

## Past, Present and Future of Japanese Employment Relations

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*There has been an increased interest in understanding the effectiveness of the Japanese employment relations (ER) practices during the last two decades. The myths of Japan's management techniques have been the subject of many articles and research. This body of literature highlights the importance of human resources as the key to success in Japanese multinational corporations, such as Japan IBM, Canon Corporation, the success of which has also been attributed to the long range planning capabilities of these organisations. There is a continuous fascination by the West with the characteristics of the Japanese ER structures and systems towards the effective performance of Japanese multinational corporations. However, after the burst of the 'bubble economy' in the 1990s, researchers such as Ornatowski (1998) and Mroczkowski and Hanaoka (1998) have stated that Japan has reached the end of its Japanese-style ER. The review draws upon English and Japanese literature to provide an in-depth understanding of the current status of Japan's ER system. The paper then predicts some future trends in Japan's management of human resources, by focusing on three main aspects of the Japanese ER systems, including lifetime employment, seniority-base pay and enterprise unions. In this analysis, information is utilised from a number of statistical data published by the Japanese Ministry of Labour, Recruit Research, and the Japanese Ministry of Health and Welfare, The Japan Institute of Labour, Tokyo Metropolitan Government, Teikoku Databank, and the Statistics Bureau and Statistics Center.*

### Introduction

Due to the success of Japanese business post war, a number of studies have been conducted to investigate the unique characteristics of Japanese-styled management, especially in relation to its human resource management and industrial relations system. However recently there has been a deterioration of this post-war Japanese economic miracle. Some commentators have argued that this present post 'bubble-economy' crisis poses new challenges not encountered before for Japanese management. Today there are now many factors the Japanese economy has to face, more than in previous periods of change.

The purpose of this paper is to review the past, present and future of the Japanese employment relations (ER). We will take a close look at the current situation of Japanese ER management and then predict future trends. The review is built on secondary literature and statistical data published by sources such as the Japanese Ministry of Labour (1999), Recruit Research (1999), Japanese Ministry of Health and Welfare, Tokyo Metropolitan Government (1998), Teikoku Data Bank (2000) and the Statistics Bureau and Statistics Center (2001). The paper first briefly outlines the features of the Japanese management system. Then a review is done of changes to Japan's macro business environmental factors which are affecting or will affect Japanese employment relations. An examination of current Japanese ER practices, focusing on the three main principles of Japanese ER management, such as lifetime employment, and seniority base pay and enterprise unions then follows. The paper then concludes with predictions for Japanese human resource management.

#### Changes To Japan's Macro Business Environment

The myths of Japan's management techniques have been the subject of many articles and research. During the last two decades, several scholars (such as Dertouzos, Lester and Solow, 1989; Tung, 1984) suggest that the success of Japanese multinational corporations could be attributed to the uniqueness of the Japanese human resource management (HRM) practices as one of the main reasons for outperforming the US companies across a number of industries. Others attribute the success of multinational Japanese organisations to the long range planning capabilities of these organisations (Kono and Clegg, 2001). The increased emphasis placed on the linkage between HRM and organisational strategies opens up potential areas of research when studying how Japanese organisations formulate and implement their HRM policies and practices.

The literature on Japanese management tends to focus on the issue of convergence and divergence in the management of Japanese enterprises. Dunphy's (1987) review examined this change over time, tracing the literature from the period prior to 1970 to early 1980. There was an increase in the number of Western practices being borrowed by Japanese managers (such as quality management, modification of paternalistic management to an egalitarian approach). At the same time, there was also a convergence of managerial practices to the Japanese management model by non-Japanese firms within and outside of Japan. Dunphy concluded that there was little hard evidence to support the convergence of Japanese enterprises to the Western model of management (1987).

Kono and Clegg (2001) in their recent publication on Japanese management argued that the five features of the Japanese management model (*Gemeinschaft*) are different from the traditional US model (*Gesellschaft*). Of these features, Japan's personnel (and employment relations) management is based on respect for people and a learning organisation while the US model focuses on the acquisition of human resources. Based on their empirical research and observable contemporary trends in large Japanese firms, Kono and Clegg argued that there is a transition of the traditional Japanese model to that of a new *Gemeinschaft* model, in response to a number of factors. As shown in Table 1, this new model is premised on 'a new community of interest, a new type of 'stakeholder capitalism' in which several vested interests are represented' (Kono and Clegg, 2001: 9). The transition of the Japanese ER systems

has been the result of a number of factors, such as the changing economic conditions, ageing population, cultural shift, the entry of foreign workers into the labour market, and contingency workers. These factors will be discussed in the following section.

