THE RECENT TRANSFORMATION OF PARTICIPATORY EMPLOYMENT PRACTICES IN JAPAN

by

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ABSTRACT

Using both quantitative data from national surveys and qualitative data from our own field research, this paper provides evidence on the responses of Japanese firms in their use of participatory employment practices to the economic slowdown in the 1990s in general and the recent financial crisis in particular. Overall, consistent with the complementarity of such practices and the long-term nature of their effects, evidence points to their enduring nature. The exceptions are small to medium size firms with no union; with them we find evidence for management to try to weaken the role of employee participation.

There are, however, a few early signs of trouble even for large, unionized firms, which might eventually result in the breakdown of the system if left untreated. First, while the number of full time union officials has been falling substantially as a result of continued downsizing of the firm's labor force, the amount of time and effort that union officials need to put into participatory employment practices have not been falling. This often results in an uncompensated increase in workload for union officials. If this trend continues, union officials who have been playing a key role in Japanese participatory management will become less effective and less committed to the interest of the rank and file. Second, top management sometimes finds its participatory management system detrimental to timely and efficient management, and hence tries to streamline the system. Overloaded union officials may offer less resistance to this kind of initiative. Third, the current system tends to produce a gap in the quantity and quality of information acquired from management between top union officials and their general membership. It is conceivable that such a gap may eventually result in the breakdown of the system.

JEL: J53, J33, J24, J41, L2, M11, M12, O53.

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I. Introduction

In many countries around the world, management systems are changing from the traditional system frequently characterized by adversarial collective bargaining and a fixed-wage contractual payment basis. Prominent among these changes is the explosion in the use and interest in participatory employment practices.[1] This paper presents findings from our most recent research on the transformation of participatory employment practices of Japanese firms in the 1990s, during which time the Japanese economy slowed down considerably.

A closer look at the Japanese experience of employee participation and labor-management cooperation appears to be of particular public policy interest for many countries that might be considering participatory employment practices as a way to improve their productivity and competitiveness.

First, as Levine and Tyson (1990) suggest, relatively higher job security (often ensured by intra-firm transfers and transfers to related firms) and strong group cohesiveness (supported by compression of wage and status differentials) of Japanese workers in large manufacturing firms during the postwar period point to an industrial relations system favorable to successful employee participation. Moreover, relatively more rapid and stable growth in the postwar period, lower unemployment, and stable financial corporate grouping (banks and institutional shareholders as stable, long-term suppliers of capital) point to an external environment favorable to successful employee participation.

Probably as a result of these favorable environments in the postwar Japanese economy, particularly in manufacturing, participatory employment practices spread widely and were established firmly.[2] Indeed these practices became the hallmark of "Japanese management," which has been inspiring (or necessitating in some instances) many corporations in the world to experiment with employee involvement and labor-management cooperation in recent years (see, for instance, Levine, 1995: 5). In short, the postwar Japanese economy (especially in manufacturing) clearly represents one of the most important examples of experimentation with participatory employment practices.

[1] See, for instance, Commission on the Future of Worker-Management Relations (1994) and Levine (1995).

The economic slowdown in the 1990s (in particular the recent banking crisis) and a rapidly aging workforce have allegedly been eroding the aforementioned participation-friendly environments. Have the participatory employment practices that we find successful for the 1960s, 1970s, and 1980s been surviving in Japan in the 1990s? If so, how have they been evolving to cope with these new environments in the 1990s? Are there any differences between sectors in the survival of participatory employment practices? A closer look at the recent Japanese experience with participatory employment practices will help us understand better two key questions regarding participation: (i) what are the conditions under which participatory employment practices are best introduced and best sustained; and (ii) how will participatory employment practices need to evolve when external environments change? To address these questions, we have been gathering and analyzing both quantitative data from national surveys and qualitative data from our own field research on evolving employment practices in the 1990s. This paper reports the first findings from our analysis of these data in the responses of Japanese firms on their use of participatory employment practices to the economic slowdown in the 1990s.

The paper is organized as follows. In the next section, we provide an overview of the scope, nature, and effects of participatory employment practices in postwar Japan. Sections III and IV present our findings based on the responses of Japanese firms on their use of participatory employment practices to the economic slowdown in the 1990s, followed by a concluding section.

II. The Scope, Nature, and Effects of Participatory Employment Practices in Japan

We first provide an overview of participatory employment practices in Japan, followed by a brief review of the evidence on their effects on firm performance.

Joint Labor Management Committees (JLMCs): Information sharing at the top.

One of the core mechanisms for labor-management relations within a large Japanese firm is joint labor-management committees (JLMCs). Established at the top level (corporate and/or establishment level)

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[2] See, for instance, Kato and Morishima (1999).

and involving both management and union representatives, JLMCs serve as a mechanism for information sharing at the top level on a large variety of issues, ranging from basic business policies to working conditions.

When there is a union, labor-side representatives are almost always union representatives while even in the absence of unions, the majority of labor-side JLMC members are elected by employee vote (about 70%, Koike, 1978). Thus, labor-side JLMC members usually legitimately represent the interests of the firm's workforce.

According to Shimada (1992), JLMCs were one of the many labor-management institutions proposed at the beginning of 1950s by the Japan Productivity Center. After a decade of tumultuous labor-management relations between 1945 and 1955, Japanese unions and management, with the endorsement of the central government, began to implement a number of well-known human resource management techniques, including JLMCs and semi-annual bonus payments to all employees. According to Kato and Morishima (1999), in 1950 only about 20 percent of all publicly traded firms (including both manufacturing and non-manufacturing companies) had standing JLMCs. During the next two decades, the institution diffused rapidly, at a rate of about 20 percentage points for each decade. Thus, by 1970 the figure had risen to close to 60 percent. For the next two decades the institution diffused steadily, and, as of 1993, fully 80 percent of all publicly traded firms reported to have standing JLMCs.

Many observers attribute the peaceful firm-level labor relations observed in Japanese firms to the establishment of JLMCs (Shimada, .1992; Inagami, 1988). Within JLMCs, which meet almost once a month, a number of issues are discussed. These range from basic business policies to social and athletic activities sponsored by the firm (see Kato and Morishima, 1999). The nature and scope of information shared during the JLMC meetings will be discussed in detail in Sections III and IV.

Shop-floor Committees (SFCs): Information Sharing at the Grass Roots

Aside from JLMCs and formal trade unions, many Japanese corporations have shop-floor committees (SFCs) in which supervisors and employees discuss issues such as shop-floor operations and shop-floor environments. Though the potentially important role of SFCs in the Japanese industrial relations system has been suggested (see, for instance, Koike, 1978), the nature and scope of these SFCs have not been studied extensively, due to the absence of reliable data. A recent survey conducted by Kato and Morishima (1999) reveals that the average SFC meets about nine times a year (slightly less frequently than JLMCs). That survey shows that the information shared during the SFC meetings tends to go beyond standard shop-floor issues such as safety and health, fringe benefits, training and development, and grievances, because they include business and strategic plans. As such, SFCs are aimed at information sharing at the grass roots level.

Kato and Morishima (1999) also reveals the diffusion of SFCs among Japanese firms in the postwar era. In 1950, only 7 percent of all publicly-traded firms, including both manufacturing and non-manufacturing firms, had a standing SFC. During the next decade the institution did not diffuse much, reaching only 11 percent of publicly-traded firms by the end of the decade. Since then, however, the institution diffused steadily; in 1993 more than 40 percent of all publicly-traded firms reported to have standing SFCs. For manufacturing firms, more than 50% reported to have standing SFCs.

Small Group Activities (SGAs)

SGAs are activities as quality control (QC) circles and Zero Defects. In these activities small groups at the workforce level meet voluntarily to set plans and goals concerning operations, and work together toward accomplishing these plans and goals. The wide use of SGAs such as QC circles by Japanese firms is, by now, quite well-known (see, for instance, Cole, 1989). In 1950 only 3 percent of publicly-traded firms used an SGA. In 1960 only 6 percent of all publicly traded firms had an SGA. The rapid spread of the SGA institution began in the 1960s. By the beginning of the 1970s, 25 percent of publicly-traded firms had a practicing SGA; that figure reached 44 percent in 1980. Since then the institution has grown steadily. In 1993, 70 percent of all publicly-traded firms reported that they were practicing SGA (Kato, 1995).

SGAs are clearly more popular among larger firms. Eighty percent of firms with 5,000 or more employees practice an SGA, in contrast to 43 percent of firms with 299 or fewer employees. Moreover, SGAs are more wide-spread in the unionized sector (Kato, 1995).

Employee Stock Ownership Plans (ESOPs): Financial Participation via Stock

Japanese ESOPs are perhaps best understood by comparing their main features with the better known U.S. ESOPs. Unlike U.S. ESOPs, Japanese corporations establishing an ESOP (called mochikabukai) do not receive any tax incentive to do so. To induce individual employees to participate in the ESOP, companies offer subsidies. Typically the firm matches each employee's contribution by giving 5 to 10 percent of the contribution as well as bearing the administrative costs. Whereas ESOPs elsewhere frequently are structured so as to encourage strong participation by top management, in Japan executives (as well as part time and temporary employees) are normally ineligible for membership. As is the norm elsewhere, individual participants' shares (and dividends) in the ESOP are held in trust. Unusually, however, each participant has a right to withdraw his/her shares, and share withdrawals are privately owned. Withdrawals are permitted only in 1,000 shares, round lots. While members may freely exit completely from the ESOP, re-entry is restricted. Exiting employees will receive their shares in 1,000 shares, round lots, and must sell the remaining shares to the trust at the prevailing market price. Upon retirement, model rules adopted by most ESOPs require retiring workers to exit completely from the ESOP. Finally, the general director (rijicho) represents stock-holders in the ESOP. The general director is chosen by other participants, on a one-participant, one-vote basis. At the general meeting of shareholders, the general director votes the stock held by the plan, deciding independently, rather than by tabulating votes of employee participants. The general director must be a participant in the ESOP and thus is not an executive of the firm (Jones and Kato, 1995).

The survey conducted by Kato and Morishima (1999) shows that ESOPs are a relatively new and the most rapidly diffused innovation among various Japanese participatory employment practices. In 1960 the proportion of publicly-traded firms that had an ESOP was only 4 percent. The proportion grew rapidly during the next decade, reaching 26 percent by 1970. In 1967, a special government committee on foreign capital advocated employee ownership as a way to help prevent foreign takeovers of domestic firms. The government, using informal channels, encouraged firms to set up new ESOP trusts to accommodate employee investments in their stock. While the fear of foreign takeovers diminished in the 1970s, the idea of employee ownership took root. Perhaps partly due to this government initiative of 1967, the 1970s were characterized by an astonishing pace of diffusion of this institution. By the end of the 1970s, over two thirds of publicly-traded firms had ESOPs. The diffusion continued even after 1980, and in 1993 it became an almost universal phenomenon among publicly-traded firms.

