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## Journal of The Japanese and International Economies

journal homepage: [www.elsevier.com/locate/jjie](http://www.elsevier.com/locate/jjie)



# Enterprise unions and downsizing in Japan before and after 1997



Tomohiko Noda <sup>a,\*</sup>, Daisuke Hirano <sup>b</sup>

<sup>a</sup> Faculty of Economics, Osaka Prefecture University, Gakuen-cho 1-1, Naka-ku, Sakai, Osaka 599-8531, Japan

<sup>b</sup> The Center of Advanced Policy Studies at the Kyoto Institute of Economic Research, Yoshida Honmachi, Sakyo-ku, Kyoto 606-8501, Japan

### ARTICLE INFO

#### Article history:

Received 31 March 2011

Revised 19 October 2012

Available online 9 February 2013

#### JEL classification:

G34

J23

M51

#### Keywords:

Employment adjustments

Corporate governance

Enterprise unions

Downsizing

### ABSTRACT

**Noda, Tomohiko, and Hirano, Daisuke**—Enterprise unions and downsizing in Japan before and after 1997

The purpose of this paper is to examine whether enterprise unions in Japan have changed their attitude toward downsizing before and after 1997. Our empirical analysis reveals that the attitudes of enterprise unions toward downsizing have changed since 1997. Before 1997, firms with strong unions, i.e., those affiliated with the federation, were likely to maintain employment until firms experienced two consecutive years of losses/deficits. However, after 1997, these firms tended to implement downsizing actions before they suffered deficits. These results suggest that the changes in the stances of the unions brought about changes in employment adjustment behaviors. The change in unions' attitudes after 1997 is interpreted as being caused by the "no-layoff policy," which was strongly associated with priority on job security over profitability. Moreover, downsizing was implemented with the consent of union members, and the cooperative relationship between unions and the management was maintained. *J. Japanese Int. Economies xxx (xx) (2013) xxx–xxx*. Faculty of Economics, Osaka Prefecture University, Gakuen-cho 1-1, Naka-ku, Sakai, Osaka 599-8531, Japan; The Center of Advanced Policy Studies at the Kyoto Institute of Economic Research, Yoshida Honmachi, Sakyo-ku, Kyoto 606-8501, Japan.

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\* Corresponding author. Fax: +81 72 254 9565.

E-mail address: [t-noda@eco.osakafu-u.ac.jp](mailto:t-noda@eco.osakafu-u.ac.jp) (T. Noda).

## 1. Introduction

Japanese corporate governance has been described as a form of stakeholder system wherein the interests of different stakeholders—shareholders, banks, employees, and customers—are balanced (Hall and Soskice, 2001; Streeck and Yamamura, 2001). Recent research on corporate governance stresses the importance of understanding it more clearly. For example, Tirole (2001) defined corporate governance as “design of institutions that induce or force the management to internalize the welfare of stakeholders.” This stakeholder view may help explain the reticence of Japanese firms towards downsizing, which threatens the livelihood of employees, even to the detriment of shareholders’ interests to some extent.

The reluctance of Japanese firms to downsize seems to be strongly associated with the significant role played by enterprise unions in corporate governance. Along with lifetime employment, seniority wages, and bonuses, enterprise unionism has been widely viewed as one of the pillars of Japanese industrial relations. The most important purpose of enterprise unions is to ensure job security for regular employees, and therefore, unions support the internal participation of their union members in the management. In order to ensure stable employment and growth prospects, unions are eager to cooperate with the management towards increasing productivity. Thus, the management recognizes unions as partners in productivity improvement and attempts to maintain employment in any way possible. As a result, employment adjustment speed is very slow and employment stability is ensured (Burgess et al., 2000).

Recently, Japan’s labor unions have been said to have lost considerable ground in the Japanese labor market because of the continuing decline of union density and new paradigms in human resources management (HRM) practices. According to *The Basic Survey on Labor Unions* by the Ministry of Health, Labor and Welfare, union density has slipped from about 35% of the labor force in 1970 to about 20% currently. Unions have had a hard time attracting new members, in part, because enterprise unions, which make up the bulk of the Japanese labor movement, have had little incentive to organize employees in new establishments (Freeman and Rebeck, 1989). Moreover, the introduction of the performance-related pay system and wage freeze in *Shunto* (“annual spring wage offensive”) have also appeared to reinforce the weakening tendency of labor unions.

The recent increase in the number of non-regular workers implies the strong hold of enterprise unions over job security. The increasing volatility and instability of firms’ performance are likely to require more flexibility to adjust labor inputs and to increase the demand for non-regular workers (Morikawa, 2010b). In order to adapt to the increasing instability in firms’ performance, it is rational for Japanese firms in dire need for employment adjustment to use non-regular workers as a shock absorber to adjust the employment level, while honoring their promise of job security to regular workers who are union members. This is because the firms were fearful of losing the cooperative relationship, which has so far led to productivity increase, by reneging on the implicit contracts of regular workers. In fact, unionized firms have a higher percentage of non-regular employees (Noda, 2010). This finding indirectly indicates that the significance of unions remains deeply rooted within Japanese firms.

Although a number of studies have focused on external factors such as corporate finance and ownership structure on downsizing in Japanese firms, very few have considered internal factors contributing to the phenomenon. For example, some studies have found that the main bank system and ownership structure have a large role to play in employment stability (Abe, 2002; Noda, 2006). It has often been pointed out that “employee sovereignty,” which is paramount in Japanese firms, and high job security, are the result of strong unions. With this in mind, we will conduct analyses with a focus on internal factors influencing job security in Japanese firms, specifically, the association between the impacts of insiders (i.e., unions) and the change in employment policy of Japanese firms after 1997.

The significant turning point in the employment policy of Japanese firms from “employment maintenance” to “active downsizing” was 1997. Despite the recession, which started in 1991 after the bubble economy collapsed, Japanese firms were reluctant to downsize. However, since 1997, there has been a remarkable change in their downsizing behavior. Previous studies have shown that corporate governance structure affects employment adjustment behaviors (Abe, 2002; Noda, 2006; Ahmadjian and Robinson, 2001; Ahmadjian and Robbins, 2005; Abe and Shimizutani, 2007). However, none of

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