



# HOKKAIDO UNIVERSITY

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# RECENT RESEARCH ON THE JAPANESE PERSONNEL MANAGEMENT SYSTEM IN JAPAN: A COMPARATIVE PERSPECTIVE\*

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## 1. INTRODUCTION

At the end of the 1950's, James C. Abegglen<sup>1</sup> described very well the following systems as unique features of the Japanese personnel management system; (1) a permanent or eternal employment system (2) a seniority order wage system (3) a seniority order promotion system and (4) labor unions organized on a company basis.<sup>2</sup> Abegglen's description has gained the approval of many other scholars and commentators, and these four systems have come to be thought of as axiomatical features of the Japanese personnel management system. As a result, since the 1950's, the main thrust of most

<sup>1</sup> James C. Abegglen, *The Japanese Factory: Aspects of its Social Organization*, (Glencoe: The Free Press, 1958). In that period, there were other scholars who described the same features of the Japanese personnel management system as Abegglen did, but Abegglen was the most famous and most influential scholar.

<sup>2</sup> Abegglen's description is as follows: (1) Permanent or eternal employment system: In large-scale Japanese companies, regular employees who are employed just after graduating from school ordinarily continue their employment until the compulsory retirement age. They do not try to change companies and the companies also make an effort not to lay them off. (2) Seniority order promotion system: In large-scale Japanese companies, the promotion of the employees within a company depends mainly on the employees' length of employment, not on their personal ability. (3) Seniority order wage system: In large-scale Japanese companies, the personal wage rate depends primarily on the employee's length of employment, not on his personal ability or efficiency. (4) Labor union organized on a company basis: each Japanese labor union is organized on a company basis. It is not organized on a job or an occupation basis as are the craft unions of Great Britain, nor on an industrial basis as are the industrial unions of the U.S.

\* (This paper is the manuscript of my lecture held at Cornell Univ. on the 29th of March, 1979)

comparative studies has been to analyze the effects of these four systems on business management and on the industrial society or to study those unique Japanese social and cultural characteristics—including those of the Japanese managerial class—which have produced the above-mentioned systems. There are many papers and books which offer useful descriptions of these topics.

During the past several years, however, a small number of studies have appeared which are different in nature and which should be seriously considered. These studies reexamine the above-mentioned four systems as unique features of the Japanese personnel management system, attempting to present other new concepts as tools to explain the character of the Japanese personnel management system. Scholars have been expressing their doubts about the opinions of Abegglen and his followers since the 1960's,<sup>3</sup> but it is only fairly recently that we can find studies which criticize Abegglen's hypotheses systematically, on the basis of positive data, and which assert the necessity of using new research methods. This development is so late in coming because of the difficulties of comparing the real personnel management conditions in the representative Japanese factories from which Abegglen and his followers collected their data, with similar factories in other countries. There are few data available for this comparison, even in America and Japan, which are thought to be countries whose statistical data are the best in the world. Therefore, sometimes the researcher has to carry out investigations in the field. As a result, the quantity of such research is small, but its findings are necessary to promote the further development of comparative studies of personnel management systems. In this paper I wish to introduce and explain the research findings of Professor Kazuo Koike<sup>4</sup> as typical of this type of research. I will also explain the Japanese personnel management system using Koike's findings. Finally, I will point out the necessary course of future research in this area.

## 2. THE RESEARCH OF PROFESSOR K. KOIKE

### —An Example of Recent Comparative Research on Personnel Management Systems—

Professor Kazuo Koike analyzes the personnel management systems in America and Japan on the basis of the worker's skill acquisition process. In modern industrial society, the growth ability of companies and worker's

<sup>3</sup> The theories of P. B. Doeringer and M. Piore, *Internal Labor Markets and Manpower Analysis* (Mass: D. C. Heath and Co., 1971) are famous among Japanese scholars who disagree with Abegglen's opinion.

<sup>4</sup> Kazuo Koike, *Shokuba no Rodokumiai to Sanka (Labor Union and its Participation in Management)*, Tokyo: Toyokeijai Press, 1975).

income levels are closely related to the skill level of the workers. The worker acquires his skill through daily practice in his workshop. Ordinarily, the worker is transferred into several different but related jobs within a workshop. Through this process, he learns various related techniques and eventually becomes a highly-skilled worker. Koike compares the skill acquisition process in Japanese and American companies in terms of the promotion process and the transfer process. With the help of the U. S. Department of State, Professor Koike carried out research in fourteen factories of the steel, automobile and machinery industries in the U. S. between 1973 and 1975. He also conducted similar research in thirteen factories of the steel, glass, chemical, automobile and machinery industries in Japan between 1972 and 1975. Koike attempted to interview the personnel managers and the leaders of the labor unions in all of these factories. Although every factory had a labor union and he was able to interview all of the union leaders, he was not able to interview some of the personnel managers. Because his sample factories were few in number, it was necessary to examine data which had already been published in order to understand the general promotion and transfer policies in factories.

#### 1) Local Unions in America and Labor Unions in Japan

It is a local union, not a national union, which controls the worker's promotion and transfer processes in the U. S. According to the U. S. Department of Labor in 1970<sup>1</sup> there were 76,792 local unions in the United States, each with an average of 260 members. In Japan, in 1973 there were 65,446 unit associations, with an average of 185 members, while each union had an average of 382 members.<sup>2</sup> On the basis of these data, Koike suggests that in size the American local union lies between the Japanese unit association and the Japanese union, which is organized on the basis of one company.

Koike studied B. L. S. data,<sup>3</sup> and found that 80 percent of the manufacturing labor contracts in the U. S. were contracted on a company basis or factory basis. In particular, more than 95 percent of all contracts in the heavy industries and the chemical industry were of this type. This suggests that more than 80 percent of all factory workers in the U. S. are members of local unions organized within one factory, very similar to the company-

<sup>1</sup> U. S. Department of Labor, Bureau of Labor Statistics, Directory of National Unions and Employees Association, 1971.