The survey also shows that in 1993, almost 50 percent of the labor force in firms with ESOPs participated in ESOPs. Furthermore, concerning employee stakes, Jones and Kato (1995) report that, in 1988, ESOPs owned stock worth 4.1 trillion yen (about 32 billion dollars); this amounts to 1.7 million yen (about 14,000 dollars) per participant.

However, according to Jones and Kato (1995), these plans do not own large percentages of company stock. For listed companies the average proportion of stock owned by ESOPs varied between 0.66 percent and 1.42 percent from 1973 to 1988. In 1988 the average was lower than 1 percent and holdings over 5 percent were rare.

Profit Sharing Plans (PSPs): Financial Participation via Bonus

PSPs are a pay system in which the total amounts of bonuses are linked to a measure of firm performance, such as profit. The Japanese bonus payment system has attracted considerable attention and controversy (e.g. Freeman and Weitzman, 1987, Nakamura and Nakamura, 1989, Hashimoto, 1990, Hart and Kawasaki, 1995). In light of the ongoing debate between those who stress the profit-sharing aspect of the Japanese bonus system (e.g., Freeman and Weitzman, 1987) and those who downplay it (e.g., Ohashi, 1989, Brunello, 1991), we consider only the least controversial (with respect to the profit-sharing aspect of the bonus payment system) types of the bonus payment system, i.e., the bonus payment system with a formal contract stipulating the presence of the profit-sharing plan.

According to Kato and Morishima (1999), one in four publicly-traded firms had a PSP in 1993, and there was no appreciable difference between manufacturing and non-manufacturing firms. The proportion of publicly-traded firms with a PSP was only 5 percent in 1960 and grew steadily to 14 percent by 1980. A significant diffusion occurred during the 1980s, however, with the proportion of publicly-traded firms with PSPs growing to over 20 percent by 1990.

PSPs are found to be more prevalent in smaller firms. For instance, the proportion of firms with 5,000 or more employees that had a PSP was only 11 percent. The large majority (70 percent) of firms with a

PSP reported separate profit-sharing plans for officers and non-officers. However, Japanese PSPs do not normally distinguish between union and non-union members; only one-thirds of firms with PSPs reported separate PSPs for union and non-union members. PSPs are mostly company-wide with only 12 percent of firms with PSPs reporting separate plans for different divisions and occupations. Moreover, nearly all Japanese PSPs are cash plans (98 percent), which is in sharp contrast to the U.S. where deferred plans are more popular (see Kruse 1993: 16-17). Because they are almost always cash plans, Japanese PSPs have no tax advantage.

The majority of Japanese PSPs (55 percent) do not have a set formula, or are fully discretionary, for how the contribution should be tied to profits. This is also in contrast to PSPs in the U.S., where only 22 percent are fully discretionary (Kruse, 1993: 75).

Evidence on their Effects

In spite of the importance of the postwar Japanese experience with participatory employment practices, there is not much systematic investigation of the economic effects of these practices in Japan.[3] For the economic effects of financial participation, the Japanese bonus payment system has attracted considerable attention and controversy, in particular the claim that it is a form of a PSP. Earlier studies focused on the effects on employment of the Japanese bonus payment system.[4] More recent studies turned to the issue of the productivity effects of the Japanese bonus payment system. Jones and Kato (1995) use firm-level panel data to find that there is a modest productivity gain from the bonus system. Ohkusa and Ohtake (1997) find that

[3] For U.S. corporations, however, we are presently witnessing an impressive growth of evidence. See, for example, Ichniowski, Shaw and Prennushi (1997), Freeman, Kleiner, and Ostroff (1997), Black and Lynch (1997), Freeman and Kleiner (1998), Susan Helper (1998), Bartel (2000) and articles featured in a special issue of Industrial Relations (Vol. 35, July 1996). Many of these recent studies in the U.S. use plant-level (branch-level) panel data within a narrowly defined industry. The benefits of using such data are probably less dramatic for Japan than for the U.S. since Japanese firms are generally substantially smaller (see, for instance, Kato and Rockel, 1992's comparative study of the 1,000 most valuable corporations between the two nations), and their management appears to be less decentralized than U.S. firms. Based on our interviews with managers in human resource at the corporate level and top managers in marketing/sales and accounting/finance at the business unit level of Japanese and U.S. corporations, the power of human resource department at the corporate level relative to top management at the business unit level appears to be much stronger in Japan than in the U.S. In addition, as Jones and Kato (1995) and Kato and Morishima (1999) show, there are substantial lags (up to 7 years) in the productivity effects of participatory employment practices in Japan. Plant-level data seldom provide long longitudinal data and thus may not be as useful in the context of the postwar Japanese experience as in the context of the current U.S. experimentation.

firms with a statistically significant positive correlation between their wages and per capita profit are 9 percent more productive than firms without such a correlation. For ESOPs, Jones and Kato (1995) use firm-level panel data to find that the introduction of an ESOP will lead to a 4 to 5 percent increase in productivity and that this productivity payoff does not appear immediately.

For the economic effects of information sharing at the top level, Morishima (1991a; 1991b) use firm-level micro data to find the statistically significant positive correlations between the extent of information sharing through JLMCs and productivity, and the statistically significant correlations between stronger JLMCs and shorter and smoother wage negotiation. More recently, Tsuru and Morishima (1999) use two unique data sets, one from a survey of firms and the other from a survey of employees. They find evidence for positive correlations between the presence of JLMCs and the strength of "employee voice."

Finally, Kato and Morishima (1999) find evidence for the importance of introducing groups of participatory employment practices in the following three areas: information sharing at the top level; information sharing at the grass roots level; and financial participation. Specifically, moving from the traditional system of no participatory employment practice to a highly participatory system with practices in all three of these areas, lead to a significant 8- to 9-percent increase in productivity. The full productivity effect is, however, felt only after a fairly long developmental phase (7 years). At the same time, they find no evidence for significant productivity gains from changing the industrial relations system from the traditional system to any intermediate systems which lack participatory employment practice in at least one of the three key areas.

In sum, there is evidence for the positive effects of participatory employment practices in Japan in the postwar period, supporting that such practices help align the interest of the firm with the interest of its employees and encourage specific human capital accumulation of employees.[5] In addition, recent findings from Kato and Morishima (1999) suggest that the goal alignment process needs to be supported both by direct methods (financial participation) and indirect ones (information sharing). Furthermore, information

[4] See, for example, Freeman and Weitzman, 1987 and Brunello (1991)

[5] See Kato and Morishima (1999) for further discussion on the goal alignment and human capital effects of these practices as well as their complementarity effects.

sharing needs to take place not only at the top level, but at the grass roots level. In other words, the goal alignment process occurs most strongly when the interests of the two parties are aligned through financial participation and when this interest alignment is facilitated by mechanisms, both at the top and at the grass roots level, which curtail parties' opportunistic behavior.

Kato and Morishima's 1999 findings also point to the importance of a long-term perspective in evaluating the success of participatory employment practices. First, it does take time for the goal alignment process to take root. It is highly unlikely that instituting a participatory employment practice will instantly create significant interest alignment of groups of employees with the firm.[6] Furthermore, there is substantial learning-by-doing in the evolution of participatory employment practices. Participatory employment practices "mature" over time and only matured participatory employment practices tend to yield significant productivity gains.

III. Evolving Practices in the 1990s: Quantitative Evidence

In this section, we report the first findings from our analysis of the quantitative data from national surveys on evolving participatory employment practices in the 1990s.

A. ESOPs in the 1990s

The National Conference Board of Securities Exchanges has been conducting an annual Survey of Stock Distribution to which all firms listed on Japan's stock exchange markets respond. The National Conference Board has recently released summary tables from their 1997 Survey. Using these most recently published summary tables as well as earlier tables, we created Figures 1, 2, and 3.[7]

In the 1980s, the share prices of most large corporations in Japan rose steadily. It is not too surprising under such steady growth of corporate profitability that ESOPs gained increasing popularity in

[6] For similar arguments, see Pil and MacDuffie (1996) and Ichniowski and Shaw (1995).

[7] Although the Survey began in 1973, data on market value of outstanding shares owned by ESOPs became available only in 1979. Thus, our complete data on the evolution of ESOPs begin in 1979.

Japan. Thus, as shown in Figure 1, both the proportion of firms with ESOPs and the ESOP participation rate (the proportion of the labor force in firms with ESOPs who participate in ESOPs) grew steadily in the 1980s. Moreover, the real market value of outstanding shares owned by ESOPs more than quadrupled and the real market value of outstanding shares owned by ESOPs per participant (the real value of the average stake) more than doubled in the 1980s. The National Conference Board also published the average price of shares owned by ESOPs (the market value of outstanding shares owned by ESOPs divided by the total number of shares owned by ESOPs). The real value of this average price tripled in the 1980s.

The steady growth of share prices ended rather abruptly at the end of the 1980s. The average firm listed in the Tokyo Stock Exchange lost more than half its value in the early 1990s (Kang and Stulz, 1998). Reflecting this rapid asset price deflation in the early 1990s, the real market value of outstanding shares owned by ESOPs, the real value of the average stake, and the real value of the average price of shares owned by ESOPs fell sharply in the early 1990s. As shown in Figure 1, recovery from this sharp drop has been anemic.

A most natural question concerning the responses of ESOPs to this seemingly powerful adverse shock is whether this adverse shock has been discouraging employees from participating in ESOPs. Figure 1 shows a surprisingly calm response of the labor force in firms with ESOPs. The ESOP participation rate has not fallen in any significant way in the 1990s although its steady increase in the 1980s did stop in the 1990s. The ESOP participation rate rose in the 1980s by 9 percentage points, from 40 to 49 percent, and remained at the 49 percent level in the 1990s. It is, however, unclear whether the stagnation of the participation rate in the 1990s was caused by the adverse financial shocks. At any rate, there has not been any sign of a frenzied exit of participants from ESOPs in response to the adverse financial shock in the 1990s.

