average number of employees is considered, the number of average employees in the 91-Group is lowest one year earlier (1993) than in the other group.

These results imply that companies which use *shukkô* once in a massive form to reduce their work-force, can quickly regain competitiveness.

To get a clear view of the situation in the longer run the *shukkô*-sample was compared over a period of ten years, from 1986 to 1995, in sample 2.

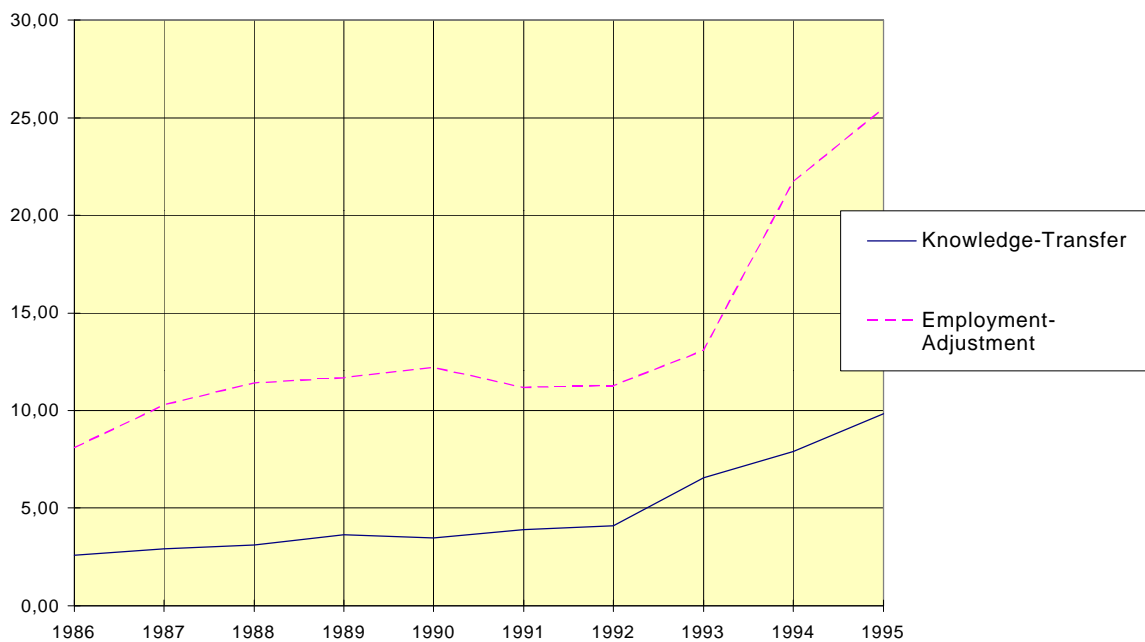
## 2. Groups According to the Share of *Shukkô*: Knowledge-Transfer-Group vs. Employment-Adjustment-Group

Sample 2 was divided into two groups according to the share of *shukkô*. The share of *shukkôsha* of the first group is less than 15%, while the average of one company in ten years is limited to 10% (average in ten years: 4.09%).

The second group was comprised of companies with a share of more than 15% in a year. The average in ten years is 14.21%.

The first group with a continuous share of transferees lower than 15% is supposed to use *shukkô* as an instrument of information transfer and was called Knowledge-Transfer-Group. Because of a rapidly growing number of *shukkôsha* in the latter group, especially after the demise of the bubble, it is assumed that the main purpose is to gain back competitiveness in reducing the work-force. This group was called Employment-Adjustment-Group.

**Figure 7** *Shukkô*-Groups According to the Share of Transferees



Source: Kaisha-Database (own calculations)

The increase in number of *shukkô* in the Knowledge-Transfer-Group after 1992 must be interpreted as a sign that these companies may also be forced to take employment adjustment measures. While there may not only be one pure form the main aim of *shukkô* is seen in information transfer. Some companies also will have a mixture of both.

