
Subtheme: “Toward Better Industrial Relations in the Future” — The Essence and Challenges of Industrial Relations in Japan

Hak-soo Oh

(The Japan Institute for Labour Policy and Training, Japan)

Abstract: I expect this paper will provide debate materials to contribute to a better understanding of the essence and challenges of industrial relations in Japan. I will separate industrial relations into those at large companies and those at small and medium-sized companies (SMEs), showing the ideal types respectively, and I would like to discuss the content and the historical formation processes of these.

Key words: labor-management communication; management resources; industrial relations

JEL codes: L

1. The Structure of Industrial Relations in Japan

Industrial relations in Japan have basically been formed and developed in individual company. Enterprise-based unions have played very critical role in industrial relations. Enterprise-based unions exercise the three labor rights: the right for workers to organize, to bargain collectively, and to act collectively. The right for workers to organize is guaranteed primarily by union shop agreements (Ministry of Health, 2012)¹. According to these agreements, company employees, except for certain persons such as management, automatically become union members. Persons who are not employees of the company are unable to become members of the enterprise-based union.

Collective bargaining rights are intended to be exercised to determine wages and other working conditions, and spring offensive, *Shunto* in Japanese is well known as a typical example of exercising collective bargaining rights. Although some negotiations take place based on the right to act collectively (establishing and delegating the right to strike), such examples are now limited to a few of enterprise unions, participating in unified struggle of industry-level collective bargaining in the Japanese Electrical Electronic & Information Union. Recently, negotiations breaking down and leading to the exercise of the right to act collectively are exceptions rather than the rule. In that sense, it is difficult for us to tangibly differentiate collective bargaining from labor-management consultations. Labor-management consultations in Japan are broadly divided into management councils that take place to discuss company management policies and plans, and labor and management committees that take place to discuss working hours, work environments, benefits, and other working conditions. These are permanent meeting bodies. Typically, under the labor-management committees are expert committees formed ad hoc for the

Hak-soo Oh, Ph.D., The Japan Institute for Labour Policy and Training; research areas/interests: industrial relations. E-mail: hs.oh362@jil.go.jp.

¹ In 2011, 64.3% of labor unions in Japan had signed union shop agreements.

revision of personnel and wage systems and so on.

The collective action rights are typically exercised via strikes, but strikes of over half a day that are said to have negative impacts on business have almost consistently decreased after peaking at 5197 cases in 1974 to only 27 cases in 2014 (Ministry of Health Labour and Welfare, 2015). In that sense, it is not an exaggeration to say the collective action rights have not, as a matter of fact, been exercised.

Incidentally, the structure of labor unions in Japan, simply put, is as follows. The organizational form of labor unions in Japan, as described above, is enterprise-based unions. However, there are also lower branches under the enterprise-based unions and upper (superior body) organizations to which those unions are affiliated. The lower branches of an enterprise-based union include a branch in the office and a sub-branch in the workplace. Some enterprise-based unions have branches functioning as a local labor union, but this is typically in the manufacturing industry. As for the superior body of an enterprise-based union, there is a confederation of enterprise-based unions in the level of corporate groups, industrial unions, and national center. Besides, there is the Japan Council of Metalworkers’ Unions (JCM), formed as the result of mergers of five industrial unions from sectors such as the automobile industry. It plays a major role in the spring wage offensive. There are also regional organizations.

Let us take a look at enterprise-based unions’ superior bodies, focusing on RENGO, the Japanese Trade Union Confederation (JTUC). RENGO is the largest national center in Japan, formed in 1989. RENGO membership numbered 6.89 million workers in 2015, accounting for about 70 percent of the total of all 9.88 million union members. In 2016 there are now 49 industrial unions that make up RENGO with the right to vote on RENGO policy, and the largest organization is UA Zensen, with 1.53 million union members (Ministry of Health Labour and Welfare, 2015).

Regional organizations of RENGO are established in each prefecture and under the each regional organization there are some lower organizations, such as regional councils. Approximately 270 regional councils (called “new regional councils”) exist with full-time union officer and an independent office.