Consistent with this relatively calm response of employees, very few employers have terminated their ESOPs in response to the adverse financial shock. Thus, as shown in Figure 1, the proportion of firms with ESOPs has not fallen in the 1990s and ESOPs have continued to be a near universal phenomenon among publicly-traded firms in Japan: 95 percent of all publicly traded firms have ESOPs.

Overall, it appears that neither employees nor employers have panicked in the face of the adverse financial shock in the 1990s. In addition to the summary table for all publicly-traded firms, the National Conference Board publishes the summary table for two-digit industries. Conceivably the adverse shock might have been hitting certain industries particularly hard and, for those hard-hit industries, many ESOPs might have been terminated, and the ESOP participation rate might have fallen significantly. To see if this is the case, we produced Figures 2 and 3. As shown in both figures, we failed to find any noteworthy example of such industries. As shown in Figure 3, however, the ESOP participation rate fell to some extent, from 1988 to 1997, for mining, textiles, steel, primary metals, transportation equipment, wholesale and retail trade, finance and insurance, real estate, and service. Somewhat surprisingly, however, the ESOP participation rate rose substantially over the same time period for a few industries, in particular oil and coal, land transportation, water transportation, and transportation by air.

B. JLMCs in the 1990s

The Survey of Labor-Management Communications conducted in 1995 by the Ministry of Labour provides the most recent aggregate data on JLMCs. The same survey was also conducted in 1988 by the Ministry.[8] Using various cross tabulations published from the 1995 survey as well as those from the 1988 survey, we produced Figures 4-11.

First, Figure 4 shows how the proportion of establishments with JLMCs has changed from 1988 to 1995. For all establishments (labeled "total" in the figure), as in the case of ESOPs, the proportion of establishments with JLMCs did not fall significantly over this time period, and remained a little below 60 percent.[9] In other words, overall, the economic slowdown in the 1990s in general, and the recent banking crisis in

[8] Among all establishments in Japan that employ 50 or more employees, the Ministry of Labour selects 4000 of them and sends its researchers to each establishment. These experienced Ministry researchers then fill out the questionnaire by asking each establishment questions from the questionnaire.

[9] This figure is substantially lower than what Kato and Morishima (1999) report. The Ministry of Labour Survey is, however, an establishment-level survey and includes many establishments of small private firms that are not included in the sample universe of the survey conducted by Kato and Morishima (1999). This probably accounts for the discrepancy. Fortunately, the Ministry of Labour Survey also reports the proportion of establishments with JLMCs for establishments of unionized firms that are probably closest to the sample universe of Kato and Morishima (1999). Reassuringly the figures for those establishments were very close to what Kato and Morishima (1999) report.

particular, have not caused any significant dismantling of JLMCs.[10]

Again, conceivably the adverse shock might have been hitting certain sectors of the economy particularly hard and for those hard-hit sectors, the dismantling of JLMCs might have begun. To see if this is indeed the case, we repeated the same analysis for establishments in different industries, establishments of firms of differing size, and establishments of firms with and without unions. As shown in Figure 4, the proportion of establishments with JLMCs declined noticeably for mining, services, transportation and communications, and non-union sectors. However, it is still premature to consider this an early sign of the crumbling of JLMCs for these sectors.

The absence of evidence for the formal dissolution of JLMCs is probably not too surprising since, if they decide to end JLMCs, Japanese firms are likely to make them dormant by changing their attributes. For example, the firms could reduce the frequency of meetings drastically and trivialize the content of information shared rather than formally dissolving them. For this reason, we created Figures 5 – 11 which illustrate whether various attributes of JLMCs have changed from 1988 to 1995 and if so in what way.

Figure 5 shows the average number of JLMC meetings per year in 1988 and 1995. For all establishments, the frequency of JLMC meetings fell substantially from 14 times a year to nine times a year over the time period. It appears that when news is consistently bad, JLMCs meet much less frequently. The figure also points to a considerable difference between sectors. Thus, JLMCs in transportation and communications used to hold meetings 25 times a year in 1988, while they held meetings only 11 times a year in 1995. The frequency of JLMC meetings in finance, insurance, and real estate has also decreased sharply from 11 times a year in 1988 to only six times a year in 1995. JLMCs in larger and unionized firms experienced a sharper drop in the frequency of meetings from 1988 to 1995.

Case histories of Japanese JLMCs suggest that JLMCs tend to function well when they have special subcommittees dealing with issues such as productivity or safety and health (Japan Productivity Center, 1990).

[10] We recognize that 1995 may be a little too early to detect the full impact of the economic slowdown in the 1990s. As shown in the next section, however, qualitative evidence from our field research of summer of 1999 tends to confirm this finding from the quantitative data.

As Figure 6 shows, the average number of special subcommittees for all establishments declined somewhat from 3.3 in 1988 to 2.8 in 1995. Some differences between sectors are also present. Sharp drops have occurred in manufacturing, services, and non-union sectors.

A possible way of weakening information sharing is to undermine the democratic process of selecting employee representatives. In unionized establishments, the democratic selection of employee representatives is typically ensured by union representatives participating in JLMCs as employee representatives. In non-union establishments, it is normally ensured through election by employees. Figure 7 shows the proportion of unionized establishments with JLMCs in which union representatives participated in JLMCs as employee representatives in 1988 and 1995, and the proportion of non-union establishments with JLMCs in which employee representatives were elected by employees in 1988 and 1995. We failed to find any sign of erosion of the democratic selection of employee representatives over this time period.

The nature of information-sharing changes considerably, depending on: (i) the content of information shared (for example, more or less sharing of information on business and strategic plans, such as sales and production plans, and the introduction of new technology/equipment, as compared to labor issues, such as layoffs, working hours, wages and bonuses, fringe benefits, and cultural activities/sports); and (ii) the nature of "consultation" (for instance, whether labor representatives are "informed only", or "asked for prior consent"). The Survey of Labor-management Communication selects 16 issues (plus 2 more issues in 1995), such as basic business strategies, corporate restructuring, layoffs, and mandatory retirement, and asks each establishment with JLMCs whether it discusses each of these issues during its JLMC meetings. When the establishment responds positively, it is then asked whether management asks employee representatives for prior consent.

We selected six issues that are of particular relevance to the economic slowdown in the 1990s, and especially to the recent economic crisis, and created the last four figures. Figure 8 shows the proportion of unionized establishments with JLMCs that discussed each of these six issues in 1988 and 1995. The selected issues are corporate restructuring, hiring and staffing, transfer of employees, layoffs, mandatory retirement, and severance pay/pension. Figure 9 shows the same figures for non-unionized establishments. Likewise, Figures 10 and 11 show the proportion of union and non-union establishments with JLMCs discussing each of these six issues that asked employee representatives for prior consent in 1988 and 1995.

For both unionized and non-unionized establishments, as shown in Figures 8 and 9, JLMCs were slightly more likely to discuss transfer of employees and layoffs in 1995 than in 1988. For unionized establishments, JLMCs were slightly more likely to discuss mandatory retirement and severance pay/pension in 1995 than in 1988. They were slightly less likely to discuss corporate restructuring and hiring and staffing in 1995 than in 1988. The opposite pattern is observed for non-unionized establishments. Overall, it is unclear whether JLMCs were more or less likely to discuss issues of topical relevance in 1995 than in 1988.

Nevertheless, when one takes a close look at the nature of consultation on each of these six issues, a noteworthy difference between unionized and non-unionized establishments is revealed. As shown in Figure 10, JLMCs of unionized establishments discussing transfer of employees, layoffs, mandatory retirement, and severance pay/pension were more likely to ask employee representatives for prior consent in 1995 than in 1988. In stark contrast, as shown in Figure 11, JLMCs of non-unionized establishments discussing the same issues were much less likely to ask employee representatives for prior consent in 1995 than in 1988. This contrast in the changing nature of consultation over this time period between unionized and non-unionized establishments, may suggest that unions effectively prevent JLMCs from becoming dormant by keeping the strong consultative role of JLMCs. However, for small to medium size firms with no union, the consultative role may be weakening. Unions and JLMCs may be complements rather than substitutes. At the same time, it suggests that the overall importance of participation in the Japanese economy may be diminishing with the rising proportion of the non-union sector in the economy.

IV. Evolving Practices in the 1990s: Evidence from Field Research

In the summer of 1999, we conducted field research at a number of Japanese firms. In the winter of 1999, we had written those firms, asking them to locate and assemble some specific data on participatory employment practices of their firms, and detailing what kind of questions we intended to ask when we visited them in summer. An obvious advantage of field research is that more detailed and richer analysis is possible.

An added advantage is the opportunity to get up-to-date information: the quantitative data from national surveys are usually not available for the latter half of the 1990s. Therefore, for example, in the previous section, the lack of available data on JLMCs after 1995 forced us to compare 1988 to 1995. Conceivably the impact of the economic slowdown, in general, and the financial crisis, in particular, on JLMCs might only be felt only after 1995. Our field research from the summer of 1999 provides the most recent picture of employment practices.

We report four cases here: Firm A, Firm B, Firm C, and Firm D. They are all manufacturing firms. The first three cases represent firms that have experienced significant worsening of performance and have downsized their labor force substantially in the 1990s. Firms A and B represent two large manufacturing firms. Both are "listed firms" and their shares are traded publicly. Both cases illuminate the resilience of participatory employment practices in general while some subtle changes are also evident. Firm C represents a medium-size manufacturing firm. It is not listed and their shares are not traded publicly. Here we also see the enduring nature of participatory employment practices. However, we also see a clear attempt by top management to streamline participatory employment practices.

Unlike the first three firms, Firm D's sales and employment did not fall dramatically in the 1990s, although its share price did fall as drastically as the other firms' in the same time period. We include our case study of this firm here largely due to the unusually rich data on its ESOP, which we were able to obtain from the firm. The data shed light on the quiet yet important transformation of the scope and nature of the firm's ESOP.

a. Firm A

1. Site Visit

Firm A is a large manufacturing firm with sales of over 3 trillion yen (nearly half of which is export sales) and employment of close to 40,000 workers in 1998. It is listed in the first section of the Tokyo Stock Exchange. The corporation consists of eleven establishments.

On June 10, 1999, we visited the headquarters of the firm. We interviewed our primary interviewee, in Personnel (Manager in the Personnel Department). The interview lasted about four hours. His young subordinate was also present during the interview and provided some additional information. We had written them several months prior to our visit, asking them to locate and assemble some specific data, and detailing what kind of questions we intended to ask. They took our request very seriously and spent a lot of time and effort to prepare confidential data for us.