<sup>2</sup> Rodosho (Japan Ministry of Labor), *Rodokumiai Kihonchosa (National Survey of Labor Unions)*, Tokyo: Rodosho, 1973). In large-scaled Japanese companies, workers in each factory form a unit association and the several unit associations within the same company form a labor union on the basis of that one company.

<sup>3</sup> Dept. of Labor, Bureau of Labor Statistics, Characteristics of Agreements covering 1,000 Employees or More, July 1973, Bulletin, No. 1822.

based labor unions in Japan. Koike stresses the similarity of the fundamental character of these two types of unions (the local union organized on the basis of a factory in America and the Japanese union organized on a company). Both unions consist of workers of various jobs from one company or one factory. When the local union negotiates with management, it operates with a large degree of autonomy, without any direct intervention by permanently-stationed officers of the national union. The union negotiates independently with the employer the processes of transfer and promotion its members. Because of this, the transfer and promotion mechanisms are different in each factory of the same company. Japanese labor unions also have the same autonomy that American labor unions have. Sometimes in the U. S. there are two or three local unions in one factory. In Japan also, there are many companies which have two or three unions.<sup>4</sup>

According to Koike, the differences between Japanese and American unions are as follows: (1) American labor unions do not include white-collar workers, but Japanese labor unions do. (2) American labor unions do not include foremen, but Japanese labor unions do. (3) American labor unions include all blue-collar workers in a factory, whereas Japanese labor unions exclude some of the workers who are working in the same factory, i. e. the temporary employees and the workers employed by contractors. (4) In American companies, regular wages are paid to the officers of local unions who work for the union several hours a day. In Japan, the company is prohibited by labor laws from paying wages on time which is used for union business. On the basis of these last two items (3 and 4), Koike has concluded that the supposedly unique feature of Japanese unions—that they include all workers in one factory—is actually more common of American local unions than of Japanese unions.

## 2) Analysis of Labor Contracts

Through his analysis of a B. L. S. survey conducted from 1967 to 1968,<sup>5</sup> Professor Koike found that more than 80% of the labor contracts in the heavy industries and the chemical industry, the electrical industry and the gas industry in the U. S. generally contained detailed clauses concerning promotions and lay-offs. In addition, he found that these clauses adopted seniority as a criterion for promotions and lay-offs.

According to these clauses, the types of promotion mechanisms most frequently used in these industries were posting-bidding and automatic con-

<sup>4</sup> In Japan, there is a union similar to the local union organized in certain geographic areas in America. This union is called "Godo Rodo kumiai", but in Japan, it includes workers from various jobs, whereas the corresponding union in America does not.

<sup>5</sup> Dept. of Labor, Bureau of Labor Statistics, Major Collective Agreements, Bulletin, No. 1425, No. 1425-11, 1425-13.

sideration. Arbitrary promotion by the employer seemed to occur infrequently. While seniority was used as one criterion for promotion, other factors, for instance work ability, were also used, although it is unclear to what extent.

An analysis of the clauses concerning lay-offs showed that more than three quarters of the contracts specified only the seniority principle as the mechanism to be used for decisions relating to the order of lay-offs and reemployment. The remaining contracts included both seniority and other elements, for instance, again, work ability. But, in the latter case, it was impossible to determine how heavily the employer and the labor union considered such factors. Few labor unions surveyed by the B. L. S. in 1968 focused on how to decide about the number of lay-offs; their labor contracts did not take up this question. Koike has tried to clarify these processes through his field investigation. That is to say to what extent other criterion than seniority are being used.

In order to compare American and Japanese promotion and transfer mechanisms, Koike examined several surveys conducted by the Japanese Ministry of Labor, and the Central Labor Relations Commission. He also reviewed several books on the subject.<sup>6</sup> He discovered that promotion systems are widely used within Japanese companies, but that provisions concerning promotion do not appear in labor contracts. This is due to the fact that the Japanese wage system is not directly related to type of job. Furthermore, in Japan there is no concept of promotion from a lower wage-rate job to a high wage-rate job. In other words, promotion is not linked to salary. In Japan, the word "promotion" means "movement from a rank and file job with no status into a responsible (leading) position." In contrast, two thirds of the Japanese contracts studied by Koike did include provisions concerning transfer; however, it was impossible for him to determine what transfer mechanisms were being used in practice.

From past research, it is well-known that Japanese labor unions do not negotiate about transfer within a workshop, but that they do negotiate actively about transfer from one workshop to another. In addition, it is a well-

<sup>6</sup> Rodosho (Japanese Ministry of Labor), *Rodokyoyaku to Jittai Chosa*. (National Survey of Labor Contracts, Tokyo: Rodosho, 1969). Ditto, *Showa 47 Nen Roshi Communication Chosa* (National Survey of the Communication between Labor and Management 1972, Tokyo: Rodosho, 1972). Chuo Rodo Iinkai (Central Labor Relations Commission), *Rodokyoyaku Chosa* (National Survey of Labor Contracts, Tokyo: Churoi, 1952, 1970). K. Okochi, M. Ujihara and W. Fujita ed., *Rodokumiai no Kozo to Kinko* (The Structure and Functions of Labor Union, Tokyo: Todai Shuppan Kai, 1959). Doryokusha Rodokumiai, *Doryokusha Undoshi* (The History of National Railway Motive Power Union, Tokyo: Doro, 1962). *Doryokusha Nijiunen Shi* (The Twenty Years History of National Railway Motive Power Union, Tokyo: Doro, 1973), et al.

known fact that Japanese workers are interested in their company's financial condition and business policies and that they have a strong desire to make their opinions known concerning the work process in their own workshop. Almost all Japanese companies have some sort of mechanism for this communication, such as joint consultation, confederation meetings of all members in the same workshop, production committees and suggestion systems. In general, the Japanese worker actively expresses his opinions about the work process at such meetings; however, he does not usually express an opinion about matters of personal treatment: salary, job assignments and so on. It is not clear from the existing data what kind of mechanism is absorbing the Japanese worker's individual complaints.