2. The Ideal Type of Industrial Relations at Large Companies in Japan = “Sustainable Trust-Accumulated Industrial Relations”

The ideal type of industrial relations at large enterprises in Japan might be called “sustainable trust-accumulated industrial relations”. While there are differences according to industries and companies, industrial relations in Japan have gone through transitions; from “hostile industrial relations” after the end of World War II until the first half of the 1960s, to “confrontational industrial relations” from the second half of the 1960s to the first half of the 1970s, to “cooperative industrial relations” from the second half of the 1970s through the 1980s, to “fusional industrial relations” from the 1990s onward (Oh Hak-soo, 2001).² As time passed, industrial relations grew sustainable, and trust accumulated.

² “Hostile industrial relations” refers to where labor unions speak with management, but management does not trust unions. These are industrial relations that try to find solutions by appealing with confrontations over disputes between labor and management.

“Confrontational industrial relations” refers to where labor unions speak with management, and management also trusts the unions, but where solutions are sought by appealing with confrontations over disputes between labor and management.

“Cooperative industrial relations” refers to where labor unions speak with management, and management also trusts the unions. These are industrial relations that try to find solutions without appealing with confrontations over disputes between labor and management.

“Fusional industrial relations” refers to where not only do labor unions speak with management and management trusts unions, but where labor and management confrontations are reduced or eliminated as much as possible.

I will take a look at the current fusional industrial relations from four angles. The first angle is the nature of coexistence in the industrial relations. Corporate information is made open and shared between labor and management. Companies provide and share all information including management policy, planning, and performance with the enterprise-based union, and make explanations at collective bargaining or labor and management consultations held in the enterprise.

Delicate information, such as corporate splits, mergers, and transfers is communicated to upper executives of the union prior to external announcements being made. In addition, the labor union discusses the management information with the union members, gather opinions, and report these to the company. Companies then attempt to respect these as much as possible. In this way, labor and management recognize and respect the other’s existence.

The second angle is sympathy found in the industrial relations. Labor and management show appreciation and sincerity concerning the other’s decisions and actions. For example, in a given year, a union will express understanding in respect to the fact that the company cannot meet labor union wage demands. In return for this understanding, the company will accept other requests from the union besides wages, showing sincerity and gratitude for that understanding.

As an example, in 2002, an enterprise-based union at Company A, a large automobile company in Japan, demanded a restrained wage increase of 1000 JPY based on company performance. However, Company A answered with a zero wage increase, based on no rise in prices and their wage level which was already high internationally, and a consideration that wage increase at the company would spread to others and could have a negative impact on the entire employment stability for Japan as a whole, and so on. Union officials at that time said, “it was like negotiating with Japan Inc., not the company itself.” In the end, the union accepted the answer of zero increase. My personal analysis is that, based on the facts, afterwards the company accepted other strong demands from the union members, such as reduced workloads, shortened working hours, and improved work environments. Also, even for the four years it was in the red due to the effects of the bankruptcy of Lehman Brothers in 2008, the company continued to pay bonuses equaling five months’ pay, a strong demand from the union.³

In this way, the sympathy found in the industrial relations deepens with the diversification and long-term nature of the bargaining. When a union makes concessions to wage increases, the company responds to the union with shorter working hours and work environment improvements and so on. Both labor and management show gratitude for the responsible attitude of the other. And with repetition, they deepen the sense of sympathy.

The third angle is the co-growth found in industrial relations. Humans are not perfect, no matter who or what organization it is. Each has faults. Both labor and management fix faults when pointed out by the other party, and this leads to further growth. One important role of labor unions is to act as a check for corporate management. When company problems are pointed out based on the voices of union members, the company does not consider this as an attack but rather regards it as a catalyst for healthy further development. Also, the labor union improves its ability to check in accordance with company development and growth. In such a relation, both labor and management are able to grow.

