

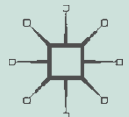
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Japanese Human Resource Management

Labour-Management
Relations and Supply Chain
Challenges in Asia

Naoki Kuriyama



Palgrave Macmillan Asian Business Series

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Naoki Kuriyama

Japanese Human Resource Management

Labour-Management Relations and Supply
Chain Challenges in Asia

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Naoki Kuriyama
Soka University
Tokyo, Japan

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Introduction

The Context for the Book

Interest in Japanese management has re-emerged across the global supply chains since 2010. This followed a first boom in Japanese management that dominated the world market in the 1980s. Elger and Smith (1994) discussed ‘global Japanisation’, reviewing the extant research. They show that Asian business circumstances shed light on the strengths of Japanese management, since Japanese small and medium-sized enterprises (SMEs) came into operation as local suppliers. Sustainable business based on competitive and productive advantage is required for participating in the free trade regimes, and constructive labour–management relations are sought during turbulent industrial relations resulting from the democratisation of the national government. A high commitment of workers and workplace cooperation are the focus of Japanese human resource management and in-house labour–management relations. This book is a comprehensive study compiled by the author over the past 30 years from the results of previous literature and field studies on Japanese human resource management and labour–management relations. The goal is to reach a better understanding of the Japanese model for human resource management and labour standards issues and its transferability to supply chains in Asia. The author has conducted many field

studies, mainly in South East Asia and Europe, with an occasional field study visit to other regions.

The result is a comparative study of Japanese industrial management and its supply chains in Asia and other models centred on Western practices. Stereotypes of Japanese models are clarified in order to explain the strengths of the Japanese models. These stereotypes could become prototypes of Japanese models for practical application in other economies. The book focuses on the applicability of the Japanese model in Asia and the emerging new agenda in a globalising economy centred on the compliance of international labour standards in supply chains.

Focusing on the most recent changes and future trends of Japanese management often clouds the overall picture of Japanese management. The strengths of Japanese management were formed mainly in the 1980s and 1990s. Consequently, the focus is placed on past developments to clarify what factors should be maintained and applied in other countries.

However, recent and future trends of Japanese human resource management and labour–management relations have been included where relevant. Although my field studies and case studies are mostly from Asian countries, the transferability of these studies to other areas is always integrated into the text.

Chapters 6 and 7 highlight the factors of Japanese management that are universally applicable, including in the USA and in Europe. Of course, this study looks at Japanese human resource management and labour–management relations both now and in the future.

What the Book Aims To Do

This book aims to offer a clear understanding of the strength of Japanese management and its applicability to other countries. It also introduces a new agenda for Japanese corporations that wish to operate in sustainable and inclusive ways in local society and global supply chains.

This book can be used as a textbook for undergraduate and postgraduate courses at universities and business schools. It can also provide useful teaching materials for training and study sessions for relevant managers, workers, or trade unionists, and for government officials to promote

improvements in productivity and constructive labour–management relations.

Three Main Themes

The first theme is *the strength of Japanese management*. This includes inter-firm cooperation based on long-term relationships because the strength of Japanese management largely depends on suppliers' cooperation. From the late 1980s to the 1990s, Japanese management attracted global business competitors and academic researchers because of its high competitiveness in the global economy. From a macro perspective, unemployment had been extremely low compared to other industrialised countries during this period. The author worked for the International Labour Organization (ILO) from 1988 to 1991, and received numerous requests to explain Japanese strengths in employment and competitive advantage, especially in the highly competitive automobile and electronics industries.

Major arguments at that time focused on the uniqueness of Japanese-style management. The contributions of British writers in the late 1980s,¹ for example, focused on Japanese management, regarding it as a model of excellence.

Finally, Oliver and Wilkinson (1988) provided a theory of 'high dependency relationships' of Japanese industrial management. This theory explains that an integral part of the Japanese model is its dependency on the long-term high commitment of workers and suppliers, which requires greater interaction and increased coordination between internal workers and external suppliers.

Bratton (1992) added the newly emerged human resource management (HRM) theory as an additional supporting theory to explain the strength of the Japanese style of management. This theory is considered a successfully integrated model of HRM and labour–management relations. His

¹These includes Pascale, R.T. and Athos, A.G. (1986), *The Art of Japanese Management*, Harmondsworth, Penguin; Schonberger, R. (1986), *World class manufacturing*, London, Collier Macmillan; and Gordon, D.D. (1988), *Japanese management in America and Britain*, Aldershot, Avebury.

research indicated that many British firms failed to synchronise their personnel and labour relations carefully with their manufacturing strategy.

The second theme is the *transfer of Japanese management to Asia*. The transferability of the Japanese model is much contested, since it is accompanied by the cultural uniqueness of Japanese-style management. Universal applicability remains poorly examined in terms of expanding Japanese foreign direct investment (FDI). The author visited eight Japanese subsidiaries and interviewed managers in charge and ex-trainees from Japan in December 2015. There was a strong desire to transfer Japanese management techniques to local operations to execute global business operations.

Following the Plaza Agreement in 1985, Japanese corporations began to transfer production to foreign countries on a much greater scale than before. This continued until the collapse of the so-called bubble economy during the high appreciation of the yen.

The transfer of Japanese management practices has been an important issue in the fields of official development aid (ODA) and foreign direct investment (FDI) from Japan. This is particularly true in light of the expansion of global supply chains within the Japanese manufacturing industry in Asia; therefore, supplier networks that form the supporting industry should also be reviewed.

In the 1990s, Japanese management was tested and challenged during industrial restructuring, and the global operation of Japanese management practices began to create supporting industries in local economies.

The third theme is *labour standards and conditions in supply chains in Asia*. Since 2000, social issues have appeared as a critical factor in the globalised operations of Japanese management. Corporate social responsibility (CSR) and human rights issues have emerged in the context of expanding global supply chains. The discussion of free trade and core labour standards has been an important issue in many international organisations such as the World Trade Organization. Additionally, fair trade practices have converged into issues of human rights because nations and stakeholders cannot deny the universality of human rights and related labour standards.

After the Millennium Development Goals (MDGs) were formulated, the United Nations' General Assembly formally accepted the Sustainable Development Goals (SDGs), which require global business activities to be

conducted in more sustainable and inclusive ways. Japanese management practices, especially those within Japanese multinational enterprises, have been challenged to react with *due diligence* to emerging human rights issues such as equality and long working hours in the service industry.

Organisation of the Book

This book is divided along major themes as follows:

- I. A model of Japanese-style management.
- II. Transferability to Asia.
- III. Labour standards and conditions in supply chains in Asia.

Part I: A Model of Japanese-style Management

Chapter 1 presents stereotypes of Japanese human resource management practices and labour–management relations. High commitment based on long-term employment is a source of competitive advantage within Japanese human resource management. Employment practices such as job assignments, rewards, job rotation, skill training, and cooperation within labour–management relationships in Japanese workplaces are reviewed to determine rational explanations of the mechanisms that foster them. The focus is on the strength of the stereotypes of Japanese management.

Chapter 2 examines the source of workers' high commitment and organisational citizenship behaviour from the discipline of organisational behaviour using the concepts of psychological contract and the recognition of fairness by workers. It seeks to demonstrate that the Japanese national productivity movement has contributed to inducing high levels of commitment in its workers.

Chapter 3 provides a detailed analysis of employment restructuring within the food and drink industries in response to technological and industrial change. Employment security was jeopardised by early retirement schemes in large-scale companies in the late 1990s. The chapter also

presents a case of numerical flexibility within the Japanese employment system.

Chapter 4 provides a comprehensive review of industrial subcontracting in Japanese manufacturing. It looks at the process of the formation of subcontracting webs, which form a multi-tier network structure. The competitive upgrading of production and cooperative interactions with assemblers are also embedded in this supporting industry. A model that promotes SMEs is proposed using Japanese inter-firm networks.

Part II: Transfer to Asia

Chapter 5 introduces the case of Toyota Motor Thailand to demonstrate the resilience of suppliers' networks in Thailand, set against the Asian financial crisis in 1997. In this case, the Toyota suppliers were not shut down by the serious and negative business events within the local market. Based on a field study in 1999 and 2000, not only was the support from final assemblers and Japan observed, but support was also received from autonomous competition and cooperation of the local suppliers' association, all of which played an integral role in improving production during the crisis.

Chapter 6 reviews the previous chapters of Japanese subcontracting practices. This section explores an applicable model for the development of small and medium-sized (SMEs) using the framework of the transnational corporation (TNC)–SME linkage of the United Nations Conference for Trade and Development (UNCTAD).

Chapter 7 reviews the transfer of 'soft' technology from Japan to Asia. The focus is on skill training and the labour consultation system in an enterprise. It takes a close look at the concept of the 'intellectual skills' of Japanese workers as advocated by Koike. The chapter concludes by demonstrating that a transfer of soft technology is greatly dependent on people's adaptive ability.

Chapter 8 contains case studies conducted in 1990 of 11 Japanese subsidiaries in the auto and electronics industry in Thailand. The focus is the introduction of new technology and its impact on employment and subcontracting relationships. A one-month survey with detailed

interviews of top managers suggests the viability of the introduction of new technology on the effects of employment generation and expanding subcontracting networks.

Chapter 9 offers perspectives on human resources development within local SMEs in developing parts of Asia. To ensure the ability of SMEs to act as a supporting industry requires the implementation of more effective and low-cost training systems in developing countries than in developed countries. Workplace training within Japanese companies is reviewed as a possible way of introducing an effective training system. This chapter discusses the employee training needs in Asia based on the replies to a questionnaire prepared by the author.

Chapter 10 deals with the vocational training of employees within public institutions and in-house training within a company. It suggests that Japan's strength is in workplace training within large companies and that complementary training is necessary for public institutions, SMEs, and the local labour market. It proposes an international networking of vocational training and education for effective human resources development.

Part III: Labour Standards and Conditions in Supply Chains in Asia

Chapter 11 offers a detailed discussion of ILO standards in developing countries in the late 1980s. The perspectives of universality and regionalism were debated between developed and developing countries in Asia over the application of ILO standards. After a review of the practical process of standards adoption, suggestions for full participation in the standard creation process are proposed.

Chapter 12 follows the discussion of the previous chapter, and elaborates on the process of fixing core international labour standards. For securing universality of the ILO standards, the ILO declared eight core labour standards as fundamental rights at work. These rights concern standards in four aspects of human rights: freedom of association; freedom from forced labour; standards regarding child labour; and the elimination of discrimination in the workplace. Fixing core labour standards as universal human rights leads to an end of arguments over the universality

of the standards. These core labour standards affect many fields, such as free trade agreements, development assistance, international financial and investment standards, and many international initiatives of corporate social responsibility (CSR).

Chapter 13 provides an overview of the perspective of employers' organisations in Asia. Questionnaires from 13 countries' representatives of the employers' organisations prepared by the author are analysed. After recognising the voluntary and multi-stakeholder approach of CSR, the employers' view of international CSR initiatives is observed. The organisations react positively to disseminating the information from the initiatives and try to utilise them as a tool to promote competitiveness and productivity.

Chapter 14 suggests a new approach to living and working conditions in Asia. It emphasises the reciprocity between working and living in the creation of a work–life balance. This new approach is challenging Japanese management practices in both Japan and Asia. The chapter touches upon income and poverty situations and long working hours, which are important considerations for Japanese management to overcome the limitation of employment security for regular workers in large companies.

Features of the study

The first unique point is the clarification of the stereotypes of Japanese human resource management and labour–management relations. It added the stereotypes of intra- and inter-firm relations in supply chains. This is useful when the model is to be promoted as a method of business development and public technical cooperation.

Secondly, the approach of this research consists of a set of conceptualisations of the Japanese model and an experimental study using case studies. Information and case study materials studies have been collected from field studies that are composed of interviews and hearings, and through questionnaires.

For example, after six months' study at the graduate school of Chulalongkorn University in Bangkok in Thailand in 1982–83, the author conducted 14 field studies in Thailand in 1986, 1990, 1993, 1995, 1996, 1998, 1999, 2000, 2002, 2003, 2007, 2011, 2012, and 2015.

Questionnaires were sent to 20 employer organisations in Asia in 2007 and 2011. The responses are reflected in the study in Chapters 9 and 13.

Thirdly, the new agenda of the social aspects of global supply chains are treated as the most important challenges for the Japanese model. Human rights issues have to be universally complied with. Japanese management have little experience of this issue. These topics are important for Japanese management in the supply chains in foreign countries.

In Part III, the theme of labour standards and conditions in a global economy is discussed from an old perspective and very new one. Social dumping was discussed at the founding of the ILO in 1919, and the sanction clause resulting from non-compliance with core labour standards is included in the TPP (Trans-Pacific Partnership) agreement, awaiting final approval in 2016. This is a critical issue for Japanese and Asian business, as universal labour standards in the current free trade systems in the globalising world is a prerequisite for operating in the global supply chain. The issues of CSR and the improvement of living and working conditions in Japan and Asia are required and conducive to the sustainable development of the world. These topics have not been discussed fully in past research. US and European business and social partners are also interested in this topic.

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Part I

A Model of Japanese-Style Management

1

Stereotypes of Japanese Human Resource Management and Labour–Management Relations

1 The High-Growth Period in Japan and good Employment Performance

The Japanese economy expanded rapidly after World War II despite the challenges of rebuilding after the devastation. Most industrialised facilities had been destroyed, large financial companies had been dissolved by the occupying forces, and people were in need of food, money, and homes. Consequently, after 1945, the Japanese economy began its revival from a starting point of nothing, without financial, material, or human resources. The ‘stability of life’ was the basic need of workers.

The economic boom triggered by the Korean War in 1950 significantly increased demand for exports from Japan. The leading private companies in materials industries such as steel grew first; manufacturing industries followed later. A large export demand in the metal trade encouraged newly started businesses in areas such as machinery manufacturing to fill gaps by subcontracting production to smaller suppliers without the need for extensive investment. Such enterprises grew in scale and formed subcontracting networks which involved smaller-scale enterprises. In

4 Japanese Human Resource Management

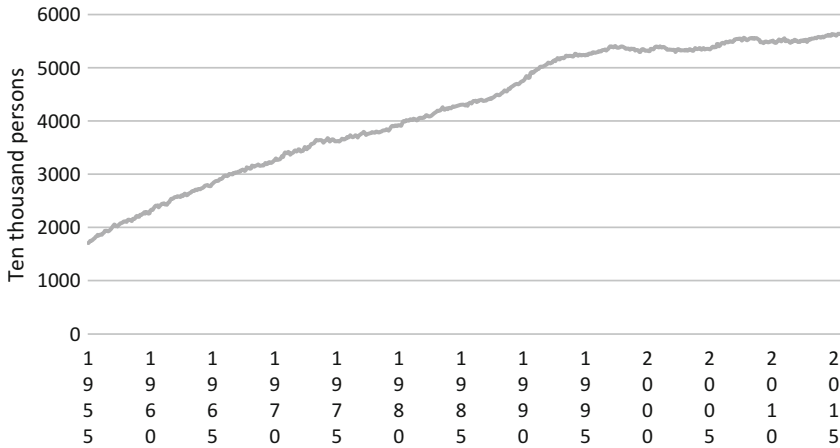


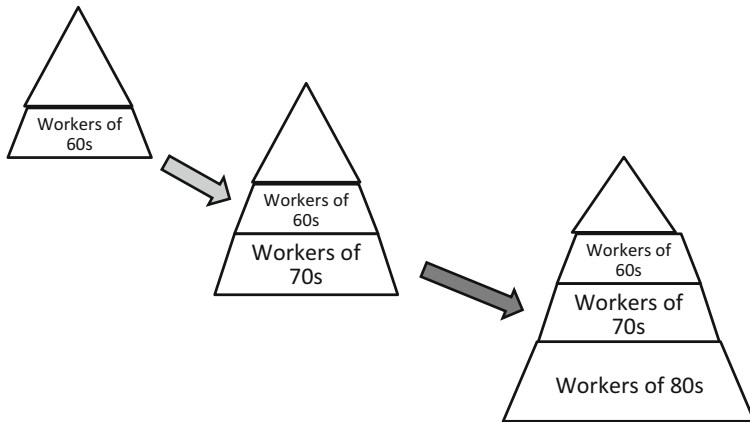
Fig. 1.1 Increase in the number of employees from 1955. *Source: Statistics Bureau, Ministry of Internal Affairs and Communications, Labour Force Survey*

due course, this ‘expand production first’ strategy led to cheap but low-quality products.

Some industrial groups formed, developing good communications between assemblers and subcontractors with low transaction costs (Aoki 1984). Debroux (2003) explained that ‘low transaction cost together with high per capita specific investment were consistent with higher employment stability and hence with a greater tendency to compensate for unforeseen changes in labour demand through wage variability’ (Debroux 2003).

Macro figures suggested that the rapid economic growth induced a steady increase in employment. The number of employees increased as shown in Fig. 1.1. Growth rates were 139 % in the 1960s, 120 % in the 1970s, 120 % in the 1980s, and 112 % even in the 1990s. This sustained employment increase enabled long-term employment without severe retrenchment of workers in large-scale companies. An illustration of the employment rate in prior decades by growing companies is shown in Fig. 1.2.

As a result, the unemployment rate was relatively low during these decades. It fluctuated between 1 % and 2 % in the 1960s and 1970s, and



This led to the periodical recruitment system of new graduates

Fig. 1.2 Growth of the labour force

between 2 % and 3 % in the 1980s and 1990s. These figures were low compared with other major industrialised countries.¹

2 Employment Adjustment of Large Japanese Corporations

The oil crises of 1973 and 1976 had a significant negative impact on the Japanese economy. The situation was challenging with regard to the retention of low unemployment rates which secured lifetime employment. It became clear that employment security applied only to regular full-time male workers. Employment adjustment was conducted through numerical and functional flexibility. In general terms, the amount of employment was adjusted through working hours and wage cuts rather than the retrenchment of workers.

¹The author participated in the International Symposium on Japanese Employment in Paris (at Chateau de la Muette) organised by the Japanese government and the OECD in October 1989. This meeting attracted a large audience of many policymakers, business managers, and researchers. Well-known Japanese experts contributed to the symposium.

Although monthly basic wages cannot be cut without legitimate reasons, bonuses can be used to adjust labour costs because they are rewards which fluctuate in accordance with corporate and individual performance. Employment can also be adjusted at the start and end of the internal labour market. For example, a company can reduce the amount of new recruitment and call for voluntary early retirement in order to reduce the employment level.

The various types of atypical worker are another major source of employment adjustment. For example, non-regular workers are used as buffer stock for employment adjustment. Part-time workers are the first layer of this stock. Here, wages are low, at the minimum level, and employment status is precarious. Most part-time workers are female workers who depend on their family incomes. University students are another source of part-time workers because they also depend on their family incomes.

Contract workers form the next layer of employment stock. These workers include dispatched workers who were authorised by the Worker Dispatch Business Law of 1985 as part of the deregulation of manpower business. When this law was first introduced, this type of worker was expected to have independence together with secure employment. However, such contracts have been seen to be precarious during times of economic stagnation.

With regard to regular workers, female workers are not usually regarded as core workers, as traditional social values meant that they often chose to cease work voluntarily in the middle of their careers following marriage and maternity. Companies expected this to lead to a reduction in its workforce. The recent gender equality policy is trying to lower the glass ceiling and promote female managers; however, the pace of advancement is still slow.

Core workers are the last resort of employment adjustment. Such workers are supposed to have secure employment until retirement age. Outplacement (moving to other companies) and secondment are two major ways of achieving secure employment. *Shukkoh* is the outplacement of employees whilst their employment status is maintained in the original company; *Tenseki* is the placement of employees, together with their employment status, in other companies. Often, the original company

covers most of the salary of the dispatched employee so that their employment security is retained.

3 Human Resource Management and Japanese Employment Practices

The continued high rate of economic growth in Japan and the increase in exports enabled effective productivity improvement and strong competitiveness in the world market. The term ‘made in Japan’ represented ‘low price but good quality goods’ in contrast to the former status of ‘low price and low quality’. In 1972, a report of the Organisation for Economic Cooperation and Development (OECD) on Japanese labour (Abegglen 1958) highlighted Japan and Japanese-style management as a success, quoting the Japanese emperor’s three core values: lifetime employment; a seniority wage system; and enterprise unions.

In this manner, large companies led the economy not only with regard to economic growth but also with regard to social and labour issues such as employment, training, and constructive industrial relations. The success factors of large private companies in terms of employment and skills training are embedded in this development process.

By the end of the 1980s, Japan had become a successful model of management in competitive world markets such as the car industry. This success induced trade frictions between Japanese exports and local producers in the importing countries. In addition, the successful Japanese management model provided significant stimulation for researchers to review management methods.

Stimulated by losing its comparative advantages, US industry, together with academics, changed and renewed management perspectives in order to regain a competitive edge. In the field of people management, the technical term changed from the traditional ‘personnel management (PM)’ to ‘human resource management (HRM)’ from the late 1970s to the 1980s. Beer et al. (1984) of Harvard University led this change in perspective and emphasised the 4Cs: commitment; competence; cost-effectiveness; and congruence (Beer et al. 1984).

Table 1.1 Personnel management and human resource management

Term and focus	PM compliance	HRM commitment
Locus of control	External Outside in	Internal Inside out
Employee relations	Collective Low trust	Individual High trust
Organisation principle	Mechanistic Centralised	Organic Decentralised
Policy goals	Administrative efficiency Standard performance	Adaptive workforce Improving performance

Source: Adapted from Guest (1987), *Human Resource Management and Industrial Relations*

Table 1.1 follows Guest and presents the different perspectives of the old and new terms.

Human resource management became a kind of campaign term for a new approach to people management which departed from the traditional way, such as ‘from PM to HRM’. For example, Ulrich discussed the new approach of HRM from a ‘deliverable’ perspective and not from a ‘doable’ perspective (Ulrich 1997). Thus, HR divisions were asked about their fundamental roles in companies. In the same way, labour conditions were influenced more by the management perspective rather than industrial relations’ (IR) negotiations with labour unions. Indeed, ‘from IR to HRM’ was used as a new campaign slogan at various meetings.²

Through the development of strategic management, two streams of strategic human resource management (SHRM) emerged. Figure 1.3 shows the comparative differences between two different streams of SHRM in terms of SWOT analysis.

SWOT is a simple tool to identify the strategic elements of strength, weakness, opportunity, and threat.

Porter (1985) stressed the contingency approach, which encourages an environmental and strategic fit in order to gain competitive advantage. Schuler and Jackson (1987) then followed this research stream in SHRM;

²The author worked at the headquarters of the International Labour Organization (ILO) from 1988 to 1991. The catchphrase of ‘from IR to HRM’ was identified at several meetings there.

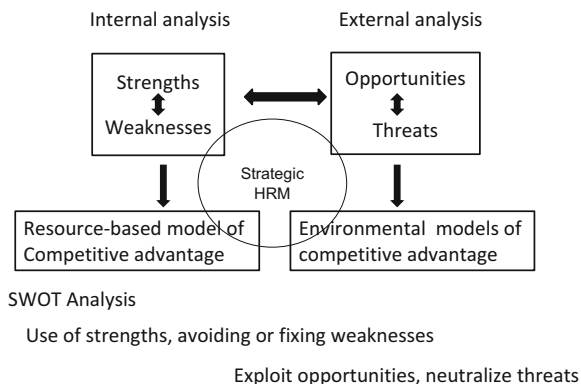


Fig. 1.3 SWOT analysis and two types of SHRM. *Source:* Adapted from Barney (1991)

however, Barney (1991) advocated resource-based theory, which attains sustained competitive advantage based on factors such as human resources and the soft side of business. Pfeffer (1994) followed this research stream by taking the best practice approach. In this regard, the Japanese practice of a high level of commitment was taken as a practical model for the theory. Pfeffer (1994) pointed out a SHRM policy for high commitment which can be arranged in accordance with the three core values of Japanese employment practice, as shown in Fig. 1.4.

Thus, the new approach of HRM shed light on Japanese management. In this regard, Pfeffer (1994) listed the high commitment factors of Japanese HRM as mentioned above; Bratton (1992) identified the core themes of Japanese HRM within the integrated picture of overall management structure and HRM; Guest (1987) indicated how the Japanese model coincided with features of HRM; and Ichniowski et al. (Ichniowski and et al. 2008) identified three workplace practices for productivity enhancement: workers' participation; flexible work design; and decentralised managerial tasks.

Bratton (1992) provided a model of Japanese management based on high dependency relationships³ shown in Fig. 1.5. Bratton explained that

³ This theory was advocated by Oliver and Wilkinson (1988), *The Japanization of British Industry*, Oxford: Blackwell.

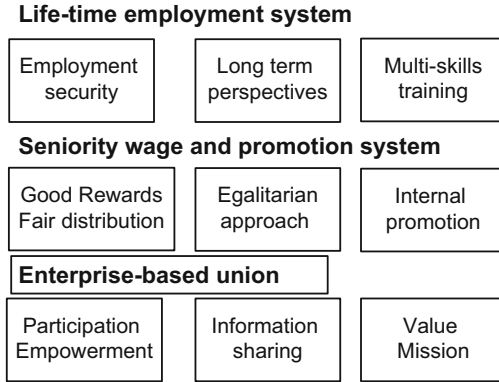


Fig. 1.4 High commitment practices and Japanese HRM. *Source:* Arranged by the author; adapted from Pfeffer (1994), *Competitive Advantage Through People*, Harvard Business School Press

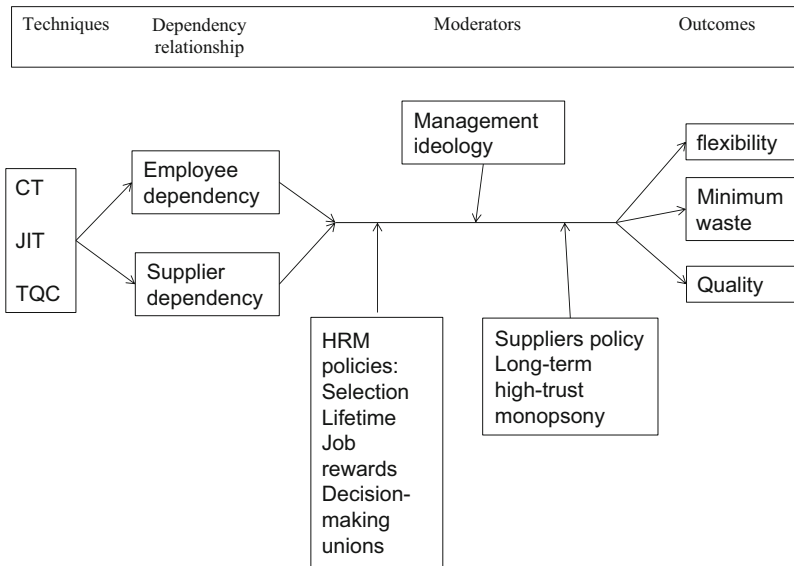


Fig. 1.5 A model of Japanese industrial management. *Source:* Adapted from Bratton (1992), *Japanization at Work*, London: Macmillan, p. 32

the Japanese competitive techniques of production such as cellular technology (CT), just-in-time (JIT), and total quality control (TQC) (Bratton and Gold 2007), depend not only on employees but also supplier commitment. Through this dependency relationship, the outcomes of high levels of flexibility, minimum waste, and quality are attained.

Bratton (1992) emphasised that the model is built on stereotypes of Japanese management and added that the ‘stereotypical Japanese job and work system involved both horizontal and vertical job enlargement’. Bratton (1992) also provided four contrasting and significant work system designs, including the Japanese model: classical Taylorism and Fordism; the sociotechnical high involvement work system (HIWS); and ‘Japanese work system’ and ‘US lean work system’ (see Table 1.2).

The next section tries to clarify the stereotypes of work system design with regard to Japanese HRM, and labour–management relations, in the following ways.

1. Recruitment and job assignment.
2. Rewards and motivation.
3. Training (skill grading system).
4. Participatory labour–management relations.

4 The Stereotype of Recruitment and Job Assignment

4.1 The Recruitment System (School to Work)

Because over 50% of the younger generation are university graduates exceed one half of their generations, recruitment practices in universities are common and focus specifically each year on the youth employment situation. Senior university students begin seeking regular and full-time employment (*seisyain*) and obtain preliminary contracts with companies in Japan. In 2016, from March, at the end of students’ third year at university, companies begin guidance sessions for those seeking jobs. The selection procedure then starts from June.

Table 1.2 Four approaches to work system design

	Motivation assumptions	Critical techniques	Job classification	Issues
Classical work system	Motivation is based on the piecework incentive system of pay. The more pieces the worker produces, the higher the pay.	Division of tasks and responsibilities. Task analysis 'one best pay'. Training. Rewards.	Division of tasks and of 'doing' and 'control' leads to many job classifications.	Criteria of motivation may be questioned. No role for unions. Cooperation costs. Product inflexibility.
High involvement work system	Motivation is based on social needs and the expectations of workers. To increase performance, focus on achievement, recognition, and responsibility.	Combine tasks. Increase accountability. Create natural work units. Greater responsibility.	Some supervisory tasks are undertaken by workers as the 'control' is shifted downwards.	Criteria of motivation may be questioned. Undefined union role.
Japanese work system	Motivation is based on teamwork or 'clan-like' norms and the organisational culture. Performance and motivation are social processes in which some workers try to influence others to work harder.	Incentive socialisation. Lifetime employment. Consensual decision-making. Non-specialised career paths. Seniority-based pay.	Requires fewer job classifications because of flexibility and the degree of autonomy.	Criteria of motivation may be culture-bound. Collaborative union role. Work intensification.

US lean work system	Motivation is based on the need to serve the customer. Performance and motivation are social processes in which strong leaders enthuse workers to work harder.	Organisational norms and traditions are abandoned. Networking. Strong top-down leadership. Workplace learning. Information technology enables change. Processes have multiple versions.	Multi-dimensional jobs. Workers are organised into process teams. Workers are empowered to make decisions.	Criteria of motivation may be questioned. Market-driven. Undefined union role. Work intensification.
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Source: Adapted from Bratton (2012), *ibid.*, p. 132

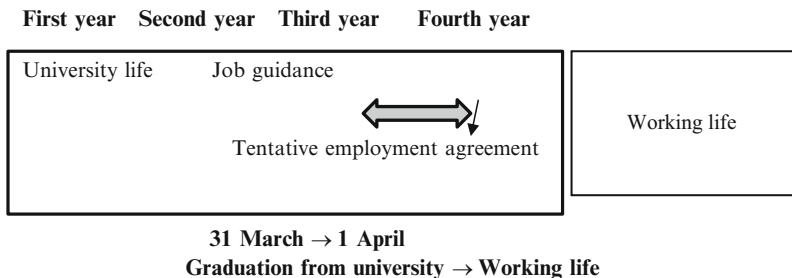


Fig. 1.6 Coordinated school-to-work scheme with no gap between school and work

This practice is socially institutionalised in order to prevent heated recruitment activity by competing companies which may adversely affect the completion of higher education courses. This competitive environment was previously common because of the long period of labour shortage which was caused by high economic growth, particularly from the late 1960s. Keidanren (the Japanese Business Federation) agreed with the government and universities to establish a new recruiting process for its member companies in order to lower the friction between student life and job-hunting activity, as shown in Fig. 1.6. Usually, graduating students are recruited by a company’s personnel department. A company provides tentative employment agreements (*naitei*) to fourth-year student applicants before their graduation, and the graduates start to work just after their graduation, mostly from 1 April. The tentative employment agreements are legally binding in that companies can cancel only when reasonable cause exists (Hanami 1994).

Every year, more than 90 % of university student job seekers can obtain job contracts before graduation. This approach has lowered the youth unemployment rate. The process of the school-to-work scheme has been smooth; however, dropouts from the process have increased gradually, producing ‘*freeters*’ (part-time workers) and non-regular workers.

Because of the expectation of stable employment, a Japanese job seeker tends to look for membership of a company rather than hunting a job opportunity. A company seeks workers who will be given flexible assignments without a rigid job structure. Japanese long-term employment practices can make use of workers’ high levels of trainability by providing

training chances which are tailored for suitable skills with regard to company business. With this situation, a company does not necessarily seek a worker with high qualifications by offering high rewards. They prefer new graduates to job seekers in terms of low rewards and high trainability during the employment period.

4.2 Recruitment and Job Assignment

Lifetime employment (or long-term employment) is considered an implicit physiological contract rather than the real practice of a written contract. Typical core workers, mostly male, are deployed through the internal labour market without the solid boundary of different jobs. This stereotype of internal promotion is presented in Fig. 1.7 and compared with the US model. There is little distinction between white-collar workers and blue-collar workers. Rank-and-file workers are promoted to various management levels through the internal promotion system.

However, the model of the US employment system is based on the individual adjustment of workers and employers. Here, whereas the

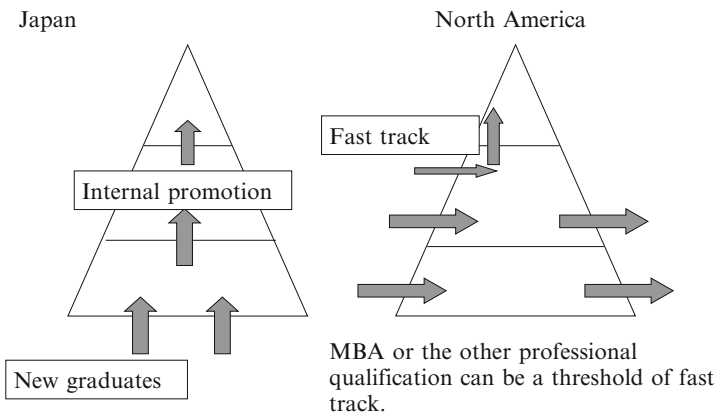


Fig. 1.7 Stereotype of internal promotion in comparison with the US model. *Source:* Adapted from Ishida (1985), *Nihonkigyō no Kokusai Jinnjikkannri*, Japan Institute of Labour, p. 15

external labour market is well developed, internal transfer and promotion is limited.

This results in a different means of job assignment. Japanese workers do not receive a specific job description in their written contracts. A worker is expected to work beyond the requirements of a particular job in relation to the work of colleagues. Such ambiguous job assignments lead to broad job banding based on flexible work design within the framework of organisational membership. However, the US model provides clear job descriptions, a situation which is indicated by job analysis.

The difference of job structure leads to two different methods of job assignment (Yachi 2000). The clear job description in Western society assigns a person to a job which is well analysed and defined. Japanese corporations assign a job to a person according to ability and aptitude. The Japanese model needs a flexible work design. Further, a person in an organisation expects to work with an enlarged job assignment.

In this way, recruitment and job assignment are centralised by the HR department in most Japanese companies, whilst American companies decentralise to a specific division or department with the HR division playing a coordinating or mediating role (Suzuki and Kubo 2010).

A large-scale survey of the employment practices of 2500 companies in Japan was conducted by the Japan Institute for Labour Policy and Training (JILPT 2009) in 2005 and 2007. Respondents who maintain lifetime employment increased from 57.3 % in 2005 to 64.4 % in 2007. Larger companies with more than 5000 employees indicated that 82.9 % of employees maintain lifetime employment. JILPT also conducted a survey from the workers' perspective. In 2011, 90 % of Japanese workers supported lifetime employment in 2011. In addition, 75 % of workers supported the seniority wage system in 2011.

Thus, the lifetime employment practice still exists although a journalistic message such as 'the death of lifetime employment' is propagated. The strategic implications of long-term employment receive universal recognition in HRM and include the retention of talented people. However, long-term employment as a stereotype of Japanese HRM covers many workers and a strong perception of job security is a source of high levels of commitment and sustained competitive advantage.

5 The Stereotype of Rewards and Motivation

5.1 Rationale for Seniority Wages and Performance

Figure 1.8 shows the stereotypical employment practice which involves the relationship between performance and rewards in Japanese corporations. This approach is reflected in part by real practice and in part by an image which most workers have at the time of recruitment and which matches their expectations in mid-career.

Starting salaries are socially standardised at a certain level. The level of the average starting salary from 1986 to 2014 has stagnated at the 200,000-yen level for the last two decades.

The level of initial compensation for newly graduated regular workers is standardised at a low level, as indicated. This makes company recruitment costs low on average. Employment contracts for regular workers do not

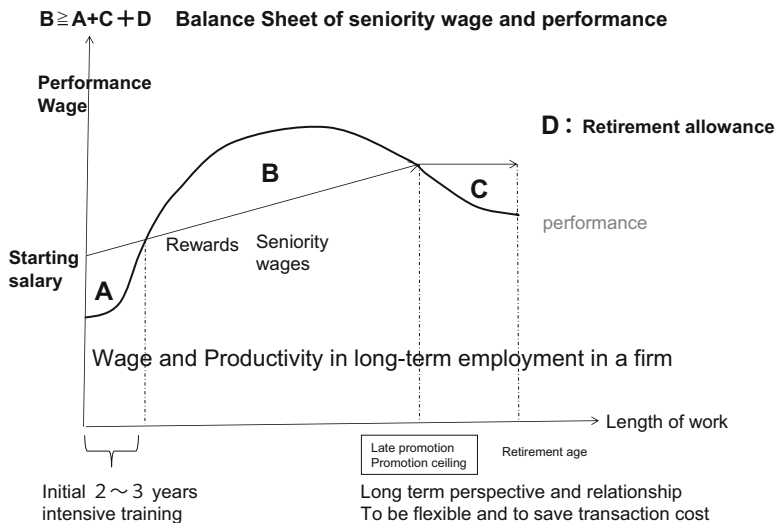


Fig. 1.8 Stereotype of reward and performance in long-term employment. Source: Adapted from Imano (2012), *Seisyain Shometsu Jidaino Jinjikaikaku*, Nihon Keizai Shimbun Syuppansya, p. 96. (The same ideas of this figure was presented by Kotaro Tsujimura in 1989.)

indicate the employment term as decided by the market mechanism. In other words, long-term employment can be regarded as an implicit part of the contract between employers and workers.

This standardisation of the initial wage benefits employers so that recruitment costs can be low and without transaction costs. The starting salary is spread across the time of the orchestrated recruitment period.

Students do not complain about the fixed rate of the initial salary because they do not have any worthwhile professional knowledge and expertise for business. Instead, they can expect implicit benefits after a long employment period. During the initial two or three years, newly recruited employees have an intensive training opportunity, individually and collectively. Their performances will be enhanced dramatically well beyond a steady increase in rewards during a long employment period. At some point, in middle age, their performance starts to decline because of aging as retirement approaches. Their wages are secured at a certain level which compensates for the prior period of underestimated rewards. Although a retirement allowance is paid in order to cover the remaining part of the rewards for long-term employment, a company can terminate employment contracts at the compulsory retirement age. The labour costs and overall rewards both meet during long-term employment. The bottom line of the balance sheet of long-term employment is $B \geq A+C+D$ as in Fig. 1.8.