**Table 1: Features of the Japanese Management System**

	<i>Japanese model (Gemeinschaft)</i>	<i>Traditional US model (Gesellschaft)</i>	<i>New trends in Japan (Gemeinschaft)</i>
Goals and vision	Long-term growth and global vision	Short-term profit	Balancing multiple goals of stakeholders, but respect for people has highest priority
Strategy	Competition oriented; vertical alliances	Anti-monopoly by law inhibits alliances; independent company behaviour	Competition and alliances
Organisational structure	Organic organisation: good interface between departments	Mechanistic organisation	Specialised career courses; moderate concentration of authority
Personnel management	Based on respect for people; learning organisation	Human resources can be bought from outside	Employability: larger differentiation of wages and promotion
Decision-making	Decision-making by consensus; sharing of goals and information	Decision-making by individuals with authority and responsibility	Initiatives and consensus

Source: Kono and Clegg (2001, p5)

#### Economic Conditions

The fast growth of Japanese economy after World War II has been often described as an economic 'miracle'. With very limited resources after the war, Japan needed to achieve efficiency and effectiveness, which led to the introduction of operational philosophies such as just-in-time and total quality management. Japanese manufacturers have moved successfully from 'cheap and tacky' to 'high quality' in only about twenty years. This miracle has continued and Japan was described as 'an economic champion' (Barrow, 1994). However this economic miracle has almost ended. In the late 1970s the government spoke of a medium-term growth average of real 6 per cent a year, and by the mid-1980s its estimate had fallen to 4 per cent. The fall of growth continued to mid-1990s with the figure of 3 per cent and, after the burst of the 'bubble economy', now indicates less than 1 per cent of growth.

There are several reasons, which contributed to the slowdown in economic growth. Mallaby (1994) stated that Japanese growth is now slowing because 'Japan is no longer catching up'. In fact, real Gross Domestic Product rate has been continuously showing less than 1 per cent since 1997. Although the bankruptcy rate has dropped 19.4 per cent in 1999 from the previous year, which had the highest record of bankruptcy rate after the burst of the bubble, it increased again in 2000 by 23.4 per cent and shows the second highest record since the bubble, and the worst since post-war (Teikoku Data Bank, 2000). There was also a large number of bankruptcies of

large, public-listed enterprises such as Sogo (a department store), Chiyoda-Seimei Hoken, Kyocai-Seimei Hoken (insurance companies) and Life (a credit sales firm). While too much investment without careful planning during the bubble economy seems to be a reason, there was also too much emphasis on market share instead of profitability by large Japanese firms (Ornatowski, 1998). Maturity has come to Japanese economy and many firms are now struggling to survive.

Moreover it seems the shift of industry structure has also influenced Japanese economic growth. According to the Japanese Ministry of Labour (1999), the number of employees in blue-collar jobs has declined dramatically since the collapse of the bubble economy. This is mainly because of a sudden increase in the employment surplus of skilled and unskilled workers in such slow growing industries as manufacturing and construction. On the other hand, the number of professional and technical workers has been continuously increasing and is now leading an employment shortage in these areas (Japanese Ministry of Labour, 1999). However, one cited survey indicates that while the productivity of blue-collar workers increased average gross profit by 68 per cent, white-collar workers could only bring 6 per cent gain in operating income despite higher costs (Ornatowski, 1998). This shift, therefore, brings a huge decline of productivity in the Japanese economy. In addition to the shift of industry structure, an analysis of changes in employment structure by industries since 1985 indicates significant increases in the service industry, such as information technology, business services, medical and social welfare, recreation, wholesale and retail trade, and eating and drinking places such as supermarkets and convenience stores (Japanese Ministry of Labour, 1999). This shift of industry structure is producing a mismatch of labour force supply and demand, which contributes to the rise in the structural and fractional unemployment rate in Japan.

Simultaneously, the impact of international competition is another factor in Japan's struggling performance. Although the Japanese economy has always been at the centre of development in South East Asia, there is a shift in its role in the region as Japanese economic conditions change. Robson (1994) explained that many of those developing countries have used existing Japanese technology to take and develop a big local market as well as niche markets in the West. They are now experiencing a catching up economy, as Japan did after the war. The Japanese distinctive business style, the Keiretsu network, might also have an impact. Because supplier groups are becoming more open in accepting outsiders, the recent economic pressures largely prevent companies from taking advantage of costs, as Japanese companies were unable to squeeze more costs from suppliers and factory production. In this situation, Japanese firms must face competition from both high value and advanced technological products offered by Western and standardised lower price products with Asian countries such as Korea, Taiwan and China (Ornatowski, 1998).

In addition to the above, some commentators argued that the hollowing out of Japan's industrial boom is also caused by the strong decline in Japan's manufacturing sector. Dirks *et al.* (2000), for instance, relying on the data provided by the Ministry of International, Trade and Industry, reported that the loss of employment in the manufacturing sector has been significant, as around 2 million workers had become unemployed in the period between 1992 and 1998. There had been a rapid shift of manufacturing operations to South East Asian nations, thus, resulting in less exports,

more imports, and 'a delocalisation of domestic production and employment' (Dirks *et al.*, 2000: 533).