As an example, the enterprise-based union at Company S, a large cosmetics company, pointed out that excess inventory could jeopardize the survival of the company and sought to improve this. For two years starting in 1999,

³ At the spring wage offensive in 2002, it was the company’s showing of sincerity and appreciation, rather than a bargaining, for the union’s acceptance of their answer of zero without directly asking for the company to accept subsequent union demands. This shows the tradition of mutual trust of “each doing their utmost for the good of the other” in this company’s labor and management.

the union demanded a wage increase of zero in order to let the company solve the excess inventory problem.

As a result, the company admitted their fault and effected management reform, rebuilding the production and sales system so as not to create excess inventory. As a result, the company was able to further strengthen its management practices (Hak-soo Oh, 2013a).

The fourth angle is the sense of co-creation found in industrial relations. A company's further development, maintenance and improvement of working conditions, and new industrial relations amidst these things are something that labor and management create together. Co-creation, depending on the situation, sometimes requires pain or concessions. Company S, mentioned above, explained to the union that efforts to reform management require capital and offered a further one year with zero wage increases, which the labor union accepted. The Company A union accepted the company's 2002 decision of zero wage increases. And following that, the company met various demands from the union, and that opened the door to a new dimension of company development as well as maintenance and improvements in working conditions.

Industrial relations in Japan as sustainable trust-accumulated industrial relations have developed as the result of the application of the learning effect. In the hostile industrial relations period, labor unions were influenced by an ideology-oriented movement, and considered the company the enemy, or their movements were conflict-focused. The result was that the survival of companies was jeopardized. And workers who felt this sense of crisis began to change union leadership, seeking to form a second union independently or with company support. In order to avoid the adverse effects of the ideology-oriented and conflict-focused movements, labor and management obtained a learning effect that says it is desirable to resolve differences of opinion with the other party by recognizing the other party's existence and holding discussions as much as possible. This time (1955) in transition of industrial relations was precisely when the productivity movement began. At the time of promoting the productivity movement, labor and management accepted three guiding principles in regards to productivity promotion. These were: first, this movement will lead to the maintenance and expansion of employment (maintenance and expansion of employment principle); second, labor and management will hold talks (labor-management talks principle); and third, the benefits of the movement will be shared fairly (fair allocation of results principle). The three guiding principles in regards to productivity played an important role to overcome hostile industrial relations. And later, they became the backbone of industrial relations in Japan (Takagi Tsuyoshi, 2015).

The 1960s, when “hostile industrial relations” were overcome, was an era of high economic growth. Amidst the spring offensive seeking higher wages, the industrial relations were confrontational nature with frequent strikes. But as time turned toward the 1970s with oil crisis and a period of low growth, their stance shifted to an “economic consistency theory,” and industrial relations became cooperative, and resolutions of labor and management disagreements via strikes decreased. In the 1990s, after the collapse of bubble economy, or the so-called “Lost Decades”, the “fusional industrial relations” developed to minimize conflicts between labor and management, to work toward company existence as well as the employment stability of union members and the maintenance and improvement of working conditions.

After World War II, learning from industrial relations that have changed with the times, labor and management at large companies in Japan, through a process of mutually accumulating sustainable trust within companies, established the current industrial relations, whatever called depending on the company, such as “mutual trust and responsibility”, “two wheels of a cart”, “cooperative industrial relations” and in a variety of other ways. Certainly present industrial relations at large companies have gone through the four phases (stages) of

industrial relations mentioned above.

3. Industrial Relations in SMEs: From the Perspective of Labor-management Communication as Management Resource⁴

In 2015, the unionization rate in Japan was 45.7% in companies with 1,000 or more employees, 12.2% in companies with 100 to 999 employees, and 0.9% in companies with fewer than 100 employees (Ministry of Health, Labour and Welfare, 2015), showing an extremely low level for small and medium-sized companies with fewer than 1,000 employees. Let us now examine the industrial relations of small and medium-sized companies, replacing the expression “industrial relations”, which possesses the strong collective implications of the relationship between the labor union and the company, with the expression “labor-management communication”.

