

Trade Unions and “Corporate Reform” in Japan

Fujikazu Suzuki

Chief Researcher

JTUC-RIALS

Introduction

Today I would like to share with you the relationship between trade unions and corporate governance. While focusing on the experience of trade unions in Japan, I would like to give you a brief report on how the Japanese trade unions have responded to the issue of corporate governance and what possibilities and problems have arisen.

In his general introduction for this seminar, Professor Inagami has already explained in very concise fashion the present situation of corporate governance in Japan. There should be no doubt in anyone's mind that corporate governance is now in a state of flux. This fact has been made clear by the responses by top corporate executives to the questionnaire survey conducted by Professor Inagami and his Committee on the Corporation and Society. However, we must be sure about exactly what kind of change is actually taking place.

Yes, corporate governance in Japan is indeed changing, but definitely not in the "big bang," sporadic manner being described by some people in the mass media. As Professor Inagami also mentioned in his statement of the problem, corporate governance is presently evolving in a gradual process, which simultaneously includes aspects of change and continuity. Therefore, what is particularly important for us trade union activists is that where this process of gradual evolution is headed. It is by no means predetermined. You see, social evolution is different from biological evolution, because in the former the choices made by us actors in forming society determine the direction of evolution.

Consequently, what is being asked is what kinds of choices should be made concerning where the gradual evolution of present day corporate governance should be headed, so that we can create a bright and pleasant future for our industrial society.

From this point of view, I would like to first outline the place occupied by working people in Japan's corporate society and the recent activities of trade unions who voice as the representatives of employees. Then, I would like to discuss what kinds of problems trade unions as the standard bearers of democracy in corporate society are grappling with in the midst of changing corporate governance, or rather within the present wave of corporate reform.

The Place of Employees in Corporate Society

Here in Japan the term "corporate society" is used quite often; and the corporation is generally thought to be a social entity composed of "corporate members," called "shain," who work at the corporation. Ask anyone on the street and ask him "What is a 'shain,'" and I will bet you that 99.9% would answer that a "shain" is an employee of a company. However, according to the Japan's commercial code, "shain"