A recent report from the Japanese Institute of Labour reported that the proportion of young people in the population is expected to decline while the proportion of the older population is expected to continue to grow (Watanabe, 2001). The service sector is expected to continue its growth, rising from 18.3 million in 1995 to 22.1 million in 2010. The second growth is in the wholesale and retail trade industry. The fastest growing occupations are in the computer and information-related occupations.

#### **Ageing Population and Decline in the Number of Births**

As widely known, Japan has the world's highest average life expectancy. However, as the ageing of society progresses, the ageing population pyramid starts to turn upside down. Ornatowski (1998) has pinpointed that this rapid increase in ageing population is reflected within the Japanese company. He described an ageing chart of labour in Japan as elliptical in shape, due to an excess of baby-boomer employees in the middle. If this middle age population stays with less new recruits, Japanese companies cannot avoid having an inverted pyramid structure. Researchers from Tokyo's German Institute of Japanese Studies forecast that after the year 2000, Japan's ageing population would have overtaken that of Germany where similar patterns are occurring (Dirks *et al.*, 2000). Only 3 per cent of Japanese companies have mandatory retirement ages of sixty-five, and 61.5 per cent of those over sixty-five still want to work, due to financial necessity (Tokyo Metropolitan Government, 1998).

Since the collapse of the economic bubble, unemployment rates increased in all age groups. According to the Labor Force Survey conducted by Statistics Bureau and Statistics Centre (2001), this unemployment situation applies differently to different age groups. Among young people the ratio of active job openings to applicants is high due to relatively strong labour demand. The unemployment rate is high and increased only because an increase in voluntarily separated unemployed persons and a growing percentage of part-time workers. Among middle-aged workers between forty-five and fifty-nine years of age, the unemployment rate is low and relatively stable. Finally, large number of workers experienced involuntary separation, especially those workers who are sixty years or more of age. This involuntary separation takes the form of downsizing or mandatory retirement. Consequently, the unemployment rate for males aged sixty to sixty-four reached 10.4 per cent in 2000, while average unemployment rate is 4.7 per cent.

On the other hand, a decline in the number of births creates a different problem, that is, understaffing. According to the newspaper (Asahi Shimbun, 2000a), the population of workers will decrease by approximately 40,000 every year in the near future. Since the mid-1970s, the average number of births has been decreasing and this year it is the lowest record of 1.34 person (Japanese Ministry of Health and Welfare, 1999). Simultaneously the high cost of land and housing in cities like Osaka and Tokyo may discourage large extended families. If this trend continues, Japan must face a serious problem of having too little labour force, rather than an employment surplus.

### Cultural Shift

It is not only economic conditions that are undergoing changes - social conditions are also changing. A number of studies contend that one substantial factor of Japanese economy success from 1945 into 1990s has been a result of the nature of Japanese culture (Lincoln and Nakata, 1997; Mallaby, 1994; Robson, 1994). However since the collapse of the bubble economy, this traditional culture has been seen to be shifting. This is mainly because huge social and economic costs among Japanese society have been recognised. Barrow (1994) described Japanese as 'poor people in a rich land', with problems such as overcrowding, high consumer prices, lack of leisure time and environmental pollution. Now people are seeking more quality of life in Japan (Hani, 1994) and employees demand free choice on how to spend their after hours and days off, leading to an increasing number of firms to cancel company activities such as trips and sports events. This is especially true in younger generation more exposed to western culture. These trends are supported by Jun and Muto (1995) who describe the replacement of Japanese traditional collectivism by individualistic values. Researchers believe that the younger generation becomes generally less loyal to the company and more family or leisure oriented than older ones (Mroczkowski and Hanaoka, 1998; Ornatowski, 1998; Robson, 1994).

Findings from a recent survey of career aspirations among university students by Recruit Research indicated there was a shift in the values of university students. Approximately thirty percent of male respondents and 14.8 percent of female students hope to work until retirement age in 1998, both decreased from the 1994 survey. This shift of attitude has also been clearly seen from the increased number of part-time workers or freelancers. Traditional features, such as employment from graduation, compensation based on age, and loyal service to the company until retirement, are not acceptable by young generation today.

### Foreign Workers

The number of foreign workers in Japan including both legal and illegal workers has increased dramatically. The number of foreigners newly entering Japan with the purpose of employment rose by 8.5 percent in 1998 and 6.0 percent in 1999 from each precious year (Japanese Ministry of Labour, 1999). At the same time, the number of illegal workers is expected to remain high. Furthermore according to Japanese Ministry of Labour, the number of establishments directly employing foreign workers increased by 7.9 percent from the previous year. Three industries, manufacturing, services, wholesale and retail trade, and the food industry account for 90 percent of the total. As a result of a cultural shift, today's younger generation try to avoid jobs with *3K*, meaning *Kiken* (dangerous), *Kitanai* (dirty) and *Kibishii* (hard). Thus the demand of foreign workers might increase in certain industries in the future due to understaffing of Japanese labour.