On the next day, we visited Establishment P of this firm and spent over half an hour observing a number of its shopfloors. We then interviewed a foreman who is in charge of a section (called kakari). He reports to the department chief (kacho) and has six unit chiefs (kocho) reporting to him. Each unit consists of about 10 to 15 workers. He spent over thirty years in this department and was just about to be promoted to kacho. The interview lasted a little over an hour, focusing on shopfloor committees and small group activities.

On June 16, 1999, we visited Firm A's union headquarters, and interviewed our primary interviewee, the Vice President of the union for about two hours. We were also given an opportunity to interview his young staff members, full-time union officials, for a little over an hour. Our primary interviewee is the union's No. 2 person and does attend all HQ-JLMCs. Our secondary interviewees work very closely with him and engage in day-to-day activities of JLMCs. Several months prior to our visit, we had also written them a letter similar to the one we sent to our personnel interviewees, asking them to locate and assemble some specific data, and detailing what kind of questions we intended to ask. They, too, took our request very seriously and prepared confidential data for us.

2. Background

Figures 12 and 13 summarize changes in key characteristics of Firm A over the last two decades. All nominal variables, such as sales, total labor cost, labor productivity (value added per employee), capital-labor ratio, are converted to real variables by using appropriate price indices. Labor is the total number of employees and share price is the annual average price of stock. All variables in Figure 12 are relative to their 1982 levels. We also calculated standard accounting firm performance measures such as ROA and ROE as well as shareholder returns, a standard economic firm performance measure. It is obvious from the tables that in the 1990s the firm's performance worsened and became more volatile. It cut 30 percent of its labor force throughout the 1990s dropping from about 57,000 employees to about 40,000. This downsizing was accomplished mostly by a combination of limited hiring and transfers of workers to related firms, without laying-off workers. The firm hired over 3,000 college and high school graduates right after their graduation in 1990. During the next three years, the firm continued to reduce this new graduate hiring, and hired about 2,000 in 1993. New graduate hiring was extremely restrained during the next four years, ranging from 482 to 62. The new graduate hiring level did bounce back somewhat in 1998 and 1999, reaching the 1,000 level.

As shown in Table 1, about 2,000 employees were transferred each year to related firms, sales firms and other firms on a fixed-year term typically two years each year for 1995 and 1996. The level of temporary transfers has declined to 1,000 recently. Some employees on temporary transfer were changed to be permanently transferred. Six hundreds to seven hundreds workers were permanently transferred each year for the last four years, except for the most recent year when the firm experienced a substantial reduction in the number of permanent transfers. These numbers suggest that roughly 30 percent of those on temporary transfer never returned to the firm and became permanently transferred. Almost all employees on transfer were over 50 years old and white-collar workers. The majority of transfers are to the firm's related firms, including its sales firm. The firm pays each worker who is permanently transferred a severance pay which amounts to five years of his/her annual earnings. Permanent transfers do present some shopfloor morale problems. Some employees complain: "I wished I could have remained in Firm A, and have attended my daughter's wedding as a proud employee of Firm A." Being an employee of a famous and prestigious company like Firm A is a status symbol. Though it makes sense financially to be transferred permanently, many employees accept permanent transfer with some mixed feelings.

In addition, the firm used a special early-retirement incentive pay during 1995 and induced over 4,000 early retirements during that year. At age 30, an early retiree was offered 12 months of pay; at age 40, 18 months; at age 50, 48 months; at age 58, 3 months. Currently, the firm is again using a similar early-retirement incentive pay.

In the process of this downsizing, the amount of work has not been declining as fast as the number of employees. To cope with this overloading of existing full-time regular employees, the firm has increased the number of part-time employees. In January of 1994, the firm had 64 part-time employees. In January of 1999, the firm had 123 part-time employees. 82 of them (67 were female) were engaged in clerical and other white-collar work, whereas 36 of them (33 were female) were engaged in simple manual tasks such as moving materials to assist regular production workers, and 5 actually worked as production workers.

3. HQ-JLMCs

Headquarters-level JLMCs (HQ-JLMCs) existed at least in 1955. Initially HQ-JLMCs functioned as a mechanism for management to explain their decision *ex post facto* to union representatives. However, in part due to a charismatic and aggressive union leader, by 1985, HQ-JLMCs had changed its role from information sharing to joint decision making. For example, during HQ-JLMCs meetings, union representatives tried to veto management is decision to open a new plant overseas. Following the resignation of the union leader in 1985, the joint decision-making aspect of HQ-JLMCs was significantly reduced, and the current form of HQ-JLMCs was established.

HQ-JLMCs consist of five types of meetings: management council meetings; committee meetings; restructuring meetings; production meetings; and individual item meetings. At management council meetings, six to seven top managers (CEO, vice-CEOs, and the director of personnel) meet with six to seven top, full-time union officials regularly. Each meeting lasts half a day. Business strategies and plans and the current status of corporate performance are discussed. The management council meetings are held normally twice a year. They are scheduled right before Spring Wage Offensive and Fall collective bargaining so that they can help facilitate each collective bargaining. There was no major change in the basic framework of HQ-JLMCs in the 1990s.

The union begins its preparation for management council meetings a month prior to the meeting. A full-time union official visits various shopfloors and talks to union representatives of establishments to find out what the union members are concerned about and what they want to know from management. This is very time- and effort-consuming. Based on this field research, the official writes up a list of questions. It is imperative to have careful field research to gather information from shopfloors. For example, careful field research at the shopfloor level revealed that, in spite of management's overall decision to reduce a number of products it sells, it was not really happening although it looked as if it was happening on paper.

A list of questions is given to management seven to ten days prior to the meeting. Management then prepares responses to those questions. At the management council meeting, management presents an answer to each question and then the union asks further questions about the answer. After the meeting, both management and the union prepare separate notes and exchange each other's notes before dissemination. Some information shared during meetings is designated as confidential, and is therefore excluded from the proceedings. Union notes are distributed to all union members and management notes are distributed to all managers.

HQ-JLMCs have a number of sub-committees. These are subcommittees on production, employee benefits and welfare, sales, and development. Sub-committee meetings on production are held regularly twice a year and are attended by six to seven managers from the production, domestic sales, export sales, and personnel, as well as six to seven top, full-time union officials. Biannual production and staffing are discussed. In addition to production sub-committee meetings, occasionally other sub-committee meetings are also held such as employee benefits and welfare, sales, and development.

Restructuring meetings are held on an *ad hoc* basis. Decentralization, outsourcing, and plant closures are discussed. Production meetings are also held on an *ad hoc* basis.[11] During committee meetings on production the basic framework of employment adjustment, such as worksharing, is discussed, but production meetings deal primarily with changes in such framework in response to change in output demand. Individual item meetings are also held on an *ad hoc* basis to discuss items other than what is covered in other meetings.

[11] Our primary union interviewee and personnel interviewee provide me with slightly conflicting views on production meetings. According to our personnel interviewee, they are held regularly on a monthly basis. According to the data provided by our union interviewee as shown in Figure 14, there were 14 production meetings in 1998. As far as

3.1 Content of Information Shared

There is no evidence that there was a reduction in the quantity of information shared through HQ-JLMCs in the 1990s. First, there was no apparent decline in the frequency of meetings in the 1990s. As shown in Figure 14, the total number of HQ-JLMCs meetings reached twenty meetings a year in 1992, and kept exceeding twenty till 1995. The number fell a little for the next three years. This is somewhat consistent with our national survey finding of a declining meeting frequency from 1988 to 1995, as presented in the previous section. However, in 1998, it reached an all-time high level of fifty-one meetings a year. Most of the increase came from meetings on restructuring and production. Management council meetings and sub-committee meetings on production stayed pretty much the same over this period.

Consistent with this increased frequency of meetings, our union interviewee felt that the amount of information shared during HQ-JLMCs increased in the 1990s. Our personnel manager interviewee noticed that the union was increasingly concerned about basic business strategies questions, which only CEO and CFO can answer. Consequently, the information shared during HQ-JLMCs has become based more on business strategies and less on direct labor-related issues, and has become, therefore, more "confidential". Our personnel interviewee added that naturally discussions on restructuring, such as decentralization, outsourcing, plant closures, selling off a segment of its business, have increased in the last few years. This is reflected in an increase in the number of restructuring meetings in the last few years.

Our union interviewee believes that the quality of information shared has also risen in the 1990s. In the 1970s and 1980s, news was almost always good. Wages and bonuses were rising faster than those of its major competitors. There was very little concern about firm performance, wages and bonuses, and employment security among employees. The quality of information shared during HQ-JLMCs was not of prime concern. In the 1990s, firm performance had worsened; annual raises of wages and bonuses had stagnated; and employees were more concerned about their employment security. The quality of information

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1998 is concerned, they were indeed held monthly (actually slightly more often than monthly). However, in the previous shared became a major concern. Our primary union interviewee said, “When the rank and file are asked to accept zero increase in bonus, for example, they demand a detailed and convincing justification."

Our primary union interviewee believes that some of the information he receives from top management can be considered “insider information” and that top management asks him not to release it to other union members. To maintain a good relationship with top management, he keeps such information in strict confidence. Our secondary union interviewees echoed this by saying that most information is shared with them before becoming public knowledge and that it would be possible to use some of that shared information during HQ-JLMCs to make money in the stock market; in other words, some of the information shared during HQ-JLMCs could be insider trading material. They quickly add that they do not engage in such activities.

3.2 Nature of Participation

During management council and sub-committee meetings on production, management explains and union asks questions. The union receives detailed explanations from management on business strategies and plans. During management council meetings and committee meetings on production, they are given information that includes investment, opening and closing of plants, sales and production plans, and introduction of new products. While the union representatives ask questions, in particular for justifications for these plans, they do not try to change the overall framework of the plans. Our primary union interviewee states plainly, “We do not have any right to change these plans. We do not have any intention to decide on basic business strategies jointly with management.” As a result, it is rare for union representatives to offer alternative plans to management on basic business strategies. Nonetheless, union representatives sometimes offer ideas about what kind of products may sell. Our personnel interviewee recalls that union representatives suggested that some redundant factory workers would support the sales department by handing out sales ad fliers.

However, when they discuss the consequences on employees of these business strategies and plans

years, they met clearly less often than monthly.

during restructuring meetings, production meetings and individual item meetings, the Union decides jointly with management. For example, plant closures and outsourcing were proposed several years ago from top management to union representatives during their management council meetings. Although they did ask many detailed questions about why they were necessary, they did not try to change the decision to close the plant and outsource. Instead, they successfully negotiated with top management during restructuring meetings to delay the plant closure for several months and get favorable conditions for those employees who were transferred as a result of the plan. For example, when employees are transferred to subsidiaries, they usually face poorer working conditions, such as lower wages and longer working hours. The union negotiated hard during HQ-JLMCs meetings to set up a policy of minimizing changes in working conditions for the transferred employees.