This gap between rewards and contributions during a long employment period and the process of both aspects meeting suggest a strategic implication in order to produce workers' high commitment. Emotional commitment starts at a high level because job-seeking students have a honeymoon period following a short time spent over job guidance and job-hunting activities. This level falls suddenly when newcomers face the reality shock of a hard-working environment. However, emotional commitment recovers because new workers are trained intensively to contribute to the highest extent. Although the wage increases are lower than the enhanced performances warrant, workers are provided with the rewards of challenging and satisfactory job content, which can induce intrinsic motivation in the seniority system (Takahashi 2004). In addition, since the race for promotion continues with their colleagues who were recruited in the same year, the resultant late promotion (Koike 1994) maintains

commitment to a company (Aoki and Okuno 1996). Workers are also satisfied with their senior situations in order to ensure long-term employment security until retirement age with secure monetary and job content rewards without sudden losses.

Thus, beneficial commitment will be steadily increased in accordance with seniority wage and retirement allowances which secure life after retirement. Such benefits relate to the paternalistic atmosphere of a company which promotes workers' commitment.

5.2 Appraisal for Motivation of 'Working Hard Attitude'

In principle, the work of employees can be evaluated as a sequence, which can be divided into cause, process, and results. The evaluation is undertaken, with the ability and skills of workers as cause indicators of work, motivation and attitude as process indicators, and performance as a result indicator.

In Japanese assignment practices, job analysis and the corresponding required ability and skills are not clearly defined. Further, the performance of individual workers is not evident in the long-term employment system. This is especially more ambiguous for white-collar workers. The management by objectives (MBO) method is widely used in Japan in order to assess workers' meetings between subordinates and supervisors. In this regard, the most important assessment factor is the attitude towards the current job.

The Japanese organisational culture regards attitude and motivation as the most important indicators for process evaluation. The term *issho-kenmei* in Japanese represents the well-known work ethos in Japanese working culture. It means 'do your best' or 'work wholeheartedly'. The attitude factor is also regarded as the most important for recruitment selection (JILPT 2008). Moreover, the 'working hard attitude' is regarded as an important indicator of trainability in the long-term employment system.

A study by Takezawa (1995) demonstrated this with findings from a questionnaire study of a plant of the NKK Corporation (the largest steel

company) and a plant of the Asahi Glass Company (the largest glass company). In 1960, 18.2 % of respondents of the same cohort group, aged 20 to 29, replied that with regard to work value, working at maximum capacity was the most desirable factor for co-workers. This percentage increased to 52.9 % in 1976 for those aged 35 to 44. The percentage increased further to 57.8 % in 1990 for those aged 50 or over. Takezawa (1995) highlighted that the cause of the increase was the introduction of quality control circles, which require the participatory cooperation of small groups (Takezawa 1995).

There are three factors of evaluation in the process of work which is to be done. The causal variables of the process are the first factor. Work is composed of job content based on job analysis. Thus, the corresponding skill and ability of an assigned person must match the level of the job content. Evaluation can be undertaken at this stage. In this regard, a skill grading system is widely applied in Japan. However, for some aspects of work in Japan, such as office work, the system is not well developed because of poor job analysis.

The end factor of work is the result of work which is done by someone. Performance appraisal is then undertaken. There is also difficulty with evaluation because the definition of performance is sometimes questionable. Individual performance is always blurred in the workplace in Japan because of teamwork and multi-faceted performance.

The intervening factor of work is the motivation and attitude with regard to commitment. Motivation and attitude are relatively easy to observe in the context of a long-term employment environment. In addition, an emphasis on emotional attitude is a common evaluation criterion in the Japanese workplace.

Outa (1996) explained the positive organisational effects of such evaluation. A company takes advantage of attitude. Although the skill level and ability of individual employees varies, every worker tries to work hard in order to gain a higher attitude evaluation. The logic of this approach is that it is supposed to generate the largest aggregate contribution from employees. Outa (1996) also pointed out that this evaluation culture may lead to a workaholic attitude among Japanese business people.

6 The Stereotype of Training Systems: The Skill Grading System

Yachi (2000) highlighted that a skill grading system is a core mechanism of the Japanese HRM framework (also in Yachi 2006). A skill grading system is an axis of job assignment, reward determination, training and development, and performance appraisal.

Imano (1997) explained the main ideas of this system, which is shown in Fig. 1.9. In general, employees have two types of status in a company: one is the job grading position and the other is the wage level. Japanese companies introduce other levels of status according to skill grading qualifications besides the aforementioned. By establishing this status as a common feature of Japanese companies, it is possible to introduce an incentive scheme which promotes skill development efforts among employees.⁴ A Japanese company ranks its employees based on skill qualifications rather than job classifications. According to the broad skill-based grading qualification, employees can be posted at different levels of jobs on a periodical rotation system.

In general, employees undertake jobs which match the levels of their current skills. However, the Japanese long-term employment system has embedded the concept of periodical job rotation. If one employee attains a certain level of skill, a fixed wage range is secured. This employee can be posted to a low-level job classification while they broaden their skills by experiencing related and wider skills, even though the work may be routine. However, their wage is secured. Likewise, the employee can be posted to a higher job level where he or she may be concerned about taking risks for undertaking difficult jobs but can deepen his or her skill. Such *horizontal job expansion* and *vertical job expansion* lead to greater motivation and satisfaction amongst workers (Lawler 1990). There are few difficulties about experiencing different jobs within a company for regular employees because such employees are rewarded in accordance with skill qualification ranking. They are not evaluated by job content

⁴ This explanation is in basic accordance with the presentation of Koichiro Imano at the Japan-Singapore joint symposium on human resource development (HRD), held in Singapore in March 1997.

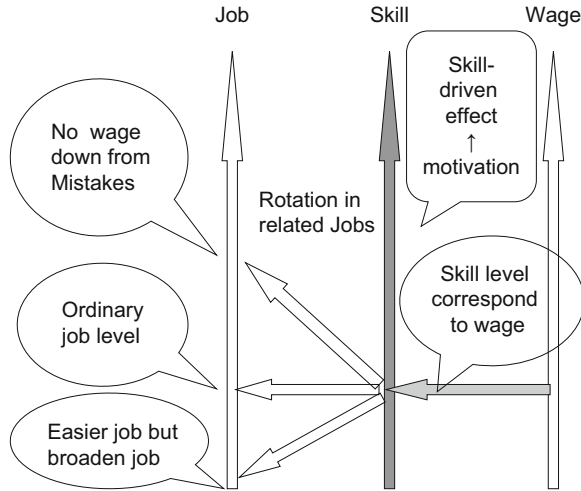


Fig. 1.9 Skill grading system. *Source:* This figure is adapted from a presentation by Koichiro Imano in 1997

Table 1.3 A sample rubric for skill grading qualification

Qualifications	Class 1	Class 2	Class 3	Class 4	Class 5	...	Class 15
Dimension 1							
Dimension 2							

Descriptions of qualification level

classified by job analysis or performance if they have attained a certain skill qualification level.

A format for a rubric of skill grading qualification is shown in Table 1.3. Skill qualification is internally decided by an analysis of the dimension of the required skill in order to attain the best quality. Each dimension is described and classified according to the scale of difficulty. The format is sometimes displayed at an information board, which can be seen by every employee.

Multi-functional skills which enable workers to deal immediately with uncertainty problems are fostered during the lengthy employment period.

Workplace ‘learning by doing’ is supported by the compensation system and disseminated in the workplace not only among skilled workers but also unskilled workers. Flexible workers who accept flexible work arrangements and training are deployed in a company.

Overall, this is a strategy of Japanese companies which is used to attain the multi-skill development of regular staff employees. The regular rotation of jobs (every three to five years) can develop the breadth and depth of skills. This approach requires a long-term continuous employment system supported by a seniority wage system.

7 The Stereotype of Japanese Labour and Management Relations

7.1 Negotiations Concerning Wages and Productivity

Japan had a turbulent period of industrial relations after World War II. The turning point of these relations was the negotiation between employers and workers in a company about wage and productivity issues in 1955. In simple terms, the source of wages and productivity was the major topic of debate in this discussion. From the workers’ point of view, wages are definitely the source of living for people; thus, the cost of living is a major factor of wages. As part of this major factor, consumer prices and household living standards within a local economy affect the level of wages. From the employers’ point of view, productivity is affected at two levels: one is the growth of the national economy and the other is the profit of an individual enterprise. In addition, if there is a surplus labour supply, wages experience downward pressure. Moreover, if demand for labour is high, wages can be increased easily. As a wage-fixing system from both perspectives, industrial relations play an important role in wage negotiation. Government intervention also affects wage fixing. A wage policy such as a legislative minimum wage can establish a legitimate baseline of wages in order to maintain workers’ purchasing power.

In this context, employers and workers have different perspectives on wages. Employers regard wages as a labour cost, whereas workers regard

wages as a source of living. The result is that both actors are in circumstances of confrontation. However, if productivity increases, this benefits both sides through increasing wages and profit. Thus, both partners should cooperate in order to enhance productivity.

The Japanese productivity movement, which started in 1955, used this logic. An increase in labour productivity can be a common goal for workers and employers. However, the situation concerning increased productivity was not simple. By definition, labour productivity is the amount of output per unit of labour input. Output is value added in enterprise businesses and the unit of labour is the volume of employment per se. Consequently, an increase in labour productivity may have an adverse effect on workers. One way to increase labour productivity is to downsize employment through methods such as layoffs and dismissals. Of course, workers will not agree with such actions from employers. This often happens with the introduction of new technology. For example, the introduction of computer-operated machinery replaces many workers.

In addition, industrial relations are important for productivity and competitiveness. The International Labour Organization (ILO) states that collective bargaining and social dialogue are conducive to productivity through effective workers' participation, HRD, and mutual trust, with fewer monitoring costs creating better internal and external conditions.

Further, with regard to the enterprise-based union system, productivity is a more tangible issue for workers and managers. Labour-management relations (LMR, a term which is used from a bipartisan perspective in an enterprise) lead to organisational learning and innovation through interactive relations which include conflicts and cooperation between labour and management.

As a result, Japanese social partners attained the common goal of productivity improvement without fear of employment unrest. The Japanese productivity movement initiated a nationwide campaign which involved major large enterprises. The Japan Productivity Centre (JPC) played an integral role in extending this momentum. Three guidelines were agreed: the fair distribution of increased productivity; employment security, namely avoiding dismissals; and the promotion of a widespread joint consultation system, with information sharing among employers and workers. The guidelines complement the effects of collective bargaining at

industry level. Known as *shunto*, workers' intensive wage negotiation in the spring changed its function as wage increase standardisation began to contribute to national productivity enhancement.

In sum, the importance of *shunto* is that it positively affected steady productivity enhancement. First, the average rate of wage increases was standardised through a pattern set by leading industries. The metal industries such as cars and electric appliances served as the standards for average wage increases, particularly in 1973. This standardisation affected wages and wage increases nationwide. Second, the absence of rapid wage increases avoided cost-push inflation. Third, employers' organisations influenced wage negotiations once each year by using the solid guiding principles of such negotiations. These principles are the so-called 'productivity-based principles of wage negotiation', which state that the average rate of wage increases should be held within the rate of increase of national labour productivity if inflation is to be avoided.

It is clear that *shunto* has successfully controlled inflation by restricting nationwide wage increases. Figure 1.10 shows that from 1973, wage increases were restricted by following consumer price trends.

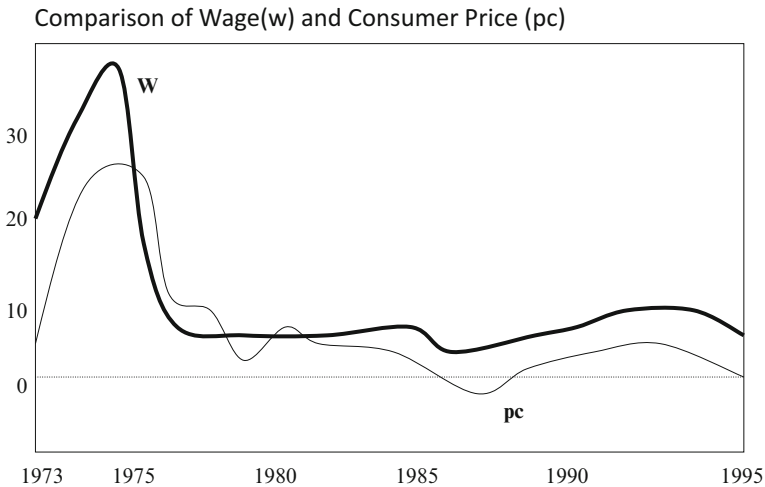


Fig. 1.10 Corresponding transition of wages and consumer prices from 1973 to 1995

7.2 Labour–management Consultation System

The negotiation of wage increases and cooperation to improve productivity led to two different discourses regarding labour and management. The discourse with trade unions is in the form of collective bargaining or labour–management consultation. These two channels are divided in accordance with the topics; namely, whether they relate to negotiation or cooperation. Collective bargaining centred on *shunto* deals with working conditions, and labour and management consultation deals with information sharing for productivity improvement and mutual interests. Table 1.4 shows the example of a car manufacturer hearing from an enterprise-based union. The issues here are basically divided into conflicting interest and common interest. The annual schedule of the two channels is indicated in Fig. 1.11. The issues considered in the two channels often overlap each other. It can be seen that frequent meetings between unions and employers take place at different levels of the joint consultation system.

Table 1.4 An example of the Japanese labour–management consultation system

<i>Collective bargaining</i>
Fair distribution of outputs
Employment
Wages
Working hours
Other labor conditions
<i>Labor-management consultation system</i>
Increases in outputs
Management policy
Productivity increases
Human resources development
Occupational Safety and Health
Other issues

Source: Hearing from a factory branch of a labour union of a Japanese car manufacturer in July 2011

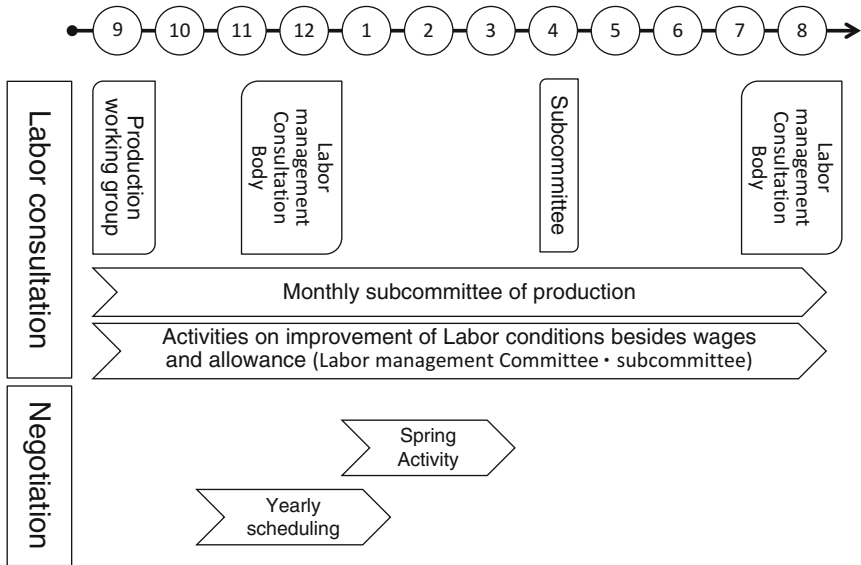


Fig. 1.11 Annual schedule of consultation and negotiation within a company. *Source:* Hearing from a factory branch of a labour union of a Japanese car manufacturer in October 2015

8 Strengths Based on the Stereotypes of Japanese HRM and LMR

Four stereotypes of Japanese HRM are reviewed here: job assignment; rewards; training; and LMR. Shimada (1991) pointed out that these four factors lead to three aspects of the strength of Japanese management, viz. skills, high commitment and intrinsic motivation (Fig. 1.12). Many researchers on Japanese management agree that Japanese management depends upon long-term employment and the specific economic and social situations in Japan.

These three features of Japanese HRM and LMR encompass many of the strength that had been highlighted by various academics and practitioners. This can be represented by the term '*Kaizen*' which means gradual improvement of productivity and quality of production and services. Different practices and detailed strengths which come under the three aspects can be listed below.

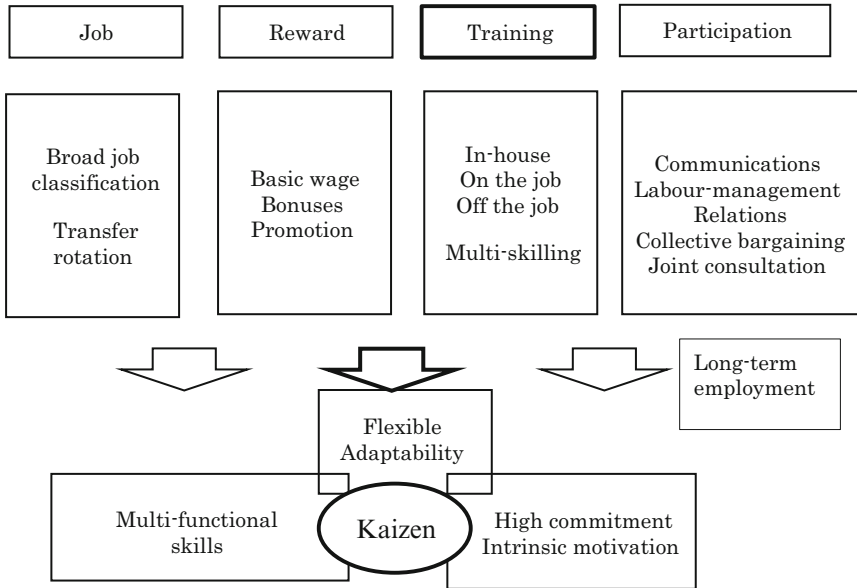


Fig. 1.12 Japanese model of HRM and LMR. *Source:* Adapted from Simada (1991) Flexible Adaptability of Japanese Industry: Its Production Technology and Labour-Management Relations, in *Report of International Symposium on Industrial Relations in Japan and the European Community*, 29–30 October, Theatre du Residence Palace, Brussels, p. 215. The author has changed and added some factors

(a) Multi-functional skills

Multi-functional job assignments

Low-cost skill development

Low recruitment costs without job analysis and without heavy and lengthy selection procedures

Effective workplace training = low costs and intellectual skills through on-the-job training (OJT)

Low initial training cost ← intensive and uniform training

Chain reactions of training in the workplace

High trainability though long-term employment

(b) High commitment and intrinsic motivation

Loyalty through business welfarism

High commitment of regular workers

Loyalty and identification with company

High commitment over the long term

Information sharing = workers' participation through joint consultations

Job involvement through small group participation (5S)

(c) Flexible adaptability

Stable relationship → cooperative relationship

Functional flexibility (intellectual skills) (see Chap. 7)

Multi-functional workers

Versatility, polyvalence,

More responsibility

Numerical flexibility

Employment adjustment, subcontracting,

Working time, wages (bonuses)

Kaizen is the symbolic word for the strength of Japanese HRM and LMR. *Kaizen* means the continuous improvement of productivity, and quality of production and services through process innovation based on collaborative working circumstances. *Kaizen* is realised by the high commitment, adaptability, and multi-functional skills of workers. *Kaizen* is attained at the workplace (*Genba*).

As a workplace practice of *Kaizen*, 5S is the most well-known example of the transferable activity of the Japanese model. 5S originates from Japanese words, all beginning with the letter S, but can be applied in English as follows: *Seiri* (sort—to decrease waste and loss), *Seiton* (set in order—to increase efficiency), *Seisou* (shine—clean to observe, inspect, and correct), *Seiketsu* (standardise—to reduce variables), and *Shitsuke* (sustain—to train and discipline). Since its introduction, the 5S model has brought about immediate and tangible benefits; the practice of 5S is

the first step in the transfer of Japanese management practices to various parts of the world.

A further aspect of the strength of the Japanese model is inter-company cooperation in the supply chain. According to the theory of high dependency relationships, dependency on suppliers is another main source of the strength of Japanese management. Chapter 4 discusses this issue in detail.

9 From Stereotype to Prototype

Although the stereotypes of the Japanese model have many challenges, such as expanding gaps in the diversified types of employment, the transferability of a successful labour–management system has been a focus of discussion in Japan (National Productivity Board of Singapore 1981) for many decades. For example, the application of Japanese industrial relations to other countries were discussed by Koike (2013). However, it should be noted that transferring the Japanese approach is difficult because the wide coverage of a long-term employment system is not common for general workers in foreign countries. In addition, technology and know-how are accumulated through experience and training on production sites, and are not necessarily standardised and explicit (Suzuki and Kubo 2010).

These issues will be reviewed in Chap. 2. The transferability of the strength of Japanese management attracts strong interest from all over the world. The stereotypes of Japanese HRM and LMR can very well become prototypes applied in a different context. This chapter tries to clarify the processes of Japanese management and focuses on its strengths, which evolved mainly in the 1980s and 1990s. The observation of recent changes in Japanese management might make us lose sight of the overall picture. Prototypes can suggest what best practices and components should be maintained and applied in other countries.

The strength of Japanese management is based on employment security and the resultant long-term perspectives on HRM and LMR. Stereotypes of Japanese HRM are based on long-term employment applied to job assignment, rewards and evaluation, training and labour, and

management consulting. Long-term employment is a common interest for both workers and employers. Workers seek security of living costs and a future vision of their career on one hand, while on the other hand, employers need to retain the workforce and expect to have returns on their investment in labour costs such as training.

Consequently, the stereotypes of the Japanese model can become prototypes, which can be applied to other countries as effectively. The universal advantage of long-term employment can enhance employee commitment, and strengthen the resource-based model of strategic HRM. A prototype of the Japanese model is shown in Fig. 1.13 using a framework of Causal, Intervening, and Output variables suggested by Likert (1967). Resource-based strategy with long-term perspectives as causal variables will induce higher employee commitment, better skills and flexibility, and collaboration of workers at the workplace, as intervening variables. This will result in higher productivity and quality of production and services, along with constructive industrial relations (IR). Likert (1967) suggested that intervening variables reflect the condition of human resources, and tend to be long-term goals, although they have less influence on output variables than that exerted by causal variables (Hersey et al. 2001). Intervening variables form an integral part of the strength of Japanese HRM and LMR.

In the following chapters, Asian countries receive specific attention based on fieldwork and observations by the author. There may be higher transferability of such properties based on common values in the

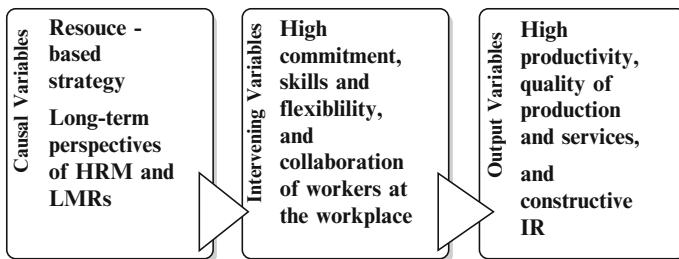


Fig. 1.13 A prototype of Japanese HRM and LMR using the Likert model of Causal, Intervening, and Output variables. *Source:* Adapted from Likert (1967), *The Human Organisation*

workplace, such as Asian values (Noronha, Noronha 2009a, Noronha 2009b), which include harmony, modesty, family-orientation, respect for elders, filial piety, loyalty, and teamwork. Moreover, a well-known study by Hofstede (1980) has indicated that collectivism is stronger than individualism in Asia. However, transferability to the another area is always considered and integrated in the context.

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2

Practical Wisdom of Labour–Management Relations through the Productivity Movement in Japan

1 Introduction

Some of Japan's business entities are the world's oldest. *Kongo-gumi*, a construction group associated with the *Shitenno-ji* Buddhist temple in Osaka, was established in 578. *Ikenobo-kado-kai* was established in 587 to spread the art of flower arrangement. Since that time, the spiritual tradition of *Kongo-gumi* has been transmitted by 39 masters, and the tradition of *Ikenobo-kado-kai* has been transmitted by 45 masters (Yokozawa 2012), and skills have been transmitted via master–disciple relationships as well.

Japanese spiritual and philosophical management traditions range widely, from *Shu-ha-ri* ('three stages of learning mastery'), comprising the fundamentals, breaking with tradition, and parting with traditional wisdom, to the 'three ways of satisfactory business', comprising the seller, buyer, and society. Japan's strong post-war economic development

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revealed the strength of Japanese management through Japan's lifetime employment, high workplace productivity, and knowledge creation. Japanese management practices include joint consultation during constructive industrial relations and *Kaizen* activities such as 5S and small group activities in quality-control circles. However, much implicit knowledge is not converted into explicit form in the high-context working environment of Japanese business. This chapter will explain Japanese spiritual and philosophical management traditions using the new technical concept and terminology of organisational behaviour in the context of international business and academic discourse.

2 Current Industrial Relations in Japan

2.1 Declining Union Density Rate and Stable Industrial Relations

Unemployment has fluctuated between 4 % and 5 % over the last five years. Although the number of temporary workers has grown slightly, the total number of employed is currently 53 million, which can be divided into 33 million full-time workers and 20 million temporary workers. This has not changed for the last three years.

Japan's labour union density rate declined from 30 % in 1983 to 20 % in 2003 and then stabilised at 18 % from 2005 to 2011. Union membership has consistently declined in recent years, while the number of unions has also decreased.

On the other hand, unionised part-time workers increased from 600,000 in 2008 to 800,000 in 2012, while the union density rate changed from 5.0 % to 6.3 % (Ministry of Labour, Health, and Welfare). Union growth has been particularly strong in the service sectors in recent years.

The statistics indicate that industrial disputes, including strikes, have been few; for example, only 28 cases occurred in 2011.

The average length of employment has been increasing steadily for both male and female workers (see Table 2.1). A survey of 173 large companies

Table 2.1 Average length of employment (years)

Year	1980	1985	1988	1994	2000	2006	2009	2011
Men	10.8	11.9	12.4	12.8	13.3	13.5	12.8	13.3
Women	6.1	6.8	7.2	7.6	8.8	8.8	8.6	9.0

Source: Ministry of Labour, Basic Survey of Wage Structure

indicated that 96.3 % intended to maintain their long-term employment practices (Japan Productivity Centre).

2.2 Japanese Labour–Management Relations at a Crossroads

However, Japan’s economic stagnation prompted the formation of labour unions at various levels of small and medium-sized enterprises (SMEs). More than 800 unions, on average, have been formed each year, mainly because of workers’ dissatisfaction with working conditions (Oh 2012). Above all, wages and working hour issues are most prominent. Researchers suggest that the newly formed unions created the communication channels needed for better working conditions (Oh, *ibid.*, p. 15).

Increased dissatisfaction with working conditions and negative wage increases have damaged the consumer market and can be regarded as a major source of economic stagnation over the last two so-called ‘lost decades’. Thus, Prime Minister Abe, at a meeting of a national tripartite body, proposed discussing wage increases to boost the economy after the introduction of a new consumer tax, along with a strong request from employers’ organisations such as *Keidanren* (Japanese Business Federation).

Japanese business stands at a crossroads amid the globalising economy. Japanese corporations have to keep their sustained competitive advantage, gained from the long-term commitment of their workers and good employment practices, while being forced to reform their human resource management practices in various ways. This chapter will discuss the Japanese employment practices that led to productivity enhancement using the new concepts and perspectives of organisational behaviour, including the notions of ‘organizational citizenship behaviour’ and the ‘psychological contract’ of employment.

3 Productivity Movement from 1955 to the Early 1990s

3.1 Japan Productivity Movement

After the turbulence caused by unstable industrial relations, a Japanese national tripartite body called the 'Japan Productivity Centre' was established in 1955 to promote a nationwide productivity movement through cooperative industrial relations. This became a turning point during which confrontational industrial relations changed to cooperation for the sharing of financial outputs and strong economic development through productivity improvements. From 1955 to the early 1990s, Japanese labour formed an efficient and effective nationwide management movement known as '*Japan as No. 1*' (Vogel Ezra 1980), featuring high economic growth and very low unemployment; harmonious labour–management relations created cooperative communication among internal social partners.

The Japan Productivity Centre issued three guiding principles that had influenced nationwide labour–management cooperation for many years. These principles, held by all social partners, can be summarised as: (1) employment security; (2) the fair distribution of the fruits of increased productivity; and (3) the joint consultation system. They are explained in detail below:

- (1) In the long run, improved productivity will increase employment. However, during the transition period, before the full effects of improved productivity have yet become apparent, the government and the people, in order to minimise the temporary frictions that may disturb the national economy, must cooperate to provide suitable measures, such as transferring surplus workers to areas where they are needed in order to prevent unemployment.
- (2) The fruits of improved productivity must be distributed fairly among management, labour, and consumers according to the condition of the national economy.

- (3) In developing concrete measures to increase productivity, labour and management must cooperate in discussing, studying, and deliberating such measures with reference to the conditions existing in the respective enterprises.

These principles promoted common employment practices among Japanese firms. Consistent with the first principle, large corporations introduced a transfer system (secondment) that sent their workers to associated firms and suppliers to maintain employment security in those other companies, with the wages paid by the sending company. This practice was used by large corporations like Toyota during crises such as the oil crisis in the 1970s and still occurs.

The second principle induced a change in wage negotiations between labour and management whereby a ‘wage increase should be at a level within the productivity enhancement’. This practice was clearly reflected in the corresponding fluctuations in wages and consumer prices from the 1970s to the 1990s. The third principle promoted the creation of labour–management consultation bodies nationwide.

3.2 Importance of the Universality of the Productivity Movement

The unions were not unanimously positive about these productivity principles, since many unions were fragmented into a few national centres. One part of the national labour union centre agreed to participate in productivity improvements, triggering the momentum of the nationwide movement.

3.2.1 New Concept from Europe

These principles gradually became broadly understood by managers and workers because the universal importance of productivity enhancement implies respect for humanity and the human side of management. This point of view justified union involvement in productivity enhancement. The 1956 Report on the Roman Conference was often quoted as a reference

text for this philosophy during workplace meetings called to introduce the productivity movement to management and workers. The report said ‘Productivity is above all things a state of mind. It is the mental attitude by which we advance the state of things or aim for continual improvement. It is the belief that it is possible to make today better than yesterday; further, it is the belief that tomorrow will be even better than today’.

3.2.2 Sympathy for Humanity

After the end of World War II, the Japanese economy started from scratch. Experiencing a dynamic economic surge, many business leaders proposed a humanity-based management to fill the void. For example, Konosuke Matsushita (1894–1989), founder of Panasonic and the most highly respected manager in Japan, said that the ‘company is the place for realizing employees’ humanity and growth’.¹

The respect for humanity in the productivity movement attracted broad sympathy from the labour unions, which sought a democratic and free unionisation movement. It became the justification for labour’s cooperation with the productivity movement in the workplace.

Labour unions and management found a shared interest in the human sides of productivity. Murasugi pointed out that aspects of humanity were recognised by workers and managers in terms of working lives, skills, and emotions. Murasugi (2013) translated these aspects into labour–management relations issues as shown in Table 2.2.

First, a working life is indispensable to dignity. Thus, social partners must help improve health and safety, mental health, the environment, and the quality of working life. Second, social partners all value workers’ skills, which have limitless potential. These can be developed through training and development via public vocational training or internal training, as well as by employers’ evaluation, promotion, placement, and job rotation. Third, the emotional side of humanity is gaining importance in terms of social connections, which can be strengthened through division of labour,

¹ Matsushita Memorial Library reopened on 3 December 2013, in front of Kyoto station. This library reserved the philosophy and ideas with voice of Matsushita.

Table 2.2 Respect of humanity and subject of labour–management relations

	Humanity of workers	Subject of labour–management relations
Working principle	Respect for humanity	Cost-efficiency, rationalism
Working life	Indispensable	Health and safety, mental health Environment Quality
Skill	Limitless potentials	Evaluation Training and development Placement and rotation Promotion
Emotion	Social connection	Division of labour Participation Communication at workplace

Source: Adapted from Yasuo Murasugi (2013), *Kigyounai no Rosikankei* (In-house Labour–management Relations), Japan Productivity Centre, pp. 136–137

worker participation, and effective workplace communication. These views on aspects of humanity in the workplace were a starting point for the productivity movement among social partners.

3.2.3 New Recommendation of the International Labour Organization in 1952

The International Labour Organization (ILO) standards also promoted understanding among workers and labour unions of the cooperation needed for the productivity movement. The ILO’s so-called ‘Cooperation at the Level of the Undertaking Recommendation’ (No. 94) adopted in 1952 recommended that ‘appropriate steps be taken to promote consultation and cooperation between employers and workers at the level of the undertaking on matters of mutual concern not within the scope of the collective bargaining machinery, or not normally dealt with by other machinery concerned with the determination of terms and conditions of employment’.

These universal ideas on the importance of worker involvement in the productivity movement disseminated widely at various levels of management and other workers. The idea of mental and spiritual improvement (as in European productivity), the ILO principle that ‘labour is not

a commodity', and the humanistic side of management all helped justify the objectives of the productivity movement in Japan. By the middle of the 1980s, the introduction rate of the joint labour–management consultation system exceeded 90 % for large companies (with 5000 employees or more) and 80 % for all surveyed companies (Ministry of Labour Survey on the Joint Labour–Management Consultation System). The most recent survey of the system shows that the rate remains at its 2005 level at the 50-year anniversary of its introduction.

3.2.4 The Role of Joint Consultation in Labour–Management Relations

The joint consultation system is a separate communication channel from collective bargaining. They have different functions but are complementary. Table 2.3 compares joint consultation and collective bargaining.

The importance of this two-way communication model seems broadly understood by social partners around the world. European nations have introduced many consultation systems in order to include workers' representatives and unions in management decision making. Labour union

Table 2.3 Comparison of collective bargaining and joint consultation system

	Collective bargaining	Joint consultation system
Rule	Trade union law	Mutual agreement
Objectives	Negotiation of working conditions Making collective agreements	Participation Productivity enhancement Information sharing
Scope	Working conditions Negotiation rules	Management and production issues
In charge	Representatives from labour and management	Agreed persons
Dispute	Strikes included	Report, consultation, agreement, no strikes
Protection	Employers' responsibility Non-discrimination for persons in dispute	Informal agreement

Source: Adapted from Y. Murasugi, Murasugi, *Kigyounai no Rosikankei [In-house Labour–management Relations]*, Japan Productivity Centre, Murasugi 2013, p. 91

headquarters have also proposed establishing new communication routes besides collective bargaining.

3.2.5 The Standpoint of Trade Unions in Asia

The Trade Union Congress, Asia and Pacific (ITUC–AP, 2009), agreed with the importance and validity of this model. This agreement can be described as shown in Fig. 2.1. This figure shows the conceptual structure of the ITUC–AP framework of ‘Constructive Industrial Relations’.

The agreement of Asian trade unionists can be summarised as follows:

- Workers’ rights means: full recognition of the operations of trade unions in compliance with ILO Conventions 87 and 98.
- Partnership means: labour and management can share a common interest in labour standards, business performance, conditions of national economies and industries, and the labour market.
- Based on workers’ rights, we can realise a fair distribution of outputs.
- The aim of these structures and activities is to pursue decent work.

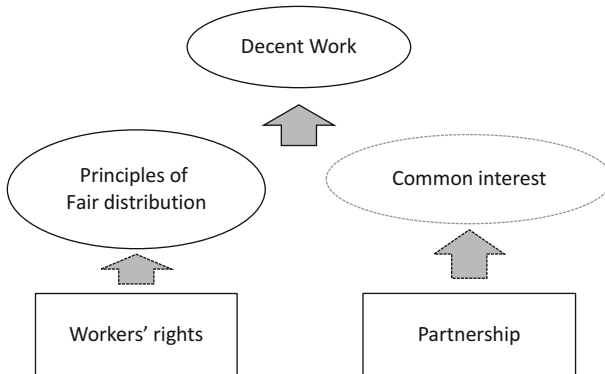


Fig. 2.1 Concept of constructive industrial relations. *Source:* This diagram is adapted from Japan International Labor Foundation (JILAF) in 2011, *Progress Textbook*, p. 18

4 Productivity Movement and Organisational Citizenship Behaviour

Productivity requires both effectiveness and efficiency. Efficiency in productivity is easy to understand in terms of cost efficiency, working at low cost. Improving effectiveness is key to improving productivity. Robbins explained that an effective organisation needs organisational cohesion to meet its needs because this can deepen the extent to which members of the organisation support and validate one another while at work. It makes a group function (Robbins and Judge 2013).

The search for effectiveness explains Japanese practices for improving productivity such as 5S and small group activities. In this sense, the term ‘organisational citizenship behaviour’ (OCB) in the field of organisational behaviour reflects the effectiveness of the organisational cohesion in Japanese group functioning. Organisational citizenship behaviour describes workers’ willingness to undertake special behaviours beneficial to the organisation that extend beyond contractual obligations. This attitude has always been typical of the organisational commitment of Japanese workers. This attitude is also required for effective work training at Japanese companies.

Many studies on organisational citizenship behaviour suggest that it requires job satisfaction. An influential study (Fahr et al. 1990) pointed out that ‘fairness’ is a prerequisite of job satisfaction and can promote organisational citizenship behaviour. Job satisfaction is created if the worker perceives fair outcomes, treatment, and procedures (Organ 1994). Robbins and Judge (2010) points out that these conceptions of fairness will lead to trust and that, ‘when you trust your employer, you’re more willing to voluntarily engage in behaviours that go beyond your formal job requirement’.

4.1 The Three Guiding Principles and Organisational Citizenship Behaviour

The three conditions of job satisfaction, leading to organisational citizenship behaviour, correspond to the guiding principles of the Japanese productivity enhancement movement.

(1) Fair outcomes and fair distribution

Fair distribution in Japanese labour–management relations was attained through intensive wage negotiations by enterprise-based unions and firm managements during the ‘springtime’ (*Shunto*). The collective agreement established the basis of the regular wage increases that raise all monthly salaries and bonuses at a unified rate.

The survey and research suggest that this collective wage increase, a fruit of financial performance, can satisfy most workers’ sense of fairness. The wish to be treated as a member of the organisation is one reason why workers expect to be treated equally.

(2) Fair treatment and employment security

The value of fair treatment for workers is strongly connected with lifetime employment and employment security. As Hofstede’s ‘cultural value’ explained, Japanese working culture regards avoidance of uncertainty as prioritised treatment. The second principle of the productivity movement in Japan suggests that this is a precondition for worker cooperation. *Shukkoh* (the inter-firm transfer of employees) is commonly used to maintain employment security during business retrenchment. Employment security can be regarded as being maintained even if the workers are being sent from another company. Surprisingly, most or all of the wages of the transferred workers are paid by the sending corporations. In general, the employee flow is unilaterally from parent company to subsidiaries.

Kamada (1994) reported that one loaning company (sending *Shukkoh* workers) in the iron and steel industry bridged the gap between the wages of the loaning company and those in the recipient company. Since the wages of the loaning company were much higher than that of the recipient company, the loaning company could save on labour costs without resorting to the dismissal of employees.

A survey of National Institute of Employment and Vocational Research (1989) related to *Shukkoh* reported that 10 % of the employees in the surveyed corporations were subject to *Shukkoh* and that 20 % to 30 % of the workforce in the recipient corporations were transferees. Moreover, the transferees held higher managerial positions at the recipient

companies; 85 % of the presidents of the recipient companies were transferees, and more than half of all managerial positions were held by transferees.