However the status and employment conditions of illegal workers are distinct as they have never been treated the same way as Japanese workers (Asahi Shinbun, 2000b). Moreover for those who become illegal workers, mainly due to strict government control and regulation, the conditions such as overtime work, low wage, with no welfare and compensation are commonplace. Yet due to bigger problems the Japanese government faces today, this inequality of HRM practices has not been seen as a big problem.

### Contingent Workers

Another factor contributing to the transition of the Japanese-styled ER management systems is the increasing reliance of contingent workers. Morishima (2001) suggested that Japanese companies have adopted a new approach towards its human resources. This strategy, also known as the 'internationalisation of human resources' showed that large firms are investing in human capital with an increasing emphasis on skill-based reward and job evaluation and competency development among its work force.

Traditionally, Japanese organisations relied on high school graduates to meet the demand for core or regular labour (Kono and Clegg, 2001; Morishima, 2001). However, there is a new type of worker entering the labour market known as a non-regular or contingent worker. According to Morishima (2001), this non-regular employment is often characterised by shorter working time, fixed term or temporary contracts, or an employment relationship with a third party. Drawing upon a research paper produced by the Japan Institute of Labour in 2000, Morishima reported that about one-quarter of the responding organisations were considering non-regular workers. There was also an increase in part-time employment in the responding organisations. According to the White Paper of the Japanese Ministry of Labour in 1999 and 2000, the number of freelancers increased more than three times in 1997, when compared with 1982. This trend is continuing and part-time workers increased by 4.2 per cent in 1999, when compared to 1998. The overall percentage of part-time workers reached 18.9 per cent. The recruitment of non-regular workers is associated with reasons such as cost reduction and flexibility and specialised jobs (Morishima, 2001). This recruitment demonstrates features of a strategic approach to HRM, by emphasising an increasing need to align business strategies with HRM (Teo and Matthews, 1995).

### Implications on Japan's HRM Model

So far the discussion has been focused on factors which have impacted mainly on Japanese ER practices. In this section, we discuss how the main principles of the Japanese employment system, especially lifetime employment, seniority-based pay and collaborative enterprise unions, have been affected and how much this has changed. The changes in Japan's ER practices highlight the influence of a westernised model of HRM, such as an increasing focus on aligning corporate strategies with human resource strategies.

### Lifetime Employment

There are many discussions regarding the purpose of lifetime employment. Although there are many advantages, the proportion of the total labour force under lifetime employment as a percentage of total labour force has been slowly decreasing since 1969 (Japanese Ministry of Labour, 1999). One factor leading to the sudden rise in the unemployment rate in Japan, especially since 1998, is the rapid increase in the number of involuntarily separated unemployment. According to Japanese Ministry of Labour, in 1998 the number of involuntarily separated unemployed people had increased by around 40 per cent from the previous year. Corporate bankruptcies as a result of long economic recession and a rapidly growing use of early retirement are main justification for this increased number of involuntarily separated unemployment. Today Japanese companies offer early retirement to employees aged around forty-five, with offers of special vacations to prepare for a new career path or training programs. A recent announcement from Mitsubishi Car Manufacturing to lay off

8,900 white-collar workers within next three years is a good example. It offers a 'second career supporting program', consisting of provision of one-year special vacations and 80 per cent of present salary during the program (Asahi Shinbun, 2000b). The increasing number of Japanese firms now adapting such employment adjustments called '*Koyochosei*' can be found in the manufacturing industries. This is the result of overstaffing of these organisations after the collapse of the bubble economy in 1990.

There is a change in attitudes among the younger generation of workers. Their values are different from the older generation and they have a very low chance of adapting to the traditional Japanese way of management. While they enjoy being a freelancer with a view of life and leisure oriented, they are unlikely to be happy with the traditional working hours of forty hours or more a week without holidays. Furthermore, as the figure shows in previous section, they are more accustomed to changing jobs than the older generation. This shift of culture may lead to higher job mobility and a decline in life employment.

On the other hand, there is a still strong belief within Japanese companies that lifetime employment principle could bring many advantages such as the maintenance of skilled workers, the creation of family like relationship between employer and employee or the development of strong loyalty for a company. This is because the system creates a situation where the employee's life is totally dependent on the company. Collapse in this system brings about serious insecurity of one's corporate and private life, and loosens the ties between employees and company significantly (Schmidt, 1996). Thus rather than reduce labour cost by lay offs, the company starts to rely on reduction of working hours and increases in part timers. Overall working hours including overtime were falling 1.4 per cent in 1997 and 1.1 per cent in 1998 from the previous year (Japanese Ministry of Labour, 1999). Practices such as the adoption of flexitime in the office as well as longer vacation time provide companies with more flexibility to cope with disadvantages of lifetime employment.

Tatsumichi (2001) reveals that the employment style of software engineers in the information service industry does not resemble that of the lifetime employment system. This is because job switching could result in an increase in the earnings of Japanese software engineers. As a result, the tenure of engineers in Silicon Valley is longer than their counterparts in Japan (Tatsumichi, 2000: 1).