There are no provisions in Japanese contracts concerning lay-offs because Japanese companies do not use a lay-off system. Naturally, however, the company must adjust the number of workers it employs in response to changes in market conditions. Unfortunately, the method of adjustment in Japanese companies has not been clarified in previous research in this area. Professor Koike carried out his field investigation in order to clarify such questions as these.

### 3) Koike's Fact-Finding Survey

Professor Koike describes the conditions of every factory he investigated very precisely and completely. As stated earlier, he attempts to compare the promotion, transfer, and lay-off policies in American and Japanese factories as they relate to the workers' skill acquisition process. In this section, I will summarize his findings.

According to Koike, in American factories, blue-collar workers must be employed initially in the so-called entry-level jobs. Each worker has to start from this entry-level position, and then he will be promoted according to the seniority principle. There are many kinds of lines of progression, or promotion lines going from low-level jobs in the labor pool to certain upper-level positions. Depending on the type of job, a promotion line might have only a few job gradations and, therefore, the worker would reach the highest-level job quickly. However, the wage rate for such a job would not be very high. On the other hand, some promotion lines include many job levels, and thus it would take the worker many years to progress to the highest grade job. In this case, however, the wage rate would be very high. As Koike's findings illustrate, which promotion line the American factory worker chooses is obviously very important to him, because the skills he will have acquired in the future, and, therefore, the highest wage rate he will be able to obtain, depend upon the length of his promotion line. How promotion lines are established, and how every worker chooses which promotion line to follow are left to each factory to decide. The method

used to establish promotion lines differed in each American factory studied by Koike, but in all of the factories investigated, only the seniority principle was used in all situations relating to promotion. The seniority principle was exercised when a worker in the labor pool chose a promotion line to follow,<sup>7</sup> and also for promoting him once he had chosen a certain promotion line. Other factors, for instance work ability, could be considered only when those elements could objectively be proven to relate to the ability to work (for example in the case of a handicapped person).

Transfer decisions in the factories studied by Koike were made, as in the case of promotion, according to the seniority principle. The order of lay-off was also decided in the same way, despite the fact that work ability is specified in some contracts as a factor in lay-off decisions. Essentially, Koike found that in American factories a strong seniority order promotion system and seniority order wage system were functioning. In practice, in the U. S. any worker who has been employed for more than five years will not be laid off and will be able to continue in his job until the age of sixty-five, when he will retire with a life-time annuity. In essence, then American workers are employed permanently.

According to Koike's study, in Japan, ordinarily a newcomer is trained for several months and then he is stationed in a workshop. At this time, he enters a rotation system in that workshop. The following example of a rotation system is taken from Koike's survey in Japan. In one steel company, there are ten positions in front of a blast furnace in a particular workshop. The ten workers who work in these positions exchange jobs with each other every morning and afternoon. Therefore, every worker works in all positions in the workshop every five days. The group leader always watches over all facets of the operation and helps the workers when it becomes necessary. Such a rotation system and the group leader's role are established by the decision of the group leader, who acts as the communication link between his subordinates and his superiors. The group leader maintains a close relationship with his subordinates, communicating openly with them about work and personal matters. The employer and the union leave to the group leader all concrete decisions concerning daily work. Every factory has such autonomous workers' groups in each workshop.

In the above-mentioned company, there were three blast furnaces, each of which was operated differently. A rotation system was also used to transfer workers among these three workshops. A few workers from each workshop would be transferred to another blast furnace workshop every

<sup>7</sup> In former times, sometimes discriminatory treatment by race was practiced by employers during this process, but now such treatment is illegal.

year. In this way, every ten years or so, all workers would have had experience in all three of the workshops and would have worked in dozens of positions concerning the operation and maintenance of the blast furnaces. The choice of who would be transferred to the other workshops was also made by the group leader, and not by the employer or union. Koike found that the group leader usually made his decision by considering a number of factors, for instance, age structure of his group, seniority, personnel history of each worker, group harmony, probability of promotion of each worker, and family conditions of each worker. In effect, then, a seniority order promotion system was not being strictly followed. The group leader would consults with his superiors, but real authority was left to him.

The rotation system described above is a common feature or custom in all Japanese factories. One result of this rotation system is that sometimes a newcomer has to do the most difficult job, but at this time, the most highly skilled workers are usually stationed by his side, helping him. In other words, on-the-job training is continually going on in Japanese factories.

Through such a system, all Japanese workers become skilled in various kinds of jobs. As a result, they easily adapt to the new technical changes in production. At the same time, the Japanese worker can also look at this daily work from the viewpoint of the whole production process. Under such working conditions, a wage system based on job classification is meaningless, because all workers eventually work in all positions in their section. Those few companies which have adopted a new wage system partially based on job classification are now trying to abolish that part of the system. From one point of view, since more experienced workers are always teaching or helping junior workers in their daily work, a seniority order wage system is appropriate. However, the Japanese pay raise system depends not only on the length of employment but also on a performance appraisal. Ordinarily, in Japanese companies a performance appraisal is done twice a year, and each worker's score on the appraisal has an effect on the rate of his salary increase. The effect of one performance appraisal is not so great, but the cumulative effect of several negative evaluations will produce a large difference in monthly earnings within ten or fifteen years. Under this system, it often happens that the wage of a junior worker is higher than that of his senior workers. Because of the effect of this performance appraisal system, in practice a seniority order wage system is not being so strictly followed in Japan as it is in America.<sup>8</sup>

<sup>8</sup> In Japanese companies, the annual increase in wages is a combination of an increase produced by the union's wage increase demand and an increase based on length of employment. In the last twenty years, the portion of the wage increase which is a result of the union's demands has risen significantly in proportion to the portion of the increase resulting from length of employment increases.

As for the question of lay-offs in Japan, it has been said that in Japanese factories, an adjustment in the number of workers in response to a change in demand affects only the temporary employees or contract workers. However, Koike found that there was a definite division of labor in all factories between regular employees and others, and that, in practice, the job responsibilities of these temporary workers or contract workers could not be taken over easily by regular employees. As Koike points out, because of this, it takes several months to make such changes. In fact, any adjustment in the number of workers is accomplished through either overtime work, in the case of increased demand, or the transfer of workers among the production departments, in the case of a decrease in demand.