(3) Fair process and joint consultation system

The joint consultation system is regarded by Bratton and Gold (2007, p. 453) as the highest level of employee involvement because it involves decision making. The major aim of introducing employee involvement is to enhance productivity. Employee involvement through joint consultation can give workers more autonomy over work tasks, thus strengthening organisational citizenship. This increases worker commitment to organisational goals, contributing to enhanced individual and organisational performance (Bratton and Gold, *ibid.*, p. 455).

The so-called ‘high context’ nature of an organisation was pointed out as a feature of the Japanese company, as it needs more informal and complementary channels of communications. Joint consultations are used for such communication, in addition to collective bargaining.

5 Psychological Contracts at Work in Japanese Companies

In the basic employment pattern of the school leaver, job hunting begins more than one year before graduation. This practice provides a smooth transition from school to work. Most obtain employment contracts without fixed periods. New graduates can expect employment security until retirement and steady incremental wage increases according to length of employment.

The importance of this expectation can be explained by the concept of ‘psychological contracts’ (Rousseau and Greller 1994, pp. 385–401) in employment, whereby the ‘psychological contract encompasses the actions employees believe are expected of them and what response they expect in return from the employer’. The psychological contract is about exchange; it is a perceived agreement beyond the actual agreement. This exchange can be described as in Fig. 2.2 below.

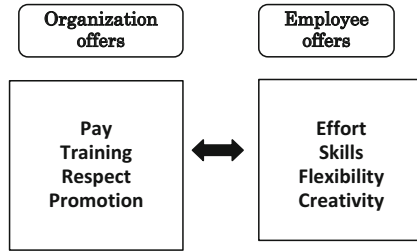


Fig. 2.2 General example of psychological contract exchange. *Source:* Adapted from D.M. Rousseau, M. Greller, ‘Human Resource Practice: Administrative Contract Makers’, *Human Resource Management*, p. 30

Table 2.4 Comparing transactional psychological contracts and relational psychological contracts

	Transactional psychological contracts	Relational psychological contracts
Time frame	Short-term	Long-term
Degree of specificity	Highly specified	Loosely specified
Resources exchanged	Tangible, Monetary value	Socio-emotional intangible
Explicitness of promises, Negotiation	Explicit, formal agreement	Implicit
Examples	Performance based pay	Job security

Source: Adapted from N. Conway, R.B. Briner (Conway and Briner 2005), *Understanding Psychological contracts at work*, Oxford, p. 44

Rousseau pointed out that most Japanese psychological contracts are strongly relational rather than transactional. Relational psychological contracts are long-term, ambiguous, implicit, and employment-oriented, as indicated in Table 2.4 below. Relational contracts were most common in Japan up to 1990, before the collapse of the ‘bubble economy’ (Morishima 2000).

Hattori (2010) suggested that compliance with psychological contracts in Japan has declined: 15.6 % of surveyed workers felt that their psychological contract had been violated in 2007. This decline has reduced job satisfaction, organisational commitment, job performance, and organisational citizenship behaviour and has increased turnover.

6 Conclusion

The Japanese productivity movement progressed during the high economic growth period from 1955 to the early 1990s. Its guiding principles are (1) a fair distribution of the fruits of increased productivity; (2) employment security; and (3) joint consultation. These principles contributed to organisational citizenship behaviour and the psychological contract. The psychological contract reflected workers' expectations of long-term employment and employment security, and steady seniority-based wage increases. Wage negotiations and worker transfers are also conducive to organisational citizenship behaviour.

Table 2.5 shows the framework of the Japanese productivity movement and its labour–management relations and practical wisdom. Studies on organisational citizenship behaviour (OCB) and psychological contracts support the strengths of Japanese productivity management and labour–management relations.

However, the strength of the guiding principles of the productivity movement has been weakened in the last two decades. Because of Japan's economic stagnation, wage increases have not been driven by *Shunto*.

Table 2.5 Practical wisdom of Japanese productivity movement and labour–management relations

	Wages	Employment	Labour–management relations
Guiding principle of productivity movement	Fair distribution	Employment security	Information sharing
OCB contributors	Fair outcomes	Fair treatment	Fair process
Psychological contracts of Japanese workers	Incremental seniority-based wage system	Lifetime employment system	Harmonious enterprise-based unions
Practical wisdom of Japanese labour–management relations	Standardised wage negotiation (<i>Shunto</i>)	Avoiding retrenchment and using transfers of workers to associated companies (<i>Shukkoh</i>)	Joint consultation system complementing collective negotiation

Source: The author

Measuring ‘spring’ wage increases using the Laspeyres wage index² (net change) shows a constant decline in monthly wages among Japanese companies. The turnover rate has been increasing gradually: 70 % of junior high school graduates have left their initial jobs, as have 50 % of high school graduates and 30 % of university graduates.

A recent survey on the joint consultation system suggests the weakening of the system. The frequency of joint consultations decreased from 1985 to 2005 (see Table 2.6). The quality of the shared information has declined, so that less of the data and printed material is being shared (see Table 2.7). Few of the expected effects are being recognised by managers (see Table 2.8). The joint consultation system needs to be revitalised.

On-the-job training (OJT) as a form of workplace learning is very effective and efficient, with low costs. It also requires OCB. To promote OCB, workers must perceive fair treatment, fair rewards, and a fair process. The McDonald's Company (Japan) ceased compulsory retirement in 2006 but then imposed a retirement age of 60 in 2012 (J Cast News, 25 September 2011). McDonald Japan's top management reportedly said that skilled workers were devoted to individual performance and that teaching junior staff was difficult. Consequently, a retirement age can help form a corporate culture that develops human resources.

Japan's productivity movement was very successful because it employed the important factors of OCB and psychological contracts. However, the scope of OCB and psychological contracts is expanding not only for core male workers but also for female, temporary, and retired employees.

Table 2.6 Frequency of joint consultation

Annually	1–5 times	6–10 times	More than 10 times
1985	34.4	22.3	26.0
1998	41.5	17.9	24.4
2005	46.4	20.8	20.0

Source: JILPT (2008), *Report of Joint Consultation in the Future*, Social and Economic Productivity Centre, March

² JILPT, Useful Labour Statistics, annually.

Table 2.7 Mode of information sharing

	Printed materials	Oral reporting	Case by case
1985	24.8	7.2	60.6
1998	22.1	2.3	60.3
2005	19.7	1.6	78.7

Source: JILPT (2008), *Report of Joint Consultation in the Future*, Social and Economic Productivity Centre, March

Table 2.8 Recognition of the effects of joint consultation

	Large effects	Certain effect	Little effect	No effect
1985	14.9	57.2	23.3	1.9
1998	10.7	48.7	35.9	1.7
2005	9.6	48.0	27.2	6.4
2005 by unions	12.1	52.4	28.2	3.3

Source: JILPT (2008), *Report of Joint Consultation in the Future*, Social and Economic Productivity Centre, March

The report on future productivity and labour–management relations given at the 50th anniversary pointed out that the strength of joint consultation is the communication between management and workers. Although labour–management communication in Japan has been retained, it is weakening because of workers’ expanding scope away from the traditional labour–management relations framework. A new agenda for labour–management relations is needed for the sake of productivity enhancement such as equal treatment of atypical workers.

Part-time workers are suffering from a widening gap between regular staff and non-regular workers. Since most part-time workers are not unionised, organisations like non-governmental organisations (NGOs) can be included in a new labour–management communication system as important workplace stakeholders. Trade unions are the most important internal stakeholders; however, there is a need for communication with other stakeholders who value equality and society beyond the traditional labour–management relations framework.

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3

The Case of the Food and Drink Industries in Japan in Response to Technological Change and Employment Adjustment in the Late 1990s

1 Introduction

In the 1990s, Japanese industry experienced a significant recession. Various types of restructuring were then conducted after the collapse of the bubble economy. Downsizing was inevitable. This situation was a challenge for the practice of long-term employment and the psychological contract which was used by employers. A nationwide survey showed that measures which included voluntary retirement schemes (VRS) were widely used at this time. Wage reforms and the introduction of part-time workers were also common (see Table 3.1).

Lay-offs in Japan are difficult in terms of judicial precedent. Retrenchment requires four conditions: the need to downsize; the need for retrenchment; fair selection; and fair procedure. In this context, the practice of employment security is beyond explicit reason but has implicit reason.

It is necessary to examine examples other than the car industry, which is well known for measures of employment security, in order to establish whether or not the responses to employment challenges outlined in Table 3.1 are common practice in Japanese industries. Employment

Table 3.1 Measures of employment adjustments in the late 1990s

Measures of employment adjustment	30+employees (%)	1000+employees (%)
Companies which conducted employment adjustments in the past two years	52.5	69.9
Limiting overtime	23.6	32.7
Shortening operating hours/working days	8.7	5.1
Reducing outsourcing	11.7	13.6
Reducing/suspending mid-career employees	17.3	32.6
Relocation of workers	16.9	34.0
Suspending rehire of/discharging temporary workers	9.9	17.3
Reducing/suspending newly graduated employees	26.6	52.5
Temporary relocation of workers to other companies	7.0	27.2
Temporary lay-offs	2.3	6.4
VRS or permanent layoffs	17.7	24.3

Source: Ministry of Welfare (2000), *Labour and Health Survey on Firms' Behaviors and Responses in Employment under Structural Adjustments*

security was at risk when the economy had to be restructured and new technology promoted labour-saving techniques. Responses against the changes brought about by new technology and the effect on employment are future challenges. Moreover, a free trade agreement, which includes the Trans-Pacific Partnership (TPP), will accelerate change in 2016. Consequently, this will have another serious impact.

The food and drink industries in Japan enjoyed circumstances of stable production and consumption up to the mid-1980s. After 1985, the appreciation of the yen and the subsequent relocation of production sites overseas, as well as import increases inspired by the trade liberalisation process, caused fundamental changes in the Japanese food system. These changes induced concerns about industrial 'hollowing out', which leads to the technological degradation of manufacturing and the resultant loss of employment opportunities. It is interesting to see how the Japanese food and drink industries dealt with such negative effects and new directions in terms of technology and employment in the 1990s.

Broadly speaking, the industries grew because of two major technological advancements related to preservation and processing. These technologies had two different aspects: the promotion of domestic production; and overseas production. Preservation technology is now well advanced in domestic production in order to meet the needs of sophisticated consumers who prefer freshness and tastiness together with safe and healthy products. In addition, consumers' needs for small amounts of a wide range of products has necessitated shorter links with the final market.

However, some freezing technology has enabled the food industry to engage in production which is remote from the sites of markets. In addition, technological transfers have taken place in the conventional food processing fields when a company has sought low labour costs. These factors have promoted overseas production for food and drink products and enabled them to be imported.

Thus, possible technological factors may represent a range of coefficients of employment volume in Japan. These technological factors can be divided into various types of technology, such as preservation, flexible adjustable processing, and freezing technologies, all of which have had notable effects on domestic production and overseas production. Such effects influence the level of domestic employment in the food and drink industries. This chapter examines the circumstances of the industries, taking into account technology and employment, by investigating cases and collected data.

2 Trends in the Food and Drink Industries in Japan in the 1990s

2.1 Production and Consumption

Among the Japanese manufacturing industries in the 1990s, food and drink manufacturing, including feed and tobacco manufacturing, was the third largest sector in value after the electrical machinery, equipment, and supplies sector, and the transportation equipment sector. Indeed, food and drink manufacturing exceeded the total value of the manufacture of

general machinery.¹ Moreover, in terms of consumer goods, the food and drink industries were categorised as the largest manufacturing industrial sector.

In 1995 the level of food consumption fell by 3.3 % in comparison with the previous year (MITI 1996). Further, the percentage of food expenditure in a family's total consumption expenditure (Engel's coefficient) was 23.7 % in 1995 and continued to decline during the late 1990s. The domestic food market in Japan became more competitive than ever before. Processed food accounted for 50 % of all home food consumption in 1994 (Management and Coordination Agency 1995). The share of processed food steadily increased during the decade.

Production sites are another salient feature of the food and drink industries in Japan. These sites are scattered throughout the country and consist of a large number of small and medium-sized enterprises (SMEs). One of the reasons for the location of the food and drink industries is that the basis of the industries is established on traditional eating customs and the daily life of the local population. These characteristics relate to the industries' influence on, and various implications for, the Japanese economy and the employment situation at the national level.

The challenges for the Japanese economy in the 1990s delivered a soft blow to a mainstay of the food and drink industries. The available government statistics on these industries indicate (MITI 1996) trends of a slight decrease of production and shipment. The indices of industrial production (value-added weight) among the sector in 1995 (1990 = 100) were 97.4 in the entire food and tobacco sector, 97.0 in the food (excluding feeding stuffs) sector, 100.8 in the processed food sector, 92.8 in the beverages sector, and 100.9 in other food sectors. The indices of producers' shipments in 1995 (1990 = 100) also declined to 98.8 in the food (excluding feeding stuffs) sector and 95.7 in the beverages sector. Accordingly, the indices of producers' inventory (1990 = 100) increased to 107.4 in the food (excluding feeding stuffs) sector, 102.1 in the processed food sector, 100.9 in the beverages sector (this figure fell in the past several years), and 113.1 in other food sectors.

¹ These figures are on establishments with four or more employees. See the Ministry of International Trade and Industry (MITI) (1994), *Census of Manufacturers by Industry*.

2.2 Investment and Trade

2.2.1 High Appreciation of the Yen and Higher Domestic Consumer Prices

The International Labour Organization (ILO) (1989) stated that transfers of production to another country were infrequent in the food and drink industries. However, after the Plaza Agreement in 1985, the high appreciation of the yen produced considerable effects which led to the ‘hollowing out’ of Japanese industry. Additionally, triggered by the liberalisation on the import of goods such as fruit juice and beef, related companies and manufacturers in the food and drink industries developed foreign direct investment (FDI) at a rapid pace. The entire food and drink industry reached an unprecedentedly high level of US\$1.3 billion of FDI in 1989. This was 66.2 % higher than all accumulated investment up to this point (Saito 1997).

Although a sudden cooling down of the amount of FDI was recorded the following year because of the collapse of the bubble economy, the level of FDI recovered and reached its highest investment level in 1994. Until approximately 1992, the Japanese food and drink industries invested more than half of their FDI in the USA; however, in 1993 Australia received more Japanese FDI than any other country because a major Japanese lactic acid bacteria drinks company and a major brewery raised capital investment in that country. After the USA and Australia, the target of Japanese FDI became China, which was regarded as a lucrative host country with low production costs and large exploitable markets. For example, a major chilled food company, Katokichi, established large-scale plants and distribution centres in China. The Chinese plants succeeded in saving labour costs to a great extent because the food-freezing process remained labour intensive (*Nihon Keizai Shimbun* 1997, b).

2.2.2 Increase in Imports: Developmental Imports

From 1993, the Japanese economy experienced negative effects from the collapse of the bubble economy and a persistent recession. This was

aggravated by the highest level of yen appreciation since World War II (the exchange rate reached a level of US\$1 to less than 80 yen in 1993). In addition to trade liberalisation, yen appreciation helped imports spread from food materials to processed foods. The calorie-based food self-sufficiency ratio fell to 42 % in the 1995 tax year (Ministry of Agriculture, Forestry and Fisheries 1997). This was historically low compared with the major developed countries. The ratio of grains fell to 30 % in 1995. Further, the import of fishery products surged: one-third of food imports related to fish in the same year.

The rapid inflow of cheaper foodstuffs from abroad, which began from 1985 onwards, was initially considered to break the price control of the food and drink industries. It was fomented by the actual price differences inside and outside Japan. There was a very competitive market in the Japanese food and drink industries throughout the manufacturing and distribution sectors because public awareness of the large retail price differences of foodstuffs with major cities around the world grew rapidly.

The comparatively higher price of domestic foodstuffs was also challenged by the recent trade liberalisation process prompted by the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). In contrast, more recently, from 1997 the dollar-yen exchange rate began to reverse the trend of the yen's decline to less than the 105-yen level (126 yen as of the end of February 1998); thus, this yen depreciation had the effect of increasing the cost of imported foodstuffs, which enabled the price of domestic processed food to rise. A study projected that there would be few competitive products with imported foodstuffs such as flour (Japan Food Industry Centre Institute 1995) if the agreed trade liberalisation was fully implemented.

In fact, the flour product sector, as an exceptional case, recorded a 10 % increase in domestic consumption and double-digit annual growth in production in 1996. The Nissin Flour Milling Co. controlled 30 % of Japan's pasta market, followed by a domestic competitor, the Nippon Flour Co., with a 15 % share (*The Nikkei Weekly*, 7 April 1997a). Nissin recorded a 36 % increase of consolidated net profit in the 1997/1998 tax year (*The Nikkei Weekly*, 14 April 1997b). However, the company planned large-scale investment in production and distribution centres (the scale ranged from 1 billion to 10 billion yen for just one investment)

for the purpose of low-cost operations in order to prepare for intensified competition with imported flours in the near future (*Nihon Keizai Shimbun*, 5 February 1997). The other food sectors were supposed to suffer serious damage caused by the inflow of cheaper imported food products in terms of pricing competition.

In the summer of 1996, food poisoning caused by the E. coli 0-157 bacteria presented critical problems for the food and drink industries. Because of such recent significant changes to the economic environment in Japan, the food and drink industries were forced to rationalise each stage of their production, distribution, marketing, and retail processes, thereby generating with greater efficiency more customised products for consumers with lower costs and other additional values, including safety and health needs.

Although the Japanese food and drink industries were said to be mature industries which have reached a saturated consumption demand level for the Japanese population in terms of quantity, this hard-pressed situation brought an unprecedented level of dynamic price competition among domestic food companies, a situation which was intensified by the inflow of cheaper imported foodstuffs and commodities. The strategies of some food manufacturing companies, in order to deal with the new circumstances, varied from increasing imports of cheaper food materials and establishing low-cost production sites through overseas direct investment and exports to Japanese markets (which were termed developmental imports), to finding domestic niche markets and producing higher value-added consumer goods. In theory, globalised free competition is a major aspect of the current and future food industries in Japan; however, the pace of the process was always likely to be slow and the process itself obscure.

3 Technological Changes in the Industries

3.1 The Nature and Pace of Change

The economic situation of the food and drink industries in Japan was challenged by increasing price competition due to the increase of imported goods, as mentioned previously. Many large-scale enterprises in the

industries made a large amount of new investment for the purpose of rationalisation in order to realise cost-efficient production. The new technologies which are required to deal with new circumstances in a saturated food and drink domestic market in Japan should be those which add higher values to production in addition to various saving effects such as those related to labour, skills, and cost. These effects are prerequisites to achieving competitiveness by growing imported foods.

If a company adopts a production strategy which targets certain high value-added goods, it naturally tries to specify a certain consumer market. However, the introduction of microelectronics technology such as computer-integrated manufacturing (CIM) in an advanced way is an effective means of flexible production. Nonetheless, information technologies which integrate and rationalise an entire process through distribution to retail outlets are becoming more important. Indeed, new investment is being stimulated in these technologies.

3.1.1 Microelectronics and Computer Technology

Among many successful cases of microelectronics (ME) technology application, the information technology which is used in various stages of the food and drink industries has been focused on by the major food-related corporations. A report stated that the central operation system which connects with the local area network (LAN) in a major cornflour plant in the Shizuoka prefecture has established an optimum production system (*Nihon Keizai Shimbun*, 1997, pp. 70–71). The system has reduced the number of personnel and the need for night work on the production line. Labour costs have fallen by 3 % and production costs have fallen by 3 % to 5 % through better quality control and the reduction of buffer stock. Kagome, a large agro-food and beverage company, set up a new juice production factory in April 1997 (*Shokuhin Sangyo Shimbun* (Food Industry News, 21 April 1997).

The factory's canning ability for fruit juice is 1500 cans per minute, a record for Japan. This plant, which is composed of just two production lines operated by 10 people, has resulted in a 50 % reduction of the number of personnel on the lines. Further, stock and distribution

management is operated by computer without any personnel. This kind of development of production lines and distribution warehouses has spread quickly across the country in the food and drink industries. Such development involves the distribution and retail process working with the advancement of information technology.

A survey on the investment in information technologies indicates a steady augmentation of its presence in the industries (Ministry of Agriculture, Forestry and Fisheries 1994). The average investment in information technology of a large company in the food-manufacturing sector with more than 500 employees increased by 30 % from 1989 to 1992 and that of a smaller company (100 to 299 employees) increased by 78 % during the same period. In the food distribution sector, the average investment amount grew by 87 % in large companies (more than 500 employees) and 45 % in smaller companies (100 to 299 employees). In addition, in the retail sector, large companies increased their investment by 25 % and smaller companies increased their investment by 73 %. Although the investment differences between large and smaller companies were significant, the incremental trend of investment in information technology was common in the food and drink industries, which were traditionally cautious about new investment compared with other industrial sectors.

Investment in information technology was aimed at various aspects of corporate strategies. Computer-assisted information management through the processes of production, wholesale, distribution, retail, and consumption is important in order to expedite the just-in-time (JIT) and electronic data interchange (EDI) systems in the current Japanese food and drink industries. Establishment of point-of-sales (POS) terminals, electronic ordering systems (EOS), operating systems, and Internet sales systems have been included in recent information technology in the food and drink sectors. According to a survey by the Ministry of Post and Telecommunications, Internet transactions surged, with turnover via the Internet amounting to 28 billion yen (US\$226 million), a 40 times increase from 1996 to 1997. Food was the biggest item for transactions and accounted for 18 % of total sales (*Nihon Keizai Shimbun*, 29 April 1997). These Internet merchants were small concerns: 56 % of them

started their businesses with capital of 500,000 yen or less (*The Nikkei Weekly*, 5 May 1997).

Whilst large-scale technological investment such as a computer-integrated manufacturing (CIM) system is indispensable for the next big steps of the food and drink industries, small-scale investment in production facilities and distribution systems is another strategy, which in this instance targets niche markets. A computer-assisted microbrewery system was the most striking exhibition at FOOD EX JAPAN, which was held in Makuhari in March 1997.

In addition, the introduction of distribution lorries for fresh food and beer, which were equipped with computer-assisted temperature systems, changed supply chain operations. At the same time, car navigation systems were another new technology which met consumers' delivery needs.²

Moreover, safety and hygiene control systems were becoming more important, especially after the outbreak of E. coli 0-157 bacteria in Japan in 1996. Many companies were interested in these and introduced a hazard analysis-critical control point (HACCP) system. This control programme, which was developed in the USA, required advanced equipment and well-trained employees throughout the production and distribution processes. In addition, the idea of ISO9000 and implementation of the product liability (PL) law were promoted in order to elevate the sense of safety and hygiene. They also applied to the environment and related industries. These factors encouraged employment growth through the increased use of quality control (QC) activities and inspection personnel.

3.1.2 Biotechnology

Biotechnology developed in broad fields in the food and drink industries.³ The development of better physiological functions in terms of nutrition and health were applied in the processed food and confectionery fields in

² Sapporo Beer initiated the deployment of such a lorry distribution system in Spring 1997.

³ Unless otherwise indicated, most of the data and information in this section are from Imahori, K. (1996), 'Present Issues and Future Prospects of Bio-industry', *Science and Technology in Japan*, Quarterly Magazine in cooperation with the Science and Technology Agency, Vol. 5, No. 59, Three 'I' Publications.

particular because such food (so-called physically functional promotion food) was a target for the promising demand of high value-added production. The hypotensive effect of peptides and catechins, the anti-mutagenicity of B-carotene, flavonoids, and the anti-aging effect of lecithin are examples in this category. The technologies of mass conversion which used bio-functions generated some higher value-added food materials such as isomerised sugar, oligosaccharides, sugar alcohol, and pigments through microorganisms. These technologies were ready for mass production. The production of rice with low allergy properties, which is popular in the Japanese market, is a good example.

In addition, the research on genomes in foodstuffs led to the development of various technologies in order to introduce genes which provide food of a new genotype in order to support human health. However, genetically modified food has created a significant discussion about its safety and ethics.⁴ For example, a company tried to sell more food on the grounds that it was not genetically modified and by causing anxiety among consumers about the possible danger of food which was genetically modified. This strategy was not successful because it was becoming expensive and difficult to buy modified food from the Japanese food market where an increasing proportion of genetically modified food was estimated to be imported (*Nikkei Shimbun*, 23 April 1997).

These new biotechnologies could be utilised not only in the food and drink industries but also in various other industries, such as the pharmaceutical, medical, and chemical industries. In addition, these industries were fast-growing sectors. The trials of the major confectioners and beer enterprises are good examples of those sectors which aimed to use bio-research for the expansion of food and drink boundaries into the pharmaceutical product market as a new business field.

⁴The consumers' body in Japan expressed deep concern about genetically modified food and insisted on the need to identify such food by using labels (*Nikkei Shimbun*, 11 April 1997). Approximately 71 % of consumers are anxious about genetically modified food according to a poll (*Yomiuri Shimbun*, 1 May 1997).

3.2 Investment

3.2.1 Research on Product Development

The food and drink industries introduced a great deal of imported technologies and know-how. They also enjoyed a static and saturated food market instead of promoting research and development (R&D) activities. These attitudes were reflected in the figures regarding R&D budgets (Prime Minister's Office 1993). The proportion of R&D in the budgets of food and drink industries in Japan was only 0.93 % in 1992, whereas that of the electronics machinery industry was 6.17 %, followed by the precision machinery industry at 5.79 %. The average rate in all Japanese industries was 3.52 %.

Because of competitive market pressures, industries had to be more receptive to new product developments and were forced to invest further in R&D. Indeed, investment occurred on an incremental basis because the amount invested in information technologies increased as never before.

3.2.2 New Production and Packaging Facilities

A more flexible production facility needs workers' involvement. Further, greater importance is attached to QC in accordance with the growing awareness of domestic consumers. This also requires workers' QC activities.

Packaging needs fluctuate with consumers' interests. Consumers preferred cans to bottles in terms of convenience. Accordingly, the production of glass bottles declined. Sectors of the drink industry such as breweries converted packaging plants to some extent in order to change from bottling to canning, although bottling is environmentally friendly. Because can recycling was becoming important in order to minimise the adverse effects on the environment, the recycling rate of cans grew. The development of the recycling process generated employment, although this was not tangible in published information.

3.3 Productivity Changes

The labour productivity of foodstuffs and tobacco manufacturing declined in the 1990s. The index (1990 = 100) of average labour productivity of the sector was 84.7 in 1996, although the index for the entire manufacturing sector was 108.5. This resulted from an increase of labour input, and a decrease of output in this sector. Because the labour input index is based on the amount of labour input in terms of person-days, the increase of labour input was caused by the increasing utilisation of part-time and non-regular workers who were lower paid. The slight changes of the output index indicate the saturated conditions of this sector's market.

Productivity improvements through the reduction of total labour costs can be demonstrated by the respective changes of major food- and drink-related corporations. All of the figures of Meiji Seika, Sapporo Beer, and Ajinomoto indicate the apparent links between productivity improvements and a reduction in the number of regular workers. The formula of labour productivity used in the figures is a simple one: it is the amount produced by unit labour cost (*Hitoriatari Souseisandaka*). Thus, if the unit labour cost falls in a given situation, the labour cost will be enhanced. A major reason to use many part-time workers is to reduce the unit labour cost. The natural result is to increase the level of labour productivity in accordance with the aforementioned formula. The figures of major food companies represent this trend; namely, labour productivity increasing in accordance with a reduction in the number of employees. Hence, an increase of labour input was probably caused by increased part-time and non-regular workers.

4 Impact of New Technology on Employment

4.1 Employment Trends in Japan

Unlike the general trends of unemployment problems in most developed countries, the unemployment situation in Japan does not appear in statistics,

although some aspects of employment such as middle-aged and elderly workers are carefully observed. The employment scale of the food manufacturing industries, including drink, tobacco, and feed materials, accounts for about 1.2 million employees, which is 10 % of the total employees in the manufacturing sector in Japan. The number of employees in the entire food and drink manufacturing industries has maintained a steady increase, even though the number of establishments fell from 1991 to 1993.

The data for 1996 (Management and Coordination Agency) supports this trend in food manufacturing. The drink sector steadily reduced the number of establishments and employees. The basic material sector also continuously reduced the number of establishments and employees. Similarly, the direct processing food sector stagnated with regard to the number of establishments and employees, and tended to fall in scale from 1993. The material-related sector followed a long declining trend with regard to the number of establishments, but the scale of employment increased vigorously from 1990. Both the special packaging sector and the frozen food sector recorded stable growth in the number of establishments and employment. The confectionery sector recorded a sudden increase in the number of employees in 1993. In the beer sector, the number of establishments continued to grow in the 1990s because of the steady increase in the consumption of beer in Japan. However, the number of employees decreased from 1993 to 1994.

The inflow and outflow of the labour force to the labour market was most frequent in the food industries. The labour turnover ratio was recorded as the highest in this sector among all the surveyed establishments in a periodical survey by the Ministry of Labour (see Table 3.2).

This decline was attributable to the scheduled restructuring plans in which the rationalisation of production was an inevitable measure in order to obtain a larger share in a market where competition among the major companies had increasingly intensified.

The major employment adjustment measures were composed exclusively of internal transfers,⁵ intra-group transfers, and the reduction of the

⁵ This continued practice was highlighted by the Japanese branch of the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco, and Allied Workers' Association (IUF). See ILO (1989), *Social and Labour Practices in the Food and Drink Industry*, p. 54.

Table 3.2 Accession rate and separation rate of food and drink industries and manufacturing

Food and drink	1990	1991	1992	1993	1994	1995
Tobacco						
Accession rate	2.56	2.55	2.53	2.62	2.66	2.66
Separation rate	2.35	2.32	2.28	2.26	2.37	2.64
Manufacturing						
Accession rate	1.65	1.59	1.46	1.36	1.32	1.28
Separation rate	1.49	1.48	1.48	1.46	1.45	1.45
Services						
Accession rate	2.25	2.26	2.17	2.26	2.13	2.08
Separation rate	1.92	1.99	1.92	2.09	2.02	2.01

Source: Ministry of Labour, *Monthly Labour Survey (National Survey)*, January 1997, Labour Administration Research Institute, Tokyo, pp. 184–185

number of employees by the mandatory retirement of regular employees in due course. In addition, the number of non-regular workers was reduced in these companies. The tendency to reduce the number of regular employees seemed to continue, according to a review by the ILO in 1997. Kirin Beer reduced the number of its regular employees from 7870 in 1994 to 7699 in 1995 (2.2 % reduction). Sapporo, another major large-scale brewery, also reduced the number of its regular employees over a two-year period from 3442 in 1994 to 3074 in 1996 (11 % reduction).

In the distribution sector of food and drink, as well as wholesalers in general, the number of establishments declined from 1991. The reduction of wholesalers occurred because the introduction of information technology created the vertical integration of a multi-tier wholesale structure by strengthening the direct links between production and sales. The number of employees in food and drink wholesalers increased in contrast to the general trend. However, the sense of over-employment was not obvious in the food and drink wholesale companies (Japan Finance Corporation for Agriculture and Fishery 1996); thus, it is inappropriate to regard this sector as an employment absorber. Rather, the food and drink industries maintained a balance of changeable situations between the domestic customary wholesale approach and the movement to deregulation.

4.2 Employment Flexibility

In research on managing the strategy of food manufacturing companies (Japan Food Industry Centre Institute 1996), the reduction of labour costs and the active utilisation of part-time workers were listed as priority measures. The average percentage of part-time workers among all employees was approximately 30 %, a rate which had not changed in several years. The seafood-processing sector employed a large number of part-time workers. These represented 40 % of all employees. The percentage of part-time workers were regarded as considerably high because the average percentage of the entire manufacturing sector is approximately 11 % and exceeds the figures for the wholesale and retail trades. In eating and drinking establishments, part-time employees were 28 % of the workforce.⁶

As seen before, the labour turnover ratio was the highest in this sector and it was easy to regard the turnover by part-time workers as the major cause. If one limits the scope of this investigation to the factory worker structure, the share of part-time workers was considerably higher. The best example was the confectionery industry in which the production level would be affected significantly by quick changes in consumer demand. This industry employed many part-time workers and temporary (or seasonal) workers so that employment size could easily be adjusted in accordance with flexible production strategies. A plant of a major confectionery company provided a concrete example. This company employed approximately 300 regular employees and 400 to 500 (as a kind of buffer stock for changeable production needs) non-regular workers such as part-time and contract-based temporary workers.⁷ In addition, there were many examples of companies which increased the number of part-time workers in order to reduce fixed labour costs. A milk-related manufacturing company, which attained a high labour productivity level in its acquired companies and intensified competition, had

⁶ The figures concern establishments with more than five employees. The percentage was lower in the case of larger establishments. See, *The Monthly Labour Survey (1997)*, *op. cit.*, pp. 181–182.

⁷ ILO inquiry in 1997.

increased the percentage of part-time workers in its employment structure from 21.6 % in 1992 to 22.8 % in 1994.

The employment security of regular workers under the long-term employment practice of Japanese large-scale enterprises follows a different story. Employment adjustment through the internal transfer of regular employees was going in a specific direction, from the factory workers to the office workers of the administrative and sales sections. A large brewery company offers a good example. It decreased the number of factory workers from 2346 persons in 1984 to 1861 persons in 1993. In contrast, it increased the number of office workers (administrative workers and sales workers) from 934 persons to 1606 persons in the same period.⁸ According to a survey of the Ministry of Labour, the reduction of administrative workers and increase of sales workers followed a general trend in the changes to regular workers' structure in the food and drink industries (Ministry of Labour 1995). In other words, it can be pointed out that the link between production and retail was strengthened by sales activities absorbing the labour force in the food and drink industries.

Although internal transfers were not an exclusive factor in the change to workers' job structures, this type of employment adjustment was a major means of avoiding the dismissal of employees. The boundary of internal transfers expanded to spinoffs of the parent company and subcontracting companies. In the case of the aforementioned brewery, approximately 10 % of the regular employees were dispatched to affiliated companies, although all of the transferred workers were not ousted employees.⁹ There were also other types of transfer such as company-group integration, the bolstering of receiving companies, and education and training (Sugeno, K., 1993); however, the ousting-type transfer represented the major trend.

This kind of transfer, which is generally called *Shukkoh* (outplacement) in Japanese, was an effective means of employment adjustment in the group-company labour market. It was used as a way of positive adjustment and also a way of negative or passive adjustment. More recently, the passive method of *Shukkoh* is gaining impetus. An excess of middle-aged workers prompts large companies to use the ousting style of *Shukkoh*.

⁸ Author's interview in February 1997.

⁹ Author's interview in February 1997.

5 Coping With the Effects of Technological and Structural Changes on Employment

5.1 Collective Bargaining and Industrial Relations

A joint consultative mechanism between a labour union and an employer is commonly set up in a major food and drink corporation. Prior consultation takes place before significant measures concerning employment and labour conditions are implemented. The concept of information sharing at the management level is regarded as an important requirement for such consultation. Employment adjustment without dismissal is the agreed priority issue, and this topic is often taken to the joint consultative body in a company.

With regard to unionised workers, Shokuhin Rengo (the Japan Federation of Food and Tobacco Workers' union) had suffered losses to its membership in line with most other unions (Ministry of Labour 1996). The downward trend in membership may be reflected in the increase of non-regular workers, including part-time workers, because the number of all employees steadily increased in this sector.

5.2 Administrative Measures

The early retirement system was introduced by major large-scale companies in the food and drink industries. In some instances, it is called the 'new life support system'. Generally, a company pays additional retirement lump sums to workers who request early retirement and gives advisory services to any new businesses which are initiated by the workers.

The case of a major food company is a typical and striking example (Roumu Gyousei Kenkyuujo 1997). The early retirement system was suggested for all employees aged from 43 to 57 who had worked for 20 consecutive years. Applicants aged from 43 to 47, for example, could receive an additional retirement lump sum of 35 million yen. The additional lump sum decreased depending on age: 30 million yen for those aged 48 and 49; 25 million yen for those aged 50 and 51; 20 million yen for those aged 52 and 54; 15 million yen for those aged 55; and

10 million yen for those aged 56 and 57.) For five years, approximately 500 employees, which accounted for 17 % of all employees, applied for early retirement.

6 Impact of New Technology on Working Conditions

The intensified information technologies which strengthen the links between production, distribution, and retail can enable a type of JIT production system. In addition, computer-integrated manufacturing makes production operations available 365 days a year. This development affects many aspects of working conditions in the food and drink industries.

6.1 Earnings

The average earnings of regular workers in the food and drink industries increased at a steady rate because of *shunto* (the spring round of wage negotiations between enterprise-based unions and employers), although the increase in non-regular workers reduced the rate of wage increases overall throughout the sector. In some industries, the total amount of bonuses decreased in accordance with falls in sales. The amounts of summer bonuses in the food and tobacco industries, for example, decreased each year from 1991 to 1995 (Ministry of Labour 1997). This adjustment of labour costs caused by fluctuating bonuses is another example of the numerical flexibility of the Japanese employment system. A further example is the adjustment of the amount of non-regular workers' employment.

The realisation of production operations for 365 days a year forced various kinds of allowance to be reduced because irregular work such as working late at night and on special holidays during the New Year were not considered particularly painstaking. Some bakery companies followed such a reduction trend.¹⁰

¹⁰ ILO enquiry in 1997.

6.2 Working Hours

The total working hours in the food and drink industries decreased steadily. Non-scheduled hours in particular decreased more than scheduled hours. The introduction of computer-assisted production and more efficient shift-work arrangements were major contributing factors. Moreover, the ceiling for regular working was set at 40 hours per week from April 1997. The reduction of working hours also made further progress in the following years. However, the effect was initially limited because Ministry of Labour directives were issued to allow a grace period of two years for a small company. This helped to avoid a serious blow to them because of the reduction from the prior limit of 44 hours per week.

7 Summary and Conclusion

The food and drink industries used to be domestic-oriented production and supply industries. However, the trend towards globalisation of the world's economies and trade liberalisation did not allow them to maintain the status quo if they wished to succeed and develop cost-efficient and higher value-added food production and supply in Japan. Moreover, prompt reactions to growing concerns for safety and hygiene, together with environmental problems, were urgently requested throughout the food and drink industries.

Globalisation of production and the market was definitely a primary factor which affected the employment situation in Japan's food and drink industries through the relocation of production from Japan. However, there were fragmented technological effects on domestic employment regarding the changing conditions of production and the distribution of food and drink products, as explained in this chapter. Table 3.3 indicates the division of emerging technological factors between employment-saving and employment-generating effects.

Investment in information technology is a significant phenomenon in technological innovation in the food and drink industries. It has promoted the increasing importance of ongoing consumption data which

Table 3.3 Technological factors on employment saving and generation

Process	Employment-saving effects	Employment-generating effects
Production	<u>ME technology</u>	
	Flexible manufacturing system (FMS), LAN, CIM, Factory Automation, HACCP	Shift work, QC activities, inspection, expansion of market to related industries (ex. pharmaceutical)
Wholesale	<u>Biotechnology</u>	Chilled food technology
	<u>Preservation technology</u>	Growth of recycling processes
	<u>Packaging technology</u>	
Retail	<u>Information technology</u> (POS, EDI, Internet)	Distribution to many small outlets
	Vertical integration of multi-tiered wholesalers	Horizontal diversification Expansion of retail and marketing

directly affect the production of food and drink. Consequently, large-scale companies invested in the establishment of flexible production systems. Such investment diminished the role of production-line workers; however, it increased the transfer of regular workers to workplaces which handled JIT deliveries and to diverse outlets. In other words, information technology resulted in consumer-oriented production. Consumer-oriented innovation led to the vertical integration of multi-tiered wholesale processes and the horizontal diversification of distribution systems. Because low-cost operations were required in this process, the use of non-regular workers also began. In addition, efficient distribution systems such as cooperative use by different companies were promoted during this period.