Moreover, Japanese firms adjust employment through internal transfers, called *Shukko*, to other companies, usually subsidiaries or suppliers within Keiretsu network. They would be either temporarily transferred and hold their employee status in the company, *Zaiseki Shukko*, or released by the parent company to be re-employed by the other company, *Iseki Shukko* (Mroczkowski and Hanaoka, 1998). According to their survey, Mroczkowski and Hanaoka stated that 92.5 per cent of Japanese companies were carrying out *Zaiseki Shukko*, and a 50.1 per cent were carrying out *Iseki Shukko* (Rosei and Jiho, 1994 cited in Mroczkowski and Hanaoka, 1998). In all these situations, the basic principle of lifetime employment system can be sustained.

Another feature of the new Japanese market is the *Haken-Gaisha*. It recruits and trains employees as specialists and sends them off to clients on a contract basis (Mroczkowski and Hanaoka, 1998). The main advantages of using '*Haken-Gaisha*'

are cost, in terms of employment/unemployment process and development process, and flexibility. Now it is quickly separating in many areas of industry and creates another choice for the management of Japanese firms who wish to be more flexible regarding the labour force without the rejection of lifetime employment policy.

#### Seniority Based Pay

Although seniority based pay was widely adapted by many Japanese firms for a long time, the job ability-based wage, or *Shokuno-kyu*, which uses a measure of individual overall job abilities, has become popular after the first oil crisis in 1943 (Ornatowski, 1998). This is primarily because a need for more specialised skills arose. Further, it has modified to a one-year based system which could compare to goals set at the beginning, called annual salary system, or *Nen posei*. It is much closer to a performance-based pay system. The survey in 1996 conducted by Recruit Research shows that, although it might be only small proportion in entire payment system, 78.2 per cent (71.4 percent at management level) of companies have already introduced *Syokuno-kyu* and 3.7 per cent (9.7 percent at management level) has introduced *Nen posei*. On the other hand, the survey by Japanese Productivity Centre (cited in Ornatowski, 1998) shows that one of main reasons for not introducing annual salary systems is a weakening of a seniority-system mentality among employees. It seems traditional perspectives of respect and loyalty still have influence in Japanese management policies.

However, the recent economic recession and a rapidly ageing workforce, especially among white-collar workers who produce lower productivity than blue-collar workers, are now contributing to increasing pressure for the firms to change the seniority system. While seniority and years of service are still one component of salary, many Japanese companies today are trying to reduce and eliminate the seniority-based pay. It is not only for short-term cost reduction, but also for long-term productivity improvement by stopping employees from assuming that salaries automatically increase every year. The same survey, mentioned earlier by Recruit Research in 1996, indicates that while 71.6 per cent of Japanese companies use seniority-based pay, it reduces to 58.1 per cent at management level. Also while 41.9 per cent of companies consider the year of service as one component of setting salary, it is now 34.3 per cent at management level. This indicates that, although age and seniority are still playing a certain role within Japanese firms, it has become relatively unimportant and shows the trend of switching salary system.

While the growth of the service sector, which has traditionally been more performance-based in employment practices, could be one reason (Ornatowski, 1998), the change in employee attitudes towards work among the younger workforce should be also mentioned as another reason of decline in seniority based pay. A survey by Recruit Research indicates, in 1997, 55.3 per cent of university students consider job change or self-employment depending future conditions. Furthermore, a cited survey by *Nikkei* Research in 1995 shows that one-quarter of 100 male workers from large leading companies said that their sense of belonging to the company had decreased. Many individuals think that the best way to develop their careers was to improve their professional skills rather than seek a higher rank in the company (Mroczkowski and Hanaoka, 1998). As these figures present, loyalty has dramatically declined among the young generation. This growing trend of mobility creates another pressure for Japanese companies to eliminate seniority-based pay.

### Enterprise Union

The distinctive enterprise union system is also undergoing change. According to the Japan Institute of Labour, in the 1980s more than 30 per cent of workers were unionised and this figure had declined to 22.2 per cent in 1999. One reason is the growing proportion of employees in the service industry since 1985, which had a lower tendency to unionise (Fujimura, 1997; Mroczkowski and Hanaoka, 1998). The decrease in the rate of unionisation is also caused by an increase in the employment of part-time and contingent workers. This is because enterprise unions would only accept full-time workers as official members (Ito, 2000). An increased number of professional and technical specialists has also impacted on the union since individuals occupying managerial positions cannot be union members. Japanese legislation prohibits membership of individuals who represent the interest of the employer (Fujimura, 1997). Another main reason apart from the shift of industry structure is the failure to organise new establishments (Trusu and Rebitzer, 1995).

Traditionally Japanese workers see the union as an opposition of management. Although there is compulsory union membership, loyalty to the company led workers to withdraw from membership of enterprise unions. While this loyalty is declining among young generations, the individualistic view of this generation and the minimal benefits with high membership fees removes interest in joining unions. Furthermore, as the standard of working conditions improve, workers do not see the need to join unions (Ito, 2000).