In the 1990s, in response to worsening firm performance, however, discussion on basic business strategies and plans between management and labor became more extensive and intensive. The union tended to ask more and harder questions on basic firm performance and business strategies, such as "why a certain product is not selling;" and "why the firm has so much debt." This reflects an increased interest and concern in the overall firm performance and its effect on employment security among the employees.

3.3 Employee Interest

In the 1990s, interest in HQ-JLMCs and information shared during HQ-JLMCs meetings among employees clearly increased. Participation in union meetings increased. For example, white-collar union members at the headquarters are traditionally somewhat apathetic to union newsletters which the union uses to disseminate the information shared at HQ-JLMCs. However, in the last few years, they have started to read the union newsletters more often and more carefully.

3.4 Relationship between Collective Bargaining and HQ-JLMCs

Our field research revealed that there are two kinds of complementary relations between collective bargaining and HQ-JLMCs; complementarity in scope; and complementarity in time. According to the complementarity in scope model, collective bargaining deals with wages, bonuses, working hours, and agreement revisions, whereas the HQ-JLMCs deal with all other items. Thus, depending on the item to be discussed, either HQ-JLMCs or collective bargaining will be used. According to the complementarity in time model, all items will be discussed first at HQ-JLMCs, and collective bargaining will be used only when HQ-JLMCs cannot resolve the differences between management and labor. Firm A subscribes to the complementarity in scope model.

4. Establishment-JLMCs

At each of 11 establishments, five top managers (the plant manager and managers of relevant departments) meet once a month with an establishment representative of the union and a few other full-time union officials. The main objective of these Establishment-JLMCs is to review last month's production plans and achievements and go over next month's plans for the establishment. In addition, twice a year they meet to discuss biannual productions plans. Transfers of workers between lines within the establishment are discussed here. The union representatives receive detailed explanations from management about why transfers are necessary. The union representatives do not try to reverse management's decision to transfer workers, but the number of workers transferred may be revised as a result of discussion between labor and management during these meetings. Most remarks made on changes in HQ-JLMCs in the 1990s also apply to Establishment-JLMCs.

5. SFCs (Shop-Floor Committees)

There are over 400 shop-floors, and each shop-floor consists of about 50 to 100 employees. The firm used to have no formal standing SFCs although upon request from the union, each shopfloor held committee meetings occasionally. In spring of 1996, the union felt the need for better communication at the shopfloor level, and requested the firm to establish more formal standing SFCs and to hold regular meetings. Management and union jointly decided to establish more formal SFCs and to hold regular meetings 3 to 4 times a year for white-collar shopfloors, and once a month for blue-collar shopfloors as a target. Since then, union has been gathering monthly data on the incidence of meetings at each shopfloor. As shown in Table 2, for the last two years, the average SFC met four times a year. The incidence of meetings is, however, far from uniform. Our union interviewee remarked that there are negative correlations between the number of SFC meetings and the number of shop-floor complaints made to upper-level union organizations.

SFCs have two functions: One function is to resolve shopfloor-level work conditions issues, such as air-conditioning, smoking/non-smoking environment, bath rooms, taking paid vacation, and cafeteria menus. Their second function is to have a manager in charge of the shopfloor explain the shop floor production plans and related staffing issues. The link between Establishment-JLMCs and SFCs is strong. First, what is not resolved at SFCs goes up to the Establishment-JLMCs. For example, labor representatives requested the introduction of air-conditioners to their shopfloor during shopfloor committee meetings. However, a manager in charge of the shopfloor did not have the budget to pay for them. The issue was discussed at the next Establishment-JLMCs and top management of the Establishment decided to purchase several spot air-conditioners for the shopfloor. Second, SFCs discuss shop-floor production plans which are derived from establishment production plans that are discussed during Establishment-JLMCs.

The meetings are held outside of regular working hours and they usually last one to two hours. More time is usually spent on the first function of resolving shop-floor work condition issues than on the second function of discussing shop-floor plans.

Our union interviewee as well as my personnel interviewee recognize the benefit of SFCs and their increasing importance in the future. Employees are generally interested in SFC meetings. However, if SFCs fail to produce concrete results, such as satisfactory resolution of an air-condition request from employees, employees tend to lose interest in the SFCs.

Our personnel interviewee considers the benefit of SFCs quite substantial. Complaints that are resolved at SFCs are not really earth-shattering but when they are resolved, employees can actually see, feel, and touch the results and their morale is enhanced.

Grievance procedures deal with personal complaints that can not be expressed in public. For example, those who feel their bosses give them unfairly low subjective performance evaluations never voice their complaints during SFC meetings but submit their complaints to grievance committees.

Our personnel interviewee stresses the importance of the manager's ability to communicate in leading to the success of SFCs. Some SFCs do not function well due to the manager's inability to listen to labor representatives. When managers lack the ability to listen, SFCs become an extension of regular supervisor-supervisee relationships and labor representatives do not feel at ease to express their views. This stagnates the SFC.

Establishment P holds its SFC meetings at the section level which includes about 500 employees. Section Q holds a meeting regularly, on a monthly basis, off hours. It usually lasts one hour. Upon the request of a union representative of the section, additional meetings can be held. During the previous year, Section Q held two meetings a month on average. Our foreman interviewee adds that it was an unusually busy year for the SFCs.

The section chief and all foremen attend. Union representatives of the section will attend. Once a month union representatives of the section hold a meeting of the union representatives of kakari and prepare for their SFC meeting for that month. Three days prior to the meeting, a written list of suggested discussion topics are given to the section chief. Work environment issues such as shower rooms, water leaks, smoking, bathrooms, cafeteria, and air-conditioning are of central concern for their SFC meetings. There is no discussion on production plans at the section-level. This is somewhat different from what our personnel and union interviewees explain. The operation of SFCs is left to each shopfloor and there seems to be quite a variation in the actual operation of SFCs among various shopfloors. There was no major change in SFCs at this section in the 1990s.

6. SGAs (Small Group Activities)

The firm currently has 2,090 QC circles, amounting to 10.6 employee per circle. In 1965, the first QC circles were registered in Establishment P. Since then, QC circles have been established at each new plant upon its opening. The union is neither negative nor positive about these small group activities. Part-timers are not included. The firm maintains the voluntary nature of QC circles. Thus, activities are held after hours and there is no compensation for those hours. Not all employees volunteer to participate. Older employees approaching their retirement tend not to participate. Our personnel interviewee spent two and a half years as a plant-level personnel manager and did not recall any sign of stagnation of QC circle activities over time. One reason for the overall success of SGAs is that employees are generally very proud of the success of their groups. When their group wins the annual QC circle contest, they usually have a major celebration and are extremely proud. That sense of pride seems to have carried through over the last three decades. Our personnel interviewee was somewhat concerned about the future of SGAs since it is uncertain whether new generations of Japanese workers will continue to participate wholeheartedly in SGAs out of a sense of group pride.

However, most recently, plants have not been too busy and QC activities have been somewhat stagnant. Our personnel interviewee argues that when plants are not busy, possible sources of productivity and product quality improvements tend to be hidden. SGAs for white-collar occupations have not been as active and successful as those for blue-collar occupations.

Neither our personnel interviewee nor union interviewee is aware of any relationship between SGAs and SFCs. As a result of the aging of the labor force, which was accelerated by limited hiring in the last few years, the average age of employees at this firm rose from 37 to 40 in the last decade. There is major concern about transmitting the skills and ethos of SGAs to the next generation.

We were very fortunate to be able to spend half a day in Establishment P, observing the actual operations of shopfloors and QC circles and interviewing a veteran foreman. The smallest organizational unit of Establishment P is called “han”. Each han consists of 15 to 20 employees, and “kocho” is in charge of each han. In addition to kocho, each han normally has one to two “shidoin” and four “leaders”. Each “leader” is in charge of one of the four main objectives: safety, high quality, cost reduction, and punctual delivery. Each leader carries out various activities to achieve an assigned goal. These activities may take a form of SGAs. At any rate, these activities are not voluntary, and are fully directed by the kocho, and are part of work. They are normally done, therefore during regular hours. On the other hand, QC circles are voluntary, and, depending on the project, they can change the QC captain, who is not necessarily a "leader." People with one year of tenure can and can become QC circle captains. Projects are also chosen by circle members with some indirect guidance from the kocho. Each QC circle carries out six to twelve projects a year.

On average, each QC circle meets four to six times a month and each meeting lasts one to one and a half hour. Sometimes, for activities such as safety, cost reduction, or punctual delivery, each employee spends two to three hours a month after regular hours. All these after-hours activities are considered voluntary and thus without pay. In addition, for a couple of hours a month, on average, employees are also engaged in machine maintenance kaizen activities, after hours. For these activities, they are paid at an overtime premium rate. Each employee's performance in all these activities, including voluntary QC circles, is evaluated by kocho.

Our foreman interviewee believes that QC circle activities are more active and more voluntary than ten years ago. For example, in the 1980s, the firm used to provide some modest compensation for QC activities. However, in the 1990s, the firm abolished this QC circle compensation and made it clear that QC activities were voluntary. Both the quantity and quality of QC activities increased substantially in the 1990s. To meet increasing needs for more technically sophisticated projects and quick turn-around time, the firm introduced a special full-time kaizen group (a handful of veteran workers) who can perform some experiments for various ideas of QC circles. He attributes the rise in the quantity and quality of QC activities to the increased competition and sense of crisis among employees. "Our means for living have been threatened by the increased competition and if we do not produce a better and cheaper product, we will lose out." In other words, employee interest in SGAs has clearly increased. Our foreman interviewee strongly believes that ideas for improvement have not been exhausted.

7. ESOPs

Firm A has a standard ESOP with a 5 percent subsidy from the firm. The ESOP participation rate, the proportion of the labor force participating in an ESOP, remained around 30 percent in the 1980s. The firm embarked on a major ESOP promotion campaign during 1987, and as a result the ESOP participation rate jumped to 70 to 80 percent. Since then it has been falling steadily and it is currently a little below 50 percent. As shown in Figure 12, the share price of the firm is one third of what it was in 1989. Many employees who joined the ESOP during the firm's ESOP promotion campaign in 1987 are experiencing substantial capital loss. In 1998, over 1,000 employees exited from the ESOP for reasons other than separation from the firm, and only 204 people joined the ESOP.