**Table 3 Mean Values of the Companies of Sample 2**

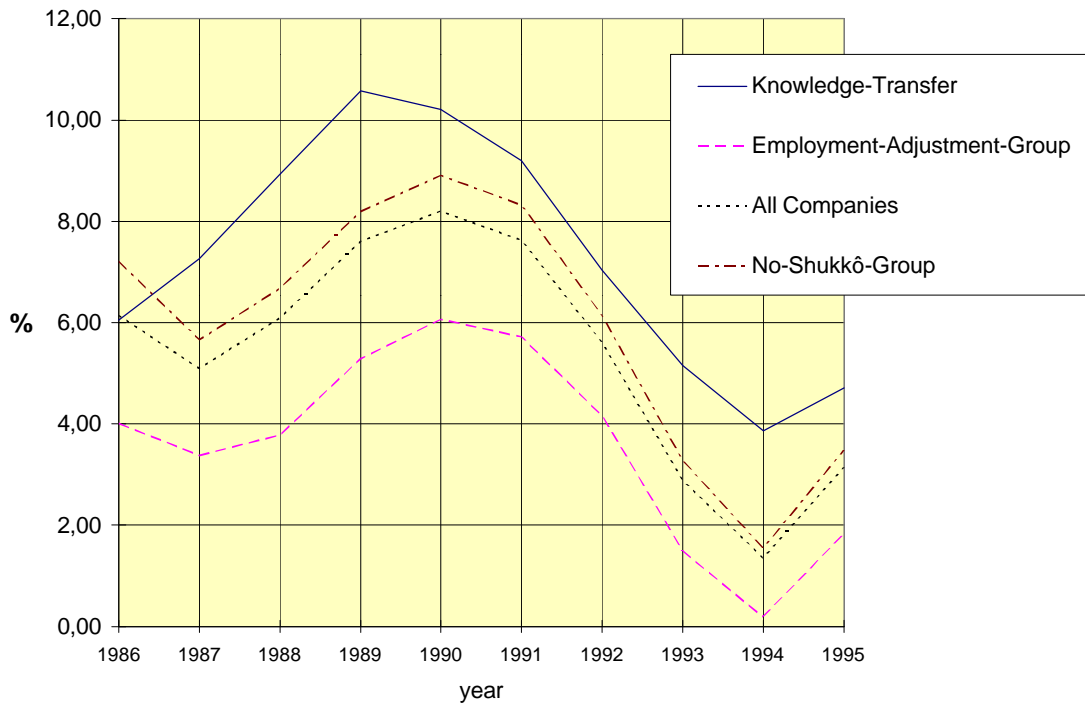
Group -15	CODE	Profit / Sales	Sales / Employee	Profit / Employee	Employees	Shukkô	Shukkô-share
Kaneka Corporation	4118	6,14	57403	3311	3588	108	2,85
Kokusai Electric Co., Ltd.	6756	6,36	55446	3591	1936	46	2,23
Makita Corporation	6586	13,24	33632	4278	3224	11	0,34
Nippon Kayaku	4272	7,94	35307	2246	3061	94	3,05
Nippon Shokubai Co., Ltd.	4114	9,28	58623	5593	2080	117	5,59
Sanken Electric Company, Ltd.	6707	3,59	52271	1660	1889	70	3,70
Tadano Ltd.	6395	7,21	58733	4938	1575	134	8,19
Tanabe Seiyaku Company Ltd.	4508	7,89	36561	2742	5080	126	2,62
Toagosei Chemical Industry	4045	5,90	59960	3720	1779	171	9,60
Tokuyama Soda Company, Ltd.	4043	4,86	63587	2816	2493	71	2,71
Average of Group - 15	10 firms	7,24	51152	3490	2670	95	4,09
Group + 15	CODE	Profit to Sales	Sales / Employee	Profit / Employee	Employees	Shukkô	Shukkô-share
Central Glass	4044	3,63	62406	1991	2533	101	4,56
Chiyoda Corporation	6366	0,61	93239	1145	2664	242	9,40
Fujitsu General Ltd.	6755	-2,95	38637	-519	3531	108	4,00
Kao Corporation	4452	6,76	76827	5078	7112	530	7,40
Komatsu Ltd.	6301	4,88	43415	1846	13916	1251	7,53
Kyowa Hakko Kogyo Co., Ltd.	4151	6,94	49652	3445	5453	325	5,86
Mitsubishi Electric Corporation	6503	2,84	46556	1290	48918	5592	11,43
Mitsubishi Gas Chemical Company, Inc.	4182	3,72	58339	2074	3454	322	9,44
Mitsubishi Kasei Corporation	4010	2,99	71645	1503	9803	893	6,97
Mitsui Petrochemical Industries, Ltd.	4183	5,81	60760	2940	4732	847	18,79
Pioneer Electronic Corporation	6773	5,60	42826	2533	7488	692	9,09
Sanyo Electric	6764	2,59	37211	990	28264	6121	21,67
Sekisui Chemical Co., Ltd.	4204	5,59	98020	4656	5702	1398	24,64
Sharp Corporation	6753	5,38	53067	2670	20101	2609	14,41
Showa Denko	4004	3,17	92902	854	5109	238	4,74
Sumitomo Bakelite Company Ltd.	4203	3,38	57136	1865	2309	298	13,19
Tsutsunaka Plastic Industry Co., Ltd.	4225	6,88	56460	3868	640	131	20,48
Ube Industries, Ltd.	4208	2,94	54509	860	7417	277	3,87
Daifuku Co., Ltd.	6383	6,39	61707	3694	1558	653	42,49
Ikegai	6102	2,27	22997	739	558	139	25,01
Iseki & Co	6310	-0,66	40679	-332	2994	656	22,28
Nippon Sanso Corporation	4091	3,58	86842	3159	1870	521	27,99
Tosoh Corporation	4042	2,06	58440	219	4496	670	15,00
NOF Corporation	4403	4,18	41153	1675	3025	326	10,87
Average of Group + 15	24 firms	3,69	58559	2010	8069	1039	14,21