In addition to the above reasons, Nikkeiren, Japan's Federation of Employers' Associations, has established a proposal to advise companies to employ not only long term but also contract workers (Fukuoka, 2000). The Japanese Ministry of Labour also attributed the hiring of contract workers as a reason for the change experienced by enterprise unions (Ito, 2000).

### The Link Between Corporate Strategy and HRM Strategy

Since the concept of strategic HRM has been introduced, it has grown extensively. Today as personnel management has shifted to HRM, the importance of the shift from HRM to strategic HRM, or the match between corporate strategy and HRM strategy, has been recognised. However as HRM practices shift, the affect on strategic HRM cannot be ignored. In this section, thus, the integration of corporate strategy and integration within HRM strategies are mainly described in terms of strategic HRM.

Until now, Japanese management has often seen employees as corporate assets rather than just human resources. This is because in the lifetime employment system, Japanese companies gain more return as they increase their investment. Simultaneously, the benefit of employees is guaranteed by seniority based pay and traditional loyalty. This leads to the high degree of shared endeavour towards future directions between management and employees in Japanese companies and as a result, high integration between corporate strategy and HRM strategy was achieved (Teo and Matthews, 1995). The discussion by Wokutch (1994) regarding integration between safety and health management systems and the overall production and planning system gives a perfect example. He described that in Japanese plants, management takes safety and health issues into consideration during the initial stages of planning and engineering processes. Individuals, from the top to the bottom

levels of the organisation, have their safety and health responsibilities taken seriously. Schuler and Jackson (1999) emphasised that management of people as 'strategic assets' in organisations leads to the formulation and implementation of valuable strategies and achievement as well as sustainability of competitive advantage. The achievement of this integration by Japanese companies during the last three decades has contributed towards economic success. Under the changes in rapid structural transitions today, however, Japanese companies have been facing the needs of modification in their corporate strategies. Companies are now considering ways to enhance or strengthen their main business through the establishment of competitive advantages and/or to expand into new businesses. Japanese companies are now facing the challenge of matching this change in corporate strategies with HRM strategies.

The integration within HRM practice is also critical to support corporate strategy. Traditionally, job training and development practices are seen as the link with other HRM functions in Japanese firms (Teo and Matthews, 1995). However due to increasing technological advances, the ageing of society and other factors, development of occupational skills has become increasingly important. Also the needs of obtaining and training employees often arise as a challenge in implementing such strategies as mentioned above (Japanese Ministry of Labour, 1999). Thus the current trend for integration within HRM practices is also changing.

As discussed in this section, the distinctive features of Japanese HRM are undergoing some changes. Although it should have an impact on the style of integration between the corporate strategy and HRM strategies, there is little or almost no research to examine whether this integration has been changing. The presence and impact of this integration, its size and how it affects Japanese HRM needs to be researched.

### Future of Japanese HRM

As it has been discussed, the entire system of Japan's ER management is currently undergoing fundamental change as a result of the changing external environmental conditions. In this section, we will discuss the implications of the above changes. Mroczkowski and Hanaoka (1998) see Japan as 'just another post-industrial society sharing many of the problems common to developed Western economies, such as high public-sector deficits, slow growth, and outsourcing of production to the emerging economies'. From their point of view, all distinctive features of Japan's ER management will more likely to disappear around the year 2010, and as a result support the contingency theory of HRM. Although Japanese ER began as one of the most differentiated styles of HRM, it has to transform its distinctive system into a 'universal' system, such as performance based rewards, contractual hiring. These authors argue that some system like seniority based pay could be transformed in a short time, while others such as lifetime employment would take longer to shift. In particular, this shift will be rapidly continued by the younger generation more exposed to Western culture.

A further prediction by Mroczkowski and Hanaoka (1998) states that the majority of jobs in a company will be done by outsiders of the company, that is, contracted employees from the '*Haken-Gaisha*'. Thus, the number of core employees will reduce dramatically. A major result will be that a 'mixed' system of both free and managed labour markets, rather than horizontal labour markets will emerge. Moreover they predict that, similar to other countries, Japanese companies will offer

long-term employment to only a small number of people. However, workers will not be employed for a lifetime, and also there is no feeling of identification with the company, with workers commonly moving from company to company to seek better opportunities and conditions. Thus, the nature of all relationships will be contractual.

From the viewpoint of Mroczkowski and Hanaoka (1998), highly flexible employment systems are expected in all industrial countries in the 21st century. They predicted that by 2010, most Japanese employment systems would be similar to those in other developed countries. However, their view seems very simplistic. According to a cited survey by JPC in 1996, 76.1 percent of large Japanese firms still believe that while the seniority-based pay system would be abolished, a lifetime employment system could still be maintained (Ornatowski, 1998).