Further, consumers' awareness of hygiene and healthy food enhanced workers' involvement with quality and hygiene control. The development of advanced preservation technology was seen at domestic production sites. One example was the method of capsule-packed freezing (CPF).

The introduction of new technologies such as ME, biotechnology, preservation, packaging, and information technologies were more or less targeted at labour cost savings. However, as a secondary but direct effect, each technological factor generated employment. In contrast, through the relocation of production overseas, the advantages of domestic food production with conventional technology were lost. This trend was triggered

by the transfer of conventional chilled technology. The situation of the food and drink industries in Japan seemed to rely on the changing balance among these factors. Consequently, drastic changes in employment in the food and drink industries did not happen because the negative and positive effects on employment offset each other within the framework of organisational adjustment which was governed by the employment security practices of the major large-scale companies.

With intensified competitive pressure, though, the food and drink industries were forced to proceed with restructuring, which led to changes in employment volume and structure. Major large-scale companies undertook employment adjustment measures through internal and intra-group transfers of core workers and early retirement programmes. The impact on small-scale companies which had the largest employment share was not elucidated from the available data. However, the impact may have been limited because the outlets were exclusively for local niche markets which were sustained by relatively stable consumption.

In the long run, a severe restructuring of the food system was unavoidable. This restructuring involved the agricultural sector, which faced challenges from international competition. Intensified competition also affected working conditions in the food and drink industries. The increasing use of atypical working patterns became growing concerns for the industries in Japan in the next stage of transition. The considerable impact of these concerns came later after competition eliminated the buffer in Japan following free trade agreements. This situation would prove to be a real challenge to the employment adjustment practices of Japanese industry.

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4

The Formation of Industrial Subcontracting in the Japanese Manufacturing Industry

1 Introduction

Up to 1990, worldwide industrial restructuring required every economic actor to adapt flexibly to changing situations. Whilst the giants seemed to suffer from slow action and reaction, it was the small companies which became more active. Moreover, they became more active in the sectors which showed the greatest growth. A report of the Organisation for Economic Cooperation and Development (OECD) pointed out, for example, that about one-quarter of employment in growing sectors in the Federal Republic of Germany and in Japan was in very small establishments (less than 10 employees), while in declining sectors the proportion was about one-eighth (OECD 1989). This could be partly due to the expansion of the service sector; however, small and medium-sized enterprises (SMEs) in manufacturing also appeared to be developing on a broader basis. In manufacturing, a pervasive revision of labour could be seen to be occurring in smaller units of employment (establishments and enterprises), at least in the industrialised countries (Sengenberger and Loveman 1987).

In Japan, SMEs (less than 300 employees) in manufacturing gained 1 million jobs between 1975 and 1986, whilst larger establishments lost 0.3 million (MITI, 1989a, b). Within manufacturing, large establishments were common in primary goods and investment goods industries, which were generally declining; however, they were uncommon in the growing consumer goods sector. Available figures for the Federal Republic of Germany show that employment in small enterprises (less than 100 employees) in the consumer goods sector exceeded half of total employment.¹

The principle of economies of scale had lost its impetus in the growing manufacturing sectors. This situation called for a reconsideration of forms of industrial organisation and divisions of labour. Consequently, a paradigm of flexible specialisation evolved as an alternative principle to 'mass production'.² This implied new organisational principles such as the existence of economies of scope, the appearance of a new functional division of labour, and the development of communal networks of small companies. The 'Industrial Districts', which were composed of many small companies, were a particularly interesting demonstration of these principles.³ They can be seen in various industrialised countries such as Italy, the Federal Republic of Germany, the United States, and also Japan.

'Flexibility' became a key word in discussions of current industrial reorganisation. Large Japanese companies appeared to be particularly good at using various types of flexibility. The diversification of business activities and vertical disintegration ('downsizing'), aimed at increasing managerial flexibility, were common practices. The number of 'lifetime' core workers was also shown to be decreasing (Koshiro 1989), whilst other groups expanded. The need for numerical flexibility, the employment of part-time and detachment workers, and the use of more overtime work,

¹ Data supplied by the Federal Labour Office of Japan from the registers of the social insurance scheme.

² The concept of 'flexible specialisation' was presented in Piore, M. and Sabel, C. (1984), *The Second Industrial Divide*, New York: Basic Books.

³ Studying the economic and social characteristics of industrial districts was one of the major research projects of the new industrial organisation programme of the International Institute for Labour Studies (IILS) in 1990.

rather than hiring new workers, was required by the practice of lifetime employment. Ronald Dore named this 'flexible rigidity' (Dore 1986).

Another way to increase flexibility is to use subcontracting. This is also one of the reasons for the expansion of SMEs. As of 1986, SMEs (less than 300 employees) in Japan accounted for 99.5 % of all Japanese manufacturing, with very small establishments (less than 20 employees) accounting for 77.9 % (Management and Coordination Agency, 1986). In the textile and machinery industries, 80 % of SMEs were subcontracting companies⁴ (MITI, 1982). The subcontracting system in Japan was observed as an industrial organisation from various points of view, some of which were in favour, some against. During the 1970s, however, good economic performance overcame several economic crises and encouraged particularly positive evaluations of the system (Trevor and Christie 1988).

The Japanese subcontracting system was generally perceived as a multi-tiered organisation involved in the vertical sourcing of parts and components. A typical example was the car industry; however, the structure could also be seen in other metal trades and manufacturing sectors. Large industrial groups known as *Keiretsu*, such as Toyota, Nissan, and Honda, hierarchically organised significant numbers of smaller subcontracting companies. This 'fostering' of small companies resulted in a typical vertical division of labour, with subcontracting companies highly dependent on their parent companies. However, the literature suggests that the conceptualisation of this rigid model became decreasingly appropriate as changes occurred in response to industrial restructuring and difficult economic situations, such as the high appreciation of the yen which began in the autumn of 1985.

From the late 1960s, the Japanese subcontracting system started to spread into the international arena. The car and electronics industries, for example, now conduct part of their production in the USA, Europe, and Asia. Interestingly, those companies which established production plants overseas began to form new networks with local companies. Toyota's plants in the USA, for example, adjusted the *Kanban* system to the

⁴ In this chapter, the companies to which some production and processing of parts and components are subcontracted are called subcontracting companies or subcontractors.

conditions of the local economy. Then, Toyota introduced the adjusted system into its domestic inventory services. Thus, the Japanese subcontracting system has changed as it has spread around the world.

With regard to social and labour aspects, the Japanese subcontracting system has been perceived as a major cause of a dual economy. Its production techniques, such as just-in-time (JIT), pose significant structural problems. Because a parent company (a final assembler) demands subcontracting companies to use their labour flexibly, and because the effective workflow required by a JIT system needs rapid responses to fluctuating orders at each production stage, the conditions of subcontracting companies tend to be dependent and derivative. The tighter the relationships among the companies in the subcontracting system become, the less room there is for negotiation of labour conditions. One consequence is that where systems are transplanted to foreign countries, there is the risk of the lowering of established labour standards. Moreover, fundamental changes may occur in industrial relations systems with the introduction of the Japanese way of 'human resource management',⁵ which places greater weight on the plant level.

Thus, trends in the development and effectiveness of the Japanese subcontracting system are an important subject in the era of global industrial reorganisation and restructuring. Observations on the developments of the subcontracting system in manufacturing sectors such as the car and electronics industries, which are typically conceived as mass production industries, would contribute to a better understanding of new patterns of industrial organisation and related problems in the social and labour fields. This chapter tries to synthesise recent works on the subject and highlight the implications for labour.

⁵ An article in the *International Labour Review* made this point, saying that 'there is a discernible trend for certain issues to be shifted from the domain of collective relations to that of individual relations or from "industrial relations" which are essentially bilateral, to a form of "human resources management" which is basically unilateral' (Kanaway, Gladstone, Prokopenko and Rodgers (1989), 'Adjustment at the Micro Level', in *International Labour Review*, No. 3.

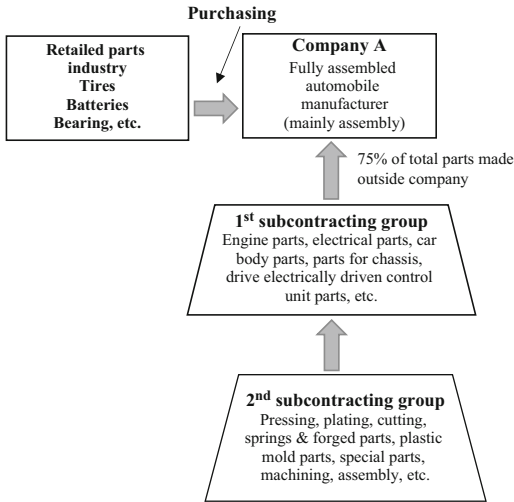
2 Some Features and Advantages of Industrial Subcontracting in Japan

2.1 Multi-tier Structure

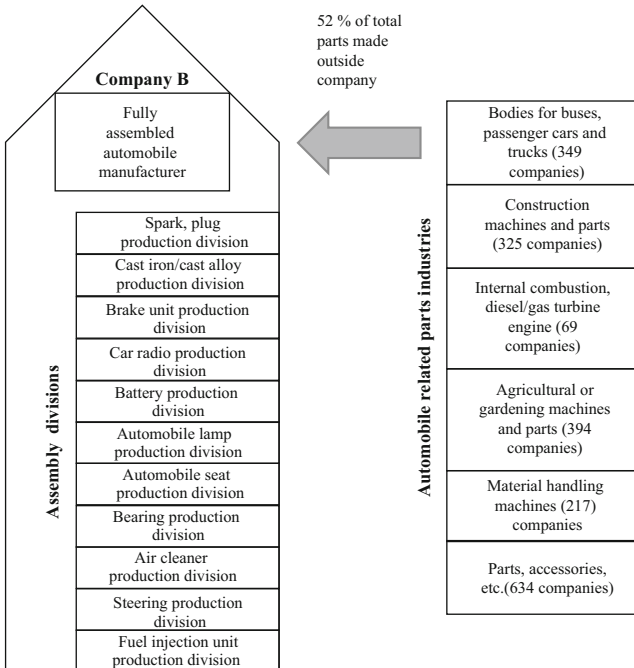
With the beginning of the boom conditions in 1955, which are popularly associated with the Korean War, final assemblers in various manufacturing sectors needed to expand their production capacity rapidly. They achieved this by contracting out the production of various parts to small companies. This process enabled parent companies to expand their production without incurring significant capital investment. Thus, the subcontracting strategy at that time was based on expanding production and gaining access to low-wage labour.

Through a rationalisation process, parent companies reorganised their relationships with other companies, selecting key supplier factories. These supplier factories, which form the primary tier in the subcontracting system, in turn reorganised the secondary subcontracting companies, and so on. Thus, a multi-tiered system was formed which was found particularly in export-oriented industries. Figure 4.1 shows that there was a clear difference in the way subcontracting was organised in the car industries of the West and Japan. In Japan, a large parent company was able to maintain control over the division of labour within the whole subcontracting system and could initiate a new type of production without restructuring everything in-house. Small subcontracting companies were forced to adjust to new requirements. Parent companies could expand production capacity whilst minimising capital investment and use subcontracting companies as buffers for business fluctuations. By this means, significant numbers of smaller subcontracting companies were developed as effective supporting industries for large companies and export-led development, resulting, some argue, in a segmented dual economy.

Structure for Company A in Japan



Structure for Company B in US



2.2 Long-Term Relationships: A Corporate Philosophy

The long-term continuity of transactions has been, and continues to be, a pervasive practice of Japanese subcontracting. A survey undertaken by the Ministry of International Trade and Industry (MITI) in 1987 shows that approximately 70 % of subcontracting companies have never changed their parent companies and customers. One of the benefits of a long-term trading relationship is a lowering of transaction cost (Minato 1986).

Efficient communication is also a significant factor in the promotion of an inter-company division of labour. 'Credible goods' are formed and provided during the course of subcontracting (Arrow 1974). The effect of 'credible commitments' was examined by Williamson (1983) and then scrutinised by Japanese scholars in order to explain the effectiveness of the Japanese subcontracting system. Credibility facilitates production communication within the subcontracting networks. A mechanism which helps effective communication whilst maintaining cooperative relations is the formation of supplier associations (*Kyoryokukai*). Most Japanese car supplier associations consist of 100 to 300 parts manufacturers (Ikeda 1988). Toyota's *Kyohokai* and Nissan's *Takarakai* are the most famous associations, but other carmakers and manufacturers in other industries have similar associations. This arrangement provides mutual trust and a cooperative mode for development or survival, whilst encouraging the exchange of information about management and technology.

Previously, it was said that the formation of such an association was a product of Japanese social conditions and culture. However, the strategic formation of supplier associations has gained impetus in foreign countries. For example, NUMMI (a joint venture between the General Motors Company (GM) and Toyota in North America) maintains a trading relationship with 75 car parts manufacturers and conducts similar

Fig. 4.1 Comparison of the division of labour in car manufacturing in Japan and the United States in the 1970s. *Source: Report on the Roles Played by Small and Medium-sized Enterprises in Production Specialisation*, Small and Medium Enterprise Agency, commissioned in January 1980 by the Small and Medium Enterprise Research Center, Tokyo

activities to Japan's supplier associations, including periodic meetings for exchanging information (Ikeda 1988). This joint venture achieved almost double the productivity of the average GM plant after using the Japanese team system approach (ILO, 1988).

In South Korea, Kia Motors, a major Korean carmaker, cooperated with Matsuda to set up a supplier association in 1977 which comprised 168 parts manufacturers (JEIRO, June, 1989). It was reported that members of the association held meetings 28 times a year in order to exchange information, discuss the results of their quality control campaigns, and consider the use of computers in the parts production networks. These activities have proven to be an effective way of increasing the performance of smaller suppliers; consequently, the Korean government has begun to support this approach as an SME promotion policy.

According to Asanuma 1989, long-standing commitments with final assemblers and customers permit suppliers to acquire what he calls 'relation-specific skills'. The author considered this a comprehensive capability which enables suppliers to perform more effectively as a constituent in the subcontracting system. During the process of interaction between core manufacturers and suppliers, such as in the negotiation of prices or production adjustment, suppliers can accumulate specific skills through 'learning by doing', whilst cooperative relations encourage suppliers to increase investment and improve productivity. Asanuma (1989) divides suppliers into two categories: 'drawings-supplied (DS) parts' companies, which provide only production services in accordance with the parent companies' drawings, and 'design-approved (DA) parts' companies, which design the items and submit the drawings to the final assembler for approval, to which they then supply the parts. Since DA suppliers have to understand the whole production system at a deeper level than DS suppliers, they can more easily achieve relation-specific skills. Asanuma (1989) suggests that DS companies should try to develop into DA companies if they wish to succeed in a given subcontracting system and maintain long-standing relations.

Asanuma's (1989) concepts seem to relate to the explanation about the formation of workers' skills in Japan. Through long-term service in a single company and experiencing a wide range of jobs, workers can acquire an adaptive ability to function in varied contexts. Koike (1983)

calls this ‘intellectual skills’.⁶ Although labour turnover is high in small enterprises, no matter how small the enterprise, a good number of its core workers undergo internal skill training. Koike’s (1983) survey shows that even in the smallest companies, with 49 or fewer employees, a third of the companies conduct internal skill training in the context of long-term employment of core workers (Koike 1983).

Thus, continuous commitment with customers contributes to the improvement of the relational skills of subcontractors. At the same time, this makes internal skill formation possible together with a wide range of internal redeployment of core workers under a long-term perspective (Ikeda 1988).

2.3 Competition in Cooperative Networks Through Rating

Through dynamic interactions between a final assembler and its subcontracting companies, cooperative relations develop. At the same time, however, the core company has a rigorous rating system which continuously assesses and controls the performance of its subcontractors.

Hitachi, a leading company in the Japanese electronics industry, classified all of its subcontracting companies into five classes according to its assessment of production capacity, technical capability, managerial skills, and willingness to cooperate with the parent company. For example, some subcontractors failed to meet the needs of the parent company in terms of the rate of defective products submitted and the delays in delivery time. Consequently, they were dismissed from the cooperative networks. However, favoured subcontractors enjoyed close and long-term relations with the parent company.

The application of JIT systems requires considerable effort from subcontractors. The idea of JIT systems is to procure exactly the right quantities of the right kinds of parts and components at the right moments in order to avoid stockpiling along production lines. Such a system has the famous rule of the ‘five zeros’: no breakdown, no delay, no

⁶ Please see Chapter 7, section 2.1: Intellectual Skills and the OJT System of this book.

defects, no stock, no paperwork. Companies which fail to meet the specified standards of the parent company are eliminated from the subcontracting network, while good performers enjoy stable business relations. Thus, strong competition exists among subcontractors, providing vitality and vigour to the entire subcontracting system. The start-up and failure rates of SMEs were high until the beginning of the 1980s, when the JIT technique became a widespread tactic in manufacturing industries.

Thus, some features of the Japanese subcontracting system may be described in a positive light. A comparison of the features of Japanese and Western subcontracting (in the USA and Western Europe) has been undertaken by Ikeda (1988). The basic findings can be seen in Table 4.1. The table reveals the extent to which the Japanese car and electronics industries heavily depend on parts manufacturers and subcontractors. 'Cooperative groups', led by a large final assembler, are a characteristic feature. Compared with their Western counterparts, the important role of subcontractors can be easily observed. The rate of value added to the sales proceeds of Japanese carmakers is 20 %, which is much lower than the 30 to 40 % which is seen in Western countries.

However, during the 1980s, the subcontracting system described above may have been undergoing substantial changes in response to a number of influences, particularly the high appreciation of the yen. The next section describes these changes.

The effectiveness of competition in the cooperative networks was also demonstrated in the Toyota–GM joint ventures in the US in the 1980s. The strategic formation of suppliers associations creates productivity enhancement. The interaction with the core companies and amongst suppliers results in skill and quality upgrading and cost saving. This is accomplished by 'relational skills'. These are a comprehensive capability which enables suppliers to perform more effectively as constituents of the subcontracting system.

Table 4.1 Comparison of Japanese and Western production subcontracting systems

Country Indicators	Japan	Western
Structure	Vertically organised as 'cooperative groups'	Separate from one another with horizontal relations
Value-added ratio of final assembler	(Carmaker) 20 %	30–40 %
Role of the parent company	Control centre	Contracting out the preliminary stages
Communication	Technical and product management guidance Frequent exchange of information	Infrequent

Source: Adapted from Ikeda, M. (Ikeda 1988), *New Development of Japanese Pattern of Subcontracting System*, Tokyo, Nihon University

3 The Reorganisation of the Subcontracting System in Japan

3.1 Changes in the Business Environment in the 1980s

The practice of mass production known as Fordism was changed as a consequence of movements on both the demand and supply sides. In brief, on the one hand, people demanded differentiated and customised goods in shorter cycles; on the other, the evolution of technology enabled manufacturers to use flexible manufacturing systems. These changes in the nature of demand and supply were major forces behind worldwide industrial restructuring. As a result, the constituents of subcontracting systems, namely a large core company and its suppliers, and the relations between them, were forced to change.

The Japanese experience of the movement to post-Fordist manufacturing is a particularly interesting case to study. With differentiated demand, both large and smaller enterprises diversified their production, encouraged by the emergence of niche markets. With shortening product cycles, manufacturers tried to produce small volumes of goods and establish flexible, changeable production systems. By shortening delivery times, enterprises strengthened the JIT system. In addition, higher precision and

quality control was achieved by means of improvements in the hard and soft or human sides of technology.

The most conspicuous effect of the appreciation of the yen and, in part, the search for lower production costs, was a sharp expansion of Japan's overseas direct investment, a feature of which was the large proportion which went to developing countries. Concomitantly, subcontracting companies invested heavily in the Asian Newly Industrialised Economies (NIES) and the Association of Southeast Asian Nations (ASEAN) countries by transferring production plants. Inevitably, the rising value of the yen and the expansion of overseas direct investment in the least developed countries (LDCs) increased the procurement rate of raw materials and parts from the LDCs. In addition, the governments of developing countries required Japanese companies to increase local content when they engaged in production subcontracting. As a result, subcontracting within the local economies in developing countries and international subcontracting between Japan and foreign economies evolved.

With the above overseas developments in mind, the focus in the next section will be on the domestic changes which have occurred. Government institutions publish research findings with regard to the development of SMEs; however, these findings naturally reflect a particular policy perspective. According to Friedman (1988), the Japanese government's institutions which provided small business finance had been effective in making subcontractors increasingly independent of large companies. The policy of these institutions was not formed by bureaucratic or market regulation, but resulted from 'political events' which transformed the perception and strategies of industrialists and workers, and made possible the widespread diffusion of flexible manufacturing techniques (Friedman 1988). By observing the research findings of government institutions, the resulting politics towards small companies can be elucidated. Most of the information in the next section comes from the White Paper of the MITI's Small and Medium-sized Enterprise Agency (MITI, 1988, 1989a, 1989b) and various nationwide research studies conducted by the People's Finance Corporation (Research Department of the National (People's) Finance Corporation 1988), and by the Central Cooperative Bank for Commerce and Industry (1989). These are major financial and policymaking institutions for SME development in Japan.

3.2 Development and Changes in Subcontracting in Japan

3.2.1 Extent and Vitality of Subcontracting

The research by MITI (1989a; 1989b) indicated a drastic decrease in the subcontracting rate (the proportion of purchased parts and components to the total component cost) to SMEs. With regard to entire manufacturing, the rate was 56.6 % at the end of 1987, a fall of 8.9 % since 1981. This reversed the trend of the previous 10 years, during which the subcontracting rate had increased continuously. The significant factors which influenced this change were the effects of the high appreciation of the yen (decreasing the total amount of orders going from parent companies to subcontracting SMEs) and the increase of international subcontracting, as aforementioned. However, another piece of research (Research Department of the Central Cooperative Bank for Commerce and Industry 1989) suggested that there was a continuing tendency to expand subcontracting in high growth industries. In particular, manufacturing industries, such as cars and electronics, maintained high average rates of subcontracting: 90 % (car industries) and 85 % (electronics industries) in 1987. Further, the average number of companies to which one subcontracting company subcontracted production or processing increased from 23.2 in 1984 to 25.6 in 1987. The highest rates were recorded in the car and machinery industries.

With regard to the machinery industries in particular, the economic performance of subcontracting companies, including very small companies, seemed to be strong, with an increase in sales between 1975 and 1985 (Research Department of the National (People's) Finance Corporation 1988). Research on profit rates (Research Department of the Central Cooperative Bank for Commerce and Industry 1989) (see Table 4.2) indicated that for very small companies (1–20 employees), some had declining profits (between 1975 and 1985, 20.2 % experienced a decreased profit rate); however, others had growing profits (12.9 % increased their profit rates by more than 10 %). This indicates the vitality of subcontracting in Japan in the face of a difficult economic situation

Table 4.2 Ordinary profit rates of the sample establishment of the survey by establishment size (1984)

Employees	Ordinary profit rates				
	0–2 %	2–6 %	6–10 %	10 %+	
	%	%	%	%	%
1–20	20.2	25.8	28.4	12.8	12.9
101–300	9.5	44.0	35.3	8.3	3.1
301+	5.2	48.3	32.7	12.1	1.7

Source: Research Department of the Central Cooperative Bank for Commerce and Industry (1989)

during the previous decade. Above all, the emergence of vital smaller subcontracting companies is noteworthy.

3.2.2 Changes in the Mode of Production

Movement Towards Diversified and Small Lot Production

Several trends can be observed from the changes in the mode of production subcontracting. First, a survey showed that in most cases, subcontracting companies adopted more diversified and smaller lots of parts production (Research Department of the Central Cooperative Bank for Commerce and Industry 1989) (see Table 4.3). The most conspicuous trend to diversified and smaller lot production was recorded in the car, electronic, and general machinery industries.

Shortening Delivery Times

With the intensification of the JIT system in production subcontracting, delivery times were shortened drastically. In the car industry in 1985, only 11 % of contracts stipulated that suppliers must make deliveries in a matter of hours, rather than days or weeks. This percentage rose to 26.2 % in 1988. In other manufacturing industries, the trends towards shorter delivery times were also clear.⁷

⁷ The JIT system was introduced not only in manufacturing but also other industries such as services. See Shinohara 1988.

Table 4.3 The trend to more diversified and smaller lot production among the sample establishments in the survey

	Diversification \longrightarrow	
Smaller lot \downarrow	no changes 16.4%	diversified but not smaller lot 22.1%
	smaller lot but not diversified 4.1%	diversified and smaller lot 53.9%

Source: Research Department of the Central Cooperative Bank for Commerce and Industry (1989)

3.2.3 Introduction of New Technology

Another apparent tendency was the rapid advancement of factory automation (FA). The introduction of numerical control (NC) machines and machining centres (MC) almost doubled: the introduction rate of these systems in a sample of subcontracting companies grew from 36.6 % to 55.9 % (NC) and from 14.9 % to 31.5 % (MC) between 1982 and 1988 respectively (Research Department of the Central Cooperative Bank for Commerce and Industry 1989).

The introduction rate of computers grew to around 80 % in 1988. More sophisticated computer-aided production systems were also rapidly introduced. This introduction of new technology helped to meet subcontracting needs such as those for high quality, cost reductions, shorter delivery times, and diversified and smaller lot production. In addition, production differentiation was promoted by using small-scale NC machinery. The introduction rate of NC machinery by SMEs in Japan was the highest in the world.

3.3 Structural Changes in Subcontracting in Japan

A new age required agile, flexible, and smaller-lot production with higher added value. These various needs of large companies put subcontracting companies to the test. Subcontracting practice became very selective. Large companies required subcontractors with specialised production techniques. Moreover, partnerships for the process of research and development were sought rather than hierarchical relationships aimed at reducing costs.

Subcontracting companies depended on the orders of their customers, so it is likely that, in principle, customers dominated production in the subcontracting hierarchies. However, in reality, interaction between customers and subcontractors regarding price and production volume negotiations always took place. The Japanese subcontracting system could be described as an 'intermediate organisational form' which is somewhere between 'markets' and 'hierarchies' (or 'organisations') (Imai et al. 1982). The typically conceived Japanese subcontracting system was vertically integrated as a cooperative industrial group. However, the new trends suggested that lateral subcontracting cooperation was emerging. In sum, there were two directions of development in the subcontracting system: selective integration and new networks.

3.3.1 Selective Integration of Vertical Subcontracting

The failure rate of SMEs increased, whilst the start-up rate decreased rapidly from around 1983 (Small Business in Japan 1989). The appreciation of the yen changed the strategies of large parent companies; they tended to transfer labour-intensive production subcontracting to NIES and other developing countries. Further, the various needs of parent companies, such as shorter delivery times and diversified production, tested the subcontracting companies. From the subcontractors' point of view, comprehensive management, including production management and technology development, became more important than before. Above all, entrepreneurship was required to improve adaptive ability because a static subcontracting system could no longer be relied upon (MITI, 1988, 1989a, b). In other words, whereas subcontractors were previously arms of production lines, now they

had to equip themselves for adaptability and to be autonomous from the dominant control of parent companies.

In due course, parent companies tried to select the most able primary subcontracting companies. Because these subcontracting companies were forced to change their strategy from that of mass production to small lot production, they broadened their manufacturing processes; consequently, the processes which they formerly contracted to secondary subcontractors were now integrated into their own in-house production. This integration of manufacturing processes reduced the hierarchical spread of subcontractors. Companies could not retain business relations with customers unless they developed the adaptive ability to respond to the required changes; consequently, the integration of the subcontracting process was very selective and companies which were unable to adapt to the new requirements were forced to close.

Because of this, it became difficult to continue cooperative and long-term relationships within the subcontracting system in a static way. For example, carmaker suppliers' associations (*Kyoryokukai*) experienced frequent dissolutions⁸ under the changing economic conditions. In this regard, the inter-company division of labour became more functional in a dynamic process of reorganisation.

3.3.2 New Networks

Large companies started to choose independent subcontracting companies and contracted out higher value-added production. In addition, subcontracting companies with excellent management abilities were encouraged to diversify in order to avoid exclusive dependence on a customer. Such independent subcontractors were beginning to form diversified networks with companies outside the subcontracting system in order to explore niches in increasingly differentiated product markets. This strategy resulted in horizontal relations between suppliers.

The subcontracting strategies of parent companies were becoming clearer. First, labour-intensive production or processing subcontracting

⁸ Reported by Ikeda Masayoshi, a Japanese journal: *Economist*, 5.23, 1989.

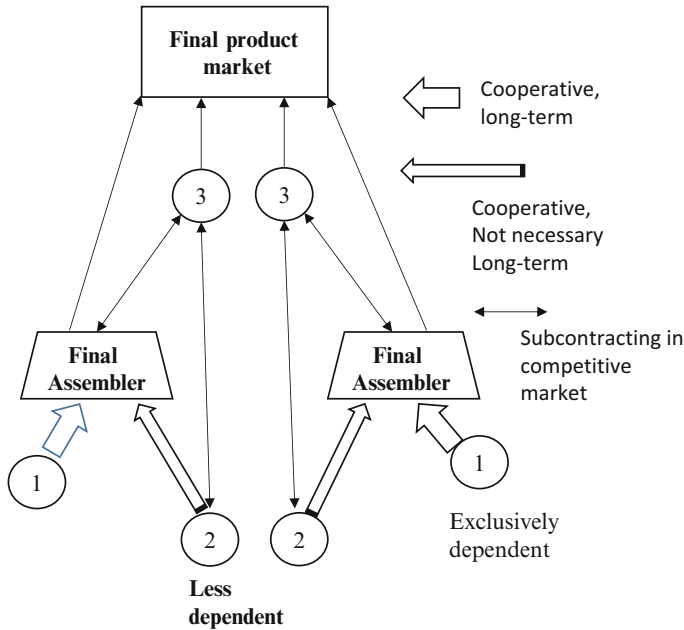


Fig. 4.2 The changing nature of subcontracting companies. Source: Adapted from Sumiyoshi, T. (1989), *Nikkei Shimbun*, 25 May 1989

was contracted out to overseas manufacturers; for example, to NIES and ASEAN countries which could provide low-cost production. Second, in order to achieve enhanced quality and shorter delivery times, subcontracting within a cooperative group was preferred. Third, in order to utilise special technology, parent companies chose independent subcontractors and contracted out higher value-added production. Subcontracting companies with excellent management abilities were also encouraged to diversify in order to avoid exclusive dependence on a parent company.

Figure 4.2 shows a traditional multi-tiered subcontracting system in Japan in the 1980s and the emergence of independent subcontracting SMEs which formed new networks. As shown in this figure (which is originally from an article by Mr Sumiyoshi of the Research Department of the National Finance Corporation), the first two categories of companies (1) and (2) preserve the efficiency of the traditional subcontracting system (cooperative and long-term relationships); however, (2) is becoming more

independent from exclusive subcontracting relations. This suggests a deviation from the traditional hierarchical subcontracting system. The third category of companies (3) is independent of the control of one parent company and develops technological and managerial specialities which enable the prospect of more market-oriented subcontracting agreements. These independent subcontractors are beginning to form diversified networks with companies outside the subcontracting systems in order to explore niches in increasingly differentiated product markets. The result is higher value-added production for SMEs. Indeed, the amount of value-added production among SMEs (less than 300 employees) in total manufacturing production increased from 1985 (when the appreciation of the yen started) (Small Business in Japan 1989).

A policy of the Japanese government to promote SMEs attached importance to forming new networks for SMEs. In 1988, the government legislated to promote exchange between SMEs. The law concerning development in new fields through the amalgamation of SMEs of different business categories (the Amalgamation Law) provided budget allocations and gave finance and favourable tax treatment. In addition, with regard to municipal cooperation, Tokyo and other prefectures complemented the government's measures. The overall picture of the changes to the subcontracting system in Japan is illustrated in Fig. 4.3. It is clear that for SMEs to become subcontracting companies, they required comprehensive management ability, whilst the development of entrepreneurship was important for forming new networks at a time of industrial reorganisation.

4 The Impact on Labour and Social Aspects: Issues for Further Consideration

4.1 The Foster Model and the Community Model for the Development of SMEs

Naturally, a disadvantage of SMEs for development is resource deficiency. Two approaches can overcome this: one is to rely on the support of large, resourceful enterprises (the foster model); the second is to associate with

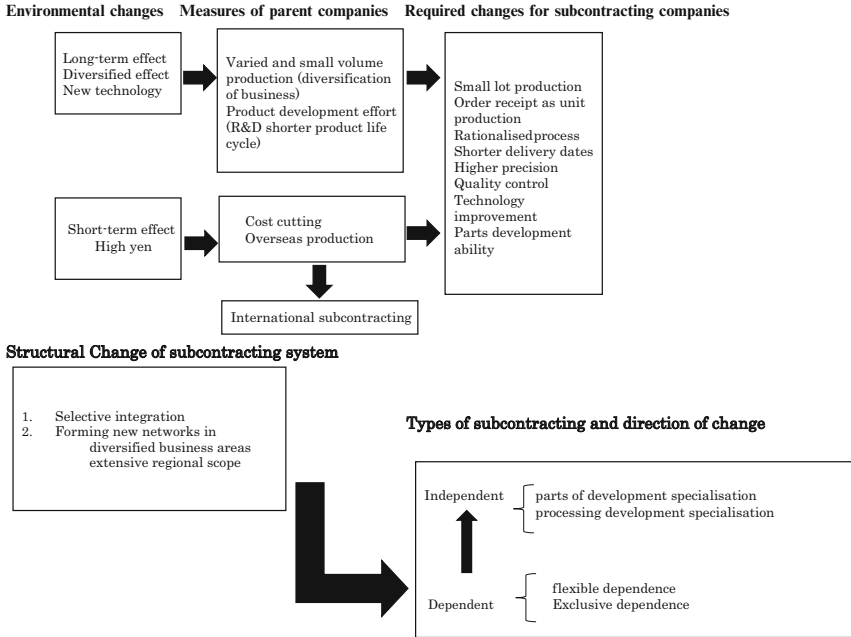


Fig. 4.3 Diagram of the changes to the subcontracting system in Japan

other small companies (the community model) (Sengenberger 1988). Japanese vertically integrated subcontracting systems are well known for adhering to a foster model of development for SMEs, whereby a large company transfers financial capital, technical know-how, equipment, and human resources to subordinate subcontractors.

However, as previously described, changes to the subcontracting systems and to subcontractors in Japan indicated new trends; for example, greater independence from parent companies and the formation of new networks among more autonomous small companies. As presented in Fig. 4.2, subcontractors tried to end exclusive dependence on a parent company by forming networks with other small subcontractors. In the experience of European subcontractors, ‘independence can be won through lateral organization and co-operation of companies at the same stage or at related stages of production within the vertical production chain’ (Sengenberger and Loveman 1987, p. 45). The promotion of

lateral cooperation in different businesses was also encouraged in Japan. As these independent companies began to form new horizontal networks, they proceeded to the community model of subcontractual development.

In the Third Italy (North-eastern and Central Italy), lateral cooperation within the community of autonomous small companies in industrial districts functioned well, with an increase in the percentage of subcontractors of between three and five times in all industries between 1973 and 1984 (Contini 1989). Some industrial districts were analogous to the Italian model in the Japanese machinery industries. An interesting example of the community model in Japan was investigated by Friedman (1988). He studied the case of the Sakaki township in Nagano prefecture as analogous to an Italian industrial district. He introduced Sakaki as possessing one of the world's highest concentrations of sophisticated production machinery. In 1983, Sakaki's population was only 16,000 (about 0.013 % of Japan's total population), with 321 manufacturing companies (0.04 % of those in the country), but it had about 600 NC machine tools which amounted to 1 % of the total NC machine tools in Japan. A salient feature of these manufacturing companies was that the majority had fewer than 10 employees (77 % of the total companies in the township) in 1982.

In the 1960s, the township started to develop rapidly with car subcontracting. Then, from the 1970s, the weight of manufacturing production moved to the electronics, general machinery, and plastics industries. It is reported that value-added rose by more than 1200 % and that shipments increased 1000 % between 1966 and 1982. During this period, the small factories became independent. Friedman points out that 'Sakaki's manufacturers actively pursued subcontracting strategies that would increase their autonomy' (Friedman, *ibid.*, p. 182). The subcontractors formed an industrial community. Sharing NC machinery, which is an effective means to execute flexible manufacturing, they tried to diversify their production. Moreover, the policy of regionalism pursued by the Sakaki Chamber of Commerce protected Sakaki's companies from external pressures. The Chamber of Commerce also coordinated finance for small companies. Cases of bankruptcy of companies in the township were rare.

Another analogous case to that of the Italian industrial districts may be seen in Sanchi, a local production district which was more labour-intensive than Sakaki. The community-based textile industry in Sanchi had developed with inter-company cooperation, ‘rejecting the selfishness of individualism, retaining the “mutual consideration” part of traditional hierarchical structures, while gaining the equality advantages of the new’ (Dore 1986). Stagnation in Sanchi’s industry indicated that the new Japanese networks had not yet contributed to regional development in a similar concrete manner as in the Italian districts, partly because the role of Tokyo with regard to the regional division of labour was excessively predominant.

However, the concept of ‘flexible specialisation’, which provided an eloquent explanation for the effectiveness of the community model, seemed to correspond to the direction taken by the Japanese subcontracting system. In short, the rapid introduction of new technology and general-purpose machinery had given the SMEs the ability to adapt quickly to changes and conduct varied and small batch production. In addition, the features of the Japanese skilled worker—for example, broadly skilled and polyvalent—were also required for ‘flexible specialisation’ work. Thus, there was a significant prospect that the community model would develop nationwide in Japan.

4.2 Labour and Social Problems in the Foster Model

In the foster model, a danger exists that the control of the parent company over its subcontractors dominates the terms of the production schedule, price negotiation, and the workers’ labour conditions. Above all, this subcontracting system presupposes a differential of labour conditions between the large parent company and smaller subordinate subcontractors. The parent companies exploit the lower labour costs of the small companies and utilise them as buffers for market fluctuations. The continuing pressure of cost reduction from the parent companies is embedded in the process of subcontracting.

In addition, trade unions generally do not have strongholds in smaller companies; thus, the limited coverage of collective agreements results in

wide differentials of labour conditions between large and smaller companies. The union density in the private sector indicates a significant difference by company size. The union density in very large companies (more than 1000 employees) was 64.7 % in 1988. However, the proportion in smaller companies decreased as follows: 26.8 % (100 to 999 employees), 6.0 % (30 to 99 employees), and only 0.4 % (fewer than 30 employees). The trend in the 1980s continued, with a further decrease of union density in smaller companies in the 1990s.⁹

Further, since small companies were used as buffers, they tended to employ non-regular workers such as part-timers and temporary employees. The number of part-time workers had increased since the oil crisis, amounting to 5.3 million in 1988 or 12 % of the employed population. Most part-time workers were employed by small companies with fewer than 100 employees (Takauasi 1989). Detachment workers were extensively used in smaller companies. As a result, within the SMEs, the differentials of labour conditions between core workers—mostly skilled and mainly male workers—and peripheral workers—lower skilled and mainly female workers—widened (Nakamura 1986).