3.1 Labor-Management Communication as A Management Resource

In 2006, The Japan Institute for Labour Policy and Training (JILPT) conducted a questionnaire survey of presidents of companies with fewer than 1,000 regular employees. This survey (Oh Hak-soo, 2013a)⁵ utilized a questionnaire to ask the presidents the following questions regarding their basic policy for labor-management communication. The results suggested that the policies could be divided into four categories: “Close to Opinion A” (“Positive type”): 28.2%; “Somewhat close to Opinion A” (“Somewhat positive type”): 44.4%; “Somewhat close to Opinion B” (“Somewhat negative type”): 20.9%; and “Close to Opinion B” (“Negative type”): 5.4%. The 72.6% of the companies that responded either “Positive” or “Somewhat positive” believe that they should sufficiently identify the views and desires of rank-and-file employees as part of management. However, the remaining 26.3% of companies believe that it is not necessary to listen to the desires of rank-and-file employees.

Opinion A: “The company should sufficiently identify the views and desires of rank-and-file employees as part of management.”

Opinion B: “Management is to be conducted by the president, so it is not necessary to bother with listening to the desires of rank-and-file employees regarding management.”

Of the four basic types of labor-management communication policy, the more positive the policy, the more proactively the company discloses management information to rank-and-file employees. In particular, at least three or four times as many “Positive” companies as “Negative” companies disclose financial information such as net sales, profits, personnel expenses, entertainment and social expenses, and executive compensation, suggesting that the president’s basic policy is being reflected in information disclosure.

Using the four types of basic policy, let us now examine the impact of labor-management communication from three perspectives. First, the more positive the policy, the lower was the probability of experiencing financial crises. In the question of “whether your company has experienced financial crisis since 1990 or not,” the ratio of companies responding “Yes” was 50.9% for “Positive type” companies and 52.5% for “Somewhat positive type”, 56.2% for “Somewhat negative type”, and 60.6% for “Negative type” companies. This means that the ratio for “Positive type” companies is about 10% points lower than for “Negative type” companies.

⁴ The following papers have been quoted extensively here. Hak-soo Oh (2014): “The Actual State and Discussion of Labor-Management Relations in SMEs: Realization of Managerial Resources through Labor-management Communication and Legislation for an Employee Representative System”, *The Japanese Journal of Labour Studies*, August Issue, No. 649. A more detailed discussion can be found in: *The Japan Institute for Labour Policy and Training* (2013a). “Labor-management communication as a management resource and related issues: Focusing on leading cases of small and medium-sized companies”, *JILPT Materials Series No. 124*, Jointly authored by Hak-soo Oh et al.

Second, the more positive the policy, the lower was the difficulty of employee management. In particular, the more positive the policy, the more strikingly low were the responses “Lack skills”, “No motivation”, “Inefficient”, and “No teamwork”. Further, although “No motivation” has an extremely high amount of detrimental impact on operation of the company for Japanese companies that place emphasis on the motivation to work, the ratio of that response was 5.5% for “Positive type” companies, 7.9% for “Somewhat positive type” companies, 10.2% for “Somewhat negative type” companies, and 15.9% for “Negative type” companies, showing that the ratio for “Positive type” companies is only one-third of that for “Negative type” companies.

Third, the more positive the policy, the higher was the degree of cooperation by employees with management. The ratio of companies that answered “Employees are cooperative with management” was 87.1% for “Positive type” companies, 85.9% for “Somewhat positive type” companies, 79.6% for “Somewhat negative type” companies, and 72.0% for “Negative type” companies. This means that the number of “Positive type” companies giving that response was 15.1% points higher than the number of “Negative type” companies.

The above suggests that the more the company president listens to the views and desires of rank-and-file employees and reflects them in management of the company, the more the company will be able to receive proactive cooperation of the employees toward the company and increase motivation, skills, efficiency, and teamwork, and the less likely will be the company to experience a financial crisis. It is safe to say that labor-management communication is a management resources that will generate the impact indicated above.