Lifetime employment and the seniority system work well under certain conditions including growing economic environment, the government's support which limits imports and creates less competition, and the high prices which consumers are forced to pay (Wolfgang, 1997). The trends of deregulation and continuing globalisation will force Japanese corporations to be globally competitive, and altering or modifying the current systems is inevitable.

The seniority system is supported by a large number of newly graduated young employees whose pay is lower than that of the smaller number of older employees. Among the older employees, some are promoted under an automatic promotion system and paid more than their actual contribution. The system does not work if there is not sufficient number of underpaid young employees (Wolfgang, 1997). Japanese organisations traditionally hire newly graduated university students, and in recent years, the rate of hiring new employees from the university has been decreasing. Moreover, many Japanese companies are reforming the current structure made up of many layered hierarchical positions to a flatter structure to reduce costs (James, 1997). In effect, companies will be unable to provide employees with an expected promotion, which leads to non-feasibility of sustaining the seniority system.

The employment adjustment, especially elderly white-collar workers, should not be continued in the future. This is because firstly, this will create negative effects for companies, not only in terms of public relations, but also for employee morale and new recruitment reputation. Furthermore, although it solves a short-term problem in terms of cost, it does not increase long-term growth. Today most Japanese businesses should aim to increase productivity and enhance competitiveness for growth in the long-term, rather than just adjusting employment numbers. By focusing on productivity of employees, companies should be able to gain better competitiveness. Thus to increase competitive advantage, a performance-based pay system would be more appreciated than seniority-based pay. It could also help to develop more specialists. Change in the performance and reward structures can also be easier to make than reforming of employment system. Therefore seniority-based pay might be disappearing as discussed in Mroczkowski and Hanaoka (1998).

However there is a strong belief that lifetime employment should be kept. The reason for this seems more than traditional customs and values, but rather to retain skilled workers. In fact, lifetime employment could be kept to a certain extent as Japanese companies can focus more on productivity of employees through provision of support

and an environment of personal career development. The introduction of flexitime and the provision of more holidays could also help companies to be more flexible, which would be well accepted by young generation. The increased number of freelancers may also expand the '*Haken-Gaisha*' market as it allows short-term employment and enables Japanese companies to hire skilled employees for the period necessary to develop new technologies and markets. An increase in productivity, with the help of performance-based pay with more flexibility in employment system, allows Japanese companies to have more cost competitiveness and thus, improvement in pricing and product strategies.

In addition, Mroczkowski and Hanaoka stated that although Japan has been accepting outsiders and new suppliers as a new customer to survive in recent recession, the *Keiretsu* network, one of major distinctive Japanese business system, is unlikely to break up. As widely known, the major advantage of this strong long-term relationship with key suppliers is strong cooperation for new product development, better coordination and communication and high confidentiality of technologies. However it serves not only strategic reasons for Japanese companies and continues to provide advantages for employment systems. As long as there is an intention to keep lifetime employment system, the *Keiretsu* relationship will be very important for internal transfer.

The above discussion can be supported by attitudes of Japanese companies towards the future presented in another survey. According to a work report in 1997 by Recruit research, only 19.2 per cent of companies are considering seniority-based pay in the future, compared to 66 per cent of companies in 1995. Instead, the use of job ability and performance based pay increases dramatically from the situation of in 1995 13.7 percent to 46.7 per cent. However still 57.6 per cent of Japanese companies intend to adapt lifetime employment in the future, compared to of 88.1 per cent of companies in 1995. It shows considerably less support for the future continuation of the seniority-based pay. Although it also shows huge decline in lifetime employment, more than 50 percent of Japanese companies are still considering adapting the system.

The change in Japan's ER practices showed evidence of strategic HRM. Kawakita (1997) discussed how the HRM strategy is associated with the corporate strategy. In this study, he has concluded five patterns of integration between Japanese HRM and strategic HRM. In one of those patterns, he argued that those Japanese organisations that emphasise rationalisation and downsizing as their corporate strategies are more likely to consider the ability-based personnel system.

Second, as Japanese personnel management is capability egalitarian base (Ishida, 1981), under the seniority system, older employees do not need to work under younger bosses who have shorter length of service. Relations between subordinate and junior staff in Japanese companies are based on mutual trust, harmony and co-operation (Vaziri, Lee and Krieger, 1988), and a paternalistic approach is utilised by senior staff. Removing the seniority system will cause a reverse situation where older employees will need to work under younger bosses. Social embarrassment and losing face of older staff within firm emerges and it will change the attitudes of senior staff towards junior staff. They will not be as caring and benevolent towards junior staff who would be their competitors (Yoshimura and Anderson, 1997, 204). Both types of

employees, one who has younger boss and one who has older subordinate, could face difficulty in working together within the same firm.