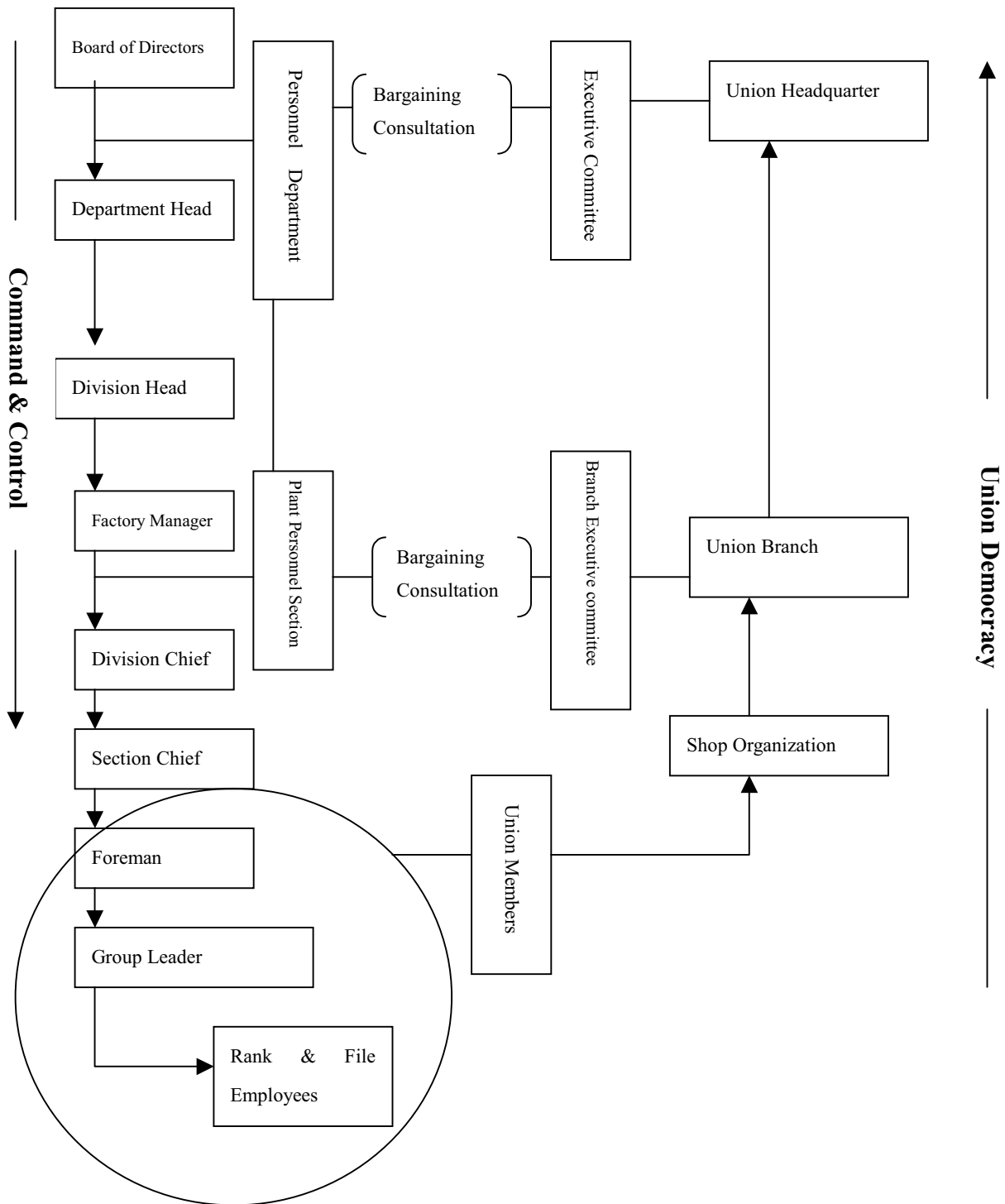
refers to the shareholders of a company not its employees. Also when law students first open their commercial law textbooks that is what they read. Now, I am not about to say that 99.9% of Japanese and their common sense understanding of "shain" is wrong. I am only saying that common sense has a better grasp on what is really happening in this country than the commercial code.

Of course, corporations could not exist without deferring their shareholders, given that are joint stock companies. However, corporations have a far more complex structure than the management-shareholder relations. They are comprised of people who work at the company and the local communities around them. Looking back over the 50 or so years since the end of the Second World War, it is an historical fact that the corporation has played a significant role in the development of social organization; and it has been trade unions that have been demanding that the rights of citizens as members of corporations need to be well represented and protected. I think that the common sense meaning of the term "shain" is the result of such an historical development.

Therefore, the employees of a corporation are also very important, like its stockholders, and deserve to be given due respect. If we assume further that employees make the company, then the logical conclusion, in my mind at least, is that employees should be provided with corporate democracy, or union democracy. Of course there are other interpretations of this point and many different aspects of it that we have to look at; but when we talk about corporate governance in relation to trade unions, I think that employees as such need to have intra-corporate democracy as members of the corporation. This is an important aspect of the enterprise union that should be well understood. Please see the figure 1, entitled "Correspondence between Enterprises and Union Structure in the Case of Manufacturing Firms". At the top of the enterprise structure, there is a Boards of Directors that implement decisions made by the highest decision making body, the shareholders meeting. Then, under the Board of Directors, you have Department Head and Division Head. Under them comes a hierarchy of plant managers, division managers, general managers, section managers, foremen, group leaders, and rank and file employees, in that order. In other words, order within the corporation is maintained by a top-down chain of command.