Source: Kaisha-Database (own calculations)

The results show much higher figures for the Knowledge-Transfer-Group as compared with Employment-Adjustment-Group and the group, which did not announce *shukkô* (No-*Shukkô*-Group). In terms of operating profit to sales the Knowledge-Transfer-Group shows the highest values, while the Employment-Adjustment-Group had the lowest. (Figure 8). Also the profit (before taxes) per employee is significantly higher in the Knowledge-Transfer-Group than in the Employment-Adjustment-Group (Figure 9, p. 17).

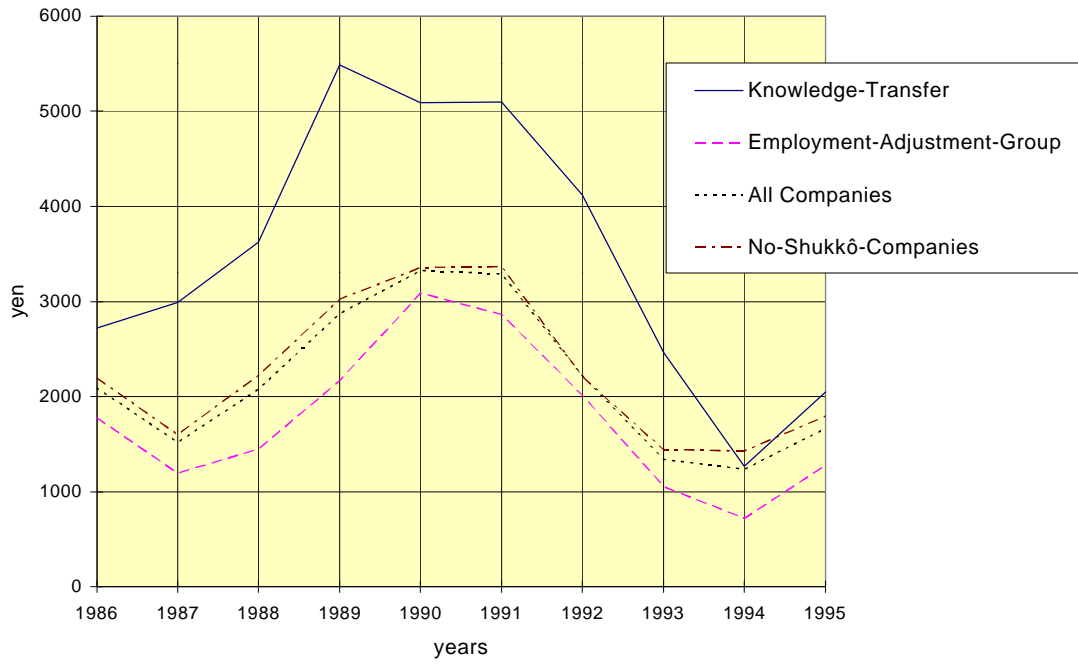
It follows that sales per employee of the Employment-Adjustment-Group are higher than those of the Knowledge-Transfer-Group (Figure 10, p. 17 ).