The initial objective of the ESOP was threefold: enhancing the sense of participation and motivating employees; providing a source of retirement income; and acquiring a stable shareholder group. With substantial capital loss in the 1990s and a highly volatile share price in recent years, our personnel interviewee feels that the ESOP's ability to achieve its objectives diminished in the 1990s. The average contribution of participants is 5,000 to 10,000 yen from monthly pay, and 20,000 to 30,000 yen from bonuses.

8. PSPs (Profit Sharing Plans)

There is no formal PSP in the firm. However, firm performance has been a major factor in each year's bonus negotiations between the firm and the union since the late 1980s. As a result, there is a strong positive correlation between the amount of bonus payment and firm performance. There is no gain-sharing. Several years ago there was a proposal to introduce gain-sharing limited to managers only, but it was not implemented. Our personnel interviewee suggests that the firm will plan to strengthen the link between firm performance and employee pay.

b. Firm B

1. Site Visit

Firm B is a large manufacturer with sales of a few trillions of yen (about one quarter of which is export sales) and employment of close to 20,000 workers in 1998. It is also listed in the first section of the Tokyo Stock Exchange. The firm has over ten establishments. On May 26, 1999, we visited the headquarters of the firm. We interviewed our primary interviewee in Personnel, the General Manager, Labor Relations, Personnel&Labor Relations Division first. The interview lasted about three hours, including lunch. After lunch, we interviewed our secondary interviewee in Personnel, the Manager, Labor Relations, for an hour and a half. As in the case of Firm A, we had written them several months earlier, asking them to locate and assemble some specific data, and detailing what kind of questions we intended to ask. They took our request very seriously and prepared a variety of in-house data for us.

After our visit to the headquarters, we visited the headquarters of Firm B's union and interviewed our union interviewee, the General Secretary, No. 2 in the union organization. The interview lasted over one hour. Several months earlier we had also written him, asking them to locate and assemble some specific data, and detailing what kind of questions we intended to ask. They also worked hard to prepare in-house data for us.

2. Background

Figures 15 and 16 summarize changes in key characteristics of Firm B over the last two decades. Firm performance continued to worsen in the 1990s, causing it to cut almost 50 percent of its labor force throughout the 1990s. This downsizing was accomplished mostly by a combination of limited hiring and transfers of workers to related firms without laying off workers.

3. HQ-JLMCs

HQ-JLMCs existed at least in 1970. HQ-JLMCs consist of two types of meetings: management council meetings and labor-management committee meetings. Management council consists of a group of top managers, the CEO, vice-CEOs, and other directors, and a group of ten full-time union officials at the headquarters. There are two biannual council meetings and four quarterly council meetings a year at the headquarters level. The CEO and vice CEOs attend the biannual meetings, which meet right at the biannual accounting report time, while they do not attend quarterly meetings. Union representatives from each establishment also attend these biannual council meetings. Each meeting normally begins at 11 A.M. and ends at 5 P.M. with an informal luncheon. The management explains its production plans, the introduction of new equipment, the temporary and permanent closing of plants and equipment, and major organizational changes. The union asks for their justifications.

The labor-management committee consists of the director of personnel and his/her subordinates and a group of ten full-time union officials at the headquarters level. The committee meets on an *ad hoc* basis. Depending on the issue, full-time union representatives of relevant establishments may attend these committee meetings. Management explains staffing changes as a result of new production plans. These changes may include worksharing; layoffs; substantial transfers of employees; welfare and fringe benefits; and health and safety. The union negotiates with management on these issues.

Management council meetings and labor-management committee meetings are complementary. For example, a plant closure plan is proposed at management council meetings and the union asks for its justification there. Labor-management committee meetings work out an agreement on the size and conditions for labor transfers as a result of the plant closure. There has been no major change in the basic framework of HQ-JLMCs.

3.1 Content of Information Shared

Our primary personnel interviewee strongly objected to a popular notion of weakening JLMCs by arguing that both the quantity and the quality of information shared during JLMCs meetings increased in the 1990s. "When things are going well, it may not be crucial to have a good labor-management relationship. However, when the firm is faced with serious competition, it is imperative to have a good labor-management relationship and make decisions based on good discussions between labor and management."

Consistent with his remarks, there is no indication of a decline in the frequency of JLMC meetings. As shown in Figure 17, there was no downward trend in the total number of JLMC meetings during the 1990s. Please note that the number for management council meetings and labor-management committee meetings include establishment-level meetings as well as headquarters level meetings, and therefore that they tend to be quite high.

We were given a unique opportunity to study their most recent report of the biannual management council meeting and those from ten years ago. These reports are distributed to union representatives from each establishment. Those from ten years ago were very detailed and close to a word-to-word transcription of the actual meetings. In stark contrast, more recent reports were less detailed and close to an executive summary. According to our union interviewee, in comparison to ten years ago, the firm is facing a much more competitive environment, and union members are much more concerned about firm performance and their employment and earnings. To reflect these changes, union's needs for deeper information about firm performance, and business strategies and plans have risen substantially. As a result, the union has been asking more and deeper questions during JLMC meetings, and therefore has been acquiring deeper and more detailed information about firm performance, business strategies, and plans. Word-to-word proceedings of such meetings might lead to leaking of some confidential information. Also, he suggested that the union is looking for more than superficial answers to their questions from management and that management tends to be more forthcoming when they know that their words are not going to be published in the proceedings.

In parallel to this increased quality and quantity of information shared during JLMCs, the union, more often than before, offers alternative plans.

3.2 Nature of Participation

During management council meetings, management explains its production plans, the introduction of new equipment, the temporary and permanent closing of plants and equipment, and major organizational changes. The union asks for their justifications. Labor-management committee meetings deal with more direct labor issues such as staffing, worksharing, transfers, layoffs, and benefits.The union is often asked for its views on various issues and union sometimes offers alternative plans. According to collective agreement, unlike collective bargaining which deals only with wages and changes in collective agreement, management may implement its plans even if no agreement is reached with labor. However, our primary personnel interviewee reports that management rarely has to resort to this clause in order to implement its plans. He offers two reasons. First, the union is very well-informed about the competitive environment for the firm, and its overall understanding of the current market condition is close to the one of management. Second, management and top union officials engage in extensive informal communication prior to HQ-JLMC meetings, and the actual plans proposed by management at various formal meetings often have already been modified to incorporate the union input. If the union objects strongly to management's plans, rather than resorting to management's right to implement without an agreement, management is likely to withdraw its plans. Our union interviewee confirms this point.

3.3 Employee Interest

Our primary personnel interviewee feels that the union is taking JLMCs more seriously, and that the union's needs for getting good information at JLMCs, and understanding it and explaining it well to its members, are increasing in the face of increased competition. This point is confirmed by our primary union interviewee. In the 1990s, interest in HQ-JLMCs and information shared during HQ-JLMC meetings among employees clearly increased. Employees are more sensitive to firm performance and the competitive environment.

3.4 Relationship between Collective Bargaining and HQ-JLMCs

As the case of Firm A, Firm B subscribes to the complementarity in scope model**.**

4. Establishment-JLMCs

Establishment-JLMCs are similar in structure to HQ-JLMCs. They have two types of meetings: management council meetings and labor-management committee meetings. The management council consists of a group of top managers at the establishment level and a group of full-time union officials at the establishment level. There are four council meetings a year at the establishment level. Management explains its quarterly production plans, the introduction of new equipment, and temporary and permanent closing of plants and equipment, at the establishment level. The union asks for their justifications.

The labor-management committee consists of the director of personnel and his/her subordinates and a group of full-time union officials at the establishment level. Unlike the labor-management committee at the headquarters level, the labor-management committee at the establishment level meets regularly and frequently (twice a month). Management explains staffing changes within the establishment as a result of new production plans. These include issues such as: worksharing; layoffs; substantial transfers of employees; welfare benefits, fringe benefits; and health and safety. The union negotiates with management on these issues. There has been no major change in the basic framework of Establishment-JLMCs during the 1990s. Most remarks made on changes in HQ-JLMCs apply to Establishment-JLMCs.

5. SFCs

At the plant level within each establishment, the plant manager and his/her subordinates (about ten managers) meet with a union representative of the plant and other union representatives (about ten people) once a month. They discuss shop-wide production plans, and the introduction of new equipment and temporary and permanent shut-down of equipment. General employee interest in shopfloor committees is always quite high. Establishment-JLMCs and SFCs are well-coordinated so that establishment-wide plans are consistent with plant-wide plans.

6. SGAs

The firm has a long history of SGAs, dating back to 1962. The firm outlines its SGAs as follows

- To organize voluntary group activities by employees in equal positions and on the basis of each employee's voluntary participation.
- To select themes at each job site, and to attain goals.
- To realize each employee's self-fulfillment in his job through improvement of ability and demonstration of creativity.
- To respect fellow employees, and to create an energetic job site with a happy atmosphere.
- To contribute to the development of the company's businesses through SGA, thereby contributing to society.

According to the statistics provided by the firm, there is no evidence for stagnation of SGAs in the 1990s. As shown in Table 3, the total number of SGA groups declined, from close to 4,000 in 1992 to close to 2,500 in

1997, as the firm has downsized its labor force. The number of SGA groups did not fall as fast as the total number of employees. The number of employees per group (dividing the total number of employees by the total number of SGA groups) has, however, decreased during this time period.

The total number of projects completed during each year also diminished, from 22,000 in 1992 to 16,000 in 1997. Nonetheless, the number of projects completed per group has actually risen, from 5.86 to 6.40, since the total number of SGA groups has fallen faster than the total number of projects completed. The proportion of blue-collar workers who participate in SGAs has been stable, around 95 percent, except for 1994. In short, in the 1990s, there was no sign of either a declining employee participation rate in SGAs or diminishing number of projects completed by each group. We failed to obtain any systematic data on the quality of the projects over time.

7. ESOPs

Firm B introduced its ESOP in September of 1988, which is unusually late compared to its competitors who introduced their ESOPs in the 1970s. During the first year of its ESOP, over 4,000 employees signed up for it. However, only 800 employees joined during the next two years. To boost the ESOP membership, the firm introduced a 5-percent subsidy in 1993. Close to 1,500 employees joined during that year. However, since then, on average, fewer than 100 employees joined each year. Currently, only about 10 percent of the labor force in the firm participates in its ESOP, and 0.2 percent of the total number of outstanding shares are owned by its ESOP. As shown in Figure 15, the share price of the firm is one quarter of what it was in 1989. Many employees who joined the ESOP during the firm's ESOP introduction year are experiencing substantial capital loss. Our primary personnel interviewee attributes the firm's low ESOP participation rate to a combination of the rapidly falling share price and the falling income of employees.