However, a vertical structure of the regional division of labour which centred around the Tokyo metropolitan area contributed to a regional imbalance of labour conditions. A comparison between the Tohoku area (north-east Japan) and the Tokyo metropolitan area explicitly showed large differences in value-added and cash salary per employee. In particular, the wage differences between urban and local areas appeared more pronounced among SMEs.

The JIT system in the Japanese vertical division of labour gave a parent company the prerogative of setting the production schedule of the whole subcontracting system. For example, once a production plan and working hours for a final assembler were fixed, those of the subcontracting companies would have to be set accordingly. In other words, an effective JIT system required subcontractors to have flexible labour schedules. In this regard, the system needed an effective, rapid response to fluctuating orders at each production stage. Thus, employment conditions in subcontracting

⁹ Information hearing from the Ministry of Labour.

companies derived from the negotiation between labour and management at the final assembler stage. The tighter the subcontracting relations, the less room there was for the negotiation of labour conditions in the subcontracting companies.

Moreover, the JIT system required considerable logistics. For example, the transportation services at each delivery stage always had to be available for rapid delivery times. Accordingly, working conditions in transportation services completely relied on the manufacturing process. As a result, the workers in transportation services were forced to work longer hours than other Japanese workers. In 1986, the normal hours of work per month in all industries in Japan were 180 and the actual hours of work amounted to 198. However, the actual hours of work of lorry drivers ranged from 240 to 260 (the drivers of larger lorries had longer working hours), although the normal hours worked were approximately 190.¹⁰ Thus, lengthy overtime hours were worked.

Consequently, the JIT system involved disparate working conditions among the agglomeration of subcontracting companies. The enterprise-based unions could not solve the problem of unequal labour conditions and industrial relations within this system. Generally, collective bargaining at the level of the parent companies did not include the workers at the subcontracting levels. For example, for the convenience of the major plants of Toyota, Nissan, and Hino, May Day changed from being a designated holiday to become a working day with the agreement of their enterprise-based unions in early 1990 (*Asahi Shimbun*, 10 March 1990). Then, in order to maintain JIT efficiency, the workers of the subcontracting companies were virtually forced to work on that day. Here, it should be pointed out that the negotiations conducted by an enterprise union often reflected its exclusive interests. In this sense, because a subcontracting system involved many kinds of industry, a multi-industrial approach would be required to establish adequate labour relations. A multi-industrial union or, alternatively, a regionally based union in the same subcontracting system, should have been advocated.

¹⁰ Information hearing from All Japan Truck Association.

The JIT system, however, changed as it spread into the international dimension. Toyota's *Kanban* system was a famous forerunner of a JIT system which exploited the geographical proximity of assemblers and the factories of production subcontractors. Nevertheless, Toyota had released a plan to decentralise production plants in February 1990 (*Nihon Keizai Shimbun*, 15 February 1990). Toyota plants were densely gathered in the Mikawa region. However, the labour shortage in the region encouraged a move to establish plants in areas remote from Mikawa, such as Kyusyu and Hokkaido. The experiences of joint ventures in the USA were being fed back into this plan. In the joint venture of GM and NUMMI, an adjusted *Kanban* system had been tried whereby JIT was established to work over a more extensive regional area. A big cargo base had been established in Chicago from which various parts and components were distributed. Toyota was trying to introduce this new technique of the JIT system. Thus, complete vertical divisions of labour in a single region were not pursued, even by Toyota which invented the original JIT system.

4.3 The Japanese Subcontracting System: International Dimensions and Labour Standards

The Japanese subcontracting system attracted foreign interest from developed and developing countries. Its transplant occurred in various places. In particular, South East Asia, the USA, and EC countries were becoming assembly and subassembly bases for the Japanese car and electronics industries. Of course, the strategic advantages for subcontracting were different, depending upon each region. In developing countries, a major focus is on lower-cost production; in developed countries, local production aimed at acquiring markets and reducing the huge Japanese trade surplus. However, there was a danger of lower labour standards resulting from the subcontractors' dependence on the parent company's control over production and working conditions. This was a very significant problem at a time of structural change in labour-management relations and an expansion of flexible labour.

The new Japanese subcontracting companies were less dependent on core assemblers and formed new networks with other SMEs. Friedman

(1988) indicated that an industrial district, such as Sakaki, gave small manufacturers the ability to resist downward wage and price pressures. He observed that Sakaki's wages were the highest in the Nagano prefecture. 'By 1983, workers in the township were paid almost exactly the same as blue-collar employees in manufacturing companies with 500 employees or more nationwide' (Friedman, *op. cit.*, p. 184). Thus, horizontal cooperative production networks of subcontractors prevented wage squeezing in Sakaki (Friedman, *op. cit.*, p. 198). If these independent companies or communities, which seemed to be able to escape the trap of poor 'derived' labour conditions, could rebuild new Japanese subcontracting systems and related techniques such as the JIT system, it would be easier to transplant such a system overseas without undermining social progress.

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Part II

Transferability to Asia

5

Resilience of Japanese Automobile Investment in Thailand during the 1997 Asian Financial Crisis

1 Introduction

The Asian financial crisis of 1997 and the accompanying rise in unemployment (from 1.5 % in 1997 to 4 % in 1998) caused serious social problems in Thailand. The World Bank, Asian Development Bank, and UN organisations as well as bilateral aid donors committed a great amount of loans, grants, and technical assistance to combat the country's social disasters. With continuing unemployment problems (despite the private domestic sector showing signs of revitalisation in 1999), much foreign aid continued to be used to assist Thai government countermeasures. Japan's 'Miyazawa plan' was a representative case. International aid agencies also called for the development of social safety nets such as unemployment insurance schemes. The creation of an effective *public* social safety net was specifically recommended.

The importance of official international assistance notwithstanding, several private and corporate initiatives have demonstrated strong resilience to the adverse impacts of the economic crisis, not only in terms of their business performance but also in terms of social aspects like employment creation and security, as well as the maintenance of continuous

production that allows local supply chains to operate at (at least) a minimal survival level whilst employees' skills are upgraded. Small and medium-sized enterprises (SMEs) are performing best in terms of job creation. Small SMEs are expected to create links between the two most rapidly growing economies—the knowledge and informal economies—in both industrialised and industrialising countries.¹ Resilient links may also be forged between the foreign affiliates of large transnational corporations (TNCs) and SMEs, which can be sustained even during sudden economic crises.

One example is the case of Toyota automobile production in Thailand (Toyota Motor Thailand, or TMT), which has been discussed in publications such as UNCTAD's *1998 World Investment Report*. This chapter on TMT examines the resilience of local SMEs linked to a Japanese TNC and its affiliates in the face of the 1997 financial crisis. Its aim is to both extract the success factors in this resilience and consider the viability of generating local corporate social safety networks. Employment, human resources development, and local supplier development are the major options studied in this chapter.

2 Impact of the Asian Financial Crisis (1997–1998)

2.1 Production

The Thai economy enjoyed high annual economic growth rates averaging 8.7 % from 1987 to 1997. It was assisted by a steady increase in manufacturing exports. Foreign direct investment (FDI) was also active during this period, mostly in the Greater Metropolitan Bangkok area, attracted by the country's low labour costs.

In 1996, Thailand's automobile industry increased production up to a record level of 559,428 units, with over 50 % of total output destined for the domestic market.

¹ Address by Juan Somavia, Director-General of the ILO, to the staff of the World Bank, 'Decent Work for All in a Global Economy', 2 March 2000.

Table 5.1 Net capital flows (% of GDP)

	1991	1992	1993	1994	1995	1996	1997
Private	10.7	8.7	8.4	8.6	12.7	9.7	-10.7
Official	1.1	0.1	0.2	0.1	0.7	0.7	4.9

Source: IMF (1997), *World Economic Outlook*, Interim assessment, December

In 1997, Thailand was hit by the financial crisis, and the economy suddenly declined to negative growth. Net private capital flows suddenly became negative, reaching -10.7 % of GDP in 1997 (see Table 5.1). Automobile production fell drastically, to 360,303 units in 1997 and 158,130 in 1998. TMT experienced a great loss of domestic demand for automobiles. It was hit by the most serious business turbulence since its start-up in 1962. Production at one major factory declined dramatically, from 150,000 units in 1996 to 35,000 in 1998. This kind of output reduction led to a 20 % utilisation of production capacity in all local TMT factories, which ran at a minimum production level just for post-crisis survival.

From late 1997 onwards, the two-shift production system was changed to a one-shift system only. In-house subcontracting and part-time work were also drastically reduced.

2.2 Employment

During the high economic growth period, the share of manufacturing employment doubled, from 10 % in 1980 to 21 % in 1996 (World Bank 1999). Furthermore, the unemployment rate dropped to below 1 % in 1996. The impact of the 1997 crisis caused great repercussions on employment. After the onset of the crisis, unemployment rose sharply, from 2.2 % in 1997 to 5.2 % in 1999. A 1998 International Labour Organization (ILO) report claimed that the 'customarily low unemployment rate suggests great resilience and flexibility in the Thai labour force, so that job losses are most likely to show up as increased underemployment' (ILO 1998). The ILO/EASTMAT (2000) also noted increased underemployment, especially in the manufacturing sector and in urban areas.

One reason for the increase of underemployment in the industrial sector was manufacturing firms' tendency to prefer to adjust employment

by reducing overtime working hours rather than by a large-scale retrenchment of regular workers. It became common for regular workers to work shorter hours in the sector, as firms tried to respond to the sudden drop in demand. Regular workers were rarely laid off because employers had to pay regulatory severance payments.

However, the crisis was not contained by such flexible mechanisms. Unemployment reached an unprecedented level and was not mitigated by the rise of temporary underemployment functioning as an asylum for the unemployed poor. In the automobile industry, large-scale layoffs took place amid the shutdown of not only small suppliers but also larger plants, and final assembly lines were frozen.

TMT managed to avoid large-scale layoffs through the sudden shutdown of its production networks. However, the readjustment at TMT reduced its workforce from 5640 in May 1997 to 4270 at the end of 1997 and 3800 by the end of 1998. However, TMT did not lay off any regular workers pursuant to a collective agreement with trade unions and an implicit personnel policy. This approach to human resources management will be examined further in the following section.

3 Reactions Against the Crisis and Long-term Perspectives

As Toyota regards its Thai production base as an integral part of its global production strategy, a kind of rescue mission to respond to the emerging crisis was undertaken. This was aimed primarily at the subsidiary assembly plants, but it also resulted in productive inter-firm synergisms along the supply chain characteristic of typical Japanese inter-firm 'trust' relationships (Scher 1997).

3.1 Rescue Mission from Japan

The most impressive support from Toyota headquarters was induced by a decision in line with its long-term global production strategy. Before the financial crisis, TMT had steadily developed production volume and

expanded its production into passenger cars such as the Corolla in addition to its major production of carrier-type cars (e.g. the Hi-lux). In 1997, TMT's registered capital was 500 million baht. Then, in 1998, Toyota invested four billion baht in TMT, eight times its initial capital start-up. Although the main objective of the capital injection was to boost equity shares in the affiliates at discounted prices, the increased assets were partly utilised for the pre-shipment payment of parts and components from suppliers who were suffering severely from a shortage of operating funds caused by restrictions on local bank loans. Honda provided a similar capital injection, but in a different way. It injected three billion baht into their holding company in order to accelerate the production relocation strategy and provide resources for the restructuring of their local operations. This was executed to take advantage of the devaluation of the Thai currency (OECD 1999).

In addition, Toyota Japan reduced its exports to Australia, the largest importer of automobiles from Thailand (9400 units in 1998²) so that TMT could find an outlet for its manufactured automobiles. These strategies were in line with Toyota's aim of building a future production centre in Thailand serving the growing markets in the Asia and Pacific region. A major Japanese newspaper the target for the use of local content in automobile production this year is 90 %, which will continue to be the target for the foreseeable future (*Nihon Keizai Shimbun*, 7 February 1999).

The financial crisis redirected TMT's production strategy from domestic market-oriented to export-oriented and promoted a regional division of production. This trend led to a fundamental strategic change of production competence in Thailand and made Thailand attractive as a production site for automobiles.

These developments were orchestrated from Toyota headquarters. Producer-driven production systems tend to be controlled by the headquarters of automotive TNCs, and this control extends over backward and forward linkages (Gereffi 1994). However, there are important differences between Toyota and its Western competitors on the issue of

² Thai Custom Office and JETRO information, JETRO Bangkok Centre.

control. These are particularly evident in the spheres of employment and human resources development.

3.2 Employment Issues

Following the collective agreement with regular workers,³ employment adjustment was implemented, as is usual in Japan. Recruitment was halted, and the positions vacated by retiring workers were kept vacant. TMT also set up an early retirement system through which workers could receive increased lump-sum payments as premium retirement allowances when leaving their job.

Furthermore, TMT transferred a certain number of regular workers to local affiliates and dealers in Thailand. Though it is a surprisingly large-volume project, TMT also sent approximately 100 workers to Japan in 1997 as trainees at Toyota production plants, financially supported by government official development aid (ODA) schemes (via the Association for Overseas Technical Scholarship (AOTS) training cooperation system). Managers have regarded the increasing surplus of workers as a source of trainees for efficient on-the-job training.

These arrangements are common in large Japanese enterprises that have cooperative industrial relationships with enterprise unions. The guiding principle of the arrangements is employment security with work flexibility for regular workers. Both Japanese employers and employees still believe that the benefits of long-term employment exceed its costs (Baron and Kreps 1999). It saves the costs of recruitment, redundancy, and training, and promotes effective employee evaluations, as well as incentives and loyalty. Such long-term agreements are accompanied by methods of promoting flexible work, such as multi-skills formation, extensive internal and inter-firm transfers, and the acceptance of fluctuations in compensation such as for overtime work, and fringe benefits.

³ For example, TMT and its trade union, the Toyota Thailand Workers Union (TTWU) made a joint declaration in 1993 which explicitly expressed mutual cooperation and implicitly included employment security for union members.

Sometimes, the foreign operations of Japanese enterprises have been criticised for the low share of local people in management positions. TMT increased its share of local managers from none in 1962 to around 200 of 264 posts in 1999. The localisation of staff was a corporate mission, called 'Thainisation'. During the crisis, this target was still pursued incrementally. This steady process reached a mature stage, and a Senior Vice President of the Siam Cement Public Company was appointed as the new chairman of the TMT board in January 2000 (Thai Toyota News 2000).

3.3 Human Resources Development

As mentioned, TMT retained a solid employment security policy for core production workers even during the crisis, and regular production workers were not dismissed because long-term human resources development 'on the job' is particularly important for upgrading workers' skills in the Japanese automobile industry, especially for Toyota.

The mainstream of human resources development (HRD) in Japan has generally been conducted in the private sector, although public vocational training has played important complementary roles in HRD in leading economic sectors, such as the automobile and electrical industries, during high economic growth periods.

Training assistance from Japanese ODA has the same basis. Financial aid for trainees to be sent to the Japanese private sector is a major pillar of technical assistance. AOTS subsidises around two thirds of the training costs in Japan, which is financed by the ODA budget. A unique training contribution has also been provided by government initiatives within the framework of APEC cooperation. The Overseas Vocational Training Association (OVTA), the Japanese executing agency of this project, finances the training for local applicants. TMT has accepted local trainees from outside the related production sites. This project was set to continue into 2000.

TMT provided financial help to set up the Toyota Automotive Technology School in 1998. This is acknowledged by the Ministry of Education to be the foremost state-of-the-art automobile school in Thailand. This school trains in automotive mechanics, which contributes to the

creation of good dealer services. Such training efforts are an integral part of the concept of Total Quality Control (TQC) and are also expected to promote the expansion of the domestic market. Toyota has several decades of accumulated useful experience in operating training schools in Japan, representing a positive contribution to TQC.

The Toyota Automotive Technology School has undergone interesting developments in recent years. Although the initial curriculum was created by the Ministry of Education and its Department of Vocational Training, TMT was deeply involved in developing new training modules in 2000. This coincided with a worldwide trend towards the adoption of new training programmes such as ‘open and flexible learning’. Tchaban (1999) identified two principal features: first, it is closely linked to changing employment needs and delivered in modular form; second, it is ‘an effective means of providing “soft skills” such as problem solving, team-working, negotiation, sharing knowledge, and time management’ (Sengenberger 1999).

This HRD contribution of TMT could be regarded as a local corporate social initiative. HRD is acknowledged as an efficient mode of long-term skill formation in automobile production. Japanese experiences point to a leading role for private companies and a complementary role for public institutions in this field. As HRD is a most important issue in developing countries, there are possibilities for exploring the benefits of private training arrangements.⁴

4 Process of Recovery in 1999

After January 1999, Thai automobile production gradually entered a steady recovery growth track. Over the year, production rose by 106.9 %, to 327,233 units, doubling the previous year’s total (Federation of Thai Industries). This was accelerated by exports. The total volume of units exported in January 1999 was 5953, representing 2690 million baht

⁴ ILO adopted a new international labour standard for HRD in which the effective utilisation of private training opportunities could be incorporated within a public vocational training framework (ILO Conference, June 2000).

in value. By December 1999, the number of export units had reached 14,318 valued at 7023 million baht. Exports almost doubled again over the previous year, from 67,857 to 125,702 units and from 34,110 to 60,105 million baht in value.

Toyota is the largest producer of automobiles in Thailand. It grew in monthly sales from 9708 units in January 1999 to 37,196 in December 1999, amounting to 218,330 sales for the whole year. It raised its monthly sales by 383 % from January to December 1999.

Regarding the recovery of domestic sales, TMT extended the operating hours at its two major factories to nearly 100 % of production capability for one-shift work operation, with a level of 100,000 units produced annually. Two-shift work operations had not yet been reintroduced.

In 1999, the number of employees increased to 4374, including non-regular workers.

TMT survived the Asian financial crisis with only moderate damage. The sudden drop in domestic demand was critical. However, it also pushed production more towards export markets. Thailand is regarded as the most important auto-production base by many automakers. Figure 5.1 shows the transition of automobile production, sales and export of Thailand; the production units reached beyond one million units in 2005. It was projected to exceed its production capability by 2002, and pushing production capacity would require further investment after the crisis. Auto Alliance Thailand (AAT), a joint venture between Mazda and Ford, started producing 70,000 units per year for export to South Africa, Malaysia, and the Philippines in 1999. It had the same level of exports as Mitsubishi (MMC). All the other Japanese automakers, such as Nissan, Honda, and Isuzu, were also trying to increase exports to other countries from their production plants in Thailand.

General Motors (GM) and BMW also started producing for export. Fiat and Volkswagen planned to start as well. The automobile industry in Thailand was on the right track for a boost to growth.

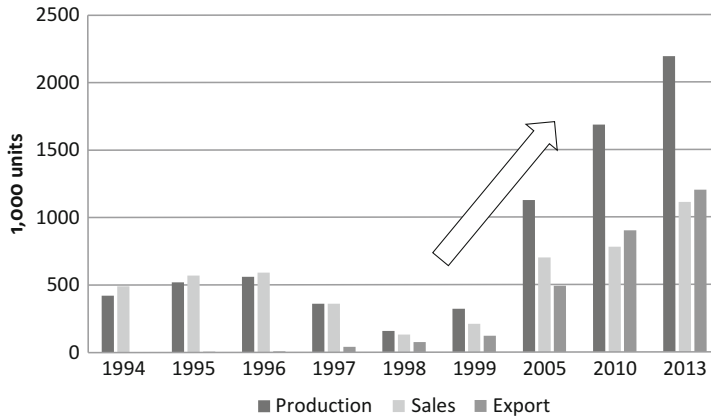


Fig. 5.1 Thai automobile production, sales and exports before and after the crisis. *Source:* JETRO Bangkok etc

5 A Corporate Initiative for Developing Resilient Supplier Chains and Industrial Capacity Building

5.1 Subcontracting Networks and SMEs

Although Toyota's production system is often cited as an example of best corporate practice, it has also been criticised for its possibly adverse effects on suppliers: fierce competition can lower suppliers' profit margins, and knowledge sharing can result in knowledge outflow from suppliers, damaging their competitive advantages (van Liemt 1998).

However, there are widely recognised benefits of upgrading mechanisms in the supplier–producer relationships at Toyota production sites, resulting in skill development and the creation of stable economic environments, especially in developing countries.

TMT formed a close suppliers' association comprising primary parts and components suppliers, who form a multi-tier subcontracting system typical of major Japanese automobile and electronic production systems. TMT procures parts and components directly and outsources the processing of some materials to so-called 'primary-tier' subcontracting firms. There were

134 such primary subcontracting firms in 2000. Most are affiliates with some Japanese investment, but 15 % of the primary suppliers (20 firms) are so-called ‘pure Thai’, in which all the capital is locally owned (see Table 5.2). None of the primary-tier parts suppliers went bankrupt during the financial crisis in Thailand. Strong support from TMT, which provided pre-procurement payments to the parts suppliers (using the augmented capital flows from Toyota headquarters mentioned previously), contributed to the survival of these firms (*Nihon Keizai Shimbun*, 17 November 1998).

In 1999, the share of pure Thai firms among suppliers increased to 62 % (see Table 5.3). Raising the level of local content was a necessary step in the drive to export more from Thailand. This required further investment by Japanese SMEs as well as more contracting to and fostering of local suppliers. TMT President Yoshiaki Muramatsu declared that, for its mainline Corolla, ‘It is our aim to raise local content to 80 % from the current 50 % or so’ (*Nikkei Weekly*, 6 March 2000).

The TMT subcontracting system involved more than 2,000 second-tier subcontracting firms, mostly local SMEs, which, despite the financial crisis, maintained their production operations and sustained TMT’s whole production system (Table 5.4). More broadly, this contributed to

Table 5.2 Parts purchasing suppliers

Type of business	Number	%	Purchasing amount (thousand baht)	%
A. Japanese Joint Venture	68	51	2,358,531	33
B. Japanese Technical Assistance	20	15	586,077	8
C. Other Country’s Joint Venture	5	4	105,153	1
D. Pure Thai	20	15	74,849	1
E. Related Corporation	4	3	3,364,173	47
F. BBC	17	12	724,450	10
Total	134	100	7,213,233	100

Note: A BBC is a company that applied for the Brand-to-Brand Complementation scheme, under which the company benefits from a reduction in the import tax for parts and materials to a half of the general tariff in the ASEAN region. It developed into a new regional free trade system called ‘AICO’.

Source: Hearing from TMT, 25 January 1999

Table 5.3 Material and facilities: Purchasing suppliers

Type of business	Number	%	Purchasing amount (thousand baht)	%
A. Japanese Joint Venture	64	19	316,561	23
B. Japanese Technical Assistance	1	0	0.953	0
C. Other Country's Joint Venture	64	19	60,823	4
D. Pure Thai	209	62	248,114	18
E. Related Corporation	4	0	438,714	32
F. BBC	0	0	310,080	23
Total	339	100	1,375.245	100

Source: Hearing from TMT January 25, 1999

Table 5.4 Total suppliers

Type of business	Number	%	Purchasing amount (thousand baht)	%
A. Japanese Joint Venture	132	28	2,675,092	31
B. Japanese Technical Assistance	21	4	587,030	7
C. Other Country's Joint Venture	69	15	165,976	2
D. Pure Thai	229	48	322,963	4
E. Related Corporation	5	1	3,802,887	44
F. BBC	17	4	1,034,530	12
Total	473	100	8,588,478	100

Source: Hearing from TMT January 25, 1999

Thailand's local and national economy—in terms of employment, for example. Employment throughout the entire production chain totalled 300,000 persons (Thailand Update 1999).

5.2 The Concept of Forming an Effective Suppliers' Association

Like the Toyota production system in Japan, TMT introduced a mechanism of competition among its subcontractors. Around 120 companies

joined the Toyota Cooperative Club (TCC), which held regular meetings (twice a week) at the TMT office to exchange information on production issues. In addition, TMT created the Toyota Target Value System (see Fig. 5.2) that established progressively higher targets for subcontracting firms, pursued with technical support from TMT. Firms were competitively rated according to their performance. A *kaizen* cycle (a cycle of gradual improvement through interactions amongst actors) was the outcome. Necessary and dynamic interactions between suppliers and buyers' relationships were developed in order to upgrade suppliers' production capabilities and to cement stable relationships with the Toyota assembly plants.

It also provided technical support, including information and consultation from TMT. Toyota's commitment to encouraging learning amongst its supplier group has been one of the most competitive strengths of Toyota's production system since its origin. Consultants dispatched by Toyota to suppliers facilitated the formation of a long-term learning organisation mechanism amongst subcontracting firms. The Toyota

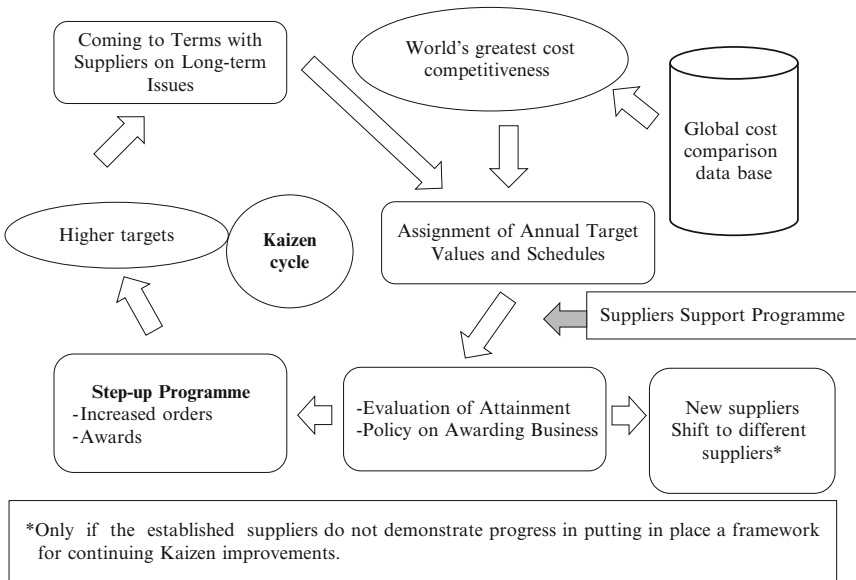


Fig. 5.2 Toyota target value system. *Source:* Adapted from information provided by TMT

production system in Japan had a fully developed mechanism involving a specifically trained consultant pool called Toyota's 'Operation Management Division'. In line with this concept, similar mechanisms were created in foreign countries, such as the Toyota Supplier Support Centre founded in 1992 in the USA.

This strategy reflected TMT's preference for long-term relationships to short-term contract-based business relationships and maintained a mechanism for upgrading suppliers' production capability through competition stimulated by a rating system. Williamson (1979) insisted that long-term relationships have the additional benefit of lowering transaction costs. In order to maintain vertical relationships with lead firms, suppliers have to help each other to form a kind of horizontal business association. Doner and Schneider (2000) from a view of new institutional economics suggested that such associations can offer 'potentially attractive alternate or supplemental institutions to the weak states so common in developing countries'. TMT managers indicated that this institutional mechanism is an integral part of the TMT production system and demands much effort and heavy involvement from top management.

A supplier that fails to meet TMT's requirement is phased out of the cooperative association, although it may return after upgrading its production capabilities.

5.3 Supplier Programmes

5.3.1 Target Value System

Under the Toyota Target Value System, TMT implemented evaluation and rating activities with the primary-tier suppliers. TMT set targets for quality, delivery, and cost. Suppliers with poor evaluations or ratings are asked to improve in the first instance according to their own initiative. TMT might also provide assistance to the suppliers under certain conditions.

TMT set quality targets for defect rates and the number of post-delivery customer claims. The delivery target was set at a less than one-hour delay, though there was no such target in Japan. For the cost-efficiency target, valid suggestions from TMT suppliers on cost reduction

and cost-efficiency were taken into account; these were called 'VE' (for 'value evaluation') and 'VA' (for 'value analysts') cost reduction activities. The former were positive suggestions before final assembly and the latter were suggestions for after final assembly.

TMT followed a cyclical evaluation procedure to implement this scheme. TMT management set preliminary targets, which were commented on by each department. A concluding summary report was then presented to a TMT managing meeting. If the targets were not approved, further discussion was initiated with the relevant departments. If they were, meetings were held with suppliers. If necessary, improvement measures were taken. Technicians from Toyota's Operation Management Division in Japan might be dispatched to tutor those suppliers rated badly, where potential for improvement was identified. This Toyota Target Value System is described in Fig. 5.2, which was provided by TMT and exhibited at the supplier centre.

Starting in April 1999, a 'Yellow Card' has been issued by TMT to the three worst suppliers in terms of quality and delivery. The idea is similar to that found in a football game: if a firm receives three yellow cards, it is obliged to remove itself from the game. This led to a dramatic improvement in quality and delivery during 1999. For example, the quality target was set at a 300 ppm (parts per million) defect rate. The average defect rate was 1261 in May 1999, but it decreased dramatically after the introduction of the yellow card system. The average defect rate cleared the target in August (283), and, by the end of the year, it reached a record low of 103 ppm (Table 5.5). The aim of this scheme was not to remove some suppliers from the cooperative group; rather, TMT respondents explained that smoother communication was the prime objective because considerable production problems are caused by miscommunication and a lack of interaction. The issuing of a yellow card is accompanied by the provision of technical advice, whereby a technician visits the problem factory, evaluates the situation, and reports to TMT, which then provides problem-solving suggestions. TMT later follows up.

Table 5.5 Sequence of defect rate in 1999

Period	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Defect rate (ppm)	1261	918	467	283	214	212	134	103

Source: TMT Supplier Centre; the target was set at 300 ppm

5.3.2 Suppliers' Association

The Toyota Cooperative Club (TCC) was a TMT suppliers' association. It was composed of 130 primary-tier suppliers, mostly parts suppliers, and was actively engaged in close cooperative practices. After the financial crisis, activities were strengthened in quality and frequency. There were seven major fields of activities in the TCC:

- (1) Annual Meetings.
- (2) TCC Executive Committee meetings.
- (3) Quality Assurance *Kaizen* (steady improvement) activities.
- (4) Cost *Kaizen* activities.
- (5) Quality Control Circle activities.
- (6) TCC lectures.

Although TMT was involved in initiating the organisation, the major suppliers play an indispensable role in operating and diffusing the Toyota production system to local suppliers. Those major suppliers were the members of the TCC executive committee, which included not only some Japanese subsidiaries, such as Denso Thailand, but also local suppliers such as Cho Auto Parts (CAP).

The association allowed open access to its activities, and most of the primary-tier parts suppliers became members. Four groups consisted of around 40 firms each. Executive Committee members organised activities, such as study meetings on plant operations at several member companies. Executive Committee members also suggested how *kaizen* could be utilised to deepen mutual understanding about the key points of cost-efficiency, quality assurance, and smooth delivery. The absence of direct commitment from TMT reflected Toyota's view of supplier

relations; the primary aim was to encourage suppliers' own efforts and improvements through *Jishuken* (voluntary learning process).

The Executive Committee members then called the members of the same group to a second meeting after two months of voluntary learning to follow up on the learning process. TMT is requested some advice at this stage, and the advanced result of the TCC's learning cycle is presented at the QCC contest at the whole TNT production system. Advisers from Toyota's Operation Management Division in Japan also assisted the learning of the suppliers' association.

Moreover, TMT and its major suppliers (33 companies) kept in close contact in order to upgrade the integral Toyota production factors: quality, cost, engineering, and management. This resulted in a fairly strict rating on a ranking of: Excellent, Good, Fair, Poor, or Bad.

The motivation for active involvement in TCC activities was based on three major interests. First, member companies could share common knowledge in a practical way. Good practice in knowledge management was aligned alongside the supply chain. Second, the benefits of interdependence encouraged mutual efforts to upgrade the capacity of the entire production system. This helped reveal the right track for the sustainable development of the supply chains and for producing 'win-win' situations.⁵ Third, it operated with the supply chain in real time and provided effective training opportunities to the participating workers, which promoted just-in-time production and delivery and just-in-sequence production.

6 Conclusion: Some Lessons to be Learnt

Toyota's global supply chains and its local supply chains in Thailand were proven resilient against the Asian financial crisis. The lead firm, TMT, provided rescue functions such as capital injection that were used to maintain a minimal operation level to survive, and it redirected production in Thailand towards export. This export-driven strategy was initiated

⁵ This idea was emphasised by Mr Rubens Ricupero, Secretary General of UN Conference on Trade and Development at UNCTAD X in Bangkok; *International Herald Tribune*, 12–13 February 2000.

through the hegemony of the headquarters. This decision was implemented based on global and long-term perspectives and demonstrates that the role of multinationals' headquarters in responding to sudden regional crises can be particularly significant.

TMT extended its rescue functions to its local suppliers to maintain the established local supply chains in Thailand. Increased capital was used for pre-shipment payment to local parts and materials suppliers. This helped foster local employment security and workers' skill development beyond the realm of primary subcontracting suppliers. Rescue functions were extended to local supply chains to make them more effective.

A suppliers' association was founded to foster the supporting supplier industry. Suppliers in the Toyota production system were forced to involve themselves in various activities to upgrade production capacity and logistics. In principle, these relationships were continued over a long period. However, there were strict evaluations by the lead firm and strong interaction between the lead firm and its suppliers, and also among suppliers, as part of a system of continuous improvement (*kaizen*) and problem solving.

The upgrading of local suppliers through the benefits they received from the business activities of a suppliers' association enhanced overall sectoral and industrial capacity. Upgraded suppliers could afford to diversify through production contracts with other automakers.

Trickle-down effects were observed in the generation of new entrepreneurs and small firm development. Ex-workers from Toyota plants were a source of new business creators, utilising skills acquired in the parent companies. Skilled workers could also easily move to better jobs at newcomer auto firms.

Because of the emergence of capable auto parts suppliers, large newly investing automakers set up plants in close proximity to other automotive associations and suppliers in the same industrial parks. This resulted in the creation of several industrial clusters in Thailand. In the Eastern Seaboard Industrial Estate, for example, a GM plant and a Ford plant (a joint venture with Mazda) were set up next to each other, the only such case in the world. Toyota's major Gateway factory was nearby, and Nissan, Mitsubishi, and Isuzu were also in close geographical proximity, using common suppliers. Although the local operations of foreign subsidiaries

have increased recently, some local suppliers have played competitive games in the lively developing automobile production industry, aiming to boost exports.

Corporate initiatives may sometimes be more effective than public policy in social matters, particularly in diffusing the best practices of private companies. They can support and complement public policy in the field of SME development, employment creation, and HRD in industrialising countries.

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6

Japanese TNC–SME Linkages Through Industrial Subcontracting

1 Introduction

The key issues in the industrialisation of developing countries faced with a globalising economy increasingly concern new directions for development, such as partnerships, linkages, networks, and stakeholder participation. United Nations organisations, for example, are seeking further collaboration with private sector and non-governmental organisations. Renewed attention is being given to the importance of foreign direct investment (FDI), which could most effectively enhance the technology and human resources of recipient countries. United Nations (CCPOQ/DESA, 1999) pointed out that the new emphasis on FDI coincided with current advocacy on behalf of ‘capacity building’ as a development strategy throughout the international community.

Recently, the United Nations Conference on Trade and Development (UNCTAD) has promoted this idea and initiated a specific programme

The original ideas in this chapter were presented by the author at the Expert Meeting on the Relationships Between SMEs and TNCs to Ensure the Competitiveness of SMEs, UNCTAD, Geneva, 27–29 November 2000. Some of that presentation was incorporated into the text of the *Outcome of the Expert Meeting*, UNCTAD, TD/B/COM, 3/EM, 11/L, 1, 1 December 2000.

forging a linkage between transnational corporations (TNCs) and local suppliers, typically small and medium-sized enterprises (SMEs). The 2001 UNCTAD World Investment Report focused on this linkage, pointing out that the strongest channels for diffusing skills, knowledge, and technology can be identified through this kind of linkage in developing countries.

The importance of this linkage has recently been emphasised in UNCTAD meetings held since the Round Table on TNC–SME Linkages for Development during UNCTAD X in Bangkok in February 2000.¹ UNCTAD perceives that the production linkages between firms take three forms: backward, forward, and horizontal. Among these, the backward linkages between producers and suppliers are particularly relevant to the promotion of local production capacity through the operation of TNC.

The debate over supply chain management and the competitiveness of clustering has strengthened the importance of the linkages. Japanese industrialisation in the context of fostering linkages has often been mentioned with reference to specific company cases.² However, this must be analysed by stages according to the historical economic development process and the resulting industrial organisation. This chapter tries to provide an overall picture of the linkages being fostered between a leading large corporation and small suppliers and to generate suggestions for the effective promotion of TNC–SME linkages in developing countries.

¹ These include International Workshop on Technological and Managerial Upgrading of Small and Medium-sized Enterprises through Linkages with Transnational Corporations, jointly organised by UNCTAD and Intel Malaysia, a private enterprise, in Penang in August 2000.

² At UNCTAD X, for example, its manager presented the case of Toyota Thailand. Yoshiaki Muramatsu (2000), 'Toyota's strategy towards SME suppliers', Proceedings of the Round Table of UNCTAD X, United Nations, New York and Geneva, 2000.

2 Some Features and Advantages of Industrial Subcontracting in Japan³

2.1 Multi-tier Structure

As boom conditions began in 1955, popularly associated with the Korean War, final assemblers in various manufacturing sectors needed to expand their production capacity rapidly. They did so by contracting out the production of various parts to small firms. This allowed final assemblers to expand their production without incurring vast capital investment. A firm that must undertake extensive production and diversify into fields other than their core competency will incur inefficiencies and will not enjoy a scale economy in production. Thus, the subcontracting strategy at the initial stage of development was based on expanding production with minimal capital investment and facilities and gaining access to the low-wage labour of smaller suppliers.

Through rationalisation, final assemblers reorganised their relationships with other firms, selecting key supplier factories. These supplier factories, which form the primary tier of the subcontracting system, in turn reorganised the secondary subcontracting companies, and so on. Thus, a multi-tiered system of subcontracting was formed, particularly in export-oriented industries such as the automotive and electronics industries.

These practices resulted in the formation of a prototype of lean industrial organisation in which large core companies could expand production capacity whilst minimising capital investment and use subcontracting firms as buffers against business fluctuations.

The development of a number of smaller companies was encouraged by large core companies in subcontracting networks to upgrade production capacity as supporting industries.

³ A more detailed version of this section is included in my earlier work, 'Recent Trends in Industrial Subcontracting in the Japanese Manufacturing Industry', International Institute for Labour Studies, DP/24/1990, Geneva.

2.2 Long-Term Relationships: A Corporate Philosophy

During the high economic growth period, Japanese companies formed and broadened relational long-term systems not only in employment and human resources development (HRD) but also in industrial linkages between the companies. Adopting long-term relationships with various stakeholders in the industries successfully led to the effective enhancement of the capacity of industrial actors under stable economic development.