**Figure 8 Operating Profit to Sales**



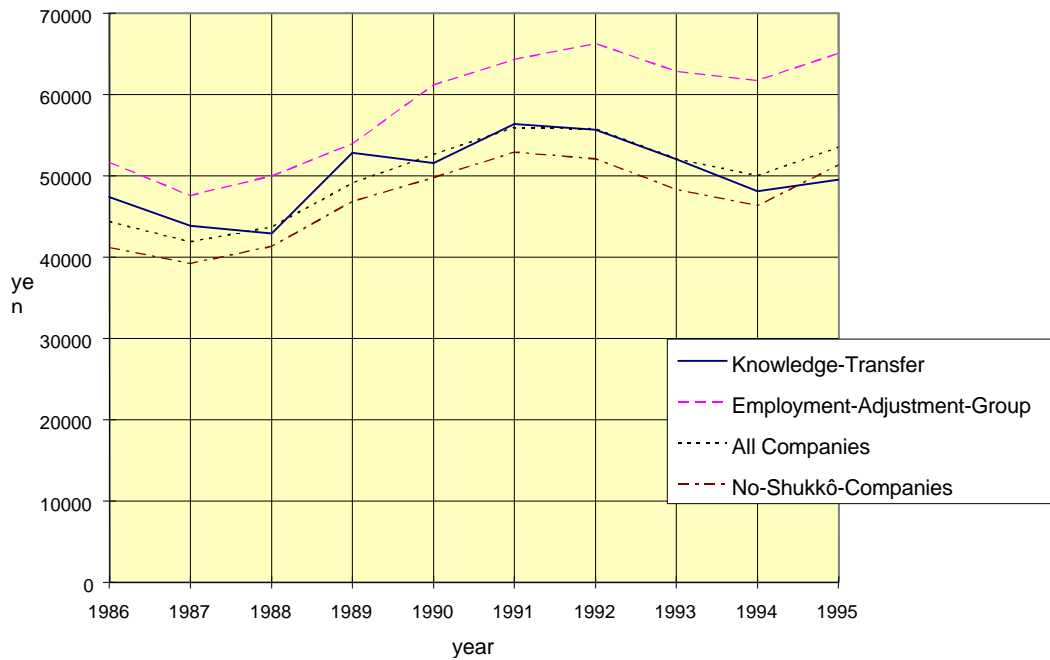
Source: Kaisha-Database (own calculations)

**Figure 9 Profit (before taxes) per Employee**



Source: Kaisha-Database (own calculations)

**Figure 10 Sales per Employee**



Source: Kaisha-Database (own calculations)

If we look at the data concerning employees, we have to notice that the average wages are a little higher in the Employment-Adjustment-Group (2.8%), which may occur because of a permanently higher rate in average age in this group. The average in length of service was lower until 1989, but since that time it grows faster than in the Knowledge-Transfer-Group. Since 1994 a significant increase in age of both groups is to be recognised.

## D. Case Studies

### 1. KOMATSU

Komatsu is one of the biggest makers of construction machinery world wide. Until the seventies the company had been steadily growing up to a number of about 15,000 employees. But since the years after the oil crisis Komatsu is expanding into the group, while the number of regular employees is declining. In march 1997 there have been 12,416 employees in the joint stock company, but out of them 5,638 are transferees to associated companies. This means that more than 45% of the employees are not working directly in the company. About 90% of the transferees are sent to subsidiaries and about 10% are sent to suppliers. Usually they do not change their special field of work. Out of the transferees in subsidiaries about 20% will enter into a key-position. If information flow is considered, it may be easier if a *shukkôsha* has a key-position. The company has meetings with the group-companies every half a year, where they can get information about their business situation and can offer help or assistance if necessary. But information transfer is not an aim nor the reason for *shukkô*.

At Komatsu there are two main groups of *shukkôsha*, divided by age. One is the group with age between 30 and 40 years. They have the obligation to come back after two or three years in another company and are mainly sent to strategic business groups like electronics, where growth is expected. In the other group – which is the main one – the transferees are over 45 years old. They are expected to work in the other company until they reach mandatory retirement age. The subsidiaries which they are sent to are mostly in settled business, not growing business. They get paid by Komatsu directly, while the subsidiary pays back around 70% to Komatsu. Until the age of 50 years the wages are usually rising. From 50 to 55 years there will be not much movement, but after 55 years the wage becomes significantly lower. To a large extent, payment is made according to performance (*gyôsekikyû*)<sup>22</sup>. In the case of *shukkô* the company union has an eye on the conditions, which should not worsen after the transfer. In most cases the transferees get a higher position, but no higher pay. Before the transfer happens, there are various

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<sup>22</sup> Komatsu is thinking about different wage models, where performance plays a main role. At the moment they have a model, which is almost performance based („*nenpôsei ni chikai kyûyo*„).

conversations with subsidiaries and management and also with transferees, union and management to come to an agreement. But the impression given from asking and listening to one *shukkôsha* of Komatsu was that even if the problem is understood, by no means it is easy to accept the situation of being send away.