Now, for the most part, the enterprise union has an almost a one-to-one correspondence with the corporation in this structural context. That is to say, starting from the bottom and working up this time, there is the workshop (also referred to as workplace organization or shop organization), several of which are organized together under union branch or local chapters, which is usually based at each place of work. On top of that you have union headquarters. Although trade unions in Japan have been regarded as very unique in international comparison, in this structural sense, the existence of a workplace organization as the basic unit of union organization is not at all unusual. What is peculiar to Japanese trade unions is that the workplace organization covers any entire corporation. This is why the structure of trade unions in Japan is in one-to-one correspondence with the structure of the business enterprises. So at the plant level, you have a corresponding union organization.

figure 1 Correspondence between Enterprise organization and union structure : the case of manufacturing firm



Now, the logic used to integrate the workplace organizations on the corporate level is, of course, is union democracy, which in turn can become the basis for democracy within the corporation. I know that I'm being idealistic here, and that in reality it doesn't work that way yet; when talking about the changes that are taking place in relation to corporate governance, it is my opinion that we should be aware of the fact that the logic of union democracy plays a significant role.

The Development of Employee Representation in Japan

Unions have represented the interest of the workers in many ways over the years. Common practice and custom have been the basis of such representation. That is to say, union representation has been spelled out in the labor agreements between each corporation and its employees, but there is no legal or constitutional grounds upholding it. It is based on a purely voluntary system of employer-employee consultation which guarantees worker participation in the corporation. In contrast to this, in Europe during the 1970s and 80s, various forms of legislation were enacted to facilitate worker participation, like the co-determination system in Germany. Other than the legal aspect, I think the European situation corresponds to what is happening in Japan. Although we don't have legal protection, it does not mean that here our consultative system is inferior. Rather, I believe that we need to strengthen the role of the consultative system so that trade unions can ensure that the interests of workers will be better reflected in corporate decision making. This is what I mean by worker participation via the presence of trade unions, which could be generalized, as I have just explained.

Now I would like to reflect on recent changes occurring in worker participation through consultation. While such participation in Japan dates back to the end of World War II, its development since the 1970s, that is, after the first oil crisis, is what we should focus on here. As you are all no doubt well aware of, in the wake of the two oil crises, the Japanese economy was heavily damaged, and the employment adjustments that we see today began on a large scale. Although it is true that many people were laid off during that time, the consultation system worked very well during the turmoil of the two oil crises, because during that time the consultation system produced many labor-management agreements attempting to protect as many employees as possible. At that time as well, awareness was growing that the employees are indeed valuable assets of the corporation, for if employee security is jeopardized, morale will decline, taking productivity down with it. In other words, mutual trust between labor and management became one way of gaining a competitive edge. The Japanese corporation, labor and management alike, came to the realization that it needed to adopt better measures in disposing of distrust. Of course, such a realization was not come to over night, but over time both labor and management were able to come to a mutual agreement on this point. Such was how the consultative system developed during the 1970s and 1980s.

In the research on the level of consultation taking place between labor and management, at least one survey showed that 50 percent of the corporation's confidential information was being shared with their labor organizations, and it was also shown that candid discussions on corporate management were taking place within the

consultation system. That was at least the case during the 1970s and 80s. In a way, this development could be cited as proof that industrial relations in Japan were maturing. The problem with maturity, however, is after it putrefaction tends to set in, at least in the case of fruit. In the case industrial relations, the realization of maturity and good relationships can mark the start of bad times. And in that sense, the decade of the 1990s has been a time during which mature relationships established between management and labor have been faced with a new set of problems. Looking at the workplace of the 1990s, we are seeing the formation of a number of thorny issues.

For example, the 1990s has often described as "a lost decade" for the Japanese economy. The economic growth rate for the last ten years has been less than 2 percent, with negative growth experienced periodically. Such a poor performance was all very new to Japan, as was the corporate restructuring that progressed in its midst. Luckily we were able to avoid a large number of people being laid off, but could not stop the corporate adjustment and restructuring continuing on a large scale. Surveys conducted by Rengo affiliated organizations show that many workers feel that their work become harder during the 1990s and that their employers have become tougher on them.

Now what about the future? What is going to happen to your company and to your union say ten years down the road? An even bleaker situation? In the same surveys, 60% of the respondents replied that their companies would probably go through restructuring and 60% also felt that their trust in the union movement will probably wane as well. In other words, the trust which was supposed to be the way of gaining a competitive edge for Japanese corporations is now being threatened, and if we let business continue as usual, there is a distinct possibility that the very substance of Japanese corporate society will be hollowed out. There is a lot of talk recently the hollowing out of industry; and many people point out that the Japanese-style enterprises is going to suffer within international competition and the process of globalization. It is my opinion that any hollowing of corporate society will be even more serious and become detrimental to Japan as a nation.