8. PSPs

The firm had a long history of collective incentive pay scheme. The amount of pay was determined by annual increase in physical productivity. Higher physical productivity used to mean higher profitability due to stable output prices. However, in the 1990s, due to falling and unstable output prices, higher productivity did not necessarily mean higher profitability. Therefore, this collective incentive pay scheme was abolished in 1997. Since then, the firm has been placing more emphasis on individual incentive pay, in particular for managerial and professional employees.

c. Firm C

Firm C is a medium-size manufacturing firm with sales of 150 billion yen and employment of over 2,000 workers in 1997. It is not publicly traded. The firm has five establishments. On June 23, 1999, we visited the headquarters of the firm. We interviewed the president of the firm's union. He has been the president for over twenty years. The interview lasted about two hours. After that, we interviewed our interviewee in Personnel. The Manager, Personnel Department, for about an hour. We had written them a few weeks prior to our visit, asking them to locate and assemble some specific data, and detailing what kind of questions we intended to ask. They worked diligently to prepare in-house data for us. We present this case mostly to contrast the situations with medium-size, unlisted firms to large, listed firms, and to show some important similarities and differences between them.

Figures 18 and 19 summarize changes in key characteristics of Firm C over the last decade. Firm performance clearly worsened in the 1990s. Inflation-adjusted real sales peaked in 1990, and then continued to fall till 1994, when real sales were almost a half of the 1990 level. Since then, recovery of real sales has been sluggish, at best. Real net profit, after tax, ROA, and ROE continued to decline in the early 1990s, and experienced negative profit two years in a row. Since its founding in 1945 until this time, the firm had never experienced negative profit. Since then, the recovery of profitability has been rather weak. The firm began downsizing its workforce in 1993, and by 1997 the firm's employment was almost 80 percent of its 1992 level.

The firm has JLMCs only at the headquarters level. JLMCs began in 1970. However, till 1978, JLMCs held informal meetings, three or four times a year, in which labor and management exchanged ideas with no specific agenda. JLMCs were formalized in 1978, with specific agendas set for each meeting. In the 1990s, they started to hold meetings regularly, once a month. In addition, upon the request of either management or the union, JLMC meetings can be held on an *ad hoc* basis. In fact, to discuss a present issue of permanent transfers of workers to related firms, one of those *ad hoc* JLMC meeting was scheduled in the afternoon of our visit to the firm. Each meeting lasts four hours.

Unlike in the case of large, listed firms, top management of this firm was currently proposing to reduce the frequency of JLMC meetings and shorten the length of each meeting from four to two hours. Top management argued that this proposed change was necessary for more efficient and timely management. Our union interviewee was skeptical about this proposal. He feared that this might make JLMCs more superficial. Based on his twenty-year experience with JLMCs, he argued that important information is often revealed during JLMCs only when there is ample time for discussion.

Regular participants in JLMC meetings from the management side include vice-CEOs, other executives and the director of Personnel, 6 to 7 executives in total. The CEO used to attend all JLMC meetings before 1990. However, with the union's suggestion, since 1990, the CEO attends only a couple of meetings a year, when wage negotiation is complete. Depending on the agenda items, the top management of the relevant establishments also attends. The regular participants from the union include union officials at the headquarters level and union representatives from each of the five establishments, 10 to 12 officials in total.

Regarding the relationship between collective bargaining and JLMCs, the firm and union used to subscribe to the complementarity in scope model. However, in the 1990s, with union's suggestion, it switched to the complementarity in time model. In other words, all items including typical collective bargaining items such as wages, now go to JLMC meetings, and collective bargaining is used only when JLMC meetings fail. Our union interviewee feels that JLMCs are sufficient to resolve almost all issues.

In addition, occasionally, sub-committees are formed to discuss specific issues. For example, currently they have one sub-committee on the issue of extending mandatory retirement age from 60 to 62.

Unlike the case of large, listed firms, most of the time, the union does not tell management in advance what kinds of questions they will ask. However, when either management or union has a particularly important issue, the issue will be discussed prior to JLMC meetings between the director of Personnel and the top union officials at the headquarters level. By the time an actual proposal is submitted to the JLMC, it would already have been revised to incorporate the union input.

During each monthly JLMC meeting, management presents and explains monthly data on orders, sales, production, and sales profit for each establishment. Occasionally, management shares some very confidential information, such as the development of new products and opening and closure of plants, with union officials during JLMC meetings. Management asks the union officials to keep such information in confidence. Since JLMC meetings were formalized in 1978, there has not been any incidence of confidential information leaking outside of the firm. Our union interviewee feels that he has developed a good, trusting relationship with management, and that management does not hide confidential information from him.

The union occasionally proposes alternative plans to management on business strategies. For example, in the 1970s, the firm introduced a new product. However, the new product continued to yield loss, and during the JLMC meetings, management proposed to drop the product. The union suggested not to drop the product and volunteered to accept lower wages for a couple of years in order to keep the product alive. Management accepted the union's offer and decided to keep the product. In a few years, the product started to yield profit.

About 15 years ago, management decided to shift its headquarters' production facility to one of its establishments. Through JLMC meetings, the union asked management to delay the timing of the shift in order to smooth the transfers of workers from the headquarters to the establishment. Management agreed and delayed the change.

Management does not always accept the union's suggestions. For example, in the late 1980s, management decided to introduce a new product against the union's objection. It is, however, only occasional that the union makes suggestions on management matters, such as the introduction of a new product, or the opening and closing of plants. Most discussion during JLMC meetings is centered around employment issues arising from management decision. These include such issues as the number of transfers of employees and conditions for those on transfer when management's business strategy requires such transfers.

Unlike the case of large, listed firms, the firm has neither establishment-level JLMCs nor SFCs. Our union interviewee argues that HQ-JLMCs function as establishment-level JLMCs by including union representatives from each establishment. In fact, establishment-wide issues are raised by the union representative of the relevant establishment during HQ-JLMCs.

Twice a year, top management and top union officials visit each plant and check health and safety. Many shopfloor issues, including not only health and safety but other work environment issues such as air-conditioning, are raised during these visits. In some sense, again, HQ-JLMCs function as SFCs. Recently, top management suggested reducing the frequency of these visits, from twice a year to once a year in order to achieve more efficient and cost-effective management.

During the 1970s and 1980s, JLMC meetings tended to focus on the distribution of an ever-increasing pie to labor, such as building a new facility for employee welfare. In the 1990s, JLMC meetings tended to focus on restructuring and downsizing.

Our union interviewee does not believe at all that management had become more reluctant to share information with union during JLMC meetings in the 1990s. Rather, he feels that management was actually more willing to share confidential information with union. Management believes that union-side members of JLMC are a good mechanism to disseminate information to the rank and files.

Our union interviewee believes that general employee interest in JLMCs rose in the 1990s. He received more feedback such as personal letters to him concerning his proceedings of JLMC meetings that are distributed to all union members. He even received requests from plant-level managers to send the proceedings to them. More importantly, our union interviewee felt an increasing desire of employees for the union to help management in making good decisions during JLMCs.

For the last five years, the firm has been using a PSP. An additional bonus of up to 0.4 months of monthly regular wage will be given to all employees when a pre-specified performance indicator reaches a certain pre-determined target. This PSP bonus is not distributed equally to all employees. On average 20 percent of employees do not receive any PSP bonus, based on subjective performance evaluation of all employees. This is a combination of a collective incentive pay scheme and an individual incentive pay scheme, and can be considered a mechanism to ease the free-rider problem of PSPs. The performance indicator has changed from current profit to sales profit. Targets are set every year by JLMC. However, due to poor performance of the firm in the last five years, the target was rarely reached.

d. Firm D

Firm D is a large manufacturing firm with sales of a few trillions of yen (about one third of which is export sales) and employment of close to 40,000 workers in 1998. It is listed in the first section of the Tokyo Stock Exchange. Unlike the first three firms, Firm D's sales and employment did not fall dramatically in the 1990s although its share price did fall as drastically as the other firms in the same time period. Our case study of this firm generally adds little to what we have already reported above except that the firm has long subscribed to the complementarity in time model. That is, they discuss all items will be discussed first at HQ-JLMCs and use collective bargaining only when HQ-JLMCs cannot resolve differences between management and labor. We report this case mostly because of the unusually rich data on their ESOP that we were able to acquire from the firm. The data suggest subtle, yet potentially important, changes in the scope and nature of their ESOP.

Firm D introduced its ESOP in 1971. As in the case of Firm A, the initial objective of the ESOP was threefold: enhancing the sense of participation and motivating employees, providing a source of retirement income, and acquiring a stable shareholder group. By the end of 1980, the ESOP participation rate reached one in four employees and their average monthly contribution reached 13,000, in 1995 yen. As shown in Figure 20, since 1990, the participation rate fell to almost one in five employees. The average monthly contribution also decreased in the early 1990s, to below 12,000, and a subsequent recovery has not been strong.

The falling participation in ESOP is accounted for by a decrease in new participants and an increase in exiting participants. Figures 21 and 22 show the number of new participants and their average monthly contributions and the number of exiting participants and their average monthly contributions, respectively. The number of new participants fell, from nearly 1,000 a year in 1990, to a little over 200 a year in 1998, except for 1994, when there was a one-time jump. On the other hand, the number of exiting participants has doubled, from 400 in 1990 to 800 in 1998. It follows that in 1998, there was a net loss of 600 participants. Unfortunately, the data do not allow us to find out how many of these exiting participants were exiting from the trust while remaining in the firm, and thus were "voluntarily leaving the ESOP trust." However, according to our primary interviewee in personnel, nearly all exiting participants were also exiting from the firm. It appears that there have been very few frenzied, voluntary exits from the trust. It appears that the ESOP is proving to be a stable shareholder here.

The direct cost of running the ESOP for the firm (consisting of subsidies to participants and administrative costs) is extremely small relative to the total labor cost. As shown in Figure 23, the direct cost is mostly the subsidies and they have been decreasing with the falling number of participants. In 1998, the total direct cost of running the ESOP was only a fraction of the total labor cost (0.08 percent).