In 2012, the JILPT conducted a questionnaire survey of presidents of companies of all sizes. The results of this “2012 Survey” (Hak-soo Oh, 2014; Hak-soo Oh et al., 2014)⁶ indicated that the more positive the company, the earlier the company was able to overcome the financial crisis triggered by the 2008 Lehman Shock. It also suggested that this was the result of efforts to implement labor-management communication that included such things as explanation of the company’s business performance, promises of stable employment, encouragement of a sense of unity with the company, and opinion hearings with the company. Smoother labor-management communication made it possible to overcome the crisis at an early stage.

3.2 The Basic Requirements of Labor-Management Communication: 3K2S

In order to make full use of labor-management communication as a management resource as discussed above, the basic requirements 3K2S, as described below, must be met. “3K2S” is composed of the decision of the president for the necessity of labor-management communication for company management and its implementation (“*Ketsudan*”), full disclosure of management information (“*Koukai*”), delegation of authority (“*Kengenijou*”), mutual respect (“*Sougo Soncho*”) and mutual trust (“*Sougo Shinrai*”). Let us now look at these in more detail, using the two examples of the company B⁷ and company C⁸.

3.2.1 The President’s Decisions

President F of company B felt a “deep sense of humiliation and regret” that no new college graduates seeking employment came to his company’s table at a joint recruiting information meeting. However, brushing away those feelings, in about 1990, he decided to ensure thorough legal compliance (in particular, full acquisition of annual paid leave, a full five-day work week, and zero overtime) and create labor-management communication that would enable employees to make comments and proposals freely, with the aim of creating an attractive,

⁵ Valid responses: 2,440 (Collection rate: 20.3%).

⁶ 52 (3.4%) of the 1,517 responses collected (collection rate: 9.9%) were from companies with 1,000 or more employees.

⁷ A building material rental and leasing company with 73 employees as of 2013.

⁸ A metalworking, etc., company with 67 employees as of 2013.

worker-friendly workplace.⁹

Although there had been many failures in the management of the family business until the previous company president, President K of company C came to the conclusion that this was due to the lack of openness in management, and that it would be advisable to have employees participate in management. Accordingly, in 2006, he decided to implement full-scale labor-management communication.

In both of these cases, full-scale implementation of labor-management communication began with decisions made by the company presidents, but it would not be an exaggeration to say that those decisions were coincidental rather than inevitable.

3.2.2 Full Disclosure of Management Information

The business plan created each year by company B includes information concerning the company, each of its departments, and individuals. In order to promote cost reduction, etc., the president also discloses all types of financial information and explains it to the employees. Company C promoted the disclosure of management information, beginning with the visualization of cost management through the implementation of IT. President K, after taking office in 2006, implemented further reform and began full disclosure of all information, including the president’s compensation, in an aim to make that information visible, and thereby increase the transparency of management. Employees can check that information at any time via the intranet, bulletin boards, etc. In addition to information disclosure, employees can participate in meetings of the board of directors and management training sessions, as well as make comments and voice their own opinions in those settings. Salary review meetings conducted by senior staff members regarding the general staff are also made open.

Both companies hold meetings to release business plans that contain a large amount of management information.

3.2.3 Delegation of Authority

Company B delegates much authority to employees, not only with the creation and presentation of business plans, but also the operation of committees, proactive adoption of proposals, etc., to the extent that the employees “get the mistaken impression that they themselves are managing the company”.

At company C, the president only expresses his basic thinking regarding personnel evaluation of rank-and-file employees, working hours, wages, the employment of individuals aged 60 or older, etc., and determination of the concrete details is all delegated to employees. As a result, they get the feeling that “everybody is managing the company together”, despite at times complaining and saying such things as “I’m already so busy but now I also have to do something like this (creation of a business plan; Oh)” and “I have to think about a lot of things about management for myself so I feel pressure”.

Although not a concrete delegation of authority, both companies request the views of employees regarding who would be the best candidate for the next president of the company, and try to reflect those views in the decision process.