The long-term continuity of transactions has been, and continues to be, a pervasive Japanese subcontracting practice. Long-standing commitments with final assemblers and customers permit suppliers to acquire 'relation-specific skills', a comprehensive capability that enables suppliers to perform more effectively as a constituent in the subcontracting network. In interactions between core manufacturers and suppliers, such as price negotiations or production adjustment requests, suppliers can acquire specific skills within stable relationships. A primary benefit of a long-term trading relationship is lowered transaction costs.

Efficient communication is a significant factor in the promotion of an inter-firm division of labour. Core manufacturers provide varied information and share it with suppliers. Information integral to production chains includes product design, annual procurement plans, future supply requirements, and business and market trends.

The credibility gained through long-term relationships facilitates production communication within subcontracting networks. Supplier associations are mechanisms that foster effective communication whilst maintaining cooperative relations. Most Japanese automobile supplier associations comprise 100 to 300 parts manufacturers, a size that enables effective interactions among group members.

The long-term relationships that formed during Japan's steady economic development contributed to spreading the shared implicit perceptions about the best strategic partner among all the stakeholders in the production network. Long-term relationships have become a corporate norm and corporate philosophy for fostering a competitive and stable industrial environment.

2.3 Competition in Cooperative Networks through Ratings

Cooperative relationships develop through the dynamic interactions between a final assembler and its subcontracting firms. At the same time, however, the core company uses a rigorous rating system to continuously assess and control the performance of its subcontractors.

The effective management of supply chains has been an important competitive advantage for Japanese manufacturing firms. The formation of ‘online linkages’ such as the application of just-in-time (JIT) systems requires considerable effort from suppliers. The idea of JIT systems is to procure just the right quantities of the right quality of parts and components at the right moment to avoid stockpiling and to adjust to changes and new requirements on time along supply chains. Along the production line, for example, a strict rule is applied to suppliers—the ‘five zeros’: no breakdown; no delay; no defects; no stock; and no paperwork. Continuous improvement to attain such high standards, measured by customer ratings, requires interactive cooperation between customers and suppliers. This relationship can be characterised as competition in cooperative networks.

The effectiveness of competition in cooperative networks was also demonstrated in affiliates’ joint ventures in the USA and other regions in the 1980s. Moreover, the strategic formation of suppliers associations enhanced productivity. These interactions with core companies and amongst suppliers resulted in skill and quality upgrading and cost savings along supply chains. This is accomplished by ‘relational skills’, a comprehensive capability that enables suppliers to perform more effectively as a constituent in the subcontracting system.

3 Changing Industrial Subcontracting in Japan

3.1 Selective Integration of Vertical Subcontracting

The new age of manufacturing has required agile, flexible, and small-lot production with higher added value. The needs of large companies have screened out subcontracting firms, as subcontracting practice has become very selective. Large companies require subcontractors with specialised production techniques, while research and development (R&D) partnerships are sought, rather than hierarchical relationships aimed at reducing costs.

Parent companies try to select the most able primary subcontracting firms. These firms have been forced to change and broaden their manufacturing process; the process they once used to put out to secondary subcontracting firms is now integrated into their own in-house production.

This manufacturing process integration reduces the hierarchical spread of subcontracting firms. A firm cannot retain business relations with customers unless it has developed the adaptive ability to respond to the required changes.

3.2 New Networks

While large companies select independent subcontracting firms, they contract out higher value-added production exclusively to specific suppliers. On the other hand, subcontracting firms with excellent management abilities are being encouraged to diversify in order to avoid exclusive dependence on a customer company.

These independent subcontracting firms are beginning to form their own diversified networks with the external firms of original subcontracting systems in order to explore niches in increasingly differentiated product markets.

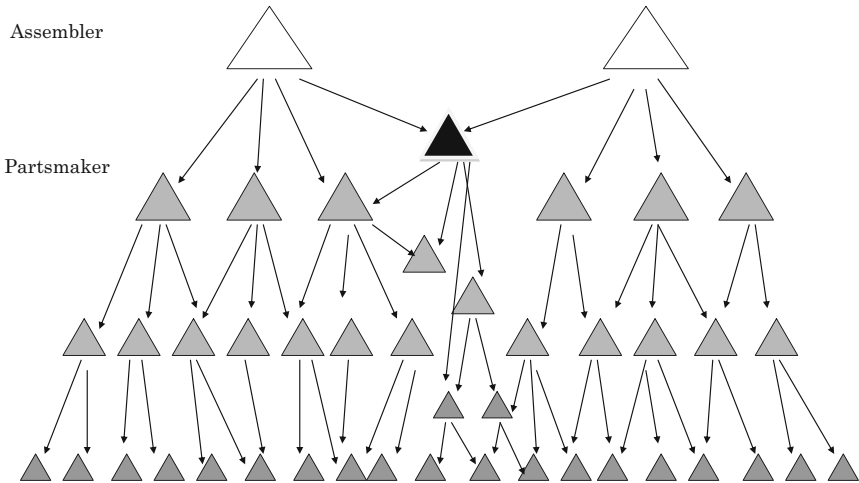


Fig. 6.1 A simplified model of subcontracting in Japan's automobile industry

This process results in horizontal relations amongst suppliers. Figure 6.1 shows a traditional multi-tiered subcontracting system in Japan and the emergence of independent subcontracting SMEs forming new networks.

4 A Case Study of Toyota Thailand

Chapter 5 deals with the reactions to the financial crisis in 1997. This chapter reviews the linkage development with local SMEs. As a supporting industry for automobile assemblers had not developed, parts makers with superior production ability could supply to many assemblers. This contrasts with the situation of typical Japanese subcontracting firms, which are affiliated under a core assembler. A limited number of components suppliers were contracted out by several assemblers beyond the corporate group. At this stage, a further development of SME suppliers that could afford to meet the demand of large manufacturers was required for the formation of an effective supporting industry.

A case of subcontracting development in Thailand demonstrates the fostering function of Japanese multinational enterprise (MNE) affiliates for SME suppliers. This section reveals the important linkages between affiliates and local SMEs through industrial subcontracting.

4.1 Company Policy with SMEs: Long-term Perspectives

Toyota Thailand formed its investment policy in Thailand based on long-term perspectives. Toyota Thailand has formed subcontracting networks with local SMEs and has tried to foster subcontracting firms capable of meeting the required production and process standards. Toyota Thailand provides technical guidance to local firms and forms supplier associations.

Tables 6.1 and 6.2 show Toyota Motor Thailand's local procurement development by type of supplier and type of input from 1999 to 2001. A rapid increase in procurement through Japanese joint ventures was seen in both types of input, while procurement through non-Japanese joint ventures and local Thai firms has been unchanged over the last two years. This suggests a preference for existing close inter-firm collaboration over green-field investment. A number of Japanese joint ventures have been established by Toyota suppliers in Japan through mergers and acquisition (M&A) with

Table 6.1 Purchasing key parts and components

Type of supplier	Number of suppliers 2001 (1999)		Distribution of purchases (%) 2001 (1999)	
Toyota-owned firms in Thailand	4	(4)	37	(47)
Japanese joint venture	69	(68)	42	(33)
Thai firms with Japanese technical assistance	17	(20)	7	(8)
Non-Japanese joint venture	6	(5)	2	(1)
Pure Thai firms	19	(20)	1	(1)
Firms in ASEAN under BBC	19	(17)	11	(10)
Total	134	(134)	100	(100)

Source: Toyota Motor Thailand, 2001

Table 6.2 Purchasing of other materials and facilities

Type of supplier	Number of suppliers		Distribution of purchases (%)	
	2001	(1999)	2001	(1999)
Toyota-owned firms in Thailand	0	(4)	0	(32)
Japanese joint venture	103	(64)	78	(23)
Thai firms with Japanese technical assistance	3	(1)	2	(0)
Non-Japanese joint venture	71	(64)	6	(4)
Pure Thai firms	264	(209)	14	(18)
Firms in ASEAN under BBC	0	(0)	0	(23)
Total	134	(134)	100	(100)

Note: a BBC is a company that applied for the Brand-to-Brand Complementation scheme, under which a company benefits from a reduction in the import tax for parts and materials of a half of the general tariff in the ASEAN region. This has developed into a new regional free-trade system called ‘AICO’

Source: Hearing from TMT, 25 January 1999

local firms. Belbedos (2001) reported that a strongly competitive production market strengthened the quality requirement of procurement and increased the acquisition of affiliates with pre-acquisition embeddedness in the local economy.

The 1997 economic crisis placed a focus on the interesting measures taken by Toyota affiliates to link with local suppliers. My field case study on Toyota Motor Thailand (TMT) during the Asian financial crisis emphasised the importance of TNC–SME linkages. TMT provided rescue functions such as capital injection to maintain a minimal operation for survival. This was initiated through the hegemony of the Toyota headquarters with a wide scope and long-term investment perspectives. Moreover, it extended rescue functions to its local supply chains. Increased capital was used for advanced pre-shipment payments to local subcontracting SMEs beyond the realm of primary suppliers. This contributed to employment stability in the local economy. It also shows that Toyota’s policy regards employment security as a social and corporate responsibility.

4.2 Supplier Support Programme

The study identified the fostering functions for local suppliers. For example, in April 1999, a ‘yellow card’ was issued by TMT to the three worst suppliers in terms of quality and delivery. This is similar to a football game: if a firm receives three yellow cards, it is obliged to remove itself from the game. This led to a dramatic improvement in quality and delivery in 1999. The issuing of a yellow card is accompanied by the provision of technical advice; a technician or supplier support consultant visits the problem factory, evaluates the situation, reports to TMT, and then provides problem-solving suggestions. TMT later follows up. The core idea is ‘enabling SMEs’ for Toyota production chains.

4.3 Suppliers Association

The Toyota Cooperative Club (TCC) is a TMT suppliers’ association. After the financial crisis, its activities were strengthened for quality control and frequency of meeting.

Although TMT was involved in initiating the organisation of the suppliers association, the major suppliers play an indispensable role, and the TCC’s activities are becoming independent of Toyota Thailand. Through these activities, the suppliers can perform effective information exchange, quality upgrading, cost and delivery savings, and collective coaching and mentoring for the Toyota production system. The association allows open access to its activities, and most of the primary-tier parts suppliers become members. Toyota has called this a ‘Voluntary Learning Process’ and has emphasised its significance.

Three major interests motivate the involvement of suppliers in TCC activities. First, member companies can share common knowledge in a practical way. Good knowledge management practice functions alongside the aligned supply chain. Second, the benefits of interdependence encourage mutual efforts to upgrade the capacity of the entire production system. This contributes to identifying the right track for the sustainable

development of supply chains and for producing win–win situations.⁴ Third, by operating with the supply chain in real time, it provides effective training opportunities to the participating workers, thus promoting JIT production and delivery.

5 Some Suggestions for TNC–SME Linkages

UNCTAD recommends measures by which foreign affiliates can create and deepen linkages learnt from the best practices of TNC affiliates and local suppliers. These are extracted from the analyses of the best practices of various TNC affiliates in developing countries: McDonalds in Argentina; Nestlé in China and India; Unilever in Vietnam; LG Electronics in India; Toyota in Thailand; Intel in Malaysia; and Motorola in China. The practices of typical Japanese core final assemblers apply to all the factors in the table. These measures to forge linkages can be divided into three categories of service: long-term linkages; online linkages; and voluntary involvement.

5.1 Long-term Linkages of TNCs with SMEs

As seen in Table 6.3, long-term perspectives on TNCs could support the sustainability of SME suppliers. With the rapid expansion of the production network, Japanese industrial subcontracting during the high-growth economic period suggests an effective way of fostering backward linkages between TNCs and SMEs without risking vast capital or facilities investment. At this stage, geographical proximity is an integral factor in finding local suppliers, because face-to-face interactions make the linkages more flexible and specialised. Stable supply chain transactions between TNC affiliates and local SMEs can create trust, which is conducive to the efficient operation of a production network.

⁴ This idea was emphasised by Rubens Ricupero (2000), Secretary-General of the UN Conference on Trade and Development at UNCTAD X in Bangkok; *International Herald Tribune*, 12–13 February.

Table 6.3 Measures by foreign affiliates to create and deepen linkages by long-term linkages

Type of linkage promotion	Finding new local suppliers	Transferring technology	Providing training	Sharing information	Giving financial support
Long-term linkages	Supplier visits and quality audits	Product technology: Provision of proprietary product know-how Transfer of product designs and technical specifications Technical consultations with suppliers to help them master new technologies Feedback on product performance to help suppliers improve Collaboration in R&D.	Training courses for supplier personnel Offering access to internal training programmes to affiliates or abroad	Informal exchange of business plans and future requirements Provision of annual purchase orders Provision of market information	Long-term financial assistance through capital guarantees for bank loans; the establishment of funds for working capital or other supplier needs; infrastructure financing; sharing of the costs of specific projects with suppliers; and leasing

Source: Adapted from UNCTAD, *op. cit.*, 2001

Table 6.4 Measures by foreign affiliates to create and deepen linkages by online linkages

Type of linkage promotion	Finding new local suppliers	Transferring technology	Providing training	Sharing information	Giving financial support
Online linkages	Making public announcements about the need for suppliers and the requirement that firms must meet for cost and quality	<p>Process technology: Provision of machinery and equipment to suppliers</p> <p>Technical support for production planning, quality management, inspection, and testing</p> <p>Visiting supplier facilities to advise on layout, operations, and quality</p> <p>Organisation and managerial know-how assistance: Assistance with inventory management (and the use of JIT and other systems)</p> <p>Assistance in implementing quality assurance systems</p>	Sending teams of experts to provide in-plant training		<p>Providing special or favourable pricing for suppliers' products</p> <p>Helping suppliers' cash flow through advance purchases and payments, prompt settlements, and provision of foreign exchange</p>

(continued)

Table 6.4 (continued)

Type of linkage	Finding new local suppliers	Transferring technology	Providing training	Sharing information	Giving financial support
		Introduction to new practices such as net-work management or financial, purchase and marketing techniques			

Source: Adapted from UNCTAD, *op. cit.*, 2001

Long-term relationships with suppliers lead to greater technical complementarities, and the input supplied becomes more specialised and custom-made.

During a crisis, however, the TMT case identified a rescue function of the core TNC affiliate in the framework of industrial subcontracting and backward linkages between TNCs and SMEs within a long-term perspective. The Toyota case also displays a great deal of financial support, varying from the provision of capital to advance purchase and payment.

During stable economic development, the fostered local suppliers tend to make new networks beyond a fixed corporate group. The voluntary involvement of local SME suppliers is strengthened through cooperative networks of business association. This suggests a further development of industrial subcontracting between TNCs and the enabled SMEs in the long term.

5.2 Online Linkages on Supply Chains

Human resources development (HRD) in production chains enables prompt human resource responses to the changing and enhanced requirements of core manufacturers. In the operating supply chain, subcontracting linkages provide effective training opportunities to the participating workers as a spillover effect. An Expert Meeting of UNCTAD (2000) identified the following measures as TNC best practices for the promotion of linkages seen at TMT:

- (1) Mentoring programmes to coach SMEs in total quality management and continuous improvement.
- (2) Providing SMEs with access to the TNC innovation centre and corporate training programmes.
- (3) Making engineers and management consultants available.
- (4) Assigning temporary staff to SMEs.
- (5) Having regular consultations to assess progress.

Table 6.5 Measures by foreign affiliates to create and deepen linkages by voluntary involvement

Type of linkage promotion	Finding new local suppliers	Transferring technology	Providing training	Sharing information	Giving financial support
Voluntary involvement		Formation and promotion of 'cooperation clubs' Assistance to employees to set up their own firms	Promotion of cooperative learning among suppliers	Encouraging suppliers to join business associations	

Source: Adapted from UNCTAD, *op. cit.*, 2001

5.3 Voluntary Involvement of Suppliers to Make Them Interact

Suppliers associations such as the ‘cooperation club’ are useful mechanisms for upgrading SME suppliers (Table 6.5). Suppliers associations enabling interactions contribute to significant improvements in supply quality and delivery cost reductions for suppliers.

Lead suppliers in the primary and secondary tiers form voluntary networks that have the fostering function of another SME supplier capable of meeting higher manufacturing requirements. MNEs can help reduce suppliers’ dependency on individual customers by encouraging suppliers to join business associations.

The successful practices of TNC–SME linkages should be replicated in developing economies. Additional best practices can be identified from the experiences of Japanese industrial subcontracting, which provides resources and models that can be applied in developing economies.

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7

The Transfer of Soft Technology

1 Introduction

The United Nations Conference on Trade and Development (UNCTAD [2016](#)) announced that Asia remained the largest foreign direct investment (FDI) recipient region in the world, accounting for one-third of global FDI flows in 2015. The Association of Southeast Asian Nations (ASEAN) Economic Community was launched in December 2015. Japanese investment in ASEAN countries exceeded FDI in China. Although there is a risk of a Chinese economic slowdown and political instability, investment conditions for Japanese business are fair. The most popular destinations for investment have been Thailand and Indonesia (*Nihon Keizai Shimbun*, 5 January 2016). Japanese small and medium-sized enterprises (SMEs) have also invested to set up operations in Asia because of the expanding supply chains of Japanese manufacturing. They are using skill development and technology transfers of workers in the host countries to maintain the competitive advantage of Japanese manufacturing.

The transfer of Japanese technology has been an important topic for Asian business and development for four decades. Since *Japan as Number One* was published by Ezra Vogel ([1979](#)), the strength of Japanese

industry has attracted foreign attention. In the late 1980s, Japanese FDI jumped due to the strong appreciation of the yen. The transfer of the Japanese management system has been an issue not only for business investment but also for official development assistance (ODA).

This chapter reviews the discussion on the transfer of technology from Japan in the late 1980s, focusing on the 'soft side' of technology: workers' skills and human resources management and development (soft technology). Economic development requires a well-balanced blend of different kinds of resources. Among these, the importance of human resources is increasing in the context of global economic development. In this changing economy, the adaptive capacity of human resources in developing countries is indispensable for sustaining economic and social development. This is made clear by the success of the Asian emerging economies, which have been able to adapt far better than other countries (Duncan 1986).

Of course, the basic idea of the development of human resources must result from a basic and comprehensive education of the general public; however, it also includes the fostering of sound labour ethics and attitudes toward jobs. In practical terms, the technology and skills needed to do the tasks in places of production are necessary, and the development of managerial ability and vocational training are decisively important.

Developed countries have also been interested in the promotion of the economic development of developing countries. Economic aid has been used to sustain a better global economic performance. Japanese official development assistance (ODA) increased from 1970 up until the collapse of the bubble economy in the 1990s. It is noteworthy that the economic performance of many developing countries worsened even though the percentage of ODA of gross domestic investment reached a very high level.

Many low-income countries recorded ODA as more than one-third of their gross domestic investment in the early 1980s. Some developing countries (especially those now called 'NICs' (newly industrialising countries)) recorded better economic growth than before even though the aid to those countries declined in relative and often absolute terms. Large investments via aid were made in physical infrastructure, human capital, and direct production to provide the resources and skills needed for

economic development; however, the poor performance of developing countries forced them to reconsider the effectiveness of this aid. A study committee on the ODA of Japan suggested in its 1985 (Ministry of Foreign Affairs) report that the constructing of infrastructure in recipient countries had proven to be of great importance as a form of Japanese assistance; however, the most significant area was human resources development (HRD), which was related directly to assistance for basic human needs and development.

Moreover, the transfer of Japanese soft technology was promoted by overseas direct investment as a result of increasing labour management costs in Japan caused by the high appreciation of the yen. Japanese direct investment was first made in Asian NICs and ASEAN countries, causing some concern that employment opportunities in Japan would be hindered by this exporting of employment overseas.

On the other hand, the soft technology attached to firms and facilities is inevitably transferred to developing countries. This soft technology is, however, related to cultural and social differences. Consequently, managers in recipient countries need to adjust and apply Japanese soft technology to their own situation. However, the basic framework of the soft technology must be maintained because the transfer of workers' skills cannot occur within a totally changed technology framework.

In this way, the forces from both developing and developed countries converge on the development of human resources and the improvement of productivity in developing countries. International organisations, specifically the International Labour Organization (ILO), are also more concerned with the transfer of soft technology. The ILO (1987) recognised that 'greater attention should be paid to human resources development, the creation and strengthening of institutions, the transfer of technology and the involvement of the social partners in the development process' and that 'more attention should be given to training for productivity and quality improvement, self-employment, small and medium-sized enterprises, vocational skills and management development'. Accordingly, this was an opportunity to reconsider technical cooperation, and Japan was expected to make a further contribution in this field. In this context, there were some preliminary issues to be considered at that time, in the late 1980s.

First, the most decisive factor in improving productivity is technology. For this reason, developing countries sought the most effective and advanced technology transfer from industrialised countries. However, it was well known that developing countries could not utilise the technology transferred because of a lack of suitable personnel to operate the technology and their lack of the necessary maintenance skills. A discussion on ‘appropriate technology’ occurred in this context. The level and stage of economic development is a very important factor in technology transfer. In this chapter, ‘technology’ is defined as the ‘skills, knowledge, and procedure for providing useful goods and services’ adapted from Singer (1982).

Next, the emphasis of technology transfer was placed on the hard aspect of technology; therefore, the soft aspects of technology—the faculties of organisation, personnel management, and labour–management relations, for example—was often ignored. Although this aspect of technology is very difficult to transfer to other countries, Japan could contribute to this area because of the rich experience and expertise it gained after the World War II. Examining effective ways of transferring soft technology and Japanese productivity improvement experiences to developing countries was thus a significant task at that period.

Third, as soft technology is strongly connected to the background culture, social practices, and work ethic of the respective countries, these social factors cannot be exported or imported directly from one country to another. Consequently, it is important for recipient countries to adapt the transferred technology to their own culture. This makes it possible for the newly transferred technology to suit the specific local conditions. Needless to say, the development of general education is necessary to improve this adaptability.

Taking these points into consideration, this chapter reviews the essence of Japanese soft technology and examines several requirements of and problems with the effective transfer of this kind of technology to developing countries. However, as the developing world is very broad and its societies varied, this chapter sometimes limits its focus to certain countries like Singapore, where a productivity enhancement project to introduce Japanese soft technology was undertaken in the late 1980s.

2 Soft Technology for Productivity Improvement

Human labour plays a decisive role in productivity improvement. The ‘Horndar effect’ is a clear illustration of this. This effect explains the empirical rule that, when there are few technological changes, labour productivity improves each year. Workers’ experience and application improve productivity. Thus, improvement in workers’ abilities is a very important factor in productivity improvement, even though technology innovation is emphasised as the most important factor.

The introduction of new facilities, patents, and know-how were promoted in developing countries, but the transfer of soft technology for the purpose of enhancing productivity was critically important in the recipient countries. At a time when Japanese economic cooperation such as via ODA was expected to increase, questions such as which of the soft aspects of Japanese technology could be useful to developing countries and whether it could contribute to productivity improvement were being asked.

2.1 Intellectual Skills and the OJT System

According to research results obtained by Kazuo Koike,¹ the superior technological skills of Japanese production workers, who are famous for their high productivity, are what Koike calls ‘intellectual skills’ (translated directly from the Japanese). These intellectual skills are acquired from knowledge of the particular circumstances of the time and place of a job, which is different from general knowledge. Although the concept is very vague, Koike explains that intellectual skills produce a high level of efficiency, which allows the worker to adapt to changes and unusual conditions. It may thus be defined as a level of adaptive ability to function

¹ Koike was very active in many international seminars aimed at disseminating Japanese workers’ skills overseas for a decade starting in the late 1980s; Koike and Inoki (1987), *Jinzaikesei no Kokusaihikaku (An International Comparative Study on Human Resources Development)*, Tokyookeizaishinpousha, Tokyo.

in varied conditions. Koike adds that these skills for using technology are not emotional ones, such as a sense of togetherness or a group approach toward management, but successful technological skills that develop the technology of Japanese workers.

Inoki (1985) defined intellectual skills another way, as knowledge that enables workers to perform a ‘non-routine’ task (in an attempt to cope with an unusual or unexpected situation) and restore the normal steady state. Let us consider an example taken from the process industry. When an unusual or abnormal situation occurs in a plant, the worker is requested to do non-routine tasks in order to cope with it. In this case, the worker should discover the cause of the trouble and take appropriate steps to remove the factor producing it. For that purpose, the worker must have not only the mechanical knowledge for equipment maintenance but also ‘polyvalence’ and versatility—an understanding of the width or coverage of the job. Such knowledge and ability can be considered a worker’s ‘intellectual skills’. Inoki (1985) added that the level of this knowledge is an appropriate indicator of the depth of the skill the worker has acquired. Inoki claimed that the analysis of the arts of ‘skillful doing’ and ‘skillful knowing’ is out of reach of an exact formulation. The fact that skills cannot be fully accounted for in terms of their particulars implies serious difficulties for judging the level of skilfulness, which is done by observing a certain set of rules. Inoki (Inoki 1985) asserted that such a kind of indefinable knowledge is an essential part of the technology used in the workshop. It follows, then, that the ‘basics are, of course, not difficult for him [the skilful worker] to enumerate, but these rules of arts do not actually determine the practice of skillful performance. For instance, the principle by which the cyclist keeps his balance is not generally known. This is due to the fact that there are a number of factors left out in the formulation of this rule’.

Koike and Inoki also pointed out that the Japanese skill-development system centred on on-the-job training (OJT) as the most appropriate means of developing intellectual skills. Inoki argued that the only way to transmit indefinable knowledge is by example and via personal contacts. He explained how to acquire indefinable knowledge, saying, ‘A young inexperienced worker follows his senior skilled worker by watching his “master’s example” and by unconsciously picking up some rules which

are not explicitly known to the skilled worker himself. By gradually moving from an easy task to a related but more difficult one, the worker learns step by step as many tasks as possible with the help of his senior fellows' (Inoki 1985, p. 89–90).

Therefore, Koike (1987) proposed the transfer of Japan's OJT system to developing countries. Koike's other important point is that the development of intellectual skills requires long-term employment, to which the lifetime employment and length-of-service wage systems contribute (Koike and Inoki 1987). He cited this as the reason that Japanese companies succeeded in developing workers' intellectual skills. Japan's lifetime employment system has proved effective in enhancing the worker's sense of deep commitment to the company through accumulated experiences and skills acquired over long years of service. At the same time, workers foster their intellectual skills under this system. Closely connected with the lifetime employment system, the length-of-service (or seniority) wage system in Japan helps companies utilise the workers who have acquired intellectual skills. For this purpose, workers are usually given favourable treatment as a reward for longer service. Workers also anticipate that the older they become, the more money they will earn, so that they can meet the expenses for the education and marriage of their children, the repayment of housing loans, and other needs.

The constant cooperation between labour and management, such as that shown by the joint labour consultation system, contributed to productivity improvement in Japan, and enterprise-based unions made significant contributions to the maintenance of higher productivity. This issue will be discussed later with reference to 'successful' (Taniguchi 1987) Singapore's productivity improvement project.

The three pillars of the Japanese employment system—the lifetime employment system, the length-of-service wage system, and enterprise-based unions—are key to productivity improvement movement in Japan. Hence, when the transfer of soft technology is in the spotlight, we cannot avoid mentioning those three pillars, which have been said to flow from Japan's traditional social and economic conditions. It is debatable, however, whether it is possible to directly transfer the Japanese style of employment to other countries. It is necessary to survey the situation

and results of the transfer of soft technology and determine a better approach to this promising means of economic cooperation in Japan.

2.2 Transfer of Soft Technology

Duncan (1986, p. 144) listed the following three factors affecting technology transfer:

- (1) Existing technologies—the ‘technological shelf’ from which technologies are selected, transferred, and disseminated;
- (2) A country’s ability to adapt existing technology to its own special and changing conditions; and
- (3) A country’s ability to create a national or indigenous technology suitable for and specifically geared to its objectives and circumstances.

The technological abilities that correspond to each factor are enhanced from levels 1 to 3. For level 1, for example, the technological ability is that of selecting from the technological shelf and using transferred technologies as the manual indicates. However, Duncan did not urge all developing countries to increase their abilities in condition 3 because fostering the ability to create an indigenous technology might be very expensive. However, ‘adaptive ability’, which is relevant in level 2 or even 3, is a decisive factor in the process of economic development.

Meanwhile, Hajime Inoue formulated the ‘Singapore Model’ of the transfer of soft technology, developed through his experiences on a productivity enhancement project in Singapore in the first half of the 1980s. This model is based on the hypothesis that technology transfer proceeds step by step according to the process from a lower level of ability in adapting technology to a higher level of ability. These steps apply to the factors and abilities noted by Duncan.

According to Inoue (Inoue 1987a), the following are the steps in technology transfer:

- The First Step—Understanding and Application:

To study the basic concepts and means of the technology and then to apply the technology directly.

– The Second Step—Adjustment and Improvement:

To adjust and improve the plan and means *ad hoc* to adapt to real conditions on the basis of the experience gained through the First Step.

– The Third Step—Voluntary Plan and Implementation:

To implement a voluntary plan by restructuring the adjusted means in the Second Step.

An important point of the results of these studies is that the ability to adapt, which is intrinsic to people, constitutes a prerequisite for transferring soft technology. Inoue's Singapore model indicated that the ability to adapt to create indigenous soft technology is fostered through the direct transfer of the technology. Consequently, it is important that countries select the useful aspects of soft technology at the initial stage.

2.3 Soft side of Technology and Institutions

Mukherjee and Singh (1975) illustrated an integrated model of enterprise productivity factors, as seen in Fig. 7.1. In this figure, the soft factors of internal factors can be considered as soft technology. The concept of 'soft factors' here refers to things that can be easily changed, unlike hard factors.

People (human resources) constitute the fundamental factor of soft technology. This develops into work methods and management styles, which form a part of enterprise productivity. Figure 7.2 focuses on the adaptability of people; Japanese human resource management. It is the principal task of the transfer of soft technology to enhance the 'adaptive ability' of people, which is the fundamental feature of soft technology. This adaptive ability appears at a production line or manufacturing plant as 'intellectual skills'. In the Japanese case, OJT was found to be the most effective way to increase the intellectual skills of workers.

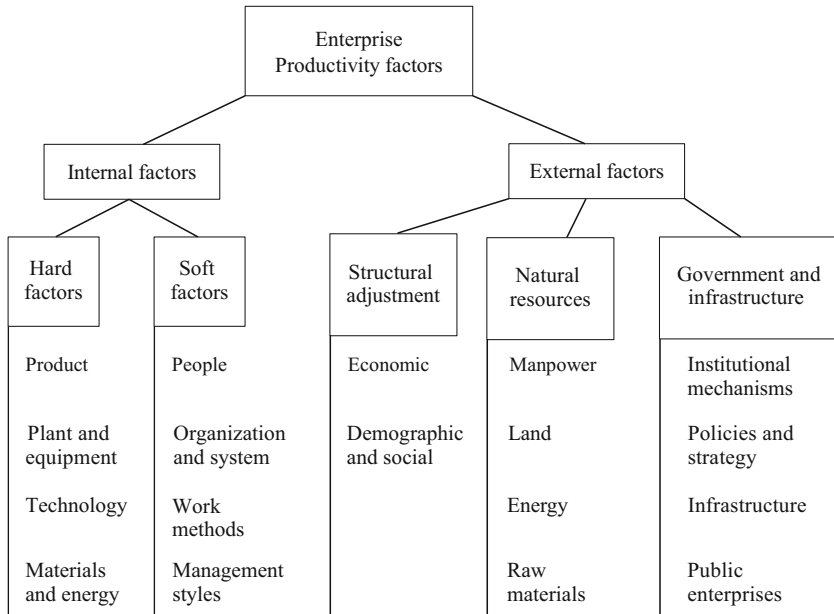


Fig. 7.1 An integrated model of enterprise productivity factors. *Source:* adapted from Mukherjee and Singh (1975, p. 93)

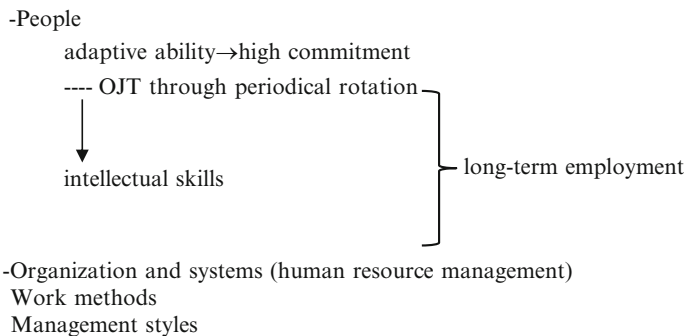


Fig. 7.2 Japanese soft factors of people and human resource management

As mentioned, the lifetime employment and length-of-service wage systems in Japanese human resource management are strongly conducive to promoting this kind of adaptive ability in workers.

The connection between ‘people’ and ‘organisation and systems’ is very important in terms of technology transfer because it takes time and effort to transfer it if the frameworks of the two skill development systems are different from each other. In this sense, it might be inevitable that the framework of the Japanese employment system would be transferred since direct investment from Japan to developing countries increased in the short term.

3 Japanese Experience in Productivity Improvement and its Test

3.1 Productivity Movement of Japan and Joint Labour–Management Consultation System²

Affected by the productivity movement in Europe, the Japan Productivity Center (JPC) was founded in 1955. Japanese labour and management were ready to build a highly productive nation in cooperation with the government. The first Productivity Liaison Conference adopted the Three Guiding Principles that summarised the JPC’s understanding of the nature and purpose of the productivity movement:

- (1) In the long run, improved productivity will increase employment. However, during the transition period, before the full effects of improved productivity become apparent, the government and the people, to minimise temporary frictions which may disturb the national economy, must cooperate to provide suitable measures such as transferring surplus workers to areas where needed in order to prevent unemployment.
- (2) In developing concrete measures to increase productivity, labour and management, conforming to the conditions existing in the respective

² For much of the information in this section I am indebted to Hajime Inoue, ‘Japanese Experiences in Improving Productivity Through Joint Labour-Management Consultation’, *Productivity Digest*, a joint publication of the National Productivity Board and National Productivity Association, Singapore, Inoue 1984.

enterprises, must cooperate in discussing, studying, and deliberating on such measures.

- (3) The fruits of improved productivity must be distributed fairly among management, labour, and consumers according to the conditions of the national economy.

Thus, the foundation of cooperation between labour, management, and government in improving productivity was built. Above all, the agreement on the principle of fair distribution among management, labour, and consumers ensured the cooperation of labour in productivity improvement.

Furthermore, the ideas of the Western productivity movement, which regarded the adaptive ability of people as a decisive factor in productivity enhancement, was a source of inspiration for the nationwide agreement, sympathy, and mutual understanding in Japanese labour–management relations. It supported the development of the intellectual skills of Japanese workers in human resources development.

While the significance of productivity improvement permeated throughout labour, management, and government, the labour and management spheres in the private sector tried to introduce the American management system to Japanese labour–management relations. In fact, the concept of ‘quality control’, which was advocated by Dr Deming, has matured in Japan, and the method of Total Quality Control (TQC) was developed in the context of Japanese labour–management relations.

Productivity improvement in Japan was most successful when pursued via small group activities on the shop floor. These activities were organised by a small number of members who voluntarily joined various activities at the shop-floor level such as quality control circles, suggestion systems, and zero defect activities. The Japanese productivity improvement movements succeeded in applying the original Western concept of productivity improvement to the Japanese environment. As a result, Japanese productivity attracted worldwide interest.

3.2 Development of Labour–Management Consultation

An ILO Recommendation (No. 94) on cooperation at the level of the undertaking proposes that, on issues of increasing productivity, certain types of appropriate action should be taken to promote consultation and cooperation between workers and employers. Along this line, the JPC established the Special Study Committee on Productivity Councils in 1956 and issued a report the following year advocating joint labour–management consultation as a means of promoting productivity.

Moreover, the committee published the Guidelines for Actual Standards on Labour and Management Consultation Systems, which include four principles for joint labour–management consultation:

- (1) Joint labour–management consultations mainly deal with the common interests of labour and management.
- (2) Joint labour–management consultations should be conducted freely with labour and management on an equal footing.
- (3) Joint labour–management consultations should be peaceful discussions.
- (4) Joint labour–management consultations should be determined depending on the level of understanding and the attitude that exists between the workers and the management of the company concerned.

A joint labour–management consultation system should be separate from collective bargaining, and its aims should be to promote cooperation in fields such as productivity improvement on the basis of mutual trust between labour and management.

Inoue (Inoue 1987a, b) explains that the major items in joint labour–management consultation are issues related to business management—for example, management policies and management plans for each fiscal year, management structure, plant and equipment investments, overseas operations, education and training for improving the ability of workers, health and safety, welfare facilities, environmental protection, and pollution prevention. On the other hand, issues affecting the employment of

workers (e.g. layoffs) and working conditions (e.g. wages) are subject to collective bargaining. These problems, however, can be discussed through joint labour–management consultation; preliminary talks prior to collective bargaining encourage mutual understanding and help to avoid any needless friction between labour and management.

The ‘union-shop’ system of enterprise-based unions in Japan has allowed trade unions to affect management policy because a representative of the trade union is also a representative of the employees. Consequently, the system was rapidly adopted by a considerable number of large companies. According to a 1984 survey conducted by Japan’s Ministry of Labour on the introduction of a joint labour–management consultative body, 82.3 % of all companies in Japan incorporated such a system. The survey also indicated that larger companies had a higher introduction rate. Information sharing between labour and management based on joint labour–management consultation contributed to building mutual trust and then improvements in productivity. As a matter of fact, it became a model of enterprise unionisation in Japan, which promoted productivity. It is also important as one aspect of the stereotyped Japanese style of participative management.

3.3 Singapore Productivity Development Project

It has often been said that Japanese-style labour management practices were born in a unique culture, but can the Japanese experience not contribute to and be applicable to other countries? As an interesting test for the applicability of Japanese-style labour management, in 1981 Singapore decided to introduce Japanese soft technology as a model to improve the productivity of Singaporean enterprises. Simultaneously the Japanese government promised to provide technical cooperation via human resource development to promote the competitiveness of Singaporean enterprises. The Singapore Productivity Development Project started in 1983. Since then, Japan has dispatched experts and developed teaching materials for the promotion of productivity.

Singapore had already established the National Productivity Board (NPB) in 1972 and also developed the Guiding Principles of the

Productivity Movement for Singapore, based on the JPC's Three Guiding Principles of Productivity:

- (1) Higher productivity means producing better quality goods and services at competitive prices. This increases sales, attracts investment, and expands business.
- (2) Improvements in productivity will increase the number of jobs available in Singapore. In striving for higher productivity, job changes will take place, and the government, employers, and labour must work together to prepare and retrain the work force to become adaptable to these changes.
- (3) In introducing measures to increase productivity, management and labour must cooperate in discussing, studying, and implementing such measures.
- (4) The gains from higher productivity must be shared among investors, share-holders, employers, workers, and consumers in such a way that it will motivate all to put in greater effort to improve the competitiveness of our goods and services and thus increase the gains further.