ESOP participants, though remaining in the trust, fine-tuned their commitments to the trust by changing their monthly contributions. As shown in Figure 24, during 1990, more than 1,000 continuing participants increased their monthly contributions, whereas only 100 continuing participants reduced their monthly contributions. In the early 1990s, fewer and fewer continuing participants were increasing their monthly contributions and more and more continuing participants were reducing their monthly contributions. By 1993, the number of continuing participants reducing their monthly contributions became nearly identical to the number of continuing participants increasing their monthly contributions. Since then, the number of continuing participants increasing their contributions has stopped falling whereas the number of continuing participants reducing their contributions has declined somewhat. As a result, during 1998 there were still more continuing participants who increased their contributions than those who reduced them. However, the difference between the two (about 100) was much smaller than it used to be in the early 1990s (e.g., more than 900 in 1990). In short, though most ESOP participants remained in the trust unless they separated from the firm, fewer participants increased their contributions to the trust and more reduced their contributions. The overall commitment of ESOP participants to the trust appears to be falling somewhat, as a result of the worsening stock performance of the company.

e. CONCLUDING REMARKS FROM FIELD RESEARCH

1. Timely and Cost-effective Management

Critics of participatory management, in particular JLMCs and SFCs, argue that participatory management is too time-consuming and that it cannot adjust effectively to a rapidly changing competitive environment. In addition, they contend that it consumes too much effort for management, union, and general employees which could be used for more productive activities. Both management and union of our large, listed firms argue that JLMCs rarely delay important management decisions, and stress the benefit of having a thoroughly convinced and ready labor force as a result of good JLMCs. When management's decision is actually implemented, there will be no surprise, no misunderstanding, and no confusion among employees, which will make the process of implementation smooth and fast. Our personnel interviewee of Firm A, however, recognizes that the firm did experience a major delay in its decision to open a plant overseas due to the union's strong objection in 1985. That the current system was built on the premise that the same problem should not be repeated. He further adds that restructuring and individual item meetings can be held immediately when either management or labor requests. The increased use of these meetings as opposed to more regular meetings, such as management council meetings, can be viewed as a mechanism to achieve timely management within the existing framework of JLMCs.

In contract, top management of our medium-size, unlisted firm appears to be currently subscribing somewhat to the critics of participatory employment practices by proposing to reduce the frequency of JLMC meetings and shorten the length of each meeting from four to two hours.

2. Pre-negotiation and Threat Effects

Neither management nor union in all cases views JLMCs as a joint-decision making mechanism through which management and labor decide jointly on basic business strategies. However, both recognize that decisions made by management rarely turn out to be considered "unreasonable" by employees. First, management and union representatives, in particular the top three union officials, tend to engage in extensive, informal pre-negotiation prior to formal JLMCs meetings. As a result, management proposals that are submitted to JLMCs have already been revised to incorporate input from the union. Second, when management works out its business strategies, it is fully aware of what will be viewed as "unreasonable" by employees, and thus tends to avoid proposing "unreasonable" plans that could destroy its good working relationship with its union, or waste time and effort in lengthy and costly union negotiations.

3. Complementarity of Employment Practices[12]

We asked both our union interviewees and personnel management interviewees the following questions: Suppose it is necessary to streamline and downsize a set of participatory employment practices consisting of JLMCs (at the headquarters level and at the establishment level), SFCs, SGAs, ESOPs and PSPs. Would it be possible to eliminate one of those employment practices? If so, which one? The general response to these questions was "it would not be possible to take out any of the following three: JLMCs at the headquarters level, JLMCs at the establishment level, and SFCs, since they actually work hand in hand." However, when pressed to choose one of those three to eliminate, our union interviewee of Firm A mentioned that he would choose SFCs since, in the past, industrial relations did work fine without it. Our personnel interviewee's response turned out to be almost identical. However, he added that SFCs were not really costly, since they were held outside of regular hours, and that their positive effects on morale are rather substantial. In other words, according to him, SFCs are probably a most cost-effective participatory practice. In addition, he anticipates in the future that, as decentralization of the firm progresses, naturally the importance of JLMCs at the headquarters level will diminish and the importance of establishment level-JLMCs and SFCs will increase.

Our field research also revealed that there are two kinds of complementary relations between collective bargaining and JLMCs: complementarity in scope, and complementarity in time. According to the complementarity in scope model, collective bargaining deals with wages, bonuses, working hours, and agreement revisions, whereas JLMCs deal with all other items. Thus, depending on an item to be discussed, either JLMCs or collective bargaining will be used. According to the complementarity in time model, all

[12] For complementarity of various employment practices, see, for instance, Fitzroy and Kraft (1987); Weitzman and Kruse (1990); Levine and Tyson (1990); Jones and Pliskin (1991); Ben-Ner and Jones (1995); Kandel and Lazear (1992); Kruse (1993); Holmstrom and Milgrom (1994); Baker, Gibbons and Murphy (1994); Milgrom and Roberts (1995); Ichniowski, Shaw and Prennushi (1997), Black and Lynch (1997), Helper (1998) and articles featured in a special issue of Industrial Relations (Vol. 35, July 1996).

items will be discussed first at JLMCs and collective bargaining will be used only when JLMCs cannot resolve the differences between management and labor. The majority of our firms subscribe to the complementarity in scope model. No firm suggested that they are substitutes.

4. Gap between Full-time Union Officials and the Rank and File

For JLMCs to work well, management needs to prove credibly that they trust union representatives by providing them with confidential information. Based on our observations of top union officials, it seems to be almost impossible to continue to deceive them by providing them with superficial information while claiming it is “confidential”. It appears that top management does provide top union officials with truly confidential information. By the very nature of confidential information, top management cannot allow such information to go beyond top union officials since it will be prohibitively costly to monitor the information flow of all employees. Thus, management asks top union officials to keep such information among themselves. A problem with this solution is that it produces a gap between the top union officials and the rank and file. When the rank and file find out some important business decisions from newspapers and TV instead of hearing from their management, they will be naturally upset that their management releases such important information to media before releasing it to its own employees. When that happens, they will ask their union officials whether they knew. When union officials deny it, sooner or later, the rank and file will start considering their own union officials as either incompetent or, even worse, as working for management and not for them. Eventually, a good, cooperative relationship between labor and management will turn into a complicated, not always cooperative, three way relationship among the rank and file, union officials, and top management. We are not suggesting this is actually happening in our four firms. We are pointing out a possible cause of the breakdown of the system of participatory employment practices.

5. Overloading Labor Representatives and Limited Supply of Full-time Union Officials

Many firms have been downsizing. For example, as shown in Figure 12, Firm A reduced its labor force by more than 30 percent in the 1990s. To keep pace with this downsizing, the number of full-time union officials in Firm A also fell in the 1990s. However, as shown in Figure 14, activities of JLMCs have not diminished accordingly, rather, they have intensified recently. This is making full-time union officials exceedingly busy while there is no sufficient monetary compensation for their increased workload. For example, our secondary union interviewees at Firm A complain that the amount of work they are asked to do has increased substantially. They appear to be looking forward to returning to some management positions within the firm after their current union posts.

If this trend of overloading the labor representatives continues in the future, the system of participatory employment practices may break down. First, labor representatives may not be as well-prepared for JLMC meetings as before, since they are simply too busy with the increased work load. Second, the increased work-load, with no monetary compensation, makes union posts somewhat less attractive to young, capable employees who are becoming increasingly scarce as a result of the aging of the labor force in general. In addition, substantially diminished employment opportunities outside of the firm may make full-time union officials more dependent on the firm for their future employment after finishing their union posts. Furthermore, as a result of downsizing, managers may become more reluctant to send the best people from their organizations to union posts. All these things may make labor representatives for JLMCs less prepared, less committed to the interest of the rank and file, and less effective. Without well-prepared, firmly-committed, and effective labor representatives, JLMCs will become a mere formality. A real danger to the survival of participatory employment practices might come not from management but from unions. If participatory employment practices disappear from Japanese firms in the future, it might be due to the lack of capable and committed labor representatives, and not to management initiatives.

IV. Conclusions

In this paper we have shown that participatory employment practices appeared to survive in general during the economic slowdown in the 1990s, whereas subtle yet potentially important changes in their attributes were taking place.

Kato and Morishima (1999) provides econometric evidence for the complementarity of these participatory employment practices. Terminating a single practice may not only eliminate its own positive effect but reduce the positive effects of other practices. In the extreme case, the termination of a single practice may cause the whole system of employee participation and labor-management cooperation to halt. For example, it was found that the goal alignment process needed to be supported both by direct methods, financial participation, and indirect ones, information sharing. Removing financial participation will cause information-sharing to be ineffective, and vice versa. Furthermore, it was found necessary for information-sharing to take place not only at the top level but at the grass roots level. Discontinuing information sharing at the grass roots level will cause information-sharing at the top level to be ineffective, and vice versa.

Moreover, research points to the importance of a long-term perspective in evaluating the success of participatory employment practices.[13] Coupled with the importance of the long-term perspective, the complementarity of participatory employment practices will probably make individual Japanese employment practices more enduring than the popular rhetoric of “the end of Japanese employment practices” suggests. Our findings on the responses of Japanese firms in their use of participatory employment practices to the economic slowdown in the 1990s point to the enduring nature of such practices for large, unionized firms. Such Japanese firms appear to be responding to the economic slowdown in the 1990s, and the recent financial crisis in particular, by fine-tuning the existing practices not by dismantling them. For small to medium size firms with no union, we find some evidence for management to try to weaken the role of employee participation. Combined with the rising proportion of the non-union sector in the Japanese economy, the overall importance of participation in the Japanese economy may be falling.

There are a few early signs of trouble even for large, unionized firms which might eventually result in the breakdown of the system, if left untreated. First, the number of full-time union officials has been falling as a result of continued downsizing of the firm’s labor force. The amount of time and effort that union officials need to put into participatory employment practices has not been falling. This often results in an uncompensated increase in work-load for union officials. If this trend continues, union officials, who have

[13] See, for instance, Kato and Morishima (1999).

been playing a key role in Japanese participatory management, will become less effective and less committed to the interest of the rank and file. Second, at least in our medium-size firm case, top management is finding its participatory management system detrimental to timely and efficient management, and has begun to streamline the system. Overloaded union officials may offer less resistance to such management initiatives. Third, the current system tends to produce a gap in the quantity and quality of information acquired from management between top union officials and their general membership. It is conceivable that such a gap may eventually result in the breakdown of the system. These are still preliminary observations. Clearly more work is necessary to make more definitive answers to these important questions.

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