There are two kinds of transfers used when demand decreases. One is a transfer into a position which has some technical similarity with the worker's former position, so that the worker can train in a new technique related to his former skills. In such a case, the transfer will be decided upon by the group leader. The other type of transfer is a transfer to a position in which the worker has to learn a new technique not related to his previous skills. Ordinarily, in this case, the employer must negotiate with the labor union, explaining the necessity for the transfer of workers and proposing a precise schedule for those transfers. In the case of such transfers, the employer and the union decide together the number of workers to be transferred out of each workshop, but the selection of which workers will be transferred is again left to the group leader. He consults with the workers whom he wants to transfer. Without the workers' consent, ordinarily, the transfers can not be put into effect. Sometimes, however, a candidate list which shows who will be transferred might be given to the labor union before all candidates agree to their transfers. In this case, the labor union must secure the workers' consent. If a worker does not agree to being transferred, the union officer will decide whether the union should try to persuade the worker to agree or should try to make the employer withdraw the transfer request. There are no fixed rules for transfer in Japanese companies. In American factories, all transfers depend only on the seniority principle. From Koike's point of view the term "seniority order promotion system" is actually more appropriate to the personnel management system used in American factories than to the one used in Japanese factories.

#### 4) Koike's Conclusions

Based on his research, Koike concludes the following:

- 1) Generally speaking, Japanese workers learn more varied kinds of skills than American workers.
- 2) Japanese workers transfer more frequently and more widely among var-

ious jobs than American workers. These transfers play an important role in the worker's skill acquisition process and the adjustment of the number of workers among workshops. There are no definite rules for transfers in Japan, while in America, the seniority principle has been adopted as the only transfer mechanism. In Japanese factories, transfers effect all workers equally, and, therefore, a wage system based on job classification is not appropriate. Furthermore, a seniority order wage system can not be adhered to strictly as a result of the use of a performance appraisal system which differentiates between individual workers on the basis of their performance.

- 3) In Japan, at present most workers are eventually promoted to the foreman level and all foremen are workers who have been promoted from blue-collar positions. In contrast, in America, foremen are not always workers who have been promoted from blue-collar positions, and sometimes a blue-collar worker actually rejects a promotion to foreman.
- 4) American labor unions include all workers in a factory, whereas Japanese labor unions exclude the temporary workers and the contract employees who are also working in that factory.
- 5) The guarantee of permanent employment is stronger for American workers who have seniority of five years or more than it is for Japanese workers. Japanese factory workers do not have any fixed rules for lay-off nor do workers have any rights of reemployment. Ordinarily, when the company has to decrease the number of workers because of company deficit, the older a worker is, the higher the possibility of his being laid off. In large-scale Japanese companies, there is a compulsory retirement age: fifty-five years old. (Although occasionally this age is fifty eight years old). Also, there is no annuity plan for Japanese workers.

On the basis of these findings, Professor Koike concludes that the truly unique features of the Japanese personnel management system are its extensive use of the transfer of workers among various kinds of jobs without a specified rule on transfers and the employees' autonomous group with a group leader in every workshop. The four systems —the permanent employment system, the seniority order promotion system, the seniority order wage system and the labor union organized on a company basis— which Abegglen and his followers described as the unique features of the Japanese personnel management system are, in fact, not characteristic of Japanese factories.

Koike's research is very valuable because he has compared the Japanese and the American personnel management systems using data gathered through a rigorous fact-finding survey and found new concepts to replace

those formerly accepted. Of course, the general validity of his conclusion depends upon the application of the same rigorously conducted comparative research to white-collar workers in the industries studied and to workers in other industries in both countries. Nevertheless, his conclusion that there are the same kinds of systems of personnel management in American and Japanese factories, is important. Abegglen and his followers have tried to explain the Japanese company's behavior according to the above-mentioned four systems and on the surface, they seem to have succeeded. However, if the same kinds of systems are used in some American factories and, yet, those American companies do not behave as Japanese companies do, then we must find other new concepts to explain the behavior of Japanese companies.

Most Japanese businessmen know that Japanese workers are transferred extensively from one job to another and that there are employees' autonomous groups in every workshop. Such knowledge is common knowledge for them, and they know what function these systems have. Japanese businessmen have a habit of getting together at study meetings composed of businessmen from various kinds of industries to exchange ideas and experiences concerning management issues. In these meetings, they discuss their problems on the premise that all those attending have such common knowledge.<sup>9</sup> Koike's research illustrates to us the importance to international comparative research of investigating the common knowledge held by businessmen. In the next section of this paper, I will outline Japanese businessmen's common knowledge about personnel management systems using Koike's findings. I will also describe simply the historical origin of the Japanese personnel management system, which seems to be necessary to understand the features of that system.<sup>10</sup>

### 3. THE DEVELOPMENT OF THE JAPANESE PERSONNEL MANAGEMENT SYSTEM

Japanese modernization began in the Meiji era (1867-1911). Most Japanese factories in the early Meiji period were of the public ownership type. Their goal was to introduce into the Japanese industrial world industrial techniques and skills brought to Japan by European or American engineers

<sup>9</sup> Unfortunately, sometimes, I have observed in meetings of scholars that many scholars do not know about the practices of the business world and actually discuss problems in utter disregard of reality.