3.2.4 Mutual Respect

Within the basic relational structure that consists of instruction and commands from the employer that are obeyed by the employee, it is difficult for labor and management to implement labor-management communication on equal terms. Accordingly, more than anything else, it is necessary for the employer to acknowledge the

⁹ To ensure legal compliance, the president was so thorough that his instructions include such direction as “Let’s abandon customer satisfaction, and prioritize employee satisfaction”, and in regard to customer orders to cause working on holiday or overtime working, “Just tell them no”.

employees with respect, listen to their comments, and accept them equally with the same weight as that given to their own comments, in order to generate the good impact of labor-management communication. It is crucial that employees also acknowledge the employer and the employer's right to give instructions and commands. Through this, mutual respect between labor and management will develop.

Once every two or three years, company B holds a president's Q&A meeting. The questions posed by employees at those meetings are severe. Although “it gets so bad, including derogatory remarks”, that his “stomach starts to hurt”, the president responds to the best of his ability and announces the responses at the morning meeting. The employees say “The president first listens to everything we say”, demonstrating that the opinions of employees are given respect. In addition, the company's proposal system is used to proactively utilize the views and desires of the employees in an aim to streamline and simplify work, and reduce expenses. Further, in-house training and other such activities are held “without addressing each other by rank or title, and with the hierarchy kept out of the picture as much as possible”.

Company C strives to share the “heart of management” (a feeling of gratitude) throughout the company, and entrench a culture in which everyone's views are heard. An attitude of respect for everyone's opinions permeates the company. There is a belief that “a company without problems is a problem”, and the sentiment is to “create a company that finds the company's problems”. Conversely, there is also a belief that “companies that say things such as ‘the company has no problems’ or otherwise ‘it is a waste of time to even identify the problems’ will fail”. Because of this, the company believes that every opinion and desire will lead to the development of the company. Accordingly, “There is always an atmosphere that allows employees to state their opinions directly to the president, or to pay him a visit when they have a problem.” The views of the employees are so valued that even a mid-career employee says, comparing the company with his previous job, “I was really amazed at the atmosphere where the president and the management team really listen. They provide the opportunity to speak, so I can work with an awareness of the issues.”

3.2.5 Mutual Trust

Mutual trust develops on a foundation of mutual respect when it is possible to see consistency and predictability in other person's words and actions. Without that, people are unable to entrust the other person with their thoughts and feelings, and there is a tendency for labor and management to view each other with suspicion. Mutual trust is absolutely critical to labor-management communication. The trust of the employees toward the president is more important than anything else.

President F of company B not only advocated in word full acquisition of annual paid leave, but also included it as a goal in the company's business plan, read off the names of employees with a low rate of acquisition at morning meetings, and posted them on a bulletin board. That demonstrated how serious the president was about it, and led to an increase in the trust of the employees toward the president. In addition, the company motto is “Pursue healthy profit and contribute to society”. The company puts the motto into practice by cleaning streets, making annual donations to the local community, proactively hiring senior citizens, etc. Through this, the employees develop a sense of trust toward the president.

President K of company C is advancing a conversion from a family business to employee-participation-style management. To demonstrate how serious he is about it, he promotes employee stock ownership, encouraging employees to purchase stock held by founding family, makes it clear that personal matters are not to be intermingled with business, strives to share the “heart of management” (a sense of gratitude toward everyone), and proactively delegates authority. The employees trust the president because he puts these things into practice. To

confirm the trust the employees have toward him, the president has included the question “Is the president reliable?” in the management check sheet, and has the employees check him. The employees trust the president, and say “It is immediately clear where money is being spent, and the president isn’t doing anything strange.

3.3 The Requirements for Maximization of Labor-Management Communication: Conversion of Management to “Half-Employee” and Employee to “Half-Management”

To draw out the maximum effect of labor-management communication as a management resource it is extremely important to fulfill the requirements for maximization of labor-management communication in addition to the basic requirements.