Although the first principle is additional to the Japanese Guiding Principles, this list is a confirmation of the 'high productivity' concept. The NPB (1986) recognised some of the points of the successful Japanese labour management system. These are: job involvement; small group participation; business welfarism; loyalty and identification with company; bottom-up management; house (enterprise-based) unions; multi-functional job assignments; seniority wage systems; and lifetime employment.

These are highly culture-driven aspects of the Japanese labour-management system. Above all, the NPB attached importance to the cooperation between labour and management. One of the trade union's roles is cooperation in order to enhance the productivity of an enterprise. In this sense, the NPB regarded the contribution of the Japanese enterprise-based union as an important factor in the success of and improvement in Japanese productivity. Furthermore, the NPB noted the good results of the Japanese joint consultation system; the NPB established the Steering

Committee on Labour–Management Cooperation in 1981 and published a report, *Towards Better Labour–Management Relations: An Action Plan*.

In practical terms, quality control circles (QCCs) and small group activities such as work excellence committees (WECs) were broadly established in the private sector. In addition, government organisations promoted the establishment of work improvement terms (WITs) as one form of QCC. Lee (1986) reported that Singaporean QCCs comprised 134 enterprises and 2,820 circles in March 1985, and there were 2,150 WIT circles in the same year.

The National Trade Unions Congress (NTUC) also became interested in Japanese enterprise-based unions and adopted a policy of promoting house unions ('enterprise-based unions' in Singaporean terms), implying a transition from British-style trade unions to Japanese-style labour unions. The NTUC expected these to promote productivity enhancement among Singaporean enterprises.

However, several factors impeded the transfer of the productivity movement. Taniguchi (1987) pointed out four such factors, one of which is particularly interesting in the context of this chapter. Job-hopping occurred more frequently in Singapore than in Japan, making it difficult for businesses to retain and accumulate a highly skilled and technically proficient workforce. This was true not only of the private sector but also of the NPB, which experienced difficulty in maintaining the organic use of productivity technology since the movement began in Singapore.

This problem indicates the ineffectiveness of technology transfer when the frameworks of the two nations' technology development systems are different. As noted earlier, the nucleus of Japanese soft technology to improve productivity was based on long-term service in a single workplace. Job-hopping in Singapore impeded the introduction of this soft technology in Japanese-style labour management; it also impeded the effectiveness of the technology in improving the productivity of enterprises using Japanese-style soft technology development. However, this phenomenon does not indicate the superiority of Japanese-style labour management but reveals the complexities that arise in the course of technology transfer when the frameworks of the technology development systems differ between the two societies.

4 Concluding Remarks

Japan's superior technological skills—intellectual skills, for example—were fostered through long-term service in a single firm, which provides experience of a wide range of jobs. The OJT system and the three pillars of the Japanese labour–management system (lifetime employment, the seniority wage system, and enterprise-based unions) allowed this soft technology development system to operate effectively. In addition, cooperation between labour and management reinforced by joint labour consultation promoted the contribution of enterprise-based unions to productivity improvement in Japan.

Considering the Japanese experience of productivity improvement and the spread of the Japanese labour–management system along with the direct overseas investments of Japanese enterprises, particularly in South East Asia, the framework of the technology development system (i.e. organisation and system in Fig. 7.1) may inevitably be transferred when developing countries attempt to improve productivity by utilising the transferred technology.

However, one key point made in this chapter is that soft technology is generated by people who have adaptive ability and intellectual skills, which, in addition to background culture, are very important factors in productivity improvement. When soft technology is transferred in the initial stage it stimulates people's adaptive ability to produce both an adjusted soft technology and an indigenous soft technology. It takes time and effort, but this work must be undertaken with perseverance in order to accomplish the ultimate aim of transferring soft technology. The aim is not the diffusion of one particular type of soft technology but, rather, to develop locally adapted human resources in a recipient country for productivity improvement through interactive communication between the host and the country of origin.

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8

New Technology and Employment of Japanese Subsidiaries in Thai Manufacturing

1 Introduction

After the Plaza Agreement in 1985, Japan's foreign direct investment (FDI) in Asia grew significantly, increasing by an average of 58 % a year between 1985 and 1989. Thailand, among other countries, gathered a great deal of Japanese manufacturing investment attracted by an affluent, motivated workforce, resulting in an unprecedented investment boom from Japan. Technological linkages between Japan and the Asian newly industrialising economies (NIEs) were strengthened through the emergence of Japanese multinationals' new production strategy in international operations. In addition to the direct investment in labour-intensive production plants, investment in higher value-added production using microelectronics was gradually promoted.

Microelectronics-based technology proceeded to flexible automation, which significantly affected employment and workers. Numerically controlled (NC) and computerised numerically controlled (CNC) machine tools are used for flexible automated production; they can also be integrated into more sophisticated manufacturing systems aided by computers in combination with industrial robots. These new technologies had been

observed in advanced economies, but their effects were spreading to production sites in developing countries, as the operations of the production arms of manufacturing multinationals increased.

Due to the advantage of economic backwardness, new technologies could be introduced to the developing world from the technology backlog of advanced economies (Gerschenkron 1962). However, the technology transfer process was not easy, hampered by poor technological capability and infrastructure in the recipients. Nonetheless, the new development of an international division of labour led to the involvement of new NICs such as Thailand in the sphere of flexible automation advanced by microelectronics.

This chapter tries to elucidate the situation of Japanese direct investment in Thailand and its incidental employment implications for microelectronics-based technology after 1985. In the autumn of 1990, the author conducted a one-month field study in the Bangkok area, visiting pre-selected sample firms. The sample firms were selected from among those most likely to be affected by the new technologies. Automobile and electronic components industries were considered primary cases (Edquist and Jacobsson 1988). Eleven firms were pre-selected for the field work¹—motorcycle and automobile parts-makers and assemblers Honda, Toyota, Suzuki, Asian Auto Parts (AAP), Thai Stanley, and Mitsuboshi and electronic components parts-makers and assemblers Asian Stanley, Minebea, Fujikura, Nisca, and Toshiba.

2 Foreign Direct Investment and New Technology

2.1 Trends in Japanese Direct Investment in Thailand

Particularly from the early 1980s, there were notable shifts in direct investment flows in developing countries away from Latin America to South East Asia (OECD 1987; UNIDO 1989). This trend accelerated after 1985 and was supplemented by a rapid increase in outward direct

¹ For this fieldwork, the author is greatly indebted to the ILO Association of Japan in Tokyo. I wish to thank the staff of the association for the valuable assistance given to me.

investment flows from Japan caused by the appreciation of the yen. From mid-1986 to 1990, Thailand, in particular, became a major target of Japanese FDI. Japan was the major investor in Thailand (see Table 8.1), as, amongst other factors, there was a location advantage. The availability of cheap factor costs, most importantly labour costs, contributed to the rush of Japanese investment, supported by the expanding Thai domestic market, government policies on FDI, and stable political and social conditions.

One of Thailand's key advantages was that its labour costs were lower than that in the other South East Asian economies (see Table 8.2). In later years, the severe labour shortage in domestic manufacturing in Japan, besides the high appreciation of the yen, prompted Japanese manufacturing firms to relocate production facilities. Table 8.3 shows the primary motivation for the overseas operations of the sample firms in Thailand. The expansion of the local market and motivated and cheap labour were the most important factors.

In 1990, the amount of Japanese FDI dropped by 11.3 % from the previous year. This was the first decline since 1986. However, from the perspective of long-term strategy, Japanese firms became more selective in their FDI targets, as they reduced their manufacturing investment in relatively high manpower cost countries such as the Republic of Korea and Singapore but increased it in lower labour cost countries such as Thailand. Although the increase of Japanese FDI in Western countries was primarily attributable to the desire to defuse trade friction, the

Table 8.1 Admission of FDI in Thailand by country of origin

Admission		Japan	Taiwan	USA	Hong Kong	Europe
1986	No.	35	18	20	18	35
	Value	6593	940	1067	1178	5185
1987	No.	137	102	34	32	51
	Value	24,829	7696	4430	3216	6901
1988	No.	265	308	106	86	110
	Value	77,469	21,98	17,028	12,008	26,257
1989	No.	223	214	68	65	120
	Value	90,569	22,305	14,123	14,430	40,163

Source: Board of Investment, Thailand, 1990

Table 8.2 Wage comparison of Japanese firms in Asian countries

	Real payment (US\$/month)	Indicator (Hong Kong = 100)
Korea	200–300	67
Taiwan	330–400	89
Hong Kong	400–450	100
Singapore	263–421	94
Thailand	80–110	24
China	65–250	56

Source: Adapted from Kiyoshi Inagaki, Mitsubishi Institute, 1989

Table 8.3 Primary reason for direct investment

Honda	Local production for local market
Suzuki	Local production for local market imposed by Thai government
Toyota	Local production for local market imposed by Thai government
AAP	Expansion of local demand
Thai Stanley	Cheap and motivated labour force
Asian Stanley	International production strategy
Minebea	Cheap and motivated labour force
Fujikura	Cheap and motivated labour force
Nisca	Cheap and motivated labour force
Toshiba	Expansion of local demand
Mitsubishi	Expansion of local demand

Source: Author's field study, September 1990

selective FDI in Asian developing countries in the late 1980s reflected the long-term strategy in international manufacturing of exploiting national differences in markets and production costs, most importantly labour costs, in developing countries.

The OECD (1987) pointed out that the large manufacturing firms promoted 'new forms of international investment', such as joint ventures, licensing agreements, management and technical assistance contracts, franchising, and international subcontracting. These international investment arrangements aimed at minimising investors' risks during economic volatility. In principle, however, the new forms of international direct investment led by manufacturing multinational enterprises (MNEs) indicate the advantages of the internalisation of international production and international sourcing of components and raw materials. The MNEs internalise

intermediate product trade via the product specialisation of affiliates exploiting country-specific advantages in costs (Dunning 1981). Due to differences in the stages of the production value-added chain, globally integrated MNEs organised various locational configurations for local affiliates and suppliers depending on the country-specific advantages available.

A case in point taken from the sample survey was Toyota's 'ASEAN Brand-to-Brand Complementation' scheme. To pursue effective specialised and large-scale production, an interplant division of labour in ASEAN countries was envisaged and was in operation in some cases. Auto parts were produced among the plants in these countries (see Table 8.4), and governmental agreements to promote the scheme were made in 1987 between the Philippines, Malaysia, and Thailand. Indonesia later joined this agreement in 1988. The deployment of overseas production of major Japanese automakers clearly indicates that a strong focus was placed on Asian countries. Above all, Thailand was a primary host country for a number of production plants set up by Japanese automakers (see Table 8.5).

2.2 FDI and Technology: The General Trend

New technologies play a key role in the internationalisation of production. Technology that intensifies the linkages among production plants in a vast geographical area and standardises product quality is needed in order to maintain effective international production within one company. Information technologies and computer-aided design and manufacturing (CAD/CAM) certainly contribute to flexible production, low inventories, and consistent product quality. When such MNEs and their satellite suppliers are linked to each other in the international production chain, new technologies are easily transmittable across national borders because a pivotal MNE can afford to deploy new technologies without having to worry about the local limits of the financial and technological capabilities of the FDI-recipient countries. FDI often consists of a 'direct investment package' (Parker 1973), which includes capital, technology management, and commercial expertise. The package affects the local economy in many different ways. The direct involvement of local firms in the MNE's international production allows easy access to new technologies.

Table 8.4 Toyota's ASEAN complementation scheme

	Singapore	Thailand	Malaysia	Indonesia	Philippines
Parts production	Management services	Engine stamping electrical parts	Steering gear electrical parts	Engine stamping parts	Transmission
Export		MA, IN, PH, JPN	TH, PH, IN, TWN, NZ	MA, TH, PH, JPN, TWN	IN, MA, TH, TWN, NZ

Note: MA = Malaysia, TH = Thailand, IN = Indonesia, PH = Philippines, JPN = Japan, TWN = Taiwan, NZ = New Zealand

Source: Author's interview at Toyota Motor Corporation, 1990

One major concern is that, although the choice of technology belongs to the investor, the selected technologies should promote endogenous development in the host countries. Subcontracting in the production sphere and high mobility in the external labour market among production workers are important factors in exploring the interaction between international production and regional and endogenous development. The local subcontracting relations with MNE affiliates via international direct investment can plug into international technology transfer and international markets, and the improved technological capabilities of the trained manpower at the local affiliates can be diffused beyond the production unit itself (through 'spillover effects'). The high mobility of the trained workers in the external labour market would fuel this effect.

2.3 New Technologies in Japan in the 1980s

New technologies advanced by microelectronics-based machine tools have been developed and applied extensively in the Japanese engineering industry over the last few decades. In the 1980s, the Japanese engineering industry played a leading role in applying and developing a new frontier of microelectronics-based technology. For example, numerically controlled machine tools (NCMTs) were diffused throughout the Japanese engineering industry via the metal-cutting process starting in the mid-1970s. Japanese NCMT-makers have concentrated on producing smaller-scale and more flexible (and cheaper) machine tools than those of other OECD

Table 8.5 Overseas automobile assembly and auto parts production plants of the major Japanese Automakers

Setup year	-1960	1961-1965	1966-1970	1971-1975	1976-1980	1981-1985	1986-1990	Total
North America								
USA				1	2	5	6	14
Canada						1	3	4
Europe								
UK						2	2	4
Italy					1			1
Spain					1	1		2
Portugal				1		1		2
Asia								
South Korea						2		2
Taiwan				1		2	4	7
China						1		1
Thailand		4		4	4	2	8	24
Malaysia			1	1	1	4		7
Philippine				3	1	3	1	8
Indonesia				2	4	6	1	13
India						4	5	9
Pakistan						1	2	3

Source: Adapted from *Automobile Industry Handbook*, Nissan, 1990

countries, so that small firms can also introduce them into the production process. Generally, the introduction of NCMTs has improved the flexibility and precision of machining in the production process, saving greatly on skilled labour per unit of output.

Furthermore, more than half of the world's industrial robots were installed in Japan. These were mostly used in the various processing stages of production. The major motivation for introducing industrial robots was strengthened by the fact that they could reduce the costs of unskilled and semiskilled labour.

A flexible manufacturing system—integrated configurations of NCMTs and robots—allows the combination of several functions and permits flexible batch production more effectively. Assisted by computers, this system can improve machine utilisation and execute just-in-time (JIT) inventory production.

One of the effects of a new technology is manpower-saving. Most new microelectronics-based technologies in manufacturing were actually intended to achieve significant manpower savings, but most do not eliminate all manpower requirements. Japan experienced no serious disputes about the labour-displacing effects of new technologies. Rather, the manufacturing sector suffered from serious labour shortages at the shop-floor and management levels. New technologies absorb the large-scale requirements for unskilled manpower performing repetitive tasks; however, Japanese manufacturing still requires many labour-intensive processes. Consequently, whether Japan should open its domestic labour market to foreign unskilled workers has been debated.

Most large firms, and also many small firms, have introduced microelectronics-based machine tools such as NC and CNC, mainly to overcome the shortage of skilled workers (Watanabe 1984). Small firms eventually became eager to advance factory automation (FA) using NC and machining centres (MC). The introduction of these systems almost doubled between 1982 and 1988 (Kuriyama 1990), when the shortage of unskilled workers was added as a significant reason to introduce new technologies.

2.4 New Technology in Thailand in the late 1980s

Whether the most advanced technology could be transferred to developing countries became an important question. Harley Shaiken (1990) summarised the debate in his report on Mexico's 'high-tech' industries:

A number of analysts argued that microelectronics and other flexible forms of automation would retard or even reverse the movement of manufacturing to low wage countries. Proponents of this view stress that the skills and infrastructure necessary to achieve high levels of productivity, quality, and adaptability with new technologies were more readily available in industrialized economies than in newly industrializing countries. Moreover, since automation could dramatically reduce labour content, the lure of low wages diminishes. Other analysts dispute the claim that high tech is inextricably linked to industrial economies and argue that the more sophisticated NICs such as Mexico are capable of successfully operating advanced production processes. . .As developing economies narrow or even eliminate the productivity and quality gap with industrial economies, low unit costs and make high tech investment increasingly attractive.

For developing countries, it was generally difficult to exploit the benefits of new microelectronics-based technology for several reasons. Information about NCMTs and actual access to the new techniques were quite limited, and the relatively small market for NCMTs in developing countries led to a poor supply of repair and maintenance services from NCMT producers. Given the comparative factors of labour and machine prices as well as the interest rate, the more labour-intensive conventional machines tended to be chosen in the context of cheap labour cost economies (Ebel 1991).

Until recently, Japanese investors shifted mainly labour-intensive production facilities to Thailand (Fong 1989). Our 1990 fieldwork revealed, however, that motorcycle manufacturers such as Honda and Suzuki installed NC, CNC, and MC. Although the installation of industrial robots in developing countries was still limited, a remarkable diffusion of industrial robots was seen in offshore production sites in some NIEs such as Singapore and Korea. In the author's survey in Thailand, electronic component

producers such as Minebea and Asia Stanley introduced various kinds of industrial robots as well as conventional NC machines.

The motorcycle assemblers were required by the Thai government to raise the local procurement rate of engine parts and components to 80 % by 1993. The engine parts process required a high level of precision and quality control, and using NC machines was vital to ensuring the high quality required for production in precision multi-component manufacturing such as for engines. Large-scale offshore plants used for exporting electronics such as Minebea and Fujikura tended to deploy the more sophisticated state-of-the-art machinery. All of the sample firms that installed NC machinery replied that the most important reason for introducing them was to 'raise product quality and process precision'. In descending order of importance, the other reasons were to 'handle the complexity of the process', to 'improve working conditions', and to serve as a 'preceding investment for further production increase' (see Table 8.6).

3 The Effects of Microelectronics on Employment

3.1 Quantitative Effect of Microelectronics

According to studies by the International Labour Organization (ILO), the aggregate level of employment in industrialised countries has not been greatly affected by the introduction of advanced technologies (this is summarised in ILO 1991). Interestingly, robots and NCMTs have been much less labour-saving in the Japanese automobile industry than in the same industry in North America and Western Europe (Watanabe 1987). The difference made by the application of a new machine varies with the level of the labour-saving effect in a work organisation.

A decline in manufacturing not caused by the application of new technologies was broadly observed in the major industrialised countries.

Table 8.6 Reasons for adopting ME technology

Sample firms	Types of machine	Appropriate lot size	Preceding investment	Quality and precision	Deal with complexity of Production	Better working conditions	Speed of process
Automobile and Motorcycle							
Honda	NC, CNC	X		X	X		
Suzuki	NC, CNC, MC		X	X	X		
Toyota	NC, CNC		X	X		X	
Sub total		1	2	3	2	1	
Electrical and Electronics							
Thai Stanley	NC, CNC, MC, Robots	X		X		X	
Asian Stanley	CNC, Robots			X	X		
Minebea	NC, CNC, MC, Robots			X		X	X
Sub total		1	1	3	1	2	1
Grand total		2	3	6	3	3	1

X: Important reason

Source: Author's field study, September 1990

On the other hand, a growing employment share of manufacturing was observed not only in NIEs but also in other developing countries such as Thailand. Increasing economic growth, expanding markets, and new investments led to technological changes in the economy. However, the FDI boom in local Thai manufacturing provoked considerable technological imports rather than technological changes.

According to an ILO study (Sibunruang and Brimble 1988), the overall employment generation of Japanese FDI was fairly positive in Thailand. In 1987, the direct employment effect of the total FDI was 114,945 persons, 42.7 % of which was created by the Japanese affiliates. The indirect employment effect through linkages developed between industrial sectors such as subcontracting was not estimated but appeared to be substantial.

The employment effects of microelectronics in developing economies were not clear-cut. On the one hand, the labour displacement effect was likely to be less severe than in developed economies since user firms in developing countries tend to employ new technologies in an incremental process of production (Schmitz 1985). On the other hand, the new employment opportunities created by new technology were much less substantial because the demand for automated production in cheap-labour affluent countries was limited compared to advanced countries and also because most of the new technologies and related equipment were imported.

Consequently, observations concerning the direct effect of new technologies on job creation and displacement are inconclusive. This chapter approaches the effects of new technologies in Thailand in terms of the international relocation of production of Japanese engineering firms.

All the sample firms experienced increased employment. The firms employing microelectronics-based machine tools also recruited new employees as the firms expanded their output (see Table 8.7). At the same time, all the sample firms responded that they were trying to recruit more employees both at the shop-floor level and upper levels because of the need for rapid output expansion. The sample firms were in the process of production expansion in response to market demand; thus, the labour

Table 8.7 Direct employment increase

	Employment scale	Increased employment	Increased output
Honda	1310	+++	+
Suzuki	1280	+	+
Toyota	2500	+	+
AAP	422	+	+
Thai Stanley	498	+++	+
Asian Stanley	325	+++	+
Minebea	6090	+++	+
Fujikura	2600	+++	+
Nisca	450	+++	+
Toshiba	5000	+++	+
Mitsuboshi	130	+++	+

Note: + increase; +++more than 30 % increase from the previous year

Source: Author's field study, September 1990

displacement effect of new technologies through the rationalisation of production organisation and reorganisation is not obvious and consequently not seen as a problem.

For example, Minebea, with the largest number of employees among the sample firms, responded that increasing numbers of workers were required for assembly and quality control operations. This production process was not easily displaceable by machine tools in terms of cost and flexibility. Toshiba was not introducing microelectronics-based machine tools because they regarded labour-intensive methods as cheaper and more flexibly adaptable to the formation of new production lines in consumer electric goods production.

3.2 Qualitative Employment Effects of Microelectronics

3.2.1 Skills Required by New Technologies

The importing of new technology may shed light on a new basis for competitive strength in production in developing countries. Unlike in developed countries, where readjustment costs are likely to occur, an imported technology can save the costs of the redeployment, retraining,

and deskilling of workers. Moreover, the skills needed for the operation of microelectronics-based machines are generally lower than those needed for operating conventional machines. Hence, the combination of lower labour costs and new technologies that create lower unit costs is an important factor in deciding on a production site for manufacturing multinational enterprises.

The operation of microelectronics-based machine tools in the sample firms was performed by unskilled workers, although the programming of such tools was not. At the Honda plant, newly recruited part-time workers were engaged in the operation of NC machines, so the skill-saving effect was certainly recognised. However, in every firm surveyed, the availability of the maintenance service of such machine tools was a top priority for exploiting the skill-saving effect of microelectronics. In most cases, Japanese firms dispatched Japanese workers, or maintenance personnel from the machine tool suppliers were engaged in programming and maintenance works. At the Minebea plant, for example, when operators encountered problems with the machines, the changing or replacing of the problem unit parts was common practice.

3.3 Development of Subcontracting

3.3.1 Subcontracting or Vertical Integration?

For the Japanese subsidiaries, there are two choices for production structure choices in the host country: vertically integrated in-house production; or subcontracting to local firms. A brief comparison of the two different production structures and of their effects on new technology and employment is presented in Table 8.8.

Comparatively speaking, the Japanese production plants tend to procure parts and components through subcontracting. The Ministry of International Trade and Industries released figures on the outsourcing practices of Japanese subsidiaries overseas, which demonstrated that 50 % of products were procured from local suppliers, 40 % from Japan, and

Table 8.8 The effects on the local economy of vertically integrated production and production subcontracting

	Contributed factors	The effects on new technology	The effects on employment
Vertically integrated production	-Large-scale investment -Poor supporting industry and infrastructure	-Marginal but rapidly adapted by subsidiaries	-The development of large-scale employment firms
Production subcontracting	-Small-scale investment -Availability of subcontracting firms -Government regulation of local content	-Diffusible to local firms but taking a long time	-The development of small-scale employment firms

10 % from third markets. Japanese corporations in Asia bought the same percentage of products from local suppliers, but they purchased 15 % from third markets. A comparative study (Pang 1988) indicates that Japanese manufacturing subsidiaries in South East Asia were engaged in subcontracting more frequently than other American and European subsidiaries.

In Thailand, subcontracting can be easily compared with other countries like Indonesia (Hill 1992). A recent survey (Yahata 1992) suggests that around 60 % of the local procurement of auto parts was recorded by Japanese automakers in Thailand. Table 8.9 shows the subcontracting arrangements of the sample firms surveyed in the author's study of automobile and motorcycle manufacturing. The subcontracting relationship with local suppliers of parts and components gradually grew in number, increasing overall local procurement.

The development of subcontracting had significant implications for the transfer of employment and technology. Subcontracting practices in Japan were explained as a key contributing factor to the development of employment in small-sized enterprises, and technology transfer was

Table 8.9 Subcontracting relations

	No. of subcontracting firms	Local procurement rate (%)	Proximity (less than 30 km) (%)	Long-term relations	Cooperation	Supplier association	Problem
Honda	68+	60	60	+	Technical personnel assistance	+	Quality assurance
Suzuki	100+	60	60	+	Provide blue print	None	Quality assurance
Toyota	75+	50	90	+	Provide blue print	+	Quality assurance
AAP	36+	48.5	72	+	Provide blue print	+	Quality assurance
Thai Stanley	4+	70	100	+	Provide machines, personnel materials	None	Quality assurance, delivery date

Note: + = increase; - = decrease.

Source: Author's field study, September 1990

facilitated by this practice. Empirical studies demonstrated that widespread Japanese subcontracting contributed to the large employment share of small and medium-sized enterprises (SMEs) in manufacturing and the widely diffused NCMTs and industrial robots adapted by those SMEs.

3.3.2 Collective Efficiency and Geographical Proximity

Based on long-term relations, the Japanese affiliates provided various kinds of technical assistance, from technical guidance through personnel detachment to blueprints and machines. Honda, Toyota, and AAP also had suppliers' associations. These held regular meetings to exchange business and production information and to improve technological capabilities through training material provided by core companies. As in Japan, this was quite important for raising the collective efficiency of the local subcontracting firms.

In general, Japanese firms have regarded geographical proximity as an important factor in the selection of subcontracting firms. Shorter delivery time between assemblers and suppliers is a decisive requirement for the just-in-time (JIT) production system used in Japan's automobile industry. In particular, Toyota, which developed one of the original JIT systems (*Kamban*) maintains a strong preference for geographical proximity.

3.3.3 Emerging Global Supply Chains

However, Toyota had begun to adjust the conventional JIT technique to new situations. The agglomeration of its exclusive suppliers was less practicable, partly because of the domestic labour shortages in Japan. This loosened the ties that link an assembly plant geographically to a matrix of neighbouring suppliers (Shaiken 1990). The overseas production plants are also pursuing a new JIT inventory technique. How does it attain a shorter delivery time between remote areas beyond national borders (for Japanese manufacturers, they have to ship beyond the ocean)? 'One-day-at-a-time' (Shaiken 1990) was a striking and clear way to explain the new inventory system: the (overseas assembly) plant keeps one day of material on hand,

one day of material outside waiting to be unloaded, and one day of material in transit from the port (or cargo base or hub consolidation centre).

Thus, the JIT inventory system works for global supply chains. The aforementioned Toyota ASEAN Complementation scheme was a project along these lines. The linkage with global supply lines resulted in a development in the subcontracting practices and structure of Japanese subsidiaries in host countries that was different from domestic ones. The tiers of subcontracting firms are not necessarily deep because the production and process subcontracting is specialised, corresponding to regional comparative advantages.

3.3.4 Towards a Horizontal Structure

Due to the lack of a supporting industry for automobile assemblers, parts-makers with better production abilities supply to a wide range of assemblers. This contrasts with the situation of Japanese subcontracting firms that are affiliated under a core assembler. Figure [Fig. 8.1](#) depicts simplified models of subcontracting in the automobile and motorcycle industries in Thailand and Japan. A limited number of components suppliers are contracted out by several assemblers beyond Keiretsu (a cooperative group associated with one final assembler, often seen in the Japanese automobile industry). The interviewed managers from the sample firm agreed that this picture describes the current subcontracting situation in Thailand.

The situation in the Taiwanese automobile industry is in between that of Thailand and Japan. One study (Nissan 1989) reported that eight final assemblers contracted out 90 first-tier parts suppliers and that 2000 second-tier parts suppliers were subcontracted by the second-tier suppliers. The scale and depth of the subcontracting were more limited than those of Japan, but the figure forms the same pyramid-shape as in Japan. The question is whether the Thai automobile industry would first follow the Taiwanese model and then the Japanese model or whether it would proceed on a different path. If the endogenous subcontracting relations beyond Keiretsu took place in Thailand, a more horizontal division of

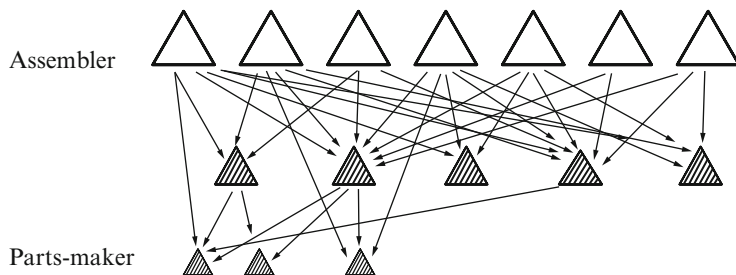


Fig. 8.1 Simplified models of subcontracting in the automobile and motorcycle industries in Thailand. *Source:* Adapted from Yahata and Mizuno (1988), Institute of Developing Economies

labour among subcontracting firms might have emerged. The local firms would definitely try to diversify their customers in order to maintain autonomy in business relations enhanced by entrepreneurship. However, the development of supporting subcontracting in Thailand had a long way to go. Local procurement involved problems of quality control, which tended to hamper the more extensive subcontracting of local firms. The case of Nisca, a camera parts producer among the sample firms, highlighted one kind of difficulty in procuring parts and components locally. Nisca initially planned to use a number of local subcontracting firms because their plants in Japan traditionally operated with a dense cluster of small subcontracting firms. However, due to a lack of capable suppliers, they had to internalise most of the production process that had been subcontracted.

Then, how can local suppliers proceed to second-tier subcontracting? The Thai government tried fostering the local supporting industry for foreign-affiliated production plants. The increase in the local procurement rate was one promising measure. Government regulation mandating local contents in parts and components contributed not only to upgrading technology capability in the local industry but also to providing the initial impetus to the development of forward and backward linkages with local industry. However, the Thai government abandoned the local content policy in around 2000. Foreign suppliers, including Japanese auto parts makers, then invested heavily in Thailand, which led to the accumulation of direct investment in capable suppliers.

3.4 The Impact of New Technology on Subcontracting Relations

One effective way to establish technological linkages between foreign affiliates and local industry in developing countries, which generally consists of small-scale firms, is the promotion of subcontracting. One supporting hypothesis is that ‘the application of new technologies by small-scale producers in developing countries will be facilitated when large-scale firms subcontract work to small-scale firms, thus guaranteeing supply of technology and skills, infrastructure, and often types of technical assistance’ (Bhalla 1988).

In this context, the Japanese experience offers many insights into this approach. The post-war economic boom in Japan prompted the rapid development of subcontracting in manufacturing. To cope with expanding production demands, large firms (often final assemblers) increased the volume of the subcontracted production and processing of parts and components. The subcontracting arrangements by large-scale enterprises contributed to the development of small-scale firms as a supporting industry. The technological upgrading of subcontracting firms was an urgent task both for the assemblers and subcontracting firms. As a matter of course, the assemblers tried to foster those of their subcontracting firms that were capable of meeting the required standards of production and process. Subcontracting firms reacted by adapting new machine tools and techniques. Supported by the availability of cheaper NCMTs and technical and financial help from ‘parent’ firms, the accessibility of microelectronics-based machines was enhanced during the course of the development of subcontracting. This resulted in the rapid diffusion of microelectronics-based technologies at the small-scale firm level in Japan.

The Japanese experience of developing subcontracting indicates a possible path for developing economies to follow for the purpose of upgrading technological capacity and opening the channel to the new technology pool in advanced economies. The question is, however, whether the replication of the Japanese experience is possible, or advisable. The Institute of Developing Economy recently warned against a hasty

conclusion; it is sceptical about the adaptability of the Japanese subcontracting experience to developing countries.

Nonetheless, the technical guidance of Japanese subsidiaries to local firms and the formation of suppliers' associations, two promising factors of technology transfer, have occurred in Thailand. Taking an example from the sample firms, Minebea offered technical guidance when its subcontracting firms introduced new moulding machines. Frequent visitors from local firms were keen on adopting the sophisticated CNC and industrial robots installed in Minebea plants. In the vehicle industry as well, the feasibility of applying new microelectronics-based technologies has been discussed at supplier association meetings.

Thus, a germ of subcontracting development has been sown in Thailand, but the transferability of new technologies through subcontracting channels is still underexploited.

4 Stratification of Income and Staff Management

The minimum wage imposed by the Thai government has often changed (it was 90 baht a day at the time of the study, in 1990). This sets the real standard for the wages of unskilled production workers. All the sample firms paid slightly higher than this amount to the unskilled shop-floor workers. Consequently, the average earnings of production workers gradually increased. Technicians and engineers received much higher wages year after year. Table 8.10 shows the average monthly salaries of production workers at the member companies of the Japanese Chamber of Commerce in Bangkok. Higher wage earners increased in 1989 over the previous year in both the automobile and electronics industries. Companies paid from 20,000 to 30,000 baht on average to production workers in 1989. This high payment reflects the higher labour market categories represented by the technicians and engineers among production workers.

The most serious concern for the management staff interviewed was the high turnover rate of engineer-level production workers and the shortage of qualified workers from the external labour market. The shortage of

Table 8.10 Average monthly salary: Production workers (thousand baht)

Monthly salary	More than 22	More than 20	More than 18	More than 16	More than 14	More than 12	More than 10	More than 8	More than 6	More than 4	More than 2	Total
Automobile (1988)		1	1	1	1	1	4	3	2	1		13
Electronics (1988)							2	1	1	2	2	8
Automobile (1989)	1	1					5	4	3	2		16
Electronics (1989)	1			1		1	4	4	5	3	1	20

Source: Japanese Chamber of Commerce in Bangkok (1989/1990), *Annual Report on the Wages of the Japanese Subsidiaries in Thailand*

engineers prompted the firms to provide much better labour conditions to such workers than to unskilled production workers. The resultant stratification in income due to the stratification in skill is evident.

One of the features of Japanese labour management is internal on-the-job training based on long-term employment. In managing their difficult situation, Japanese affiliates are forced to acclimatise. A manager at Toshiba said that the company tried to address skill shortages through 'group technology-based production' rather than by procuring highly qualified workers from the external labour market. Japanese team system methods (ILO 1988) such as quality circles are intended to be transplanted, but this is encountering many difficulties. The sample firms, particularly in the automobile industry, suffered from high turnover among internally trained workers, which encouraged them to change their seniority wage system into a more ability-based system.

5 Conclusion

Japanese FDI in developing countries seems to have built a new production linkage beyond national borders. These new developments are institutionally characterised by the subcontracting and outsourcing of product parts and components.

Technological linkages were strengthened in due course. However, as far as microelectronics-based technology is concerned, a set of technological capabilities among the local workforce was a critical prerequisite for the further diffusion of new technology in developing countries. A Thai institution found in a wide-ranging sample survey (TDRI 1989) that acquisitive and operative capabilities caught up with the standards of advanced economies. Adaptive capability was promoted in some industrial fields, but innovative capability was still poor, which requires the building up of a long-term dynamism for endogenous economic development and industrial competitiveness.

As institutional acclimatisation continued in Thailand, Japanese subsidiaries, mostly joint ventures, were forced to adjust their original Japanese staff management system in order to foster the effective development of the industrial workforce in Thailand.

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9

Prospects for the Development of Human Resources in Small and Medium-sized Enterprises, Microenterprises, and in Informal Sectors

1 Introduction: An Overall Picture of the Economy and Social Issues in Asia

An overview of the global position held by Asian countries looks very impressive on the world map. It is important to reconfirm at first Asia's standing in the world as a community. Asia's high economic growth in 2005 was most impressive in the last decade. Further, China's and India's growth in gross domestic product (GDP) taken together in the same year is more impressive. In 2005, the GDP of China (40.9 %) and India (14.3 %) together accounted for 55.2 % of the Asian GDP, up from 49 % in 2000. The combination of the two emerging economies, China and India, has been referred to as 'CHINDIA'. China is projected to produce one-third of all the wealth in the world, provided the economic trends established between 1975 and 2002 continue for another decade.

On the other hand, the social aspect of Asia's development presents a very different picture on the world map.¹ Poverty continues to be

¹ <http://www.worldmapper.org/> Wealth per annum.

pervasive in Asia as well as Africa, suggesting successful economic growth and GDP per capita without any substantial reduction in poverty.

This also suggests increased inequality in a national economy essentially caused by so-called ‘growth without employment’ in the region; employment generation is a focused topic for sustainable development. The development of small and medium-sized enterprises (SMEs) and microenterprises along with the integration of the informal economy into the national economy are particularly important to enable balanced economic and social development.

We often tend to focus on only the modernised and formal sectors while talking about SME development. However, we should also keep in mind the huge presence of the informal sector in the region.

2 Importance of Job Creation in the SME Sector in Globalising Asia

2.1 Employment in SMEs

The 2003 Asia-Pacific Economic Cooperation (APEC) report on SMEs indicated that SMEs made up over 98 % of all firms in the Asia-Pacific region. An analysis of the report demonstrates that the importance of SMEs in the regional economy is increasing and acknowledges the fact that over 70 % of net new private jobs in the last ten years were created by SMEs. The report suggests that a slight shift in importance from microenterprises to small enterprises is needed and that more importance should be given to medium enterprises, in order to acquire a global edge. The number of small enterprises with five to 20 employees increased mostly at the expense of microenterprises. This will be more evident if the figures for the private sector are included, as this sector experiences more competitive pressure. Medium-sized enterprises employing between 20 and 99 people accounted for only 4 % of the total enterprises, but employed about 29 % of the private sector’s workforce. Therefore, under competitive circumstances, size may matter, to some extent, with regard to employment generation.

Table 9.1 Changes in employment share from 1990 to 2000 (%)

	Micro	Small	Medium	Large
Japan	-1.6	0.8	0.4	0.4
Philippines	-2.2	3.1	-0.2	-0.7
Singapore	1.5	7.1	5.7	-14.4

Source: APEC (2003)

Under the circumstances of growth without employment, the shift from small to medium-sized enterprises is expected to generate much employment as a development policy agenda. As seen in Table 9.1, employment generation was very low in medium-sized enterprises in the Philippines. The role of the middle space is a focus of the policy orientation.

An APEC study pointed out that microenterprises may find it more difficult to survive if they compete in a globalised economy. It stressed that small enterprises can take more advantage of international business opportunities than microenterprises. In this context, the ‘the middle’, which has the potential of employment generation, is not fully explored and has a particular importance in terms of sustainable development.

2.2 Situation of the ‘Middle’

It is difficult to evaluate a distribution structure by the size of enterprises in Asia. The situation of SMEs in the region varies by country and sector. However, several models can be identified in terms of the middle position of SMEs.

In Japan, employment is structured in a balanced manner across different sizes of enterprises; SMEs provide a solid base as supporting industries. Although there has been a gradual decrease in the number of employees, the share in total employment has not changed much. Figure 9.1 shows a graphical model of the employment distribution structure for different sizes of enterprises in Japan.