<sup>10</sup> I have been influenced by the studies of the history of Japanese personnel management by Professor Hiroshi Hazama. Hiroshi Hazama, *Nihonteki Keiei no Keifu (The History of Japanese Management)*, Tokyo: Nippon Noritsukyokai, 1963), —, *Nihon Roumukanrishi Kenkyu (The Study of the History of the Japanese Personnel Management)*, Tokyo: Diamond, 1964).

who were employed by the Japanese Government. Profit-making was in itself, not an objective of the government. Employees worked less than 10 hours a day and Sunday was a holiday. During this period of public ownership, the "clerk group" was mainly composed of men from the old warrior group (the Samurai group) and the decedents of the warriors. Those employees whose rank was higher than junior official (an official of hannin rank in Japanese) were guaranteed permanent or eternal employment. The factory workers, on the other hand, were commoners. Their working hours were from 7:30 AM. to 5:00 PM. in the summer and from 7:30 AM. to 4:00 PM. in the winter. They were hired on a daily or monthly basis, so that their wage system was either a day-rate plan or a monthly salary plan.

After about 1890 (Meiji 20) most government-run factories were gradually transferred to private ownership, thus converting to a commercially-oriented management. During the period of government ownership, most factories had operated under deficit conditions. In order to overcome these deficits, the new managers decreased the number of benefits given to workers.

During this period, in the heavy industries and in the mining industry, especially the coalmining industry, the Japanese-boss (Oyakata in Japanese) system — a kind of contract system — was widely used. The structure of this system was as follows: a large company would give several contracts for jobs to a number of well known contractors — usually middle-sized companies. These contractors divided the contracts into several smaller ones and gave them to many small-scale contractors. Sometimes, these small-scale contractors would again divide up the contracts. The Japanese boss was usually on the small-scale contractor level. He would actually employ the workers, who would then work at the workshop with the original contractor or in the large company which employed that original contractor. Workers who were employed by these contractors were not guaranteed permanent employment and were not on a seniority order wage system. Their working conditions were very difficult, and their hours were very long, often including evening labor. Furthermore, their breaks and their holidays were shortened considerably at this time. They worked in the factory on Sundays and received as holidays only three or four days at the New Year (in January) and a few days in August (Bon-days when Buddhists visit their ancestral graves). These workers were employed under a piece wage system or other kind of incentive wage plans instead of a daily wage system.<sup>1</sup>

<sup>1</sup> At the Hyago factory of Kanegafuchi Spinning Company, for instance, the labor turnover rate in 1900 was very high. In this year, 6,085 workers were newly employed, and 7,701 workers left their jobs. At the end of this year, only 4,020 workers were employed. This high labor turnover rate suggests a response by workers' to their bad working conditions.

In essence during this period, large companies did not employ most of their workers directly with the exception of certain very large companies where highly-skilled workers were needed. The spinning industry was such a case. In this industry, the contract work system was not utilized.

In the Taisho era (1912-1925), many kinds of protective labor policies became law: for instance, the Factory Act (finally passed in 1916) and the Health Insurance Plan for Labor (1922). This movement toward protecting laborers was the result of several factors: a fear of exhausting the labor force, the need for many healthy young men to serve as soldiers, and the severe criticism of past policies by humanitarians.

At the same time, there was an awakening among the workers, who began to realize their miserable state and to form labor unions. They frequently went on strike feeling especially vulnerable because of the business depression.<sup>2</sup>

In the factories, mechanization had progressed and many skilled workers were needed. Many large companies directly employed large numbers of young unskilled workers to be trained in their own workshops and at the same time decreased the use of the old contract work system. The number of temporary employees increased at a greater rate than the number of permanent or regular employees.<sup>3</sup> At the same time, the number of clerks and supervisors increased.

By this time a new personnel management system was required. The new personnel management system created by typical Japanese managers was called "Keieikazokushugi". This plan was based on an expanded interpretation of the concept of "the Japanese family system," which was the foundation of the Japanese social structure before the Second World War. According to this concept, the management system of a Japanese company was to be thought of as a kind of large-scale family system, and a paternalistic policy for guaranteeing the livelihood of employees was to be used.

In response to these developments, managers took a Japanese traditional commercial house system<sup>4</sup> as a new management model. In earlier times, old Japanese merchants had taken pride in increasing the wealth of their predecessors and then handing it over to their successors. According to this

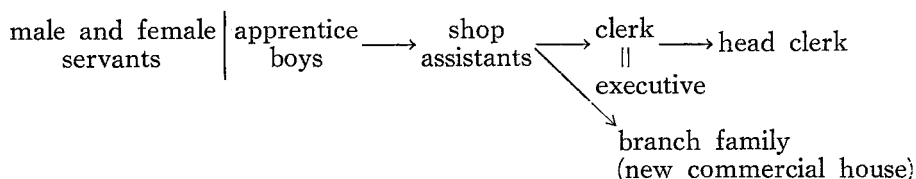
<sup>2</sup> During the Meiji era, particularly in 1907, as many as 57 strikes took place in which 9,855 workers participated. In 1910, there were 2,388 strikes, with some 335,222 workers participating. Incidentally in 1976, the number of strikes was 2,720 and the number of workers participating was 1,356,000.

<sup>3</sup> In 1909, there were 32,228 factories and a total of 806,000 workers. By 1919, the number of factories had increased to 43,949, while the number of factory workers had also increased, to 1,612,000.

<sup>4</sup> The Japanese traditional commercial house-system, especially the system in Kansai area, which was previously the center of the Japanese business world, included not only buying and selling activities but also manufacturing activities.

custom, the old commercial house system was like a modern business institution or a kind of going concern. All the people who were working in a commercial house, regardless of their blood relationship, were treated as members of the family, not as employees. Because of this close relationship, all employees and servants desired the prosperity of their employer.

#### The Structure of a Commercial House System



In the traditional commercial house system, male and female servants could not be promoted to the position of clerk or executive in the modern sense. Only a person who spent about ten years as an apprentice and then about seven years as a shop assistant could become an executive. During the first ten years, a person would lose his job if he was not able to acquire the skills and personal qualities necessary to be a businessman. When the apprentice became a shop-assistant, he began training to become an independent merchant. He accumulated stock and sold goods in the market by himself. If he failed in his business or went into deficit, his employer would cover the deficit. In this manner, the shop assistant would gradually learn to be a professional merchant. That is to say, he would become a skilled merchant at the expense of his employer (=master).