3.3.1 Conversion of Management to “Half-Employee”

In the case of many small and medium-sized companies at which ownership and management are not separated, employees tend to be concerned that the management will result in the generated profits being taken by the owner president or founding family. In addition, under so-called “one-man management” in which the president’s authority is exercised without limitation, anywhere and at any time, it is difficult for employees to develop a sense of trust in the president. In such a context, the effective labor-management communication as a management resource cannot be expected, and it is difficult to achieve a positive cycle of labor-management communication. To eliminate those concerns and maximize the impact of labor-management communication, it is necessary for the president to show self-restraint in financial matters. To achieve this, it is advisable to visualize and systemize mainly the flow of allocation of profits and the amount allocated to the president, based on full disclosure of management information.¹⁰

At company C, the president’s compensation is determined and released as an extension of the employee wage scale. In addition, the management check sheet used each year by the employees to evaluate the president includes questions such as “Is the president reliable?” “Do you believe that he keeps personal matters separated from business?” and “Do you believe that information is being released in an appropriate manner?” It also has a section in which employees can write whatever they want. This makes it possible for the employees to check the president. It could be said that disclosure of the president’s compensation and the employees’ check serve to ensure the president’s self-restraint. If, in addition to the president’s self-restraint in financial matters, the president’s self-restraint in activities is ensured, with his daily tasks and work released, labor-management communication can be maximized as a management resource.

At company B, although the president’s entertainment and social expenses have been set by the employees at ¥300,000 per year, it is never all used. Moreover, because the president always works alongside the employees, his work is transparent.

Although not as strict as the work rules imposed on employees, this type of self-restraint by the president is similar to that of the employees, so it could be referred to as “conversion of management to half-employee.” If this is accomplished, the employee’s view of profits as belonging to the president or the founding family will change to a view of the profits as belonging to “us,” giving rise to a sense of being a central player in the employee-driven company. This will also increase the employees’ job motivation and abilities, teamwork, and other aspects of the quality of work, and create more added value and profit. As a result, the company will maintain sustainable development, and a higher level of profit will come to the president and founding family as

¹⁰ As far as the presidents of 14 member companies of the Association of Corporate Executives are concerned, who disclosed information to the author, their annual compensation ranged from ¥7 to ¥26 million. The most common answers were around ¥15 million.

well. The labor-management communication conducted throughout that process will become even more effective as a management resource.

3.3.2 Conversion of Employees to “Half-Management”

In conjunction with the conversion of management to “half-employee”, employees will also be converted to “half-management.” Let us now confirm that from words of the employees themselves.

At company C, as they comment “employees who think about the entire company are increasing here and there”, employees are beginning to consider not only themselves but the overall company as well, just as the president does. Other comments include “Of course employees would be happy if 20% of profits were allocated to an increase of wage and up to 40%, but on the other hand that would make it difficult for the company to make capital investment. If business gets difficult again as the result in the future, it would take a toll on the employees, so I think it might be necessary to set salaries at a suitable level” and “It feels like we’re all managing the company together, and like I’m also being useful somehow to the company.”

At company B as well, we hear things such as “As we start getting an overall understanding of the company, our biggest concern is the failure of the company as a result of indiscriminate payment of salaries to the employees”.

When employees are able to think of the company’s profit before their own, their perspective will change from caring only about themselves to a perspective like that of management, caring about the overall company in the medium/long-term. This could be referred to as “conversion of employees to half-management”.

As the conversion of management to half-employee and employee to half-management proceeds, that will not only facilitate labor-management communication but raise awareness of the employees that the interests of the company coincide with their own and improving and using their own skills and abilities will eventually lead to the an expansion of the company’s profit and added value. In addition, points of conflict between labor and management will be minimized, and mistrust of others caused by such conflict, such as decrease in motivation and other problems will not be generated,¹¹ and this will lead to a further streamlining of company management. As a result, there will also be an increase in the benefit to the president, as the top executive of the company. In other words, the progress of “half-employee management” and “half-management employees” increases the absolute added value of both individual employees and the company, and will bring higher profit not only to the individual employees, but to the president as well. Company B has continued to make a profit for 37 years since the 1990s despite an overall shrinking of the construction industry throughout Japan, and company C has increased its number of employees since the current president took office in 2006, and as of 2016 has 80 employees.