The Trade Unions' Agenda

Before I conclude, I would like to mention certain items that should be added to the list of countermeasures to be taken to avoid such a scenario. To begin with, the major thrust of corporate governance today is that managers are shifting their attention from concerns of employees to the voice of company shareholders. Is the current trend a good one? More and more people today are pointing out that companies belong to its shareholders, as the commercial code tells us, but that is not what common sense tells us. Common sense tells us that a company belongs to everyone working at that company and that companies are members of the communities around them. In other words, the current buzz words, "corporate society" and "corporate citizenship," indicate that most of the people are in agreement that companies have always been part of the larger community. With such a consensus, it shouldn't be difficult to make rule out of such an idea, except that many of the legal experts say that it will be very difficult to write down in our legal system. Indeed, making this idea of corporate membership in the larger

community, part of the law would require amending the commercial code, which, I'm afraid, is going to take a long time. So what we can do in the meantime is to change the atmosphere, change the mindset of the people. What can unions do in such an effort? We need to improve ourselves, for we have to start with what can we do. We have to increase our union density, which encompasses less than 25 of today's labor force, by organizing the unorganized.

Secondly, we tend more time than not to represent the interests of full-time workers in a company, despite the fact that there is an increasing proportion of part-time workers and other atypical workers being hired, and most of them are not organized. We need to organize these atypical workers and provide them with "shain" corporate membership.

A third point concerns the fact that trade unions in Japan represent many white collar workers. Although many white collar workers are union members in Japan; they quit the union when they are promoted to the position of section manager, because they feel that they are now on the side of management. So, it is difficult for the Japanese trade unions to represent the interests of the white collar workers in their mid-careers. However more and more section and divisions managers are becoming the targets of restructuring and layoffs. So maybe it's time for unions to take more effort in representing the interests of those middle management.

These are three things that trade unions in Japan can start doing right now as the first step to counteract the hollowing out of corporate society. Worker participation as I said at the outset in Japan is a voluntary one. It is not written in or protected by law, but it has proven truly effective. On the other hand, the lack of legislative guarantees makes worker participation vulnerable to the vagaries of corporate governance. More than 20 years ago we had a heated debate of legalizing or putting worker participation into the legal system. Maybe it is time we rekindle the debate over legalization that has raged for the past twenty years. The institution of rule by simple majority is already embedded within our legal system. I cannot go into this in detail, but we could develop this idea further to bolster the legal position of the existing worker participation system.

A second point here is to allow employees to be represented at board of directors meetings, which is entirely new territory for Japan and thus deemed too premature by many. Within the current process of corporate governance reform, amending or revising the company auditor is being discussed; namely, appointing outside auditors. What they are really talking about here is participation of outside auditors in board of directors meeting would better reflect the interests of shareholders. But why should outside shareholders represent only the interests of "shain" as narrowly defined by the commercial code? Rather outside auditors should be representing the interests of all the stakeholders, such as employees, the shareholders, bankers and the members of the surrounding community. And it should be trade unions that are given voting rights so to speak on behalf of the employees. For that purpose, the shareholders activism by trade unions might be discussed further. As you are no doubt aware, in Japanese big corporations, many employees are offered the shares in the company in employees share ownership scheme, and their total shares accounts for 1.36% of the

entire issued shares of the listed companies, that exceeds the shares of the trust banks. So employees could exercise their rights as shareholders to protect their interests, just as the AFL-CIO is doing in the United States.

Concluding Remark

My time is up, so I will summarize very briefly. Trade unions are a voluntary association organized from grass-roots driven by common sense, not solemn truths or principles. All they have hoped for the past hundred years or so is a better life for the people and good jobs. These two goals also make up a simple starting point for trade union activities in the process of corporate reform. And if we stick to these common sense goals, I think we can change the Japanese company into stakeholders' company.