Moreover, the declining fertility rate and advancing ageing society will cause a shortage of young labour force. Women and senior citizens will become an important workforce (Hazama, 1993). A situation of male staff having women as senior staff will further increase under equal employment opportunity law and the increasing educational background of women today. It is inevitable for Japanese male employees and managers, and the organisation as a whole, to accept having women bosses, and HR practices that discriminate will have to be reduced. Senior citizens have a long experience of working in the industry, and strategies in utilising their experience, knowledge, and skills at maximum level must be created.

Alternatively, increasing the number of foreign workers is another option, and the Japanese government will strongly influence the future direction on this matter. If deregulation occurs for foreign workers, the number of Japanese companies that employ foreign workers would increase, and thus more equalisation of HRM practices can be expected. However if the strict regulation remains, the international operation of Japanese companies might increase to reduce labour cost. Yet this practice is only possible for companies that have enough resources to do so, thus while there is further increase in internationalisation among large firms, small and 3K industry such as agriculture and manufacturing have to rely on foreign workers. In this case, equalisation would be very difficult to achieve. Furthermore, increasing foreign employees in domestic Japan indicates the needs of HRM strategies to create effective cross-cultural workplaces, another challenge for Japanese firms.

Lastly, as the shift from traditional job training and development practice to human resource development continues, the link with other HRM functions within the Japanese company might weaken. The emphasis on securing and strengthening occupational skill development investments could provide for real-world needs and worker requirements. However the benefits of job training, especially in terms of corporate culture and common purpose are likely to be ignored, and thus the bonds of the HRM function within companies will weaken. In addition, Japanese companies will be challenged to keep those skilled employees, as they are likely to seek better opportunities once they have established occupational skill.

Japanese companies, at least larger firms, will keep the lifetime employment with a certain extent of internal transfer. On the other hand, under strong pressure of the maturing economy with slow growth rate and shift of industry, as well as socio-cultural change, Japanese companies seem unable to afford seniority based pay in the future. Especially if the further economic growth depends largely on specialisation of skills and technical innovation as well as reduction of cost, seniority-based pay will only weaken the company's position. Thus the prediction that a universal approach of HRM will be adopted is very unlikely to happen within at least next ten years, although it might change over the longer term.

#### Conclusion

This paper examined the changes to Japan's business environment and its resultant impact on the transition of its ER management system. Mindful of influencing factors and trends, some predictions for the future were made. Due to these shifts in the

macro business environment, three main principles of Japan's ER system, that is lifetime employment, seniority based pay and enterprise unions, are starting to shift. Many organisations see seniority-based pay as a bottleneck in the present recession due to high costs. The membership of unions is also decreasing, as workers perceive unions provide little benefit. The shift of industry structure also affects those two practices. Empirical evidence from research and statistical data has provided support for a strategic approach to HRM in the Japanese context. It appears the transition of Japan's supports the thesis that the model of Japanese management is moving towards that of a new *Gemeinschaft*.

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## The Implications of Changes in Vocational Education and Training Policy on Management Strategy

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*This article reviews the contemporary literature on the determinants of employer strategy as it relates to the management of labour, with a focus on strategic choice theory and the influence of labour markets and the dynamic environment in which organisations operate. Specifically, it addresses the changes to government labour policy within the Australian context and explores the development of new apprenticeships, vocational traineeships and other recent changes to the vocational education and training (VET) system. Furthermore, discussion is raised as to the implications these changes have on management strategy, and the need for a detailed analysis of the relationship between policy and practice is established.*

### Introduction

As an area of industrial relations research, management strategy has been under-represented in the contemporary literature. Traditional emphasis on union activity and institutionalised mechanisms for conflict resolution and wage determination continue to dominate debates within the field, resulting in a lack of discussion regarding the management of labour. This paper attempts to address the management of labour by reviewing theoretical developments and highlighting areas of interest derived from recent research. Kochan et al.'s (1986) strategic choice model is used as a basis for analysis, while the work of Gospel (1992) and Wright (1995) are also considered as significant contributions to the understanding of the determinants of management strategy. Furthermore, consideration is given to the employment relations model as a mechanism for increasing the role of management, while maintaining a pluralist framework, when analysing issues inherent to the world of work. However, it is clear from the literature that no one dominant theoretical typology exists when conducting research in this area. Regardless of this predicament, research can still be used as a means by which key areas of interest can be identified and perhaps add to the literature in an attempt to validate or improve these analytical frameworks.

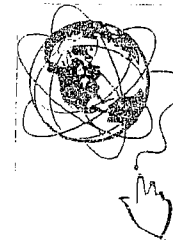
One area of interest evident from literature that requires further research is that of skill formation and development. Kitay and Lansbury (1997) highlight this as an important element of employment relations that requires exploration, considering the global emphasis on technological innovation and international competitiveness. When looking at skill formation and development it is necessary to examine the vocational education and training (VET) system that acts as the framework under which organisations operate. The Australian VET system has undertaken significant reforms over the last decade and these reforms will be analysed so that the contemporary policy framework can be adequately discussed. Following on from this, the implications for management strategy arising as a result of these changes will be highlighted.

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