## **2. SANYO**

Sanyo is a major all-round electronics maker. In fiscal 1997 the company had 24,632 employees. In addition 9,033 *shukkôsha* to other companies inside and outside the group have been announced. The number of employees has declined over the past ten years. Only in specific fields like R&D activities is the number of employees increasing.

In OJT the company stresses special knowledge, while OffJT is aimed more at developing personal skills. Training outside the company is intended for self-development (*jikô kaihatsu*).

The irregular work-force is faced with a cut of part-time positions, while the number of dispatched workers is rising. Also increasing is the number of *shukkô* inside the company-group, to suppliers and even to firms which are not financially related. A change of business field is possible. *Shukkô* is seen as a way to strengthen the relations between companies in having a more effective information flow to subsidiaries and affiliated firms. It is also a significant way in which to give technical guidance.

(While in 1986 the share of *shukkôsha* had been around 20% it rose to around 37% in 1997.)

## **3. SONY**

At Sony the number of regular employees in the company was 19,717 in March 1997. The 1,918 employees who were transferred to other companies must also be added. About 10% of the *shukkôsha* are sent to suppliers and about 90% to subsidiaries and affiliated companies. The transferees are not confronted with business change. Sony is setting a topic on education of technical knowledge and is stressing training for specialists rather than training for generalists. Compared with other companies, recruitment of mid-career work-force, where they try to get skilled staff from outside, often takes place. In the years of 93, 94, 95 recruitment of new entrees was very low, but now the situation has relaxed again.



Sony shows a growing number of employees. During the past 10 years the regular work-force has increased by about 10%. While irregular work-force, including part-timers, temporary workers and dispatched workers declined by about 50%, the number of transferees to subsidiaries, affiliated companies and suppliers rose by about 30% in the ten years observed. Transfers to companies outside the group are rare, as are transfers from subsidiaries to the main-company. At Sony mainly technicians are to be transferred. With the transfer of technical knowledge, relations to subsidiaries and suppliers should be strengthened.

## E. Conclusions

Various forms of *shukkô* have been taken into consideration.

In Sample 1 it becomes apparent that companies which postulate information flow are not always to be seen as best performers. Also *shukkô* can be seen as an effective measure to regain competitiveness through personnel reduction in the work-force in the short run..

But, if the companies overload their subsidiaries and suppliers with their surplus of employees, negative effects on their relations may arise afterwards and this may outweigh the short term improvements of capital returns.

In Sample 2 different *shukkô*-types according to the share of *shukkôsha* have been taken into consideration. The results show a clear Picture. Companies with a low and continuous rate of *shukkô* are supposed to send human capital to affiliated companies in order to transfer knowledge and information. Their consistent policy of information transfer to group-related companies down in the vertical structure of a *keiretsu* leads to a respectable performance in the company and can be seen as their way to gain competitiveness in the market. Even in the serious crisis after the burst of the bubble economy they did not suffer as much as their counterparts did (according to their financial announcements). With their stock of sophisticated human capital they seem to be less susceptible to crises.

Contrary to the first group the second group comprises firms with a rapidly growing number of transferees, especially after the end of the bubble economy. Because of this highly increasing rate of *shukkô*, they are supposed to try to gain back competitiveness through labour force adjustment. The interdependence of the dual structure of the labour market can be seen in the hierarchical structure of vertically integrated group-companies, which allows big firms to use their affiliates and suppliers as a buffer for employment guarantees of the main company. The transfer of employees does not appear in the

external labour market, because of the shifting of employees between companies in the group, which is manifested in a low unemployment rate.

Regardless of which side is observed, *shukkô* seems to be an adequate factor of flexibility in the inter-company labour market, which does not conflict with the „Japanese-style,, employment practices and principles of labour relations too much. Recruitment and training in big Japanese companies still takes place with a long-term perspective.

However a „second-career,, in a more or less related company seems to become a regular form of employment in Japan.

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