After seven or eight years, the shop assistant would choose his future course: whether to be a clerk (an executive — “Banto” in Japanese) or a master of a new shop (“Bunke” in Japanese). If he chose the latter course, he would establish his new shop as a kind of branch of his former employer’s.

If the employee chose the former course, he would become a clerk and manage his employer’s business. He would be paid an annual salary and come to work every day from his own house instead of living with the master. When he reached the age of fifty-one, he would usually retire from his job and be paid an annuity. Sometimes he would come to the store to give advice to his subordinated. He was usually called the head clerk (“Oh Banto” in Japanese). In essence, such people literally had permanent or eternal employment.<sup>5</sup>

This traditional commercial house system was the foundation of the

<sup>5</sup> If the son of the founder of the shop were not good enough to be the next proprietor, either he was made to surrender his status as successor to a skillful shop assistant or clerk, who often became a son-in-law, or he would keep his status as successor without any real authority.

business ethic in the Taisho era (1912-1925). The employer-employee relationship under this system was a permanent or eternal relationship, just like a father and son relationship in a family. There was no clash of interests between employer and employee, nor was there any expectation of opposition between employer and employee, as in the case of modern industrial relations. The company treated older persons with longer service favorably, believing that the younger should give respect to the older. In the Taisho era the younger and less-skilled workers were trained by their seniors in the company like apprentices in the old commercial houses. The workers' skills improved with age; fundamentally in this sense, a seniority order wage system was appropriate to the new system. When a worker became old and less efficient, he was treated favorably, because young workers, who were more efficient, were his former students. Younger employees did not expect to earn more than the older workers. They all belonged to a family workers' group. Their wages were determined by their length of employment, their age and their sex (males were more favorably treated), just as wealth was dealt with in a family.

This unique personnel management system came into general use for regular employees in the large-scale companies, but not for employees in smaller companies or temporary employees in the large-scale companies. The workers in the small-scale companies and the temporary employees worked under many kinds of incentive wage plans, or rather, a lower wage level and unstable employment conditions.

In the early Showa period (1925-1935), Japanese industry was affected by the European and American movement toward rationalization of industry, leading the Japanese government to try to promote the concept of efficiency. The administrative systems and techniques of scientific management were recommended to the Japanese industrial world by the government, but such techniques were not actually introduced into the main industries, because the nature of scientific management is not appropriate to the Japanese personnel management system. According to scientific management, one's wages or salary depends on one's production efficiency, and therefore, unnecessary persons must be laid off. But in the Japanese personnel management system, there is no lay-off system and the employment must continue to the compulsory retirement ages. The nature of scientific management conflicts with such a personnel management systems

During the war (1936-1945), there was a shortage of labor and materials; therefore, in order to prevent inflation, the Japanese government put into effect the Wage Control Ordinance. As a result of this law, the difference in wage rate between regular employees and temporary employees greatly decreased, and a monthly salary plan came to be more widely used than

a day-rate plan. Before this time, the wage payment plan for each worker depended on social rank. A day-rate plan was used for factory workers and a monthly salary plan for white-collar workers, but this difference disappeared as the differences between social ranks broke down.

Despite the changes in management and working conditions from a nationalistic point of view, the philosophy of the Japanese family system was more strongly asserted at this time than before, and the opinion that wages must be paid according to the needs of the household, not according to efficiency, was emphasized. In fact, many companies instituted various kinds of employee benefit plans. Labor unions were prohibited at the time, because the government thought that the labor movement was based on the philosophy of employee-management (capital) antagonism, and such a concept was not permitted under the philosophy of the Japanese family system. An employees' union was created in place of the labor union. This union was composed of factory workers, white-collar workers and executives from the same company.

After the Second World War (1945-), the Japanese government permitted the organization of labor unions and assisted in their growth.<sup>6</sup> The philosophy of the Japanese family system and the system of social ranks were abandoned, and the principle of labor and management equality was established. Nevertheless, most of the labor unions which developed from the employees' unions of the Second World War period were labor unions which included white-collar workers and were organized on a company basis. In the post-war inflation economy, these unions demanded an increases in wage level and the improvement of fringe benefit plans. The financial conditions of Japanese companies at that time were usually very bad, and the unions' goals were to protect their members from hunger. The union supported a wage system based on age. They thought that older employees, who had to support a larger family, needed more money; therefore, they demanded the adoption of the seniority order wage system and the permanent employment system. They also claimed that every employee (=union member) should get the same increase in wages once a year according to his age and not to his efficiency. Because household expenses increase with age.

In effect, although the philosophy of the Japanese family broke down after the war, the traditional Japanese personnel management system continued to survive.

Early developments in the personnel management systems of Japan and of Europe and America are comparable. That is, in early times, capitalists

<sup>6</sup> In 1949, the percentage of organized laborers in all job classifications was 55.7, while in 1977, it was 33.3.

exploited the worker severely. Following this period, many laws were passed to protect laborers from capitalists' exploitation; at the same time the labor movement grew. The personnel management systems which were adopted in this early stage were based on management of initiative and incentives, or a "drifting management system," a combination of incentive wage plans and a contract work system. The personnel management system which was adopted in the next stage in Europe and America was the scientific management system. In contrast, as was stated above, the personnel management system which was adopted in Japan at that time was a management system based on the philosophy of the Japanese family system and especially of the Japanese traditional commercial house system. In that system, all employees gained experience in all jobs, with the senior employees teaching the necessary business and work skills to their junior employees on a day-to-day basis (on-the-job training in the modern sense).

This traditional personnel management concept survives in the modern personnel management system of Japan. The system of employee transfers, which gives all employees equally experience in all jobs, is utilized not only for blue-collar workers, as Koike described, but also for white-collar workers in Japanese companies.