The conversion of the president to a half-employee (“self-restraint”) gives rise to conversion of the employee to half-management, holding the view that the company’s profit equates to their own. As employees work in a broader competitive space and create higher added value, the company's profits will increase, making it possible for both the employees and the president to receive greater benefit. Labor-management communication as a management resource as indicated above will play an increasingly significant role. Conversion of the president to half-employee and conversion of employee to half-management serves as the engine that drives the positive cycle of labor-management communication and as a factor in maximizing labor-management communication.

Among Japanese small and medium-sized companies, only few companies fulfill the basic requirements for

¹¹ Previously, when labor-management communication was not smooth, “I was always dissatisfied and had complaints toward the company if I didn’t get a raise,” but with smoother labor-management communication, now “I have realized that I have a long way to go”, and see it as an opportunity for personal growth (C Industrial).

utilization of labor-management communication as a management resource (3K2S) and the requirements for its maximization (conversion of management to half-employee and employee to half-management),¹² but they are the ideal that should be the goal.

4. Future Challenges

Above we have examined the positive characteristics of industrial relations in Japan, dividing the companies into two categories, namely, large companies and small and medium-sized companies. Let us now address future issues in a number of contexts. First, industrial relations in Japan have been formed and developed in individual companies basically, and have been established through trial and error under the autonomy of labor and management in individual companies rather than by law. Since the 1990s, Japan has undergone the “lost decade,” with zero growth, declining birthrate and aging population, and globalization. Against the backdrop of the fierce competition between companies and efforts to maximize shareholder value, the “three principles of productivity” have been wavering. Further, as violations of the Labor Standards Act and other laws have increased, labor-management communication has been ignored. It would not be an exaggeration to say that industrial relations based on labor and management autonomy have reached their limit. Accordingly, a comprehensive legislation that governs industrial relations and labor-management communication at company level (a so-called legislation of employee representative system) is needed.¹³

Second, there might be an issue of fallacy of composition. Favorable labor-management relations at individual companies, where both labor and management express understanding of each other, does not necessarily have positive effects on overall Japanese society in general. For the 4 years following 2002, even labor unions of large corporations that made good profits did not demand wage increase. This contributed to the profitability of those corporations, but there was an aspect that it had a negative impact on Japan as a whole in terms of overcoming deflation. I would suggest that considering the way of labor management relations and labor union movement leading to the benefit of the whole society is an important challenge.

Third, another challenge is improving the function of labor unions to check management. In some companies that have labor unions, there are violations of laws. It should be examined whether unions serve to check management and foster corporate compliance and sound management of the company. Moreover, in the drastically changing business environment surrounding companies, selection and concentration of management resources, reorganization of corporate bodies, and speeding up of decision making is required. It is also necessary to examine whether or not current labor management relations are sufficiently responding to these situations.

Fourth, the number of part-time employees and other non-regular workers has continued to increase since the 1990s, and now constitutes almost 40% of all employed workers. In the past, industrial relations have been focused on regular employees, and for the most part did not include non-regular workers. Some unions are working to organize part-time employees with the aim of restoring a majority union, and have established

¹² For example, in the “2006 Survey,” the ratio of companies that disclosed executive compensation was only 10.3% even among “Positive type.”

¹³ See the following works for more details on the employee representative system. Hak-soo Oh (2013b): “The necessity of employee representatives from the perspective of industrial relations: Utilizing the management resource of employer-employee communication”, *The Japanese Journal of Labour Studies*, January Issue, No. 630; The Japan Institute for Labour Policy and Training (2013b): “Study group report regarding legislation of collective labor-management relations to gather opinions of workers in diversified employment types”.

industrial relations that include non-regular employees, but most of labor unions have not yet. There still remains a big challenge for labor unions to organize non-regular employees and, based on their opinions, to realize their unified demand for improvements in relation to their employment, ability enhancement, motivation and treatment in an acceptable way for both labor unions and management.

I will continue to see if labor and management in Japan resolve the issues indicated above, promote the ideal type of industrial relations and labor-management communication, and forge a new path to a higher level of industrial relations.

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