The system of employee transfers which Koike described for blue-collar workers also appears to function for white-collar workers in Japan. Ordinarily, during the first one or two years, new white-collar workers are transferred into many different sections or departments every few months and, in this way, gain experience in many jobs. In Japanese manufacturing companies, all white-collar workers gain experience in various blue-collar level jobs for several months just after entering the company. In addition, those new employees who graduated from a technical school or a technical department of an university get practice in a number of positions in the marketing department for several months. During this period, their supervisors report on the new employees' aptitudes to the personnel department. Then, after completing this training period, the new employees are stationed in a specific section for a while.

Every spring, there is an all-company-scale transfer in Japanese companies. Ordinarily, Japanese white-collar workers transfer into new jobs every four or five years and gain experience in many kinds of jobs in order to become knowledgeable about the entire operation and thus to be able to make their decisions from the viewpoint of the whole company. In the case of white-collar workers, when the personnel department makes out its yearly personnel transfer plan, it requests the opinions of all executives about their subordinates. It then considers these evaluations along with various other kinds of factors, just as the group leader of the blue-collar

workers does. Generally speaking, the personnel department tries to give every employee an equal chance to work at many kinds of jobs, according to their aptitude. Once again, however, there are no objective, strict rules for these decisions.

When white-collar workers transfer into new jobs for which they do not have sufficient training, their supervisors and colleagues help them, just as in the case of the blue-collar workers. Executives also transfer into new positions every four or five years, gradually becoming experienced in various kinds of executive jobs. When an executive transfers into an executive position for which he is not trained sufficiently, some of his subordinated who already have experience in the area help him until he becomes skilled enough to handle the position on his own.

In Japanese companies, daily work is carried out under the assumption that every employee will transfer out of his job in the future; therefore, every employee naturally thinks of his daily work as part of the operation of the whole company. Under such a condition, a strict job classification system is meaningless. The boundaries of each department's or each section's functions are clearly defined, but the boundaries between the jobs of each employee are not. In every section or department, skilled workers and unskilled workers work together, with the skilled workers often helping their unskilled neighbors. A skilled worker in one job might become an unskilled worker in other jobs after next year's transfer. In Japanese companies, there are no rigid office regulations or working manuals as American companies have. An able employee masters his new job easily and helps his colleagues.<sup>7</sup> Every employee works according to his ability and the quicker employee accomplishes more than his colleagues. There is a kind of autonomous group system among white-collar workers, just as Koike found in the blue-collar workers' workshops. Because of the flexibility of job boundaries, the better workers help other workers and, in this way, easily gain the respect of their colleagues.

The Japanese promotion system is based upon the preceding fact. The supervisors or upper-level executives accept this common understanding and respect for a particular employee as a positive evaluation, and they promote the better employees to upper level positions. If any high-level executive promotes a subordinate arbitrarily in disregard of the opinions of his colleagues toward him, no subordinates will obey this new superior's orders.

<sup>7</sup> Sometimes Japanese companies do not investigate thoroughly where the responsibility for a decision lies. The main reasons for this are: (1) there is a lack of rigid job boundaries and (2) the person who actually makes the decision might not be formally in the decision-making position. In such a case, the person making the decision is more likely to be one of helpers of the person really responsible. All employees and executive know about such a mechanism.

The authority of Japanese executives is weaker than that of American executives; Japanese executives cannot hire or dismiss their subordinates nor can they decide upon their salaries. The executive can express his opinion about his subordinates through performance appraisals once or twice a year, but the difference in pay raise based on a single performance appraisal is small. If a subordinate does not obey his superior, the latter can only request that the personnel department transfer the worker to another section or department. However, in practice the superior's direction is almost always accepted by his subordinates because he was promoted only after he had gained the respect of his colleagues and subordinates.

The promotion mechanism described above is not only for white-collar workers, but also for the blue-collar workers. Every foreman has been promoted not only because of the length of his employment but because he has gained respect due to his ability to work. In his study, Koike introduced a case in which when the employer wanted to promote a worker to a position of foreman, he would ask for the opinion of the labor union and seek the agreement of the union. Only then would the employer promote the worker to foreman. I have also heard of several such cases on the executive level. This situation, which may seem curious from an American's point of view, is the result of the above-mentioned promotion mechanism.

In Japanese companies, the heads of every department or section are not always the ones who know the most about the business of that department or section. Because of this, it is the individual employee who actually plans his daily work himself. The greater part of the decision-making done by heads of sections or departments is in the selection or modification of the plans which are proposed by their subordinates — the ones who carry out the plans. The superior can not make out a plan arbitrarily nor can he order his subordinates to carry out such a plan compulsorily.

The utilization of such a power structure means that every employee plans his own daily work by himself, and since he thinks of his daily work as his own job, he works more spontaneously and willingly. His work is not tedious for him; he enjoys it because he is able to use his creativity and to come up with his own good ideas. I know many Japanese people who work overtime or bring their work home voluntarily. In a sense, they enjoy their self-planned schedule just as a man who likes gardening enjoys working in his garden until late at night.

In a typical Japanese factory —for instance, Toyota and Matsushita— an average worker proposes ten good ideas for cost decreases every year. Bonuses for such ideas are, at most, thirty or forty dollars, but employees make an effort to improve the production process or machinery for the pure enjoyment of seeing their own good ideas carried out.

The fact that the Japanese manager's authority is dependent upon the respect of all of his subordinated means that even top management policy must always take into account the attitude of all employees. About ten years ago, the president of a famous Japanese bank had planned to merge with another famous bank. He informally obtained the permission to do so from the necessary authorities, but most of his employees, especially middle management, so strongly opposed his policy that he had to give up his plan and was eventually forced to resign from the bank. Such a case illustrates clearly the nature of the position held by Japanese top management.

As already mentioned, Japanese companies do not discharge their employees, except when the company is on the verge of bankruptcy.<sup>8</sup> When a company falls into deficit, there are necessary procedures to follow before regular employees can be discharged. If the market demand decreases and a company falls into deficit and this condition continues, first the temporary employees are discharged, and then the top executives must decrease their executive compensation. Then, middle management decreases its salaries and, next, top management asks the labor union to withdraw its demand for the annual raise. Following this measure, top management will ask the labor union to cut back on its request for bonuses.<sup>9</sup> If even these efforts fail and the company still can not recover from its deficit condition, it will increase the amount of the discharge allowance in order to facilitate the employees' efforts to change jobs or to retire. The company will also ask some of the employees who would not find it difficult to make a living without their salary to leave their jobs. As a final measure, the company will discharge some employees by designation, but even in this case, the company makes an effort to retain their employees' support by finding new jobs for the discharged employees. Such efforts are necessary in order for top management to preserve its authority because, as was stated earlier, its authority is fundamentally dependent on maintaining the employees' respect.

The above-mentioned factors are common knowledge among Japanese businessmen. From the academic point of view, in order to support the position that these phenomena are unique features of the Japanese personnel management system, it would be necessary to carry out rigorous comparative research such as was conducted by Professor Koike. If we say that these elements are unique features of the Japanese personnel management system and they are desirable features under some conditions, it would become

<sup>8</sup> Since 1974, the Japanese economic structure has been forced to reform, and some industries (for instance, the textile, shipbuilding, petrochemical and veneer board industries) have had to discharge employees. Some hundreds of thousands of workers have already been discharged.

<sup>9</sup> In the Japanese wage system, bonuses, which are paid twice a year, comprise one third of all annual income.

necessary to determine what other relevant conditions exist in Japanese companies which contribute to the successful utilization of these systems. Under other organizational conditions, a system of frequent transfers would produce workers who are not highly skilled in any jobs. In the same way, when the boundaries between individual jobs are not clear and when wages are not directly connected with individual efficiency, some workers might become lazy. In fact, we can find such unskilled and idle employees in Japanese companies, although their number is small.

There have been many studies by Japanese scholars to explain these features of the Japanese personnel management system from the social and cultural points of view. Some of them seem to be so persuasive that they easily explain the features of the Japanese personnel management system. However, I do not wish to introduce these studies because they tend to attribute the unique features of the Japanese personnel management system to the specific social and cultural characteristics of the Japanese people. In other works, according to these studies, the Japanese personnel management system would not be effective in other cultures. In fact, recently, many Japanese companies have set up factories and branches in foreign countries and hired foreigners. Some of these factories and branches have adopted the Japanese personnel management system and some of these have succeeded. At present, there are no studies which explain why the Japanese personnel management system has been effective with foreign workers.

In light of this lack of data, I can introduce only the suggestion of one typical Japanese businessman<sup>10</sup> for achieving success in using the Japanese personnel management system in foreign countries. Based on his experience in America and West Germany, this businessman found that key to whether a Japanese personnel management system would succeed or not in foreign countries depends upon its method of evaluating applicants. There are many people in foreign countries who would agree with the merit of the Japanese personnel management system, if they had the opportunity to work under such a system. The selection and the education processes used by companies appear to be the most important elements for success.<sup>11</sup>

In fact, Japanese companies conduct a very intensive examination of job applicants. During the period of the old commercial house system, the

<sup>10</sup> Tashiro Shimoyama, *Shimoyama Goroku (The Analects of Shimoyama)*, Tokyo: Nippon Noritsu Kyokai, 1972).

<sup>11</sup> R. T. Johnson, "America ni okeru nihonkigyo no rohmkanri" (The Personnel Management System of Japanese Enterprise in America, *Nihon Rodokyokai Zasshi*, No. 204, March 1976, pp. 48-59). In this paper, the author described a survey in which he investigated Japanese companies in America using recent American sociological methods. He found that one of the necessary components of success is the method of selecting employees, especially the selection of middle executives.

employer would only make a decision to offer an employee regular employment (shop assistantship) after several years of trial employment (period of apprenticeship). At present, when a large-scale company wishes to hire a new employee, the personnel department investigates each applicant from many sides. In particular, if the candidate appears to have an uncooperative personality, he must be rejected, even if he has a great deal of ability.

In Japanese companies, there are no rigid job boundaries within a section and there is an extensive transfer system. All workers must cooperate with each other. A worker who has just been transferred from another section and who does not have enough knowledge to make a correct decision in his new job must be helped by his neighbors — superiors, colleagues and subordinates. In the same way, he must be able to help his neighbors who will come from other sections in the future through the annual transfer system. Under such a system, all employees must necessarily be able to understand their colleagues' way of making decisions. Therefore, every company makes an effort to hire employees whose attitude toward decision-making or whose way of thinking are similar to the company's.

If there is a limitation to the generalizability of the Japanese personnel management system, it may be in the necessity of hiring only those employees whose way of thinking is similar.

#### 4. CONCLUSION

Recent Japanese international comparative studies illustrate to us the importance of investigating the everyday business practices which are so well-known to a country's businessmen. The use of frequent employee transfers and the employees' autonomous groups in the workshop which Professor Koike pointed out are common knowledge for Japanese businessmen. Therefore, they do not talk about such practices and one rarely finds descriptions of these aspects of personnel management in Japanese books.

The important lesson for conducting international comparative studies is that such research must begin by looking at these practices which are so well-known, but which may not be consciously realized by businessmen. It is very dangerous to form a conclusion about personnel management systems only from the existing statistical data and books. At the present stage, comparisons based on rigorous field-work investigation are important because our knowledge is limited. Even though scholars believe that they know about the business practices in their own countries, in reality they might be quite ignorant from the businessmen's point of view. If this is true, how much more ignorant would they be of the business practices in foreign

countries!<sup>1</sup> In this sense, we can say that Japanese international comparative studies only began in the current decade. Furthermore, as my own studies suggest, it appears that the same condition exists in many other countries.

<sup>1</sup> For example, recently, field-work investigation has suggested that the dual labor market which exists in the Detroit area is similar to that which exists in Yokohama, Japan. We must recall the professional scholar's common understanding that one of the unique features of the Japanese labor market is its duality.

Robert E. Cole, "Roshikankei System no kokusai hikaku ni tsuite" (On the Comparison of the Labor Relations System", *Nippon Rodokyo kai Zasshi*, No. 232, July 1978, pp. 2-3).