Second, transnational corporations (TNCs) and large companies led job creation in the modernised and formal sectors; small enterprises formed the lower level of the formal sector. However, a large portion of the activities of the informal sector were ignored. This led to a significant

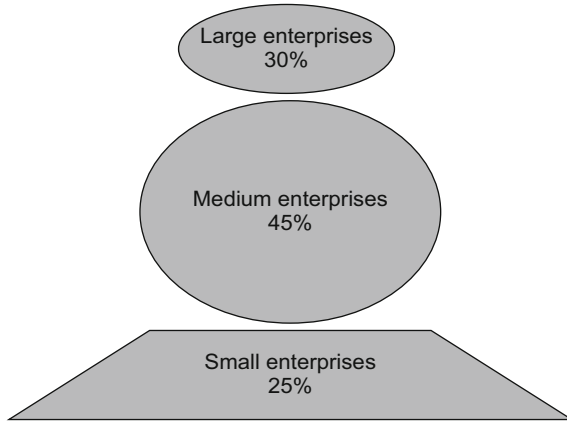


Fig. 9.1 Japan's employment structure by size of enterprise (2005)

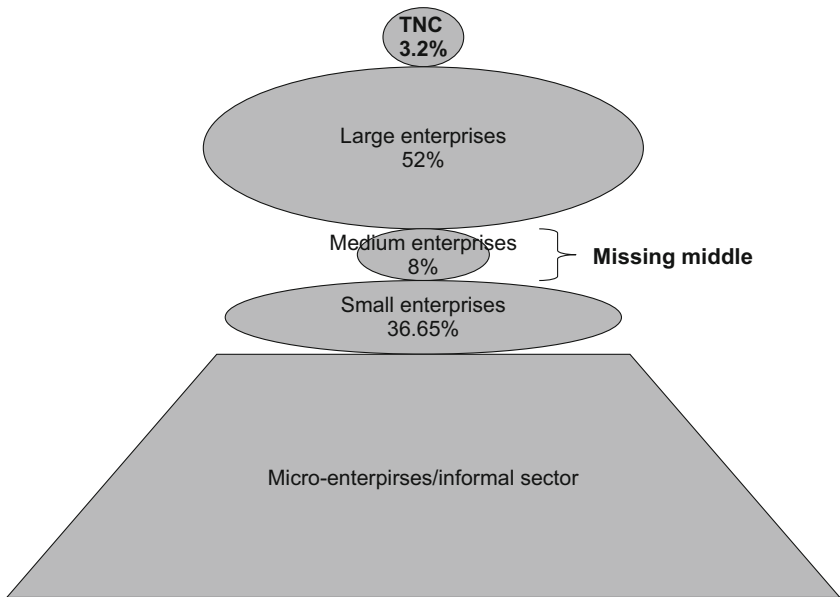


Fig. 9.2 Bangladesh employment structure by size of enterprises (2005–2006).
Source: Bangladesh Employers' Federation (BEF)

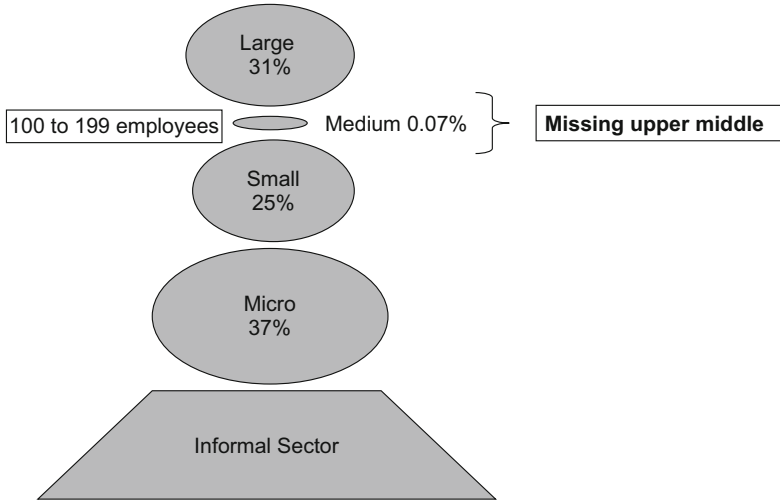


Fig. 9.3 Philippine employment structure by enterprise size (2005). *Source:* National Statistics Office, Annual survey of Philippine Business and Industry and Labour Force Survey

reduction in the formation of medium-sized enterprises, featured as the ‘missing middle’. The data in Fig. 9.2, presented by the Bangladesh Employers’ Federation (BEF), shows a representative model of the ‘missing middle’, which is also typical of the other countries in Asia.

Third, there was another identical type of missing middle model. The data provided by the Employers’ Confederation of the Philippines (ECOP) suggested a different model with extremely scarce employment in medium-sized enterprises, though small and microenterprises developed to a much larger extent, owing to the persistence of the informal sector. This can be referred to as the ‘upper middle missing’ model and is depicted in Fig. 9.3.

2.3 Growth of SMEs in the Non-Agricultural Sector

Whilst statistics showed that most of the countries in Asia recorded a steady increase in the number of SMEs from 1990 to 2000, some

countries such as China, Japan, and the Philippines experienced a decrease in the number of SMEs. However, all countries experienced an increase in the employment share of SMEs in the non-agricultural private sector.

In general, the biggest employer of small enterprises in the non-agricultural sector is the service sector. However, in terms of value added, importance is placed on the manufacturing sector as well.

The share of employment in agriculture tends to be the largest in Asian countries with the lowest income. As per capita income increases from the left to the right across economies, as indicated in the available figures, agriculture continues to account for the majority of employment in low-income countries such as Bangladesh, India, and Nepal in South Asia, as well as Cambodia in South East Asia.

2.4 Informal Sector and Poverty

There is a correlation between the GDP per capita and the employment share of the informal sector. The smaller the GDP per capita, the larger is the informal sector (Asian Development Bank, 2006). The informal sector comprises a huge pool of underutilised human resources and is also a source of underemployment characterised by developing countries in Asia.

The persistent existence of the informal sector in Asian developing countries relates to the pervasive poverty in the region. If US\$1 a day is used as yardstick of poverty, it appears that poverty levels reduced in most countries in the region in 1990. However, if the yardstick of US\$2 a day is used, which is also below subsistence level, it is evident that most countries had not successfully reduced their prevailing poverty levels (ADB 2006).

2.4.1 Market for the Poor

The idea of making markets work for the poor (MMW4P) is particularly relevant in this context. Enhanced opportunities enabled by the effort of making markets work should be percolated down to the poor. This impressive situation needs to be taken into consideration if we are to witness SME development in the region. The International Labour Organization (ILO) (2007) indicated that the value chain systems of enterprise

relationships have significant potential to integrate micro-, small, and medium-sized enterprises into national and global production systems.

3 Human Resources

3.1 Review of Results of Questionnaire and Country-Wise Report

Available country-wise reports responding to the author's questionnaire² showed some common factors of human resources in the SME sectors. Some common observations were identified as follows:

3.1.1 Strengths and Opportunities of SMEs

As stated earlier, most of the country-wise reports stress that the most important resources for enterprises are human resources. The predominant role of SMEs is their ability to mobilise human resources; secondly, they are known for their labour-intensive traits. Significance is attached to human resources development (HRD) by SMEs from the viewpoint of enabling the national economy.

3.1.2 Weakness and Challenges of SMEs

The strongest challenges were low productivity and poor quality. There were also difficulties in accessing new technology, and there was a low level of technical and management skills. The human resources of SMEs were described as being weak, unskilled, and sometimes very mobile (easily quitting jobs).

General views towards human resources in SMEs placed emphasis on the fact that the securing of skilled workers and training of unskilled workers are a prerequisite for making SMEs competitive and productive.

²The questionnaire was prepared by the author for the keynote presentation for a seminar in 2007, Bangkok, AOTS.

Further, the integration of informal sectors into the value chains of a globalised economy needs to be explored in practice.

3.2 Challenges of HRD in SMEs

SMEs are hesitant to adopt HRD because of the lack of money, time, and expertise. Further, since trained persons are likely to be mobile (relocate from small to large enterprises as well as from rural to urban areas), the return on investment (ROI) is very low.

Many reports stressed that recruitment of good human resources is extremely difficult because working for SMEs is considered inferior when compared to being employed by larger companies. However, this suggests that the only way of retaining good human resources is by fostering them. SMEs could upgrade human resources at a low cost not through large-scale training sessions, but by believing in the approach that ‘ordinary people can achieve extra-ordinary results’ (Pfeffer and O’Reilly 2000).

Since inquiries showed that most SMEs had few training resources, workplace learning is promising for SMEs in developing countries. Workplace learning should be sought at low costs and in a manageable way.

A study (Table 9.2) shows that smaller firms have fewer formal training opportunities. However, smaller firms provide greater opportunities in the form of on-the-job training, as Pyke (2000) insisted. The availability of workplace training suggests potential for more effective operations in the SME sector.

Many country-wise reports suggest that long-term employment is necessary for workplace learning. Long-term employment in SMEs can be achieved via a virtuous circle of commitment, motivation, and skill

Table 9.2 Type of training by size

	5–25 employees (%)	25–99 employees (%)	200–499 employees (%)
Off-the-job training	48	60	89
On-the-job training	79	89	95

IFF Research in the UK, 2002 quoted from Pyke, F., Pyke 2006

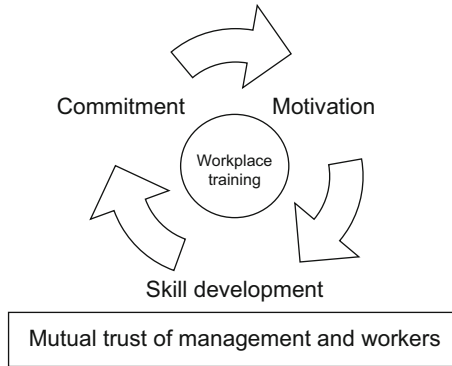


Fig. 9.4 How to establish a virtuous circle of workplace training at SMEs

development of workers based on trust between employers and workers. Skill development is the key that could be beneficial both for workers and management, thereby creating a win–win situation. Therefore, a focused point of discussion is how to establish such a virtuous circle of workplace training. Training at the intra-firm level is important. Sharing information with a pro-teaching outlook, coupled with a pro-learning attitude of the workers is significant for skill diffusion in an individual firm (See Fig. 9.4).

Inter-firm practices of workplace training are another way of complementing the scarcity of training resources in SMEs. In this regard, a cluster approach and the use of supplier associations, which were reviewed earlier, are relevant cases in point (see Fig. 9.5).

The integration of value chains with downstream skill development requires extraordinary development of the majority of small companies. Sometimes it is almost unrealistic. However, it is becoming feasible because large companies and multinational enterprises have started to upgrade value chains as part of their corporate social responsibility (CSR). CSR is regarded as a costly practice for SMEs, but it creates conditions for forming win–win situations among SMEs and between large companies and SMEs.

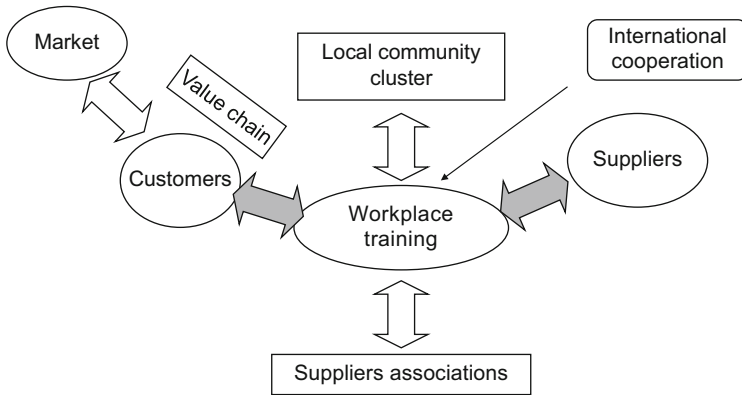


Fig. 9.5 Upgrading human resources through value chains

4 Some Policy Issues for Asia

SMEs, microenterprises, and the informal sector play critical roles in the development of each national economy. Although the various challenges for SMEs include financial difficulties and a poor enabling business environment, SME development is strongly associated with microenterprises and the informal sector, which form a large part of the economy and make considerable contributions to employment. The integration of SMEs within the industrialised and modernised sector is a central agenda for each national economy.

SME development can be attained through innovation and entrepreneurship by indigenous enterprise development in a local economy. Human resources are the most important assets for SME development, but are vulnerable in the SME sector in most countries. The question that then arises is what should be done for human resources in SMEs? In principle, SME development should be self-supportive and indigenous and should be promoted by the entrepreneurial mind-set of people.

The situation of SMEs varies in different regions, and the SME policy should be tailor-made to fit different situations. 'Missing middle' situations are different in each national and local economy. However, it is important to grasp the exact situation of SMEs, which can be realised by

collecting relevant statistical data. Based on objective statistical data, an SME policy and approach should be adopted.

Good quality and quantity of human resources in the SME sector need to be secured and developed to promote dialogue and partnerships among stakeholders and social partners. These are not only issues for individual SMEs, but also for all stakeholders, including governments and other social partners such as employers' and workers' organisations. Partnerships between stakeholders at the national and international level have to attempt to make the SME sector beneficial for all concerned. Non-governmental and non-profit organisations should be encouraged to set up further cooperation on SME development.

An effective way of training should be sought through practical and low-cost approaches at the workplace of SMEs. 'War for talent' is important in some parts of the world, but more extensive ways of fostering talent must be explored in most parts of Asia. An organised plan for a training and review process is very important for improving training. In addition, informal training which stems from a corporate culture of respecting human resources should also be promoted. Since large numbers of workers do not use their skills and qualifications in their work, training should be market-driven.

Effective workplace training requires balancing the various components of training. Workplace training not only requires effective operations on the job, but also the right components of off-the-job training. It also includes training of trainers, developing learning and teaching cultures, as well as external labour mobility. Many types of workplace training are possible, including skill-based and competency-based training.

Spreading awareness of the idea that 'training is not a cost, but a long-term investment creating benefit for all' is a prerequisite, promoting awareness of the importance of training. Above all, promoting awareness among workers themselves should be the focus in discussions. Training should promote the proactive sentiments of the worker to be trained, making workers accountable for the training they receive. The benefits of training, including intangible benefits, should be explained in detail to all SME workers. Employability should be emphasised, and this requires soft skills and communication skills.

Government intervention is indispensable for ensuring that the training in SMEs is more sustainable. Government policy should promote employer organisations. Supportive legislation and HRD funding for SMEs are further examples of indispensable government interventions that would encourage SME development. Many people agree that a collection of good practices is important for creating role models, and such practices could be collected onto a database in order to facilitate information exchange and dissemination. In particular, the use of successful business cases to demonstrate good practice could be very influential. The success of a small number of SMEs may have a resounding impact on the rest of the SMEs. The promotion of women entrepreneurship is particularly important for the development of micro- and informal sector enterprises.

The fundamental concepts of the cluster theory emphasise the additional advantages of establishing trust, information sharing, and networking, which can facilitate HRD in the community. Another good example is initiating linkages and support structures between large companies and SMEs in South East Asia; the Japanese model of fostering SMEs by large companies can serve as a suitable model. Japanese foreign direct investment in Asia is growing and Japanese SMEs are being included in forming support industries for local production. Local and regional level networking between SMEs and other stakeholders is integral in facilitating effective links to supporting industries.

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10

The Employment Situation in Japan and the Effects of Human Resource Development on the Globalisation of Asia in the 1990s

1 Japan's Low Unemployment Rate and the Myth of Lifetime Employment

In the mid-1990s, the unemployment rate in Japan was still extremely low compared with other industrialised countries such as the USA and those in the EU. The recession of the Japanese domestic economy raised the unemployment rate to 2.9 % (June, 1994), which was still lower than that of other industrialised countries but a similar level as during the oil crisis in Japan (2.8 % in 1986). One of the reasons for the low level of unemployment in Japan was explained by the term 'lifetime employment system', which was supported by employers and workers as an implicit agreement in an enterprise. The benefits of this practice were that it enabled social partners to secure employment continuation prior to other concerns of workers. This well-known approach, however, led to a misunderstanding of the real employment situation in Japan. A large number of employees in an enterprise did not necessarily have their initial employment connections protected for life; rather, most of them had the option of retiring early.

According to a survey in 1992, only 6 % of workers aged between 55 and 59 were regarded as lifetime employees. After an initial three years' employment, 30 % of university graduates left their jobs, as did 50 % of high school graduates, and 70 % of junior high school graduates. This 7:5:3 ratio became a popular term for explaining the average rate of school graduates' turnover three years after their graduation. Thus, 'lifetime employment' did not represent the real employment situation in Japan; however, it is an undeniable fact that the effort to guarantee employment security by employers and workers contributed to the low employment rate, at least in the recorded statistics. The practice of long-term employment with the effect of securing continuous employment in Japanese enterprises (rather than simple 'lifetime employment') was a better term to explain a contributing factor to the low unemployment rate in Japan.

2 The Strength of Japanese Human Resource Development

The scope of long-term employment security had extended beyond the boundary of a company's internal labour market. It involved the company's subsidiaries and associated companies, an approach which succeeded in proving the strategy's effectiveness, as was evident by the low unemployment rate and the low number of labour conflicts over at least the prior three decades. Long-term inter-company relations had contributed to the long-term security of employment in supply chains before the arrival of the new employment situation with the accompanying rapid increase of non-regular workers in Japan.

It is important to note that continuous employment had not only resulted in a stable labour market but was also a basis for effective human resource development (HRD) in the light of vocational training. Rationalisation of the long-term training process was explained in many ways. Aoki (1984) explained that the cost of on-the-job training (OJT) was one attribute and Debroux (2003) pointed out that recruitment cost

was another aspect. Further, Bratton (1992) suggests that Japanese training 'develops a combination of physical, cognitive and behavioural skills in order to increase performance and commitment to the organization's values and goals'.

Based on continuous employment security, workers could acquire a broad range of closely interrelated skills through periodic job rotation and a combination of long-term OJT and short-term off-the-job training. Production workers were expected to be involved in maintenance work. Thus, workers could respond to unexpected events which occurred daily at production sites. Koike (1994) named this approach 'intellectual skills' and explained it as the strength of Japanese production workers and a competence of the Japanese manufacturing industry.

The flexibility of the employment system was the second strength of Japanese human resources based on continuous employment. There are two types of flexibility. One is numerical and another is functional. In order to deal with economic fluctuations, Japanese enterprises tended to adopt flexible working-time management (this was proved in statistics on long overtime work in the period of the economic boom), use part-time workers rather than recruit new full-time employees, and take advantage of subcontracting companies rather than adjusting their own production capacity and services.

Because functional flexibility is acquired through broader job commitments, as previously described, Japanese workers were not reluctant to adopt job rotation, change jobs, and move within the framework of the internal labour market. They were also positive towards training as candidates for general managerial positions, which were open for every career worker. These were the strengths of the continuous employment practice, which was an unwritten and informal agreement (Hanami 1991) in Japanese companies. In addition, Bratton (1992, p. 29) indicated that it was 'a way of thinking on both sides' for workers and employers.

3 Japan's Example of Complementarity for Vocational Training Between Public Education and Enterprises

Without doubt, Japan succeeded in establishing a high level of general education enrolment with regard to the public and private complementarity of vocational education through the concept of long-term employment before the 1990s. Large companies in Japan played a leading role in vocational education and training. As a result, Japan enjoyed a long-lasting low unemployment rate which was exceptional among the other major industrialised countries, although it was projected that the unemployment situation would be worsened by an increase of non-regular workers. This success was enabled by long-term employment (so-called 'lifetime employment') practices which were mainly embodied in large-scale enterprises. In this environment, the skill development of most workers had been undertaken by in-house OJT in an enterprise employment framework with internal labour reallocation. In this sense, Japan had successfully utilised private facilities and financial resources for HRD. The Japanese government admitted the leading role of private enterprises in implementing effective vocational training in practical business matters.

3.1 Skill Development-Oriented Long-term Employment Strategy

This section deals with the principle and strength of Japanese long-term employment practices¹ and the challenges faced by the system. For a long time, Japanese managers were proud of their human resource management as a management style which centred on respect for workers' needs. The foundation was that managers regarded employment stability as more

¹ Japanese long-term employment practice can be proved if you observe the applicable coverage of employees who had worked for 20 years in 1995. Around 56 % of white-collar workers had worked for 20 years while 32 % of German workers worked for the same period in the 1970s. There were few differences in the length of time worked on average between Germany and other industrialised countries.

important than any managerial adjustment. The various kinds of employment flexibility were embedded in the system of employment stability. Workers transferring to different jobs and posts in the same company was common practice in Japanese large corporations. In addition, inter-group company transfers and inter-company transfers often took place in order to maintain employment security as a framework for flexible employment adjustment measures in a large-scale corporation.

Employment flexibility and stability fostered cooperative labour–management relations based on enterprise-level unions. It was asserted that the philosophy of Japanese managers which centred on employees resulted in the so-called Japanese-style employment practices. This assertion seemed to be justified because there were some reasons why Japanese managers had retained the long-term employment practice based on a seniority wage system. The rationale for the long-term employment system was founded on the strategy which was oriented for skill development. In high-growth industries, the demand for skilled workers, including blue- and white-collar workers, grew in accordance with business expansion. Such skilled workers were trained and posted through internal labour deployment based on the long-term employment practice of regular workers.

As illustrated in Chap. 1 about stereotypes of Japanese HRM, in order to achieve the effective skill development of employees, a company established a skill development incentive scheme among employees.² Japanese companies ranked their employees based on skill rather than job classification. In accordance with the broad skill-based classification, employees were reallocated to different jobs within a periodic rotation system. There were few difficulties about experiencing different jobs within a company for regular employees because they were rewarded in accordance with the ranking of broad skill classification. They were not evaluated by job content classified by job analysis or performance if they attained a certain level of skill rank. Such was the strategy which was used by Japanese companies to attain the overall skill development of regular

² This explanation is basically in accordance with the presentation of Koichiro Imano at the Japan–Singapore joint symposium on HRD, held in Singapore in March 1997.

staff employees. This strategy needed a long-term continuous employment system supported by a seniority wage system.

3.2 Transition from Education to Work

Based on this long-term continuous employment strategy of Japanese major corporations, the transition from education to work was very efficient. Graduates could find jobs in a relatively short time through their educational establishments without any period of unemployment after graduation. Most graduates began their initial working lives on 1 April upon graduation. This can be explained as an organised labour market (JIL 1990–1992). Ishida (1998) suggested that the effects of educational credentials are most apparent with the first occupational status. The educational institutions transmitted information about the merits of potential job applicants and meritocratic labour allocation was promoted at the time of student graduation (Kariya 1998).

Thus, the institutional links between education and employment were established, and, in principle, the interface and articulation between school and employment were connected at graduation time. In 1989, the average number of companies to which students applied was lower in Japan compared with other industrialised countries. The Japan Institute of Labour (JIL 1989) reported that Japanese students applied for 1.8 companies on average while US students applied for 4.5 and UK students applied for 4.3. An employment outlook published by the Organisation for Economic Cooperation and Development (OECD 1996) also revealed that young persons in Japan remained longer in their first jobs after leaving school compared with other developed countries.

Since employers had confidence in the educational meritocracy, the links between school and employment were intentionally created. Employers evaluated the trainability and adaptability of graduates as the most important requirements in the context of long-term employment. Students could foresee that their future career prospects included employment stability. As a result, first-job entries from educational institutions affected subsequent careers decisively.

4 The Challenge for Continuous Employment

The Japanese economy in the 1990s underwent industrial restructuring at a steady pace with a slow economic growth rate, thereby causing mismatching in the labour market and necessitating employment adjustment. The manufacturing sector could not afford to provide sufficient employment opportunities and absorb surplus workers, although the services sector was growing and providing a large employment pool. Because easy dismissal was made difficult by the long-established implicit agreement between the workers and employers in which the first priority was to retain employment, companies adjusted the employment scale by ceasing to recruit school leavers and encouraging early retirement. This trend seemed to be increasingly applied in a large number of Japanese enterprises. Further, the surplus of workers in enterprises grew and exceeded the capacity which enterprises could maintain in order to provide seniority wage systems based on length of service and the long-term commitments in internal labour and internal group-labour markets. The stagnation and restructuring of the Japanese economy was not damaging the fundamental basis for continuous employment for the core workers in enterprises. However, the White Paper on Labour of 1994 admitted that an increasing number of enterprises were depending upon the external labour market to recruit workers, mainly white-collar workers, with certain professional specialities such as information technology and research and development (R&D). Consequently, the labour force in Japan was becoming more mobile. The number of private employment agencies, for example, increased as a promising business sector. The large private employment agencies increased their turnovers from 10 % to 20 % within two years (*Nikkei Shimbun*, 3 August 1994) whilst the growth of temporary work agencies (TWAs) was a global phenomenon (ILO 1994). TWAs in Japan increased to six times the size of their office networks in four years from 1988 to 1992.

Above all, the demand for managerial and administrative workers, and professional and technical workers among white-collar workers, expanded. However, the two types of worker were developing in a

different manner. According to statistics, the demand for managerial workers through public employment offices increased four-fold and the demand for professional and technical workers increased 350 % from 1990 to 1994. Nonetheless, the job opening-to-application ratio for managerial workers began to diminish during the same period (Ministry of Labour 1994a, 1994b). This was a result of the surplus of middle-aged managerial workers who remained in the framework of the Japanese human resource development system.

The traditional single-track career ladder on which most employees began from the bottom rung was no longer a feasible means for providing a stable and promising employment perspective. Employment and promotion opportunities for middle-aged managerial workers were clearly segmented. As education and skill specialities became more important elements for obtaining and keeping jobs, workers were valued less for their loyalty and length of service. An inquiry suggested that the specialism of workers' skills was the most important factor in finding better jobs through public employment agencies (JIL, 1991).

The incremental shares of professional and technical workers in total employment were common trends in the USA and Japan. The share of professional workers in total employment in the USA ranged from 16 % to 17 % in the late 1980s and increased to 22.2 % in 2013. In addition, Japan increased its total employment rates from a range of 10 % to 11 % to 22.2 % during the same period.

Interestingly, an accelerated trend of early retirement in Japanese enterprises compared with other industrialised countries was recognised in contrast to the concept of lifetime employment. Approximately 30.5 % of large companies which employed more than 5000 persons had early retirement systems which were applicable for employees aged less than 49, although 20.9 % was the average standard for all enterprises in Japan (survey of Ministry of Labour, 1993). The spreading trend of early retirement in Japan was compared with the same year's statistics for other industrialised countries such as Germany. For example, German workers worked longer in a company than workers in Japan.

Thus, the applicability of continuous employment was challenged by the emerging Japanese business environment. In addition, a mobile labour

market for professional and technical workers was laying the groundwork to function in Japan.

5 Portfolio Management of a Diversified Labour Force

An OECD study (1997a; 1997b) revealed a sharp increase in the number of individuals who perceived employment insecurity in industrialised countries between the 1980s and 1990s. Japan was no exception. The unemployment rate grew to an unprecedentedly high level since the World War II (3.4 % to 3.5 %). The negative trend which was associated with long-term employment practices also appeared in later years. The closure of Yamaichi Security in 1997 was one example which fuelled growing concerns of possible unemployment without exception. This perception was partly attributed to the employers' attitude. The inquiries of *Nikkeiren* (the Japan Federation of Employers' Associations 1995) showed that diversified employment management had to be developed rather than monoculture employment of regular workers. The study based on the inquiry divided the employment patterns of Japanese enterprises into three groups: regular workers (long-term accumulated skills group); experts (advanced-specialist skills group); and part-time and contract workers (employment-flexibility group), as shown in Fig. 10.1. Each group should be managed in accordance with the different personnel conditions (see Table 10.1) compared with traditional regular workers.

Responses to an inquiry to the member companies of *Nikkeiren* in 1996 indicated that the long-term accumulated skills group would decrease its share of employment from the current figure of 81 % to 71 % in the near future, whilst the advanced-specialist skills group would increase its share from 7 % to 11 %. The employment-flexibility group would raise its share from 12 % to 18 % (*Nikkeiren* 1996).

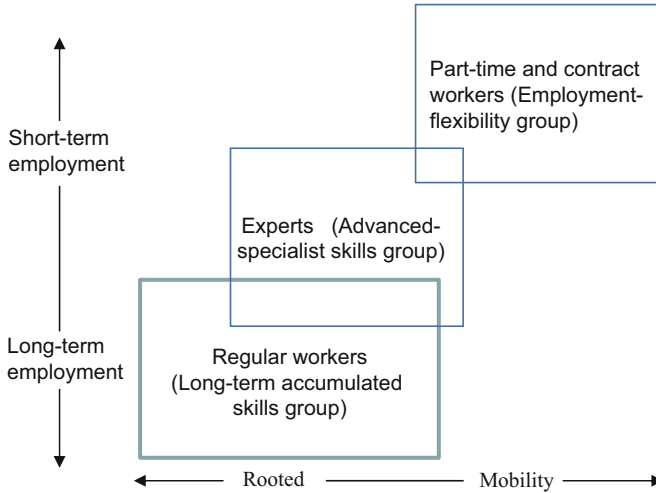


Fig. 10.1 Company–employee employment and length of service relations. *Notes:* (1) Typical classification of employment patterns. (2) Mobility between groups is possible. *Source:* Adapted from Nikkeiren (1995), Japanese Management in the New Age, August

The idea behind this trend was that the skill development-oriented strategy based on long-term employment did not necessarily contribute to productivity enhancement in changing market situations. The intensified competition in the deregulated market and the augmented market risk in Japan affected the attitude of managers towards human resources development for their employees. The outsourcing of professional and flexible workers was becoming a major business trend.

Although the long-term accumulated skills group was still a core, major workforce, the skills development of the other groups and the outflowing workers from the core indicated that long-term employment was a new subject for Japanese HRD. In other words, the HRD strategy which had been used so far in Japanese companies had a predominantly supply-driven orientation, but HRD with demand-driven orientation was likely to be incorporated into the context of Japan’s future employment circumstances.

Table 10.1 Main content of personnel conditions by group

	Employment pattern	Eligible	Wages	Bonus	Retirement allowance, pension	Promotion, advancement	Welfare measures
Long-term accumulated skills group	Employment contract with no fixed term.	Managerial posts. General posts. Core staff in technical sections.	Monthly wage system or annual wage system. Job-evaluation wage. Wage-increase system.	Fixed rate and achievement slide.	Points system.	Promotion to executive post. Skill-based classification. Advancement.	Lifelong comprehensive measures.
Advanced-specialist skills group	Employment contract with fixed term.	Specialist sections (planning, sales, R&D, etc.).	Annual wage system. Performance wage. No wage increase.	Distributed by results.	None.	Performance evaluation.	Livelihood assistance measures.
Employment-flexibility group	Employment contract with fixed term.	General posts. Technical sections. Sales sections.	Hourly wage system. Job wage. No wage increase.	Fixed rate.	None.	Transfer to senior job.	Livelihood assistance measures.

Source: Nikkeiren (1995), *Japanese Management in the New Age*, August

6 The Employment Crisis in Asia and Rising Demand for Efficient Education and Training Systems

6.1 Human Resources and Sustainable Development

The government's restructuring and austerity programme was undertaken in order to deal with the 1997 financial crisis in Asian countries. Policy orientation and implementation were also preconditions for International Monetary Fund (IMF) loans during the financial crisis and for cooperation from industrial countries such as the USA. This orientation was clearly seen with regard to Indonesia and South Korea. This led to a social crisis which exacerbated unemployment and underemployment levels in the region.

Thus, the World Bank, which constitutes another aspect of the Breton Woods Institution, began to work on maintaining a social safety net for those most severely affected (*International Herald Tribune*, 16 January 1998). The concept of the World Bank was based on a middle- and long-range perspective of development. The World Bank regarded a good policy environment with a consciousness of social consequences as imperative factors for sustainable development. In addition, the World Bank suggested promoting investment in human resources in order to ensure future high returns for scarce resources. Stiglitz (1997) illustrated that a 'good policy' creates the kind of environment which contains the promotion of a complementary relationship between the government and the private sector.

This situation not only referred to the aforementioned countries but to all nations across the globe. Combating unemployment and underemployment was considered the most serious policy agenda item in the world's economies. In particular, the unemployment problem in industrialised countries was essentially caused by fundamental industrial restructuring. Mismatching in a labour market induced significant costs and friction in a nation and among individual workers. Employment adjustments with a smooth transfer of the labour force from shrinking industries to expanding industries had to be undertaken by affected

countries. For this purpose, the International Labour Organization (ILO 1998) proposed an active labour policy (ALP) in order to address current unemployment problems rather than expanding unemployment insurance schemes.

This policy emphasised the importance of the skill development of workers, a strategy which definitely required financial support in order to be implemented. However, while the demand for effective measures to ease unemployment and underemployment problems was growing across the world on one hand, the ability to finance public education and training was becoming scarce on the other. Under austere financial circumstances, governments had to seek to mobilise the resources of private actors and budgets. Consequently, once again, the complementarity of public and private actors with regard to HRD was a key element to providing a solution to employment issues for the purpose of sustainable development.

7 Vocational Training and Educational Institutions

Through the post-war high-growth period, the number of students enrolled at universities and the number of universities and colleges had increased rapidly. The business world recruited new graduates year after year without considering the subjects which the students had studied. This was because a company would train a full-time worker to be a generalist, which was preferable to keeping a managerial position open for every worker based on the continuous employment system. Multi-skilled workers without a specific specialism were reassigned different jobs through the functioning of the internal labour market so that a company could flexibly adjust labour in accordance with supply and demand without redundancies. The resultant low unemployment rate has already been explained.

However, after the bursting of the so-called bubble economy, companies were unable to afford to offer alternative job opportunities to their surplus labour. Consequently, a selective approach towards personnel

management was taken in the form of stronger corporate employment adjustments. A priority factor in the selection of remaining and promoted personnel was professionalism in a certain technical speciality.

As training and education costs were reduced because of economic stagnation and the accelerated mobility of professional workers beyond internal job opportunities, public assistance and subsidies for workers' training, and also self-help, increasingly focused on improving and upgrading the technical specialities of individual workers. In 1993, the Ministry of Labour of Japan began a 'business career' programme which was directed at promoting and assisting the upgrading and verification of the level of individual abilities among white-collar workers in order to make their employment mobility more successful.

Companies also required vocational specialities for new university graduates. A study of the financial sector (ILO 1993) stated that this sector had raised the entry requirement for the profession with the emphasis on multiple skills, flexibility, and initiative, and would rely more than previously on the educational system at large to prepare their job applicants. However, vocational training was accorded little importance in the curricula of Japanese universities, with the exception of the engineering and medical science fields. There was a growing discrepancy between the business world and universities about the recognition of the need for HRD. Thus, the link between the business world and educational institutions such as universities had to be reviewed and re-established within an emerging new context.

8 Towards Training Cooperation Among Various Institutions

8.1 The Role of Public Vocational Education and Training

Because the long-term employment practice was very successful at maintaining cost-efficient initial employment training and upgrading workers' skills, public vocational education and training played a

Table 10.2 Vocational training of young workers in 1990

Country	Percentage in vocational education
USA	30
West Germany	70
United Kingdom	18
Japan	28
Australia ^a	15

^aData refer to 1990 activities of 18-year-olds taken from the Department of Education and Training, Canberra

Source: Various sources, but primarily US Gao (1990, 12)

secondary but nonetheless important and complementary role to OJT in enterprises. Public vocational training institutions more or less focused on training for unemployed job seekers and blue-collar workers in small companies. This complementarity of public training institutions reflected the effectiveness of the long-term employment practices in large-scale companies. In comparison with the related data of other industrialised countries, these features were elucidated by studies. For example, there were various levels of involvement of young workers in vocational training in industrialised countries around 1990 (see Table 10.2). However, Japanese workers received longer training implemented by enterprises than the workers of other countries (see Table 10.3) with very low training costs (see Table 10.4). The data demonstrate the success of Japanese companies in incorporating training into the production process.³

Another feature of Japanese public vocational education and training institutions was the funding which was financed through the revenue of the employment insurance scheme (in practice it was equivalent to the employment tax or levy). This system enabled the revenue of public training institutions to be stable. However, it limited the means of use for the revenue because of the nature of the funding.

Overall, public institutions, including schools, tended to be supply-driven and short of feedback from employers. Because demand-driven HRD was also preferable for public vocational training, the new cost-efficient programmes were required to be followed under the terms of the austerity budget in Japan. Among the new policy agenda, self-dependent and transferable skill development was advocated by the government. The

³ Lynch, L.M. (1994), *Training and the Private Sector*, The University of Chicago Press, pp. 9–13.

Table 10.3 Enterprise-related training

Country	Individual receiving formal training (%)
USA: 1983	11.8 ^a
1991	16.8 ^a
Canada: 1985	6.7 ^b
West Germany: 1989	12.7 ^b
France: 1990	32 ^c
Netherlands: 1986	25.0 ^b
Sweden: 1987	25.4 ^b
Japan: 1989	36.7 ^d
Australia: 1989	34.9 ^e
Norway: 1989	33.1 ^b

Sources: *Current Population Survey, Training Supplement* (Washington, DC: US Department of Labor, 1983, 1991); OECD (1991); CEREO (1991); *1985 Adult Training Survey* (Ottawa: Statistics Canada, 1986)

^aReceived training at any time in current job

^bOf all employed workers

^cOf all workers in companies employing 10 or more employees

^dReceived training within the past two years

^eReceived in-house training

Table 10.4 Training expenditure by companies

Country	Average training expenditure (as % of total wage bill)
USA: 1988	1.8 ^a
Canada: 1985	0.9
West Germany: 1989	1.8
United Kingdom: 1984	1.3
France: 1984	1.6
1989	2.5
Netherlands: 1986	1.5
Japan: 1989	0.4 ^b
Australia (private sector): 1989	1.7

Sources: OECD (1991); for US data, *Training Magazine* (Alexandria, VA: American Society for Training and Development, 1988); for Canadian data, *Adult Training Survey* (Ottawa: Statistics Canada, 1986), as reported by the Canadian Labour Market and Productivity Centre

^aIncludes larger companies from *Training Magazine* survey

^bTraining expenditure as a percentage of monthly labour costs, but excludes trainees' wages

new subsidy programme for individual worker's vocational training expanded coverage to all applicants in addition to older workers. The programme aimed to improve the employability of individual workers. This was supported by the principle that public money channelled through individuals was likely to provide higher rates of return than the same money spent on free public training (Psacharopoulos and Woodhall 1985). Such an approach contributed to the radical increase in the number of training purchasers.

8.2 Partnerships Between Institutions, Enterprises, and Individual Workers for Better Vocational Education and Training

Gasskov (1994) suggested that the trend of public vocational training reforms was inclined to involve more employers and individual workers in order to strengthen the role of market forces. Employers' involvement and influence were also features of the German dual system categorised as apprenticeship. This dual system was well known as a combined training scheme with school-based training and practical in-plant training. Employers' voluntary commitment to financing and elaborating training qualifications within the framework of regional tripartite consultation of employers' unions and the government was critically important for sustaining the dual-training system's effectiveness. This resulted in the standardisation of qualifications nationwide; thus, apprentices could acquire employment across the region and the country. The standardisation of assessment, recognition, and certification of skills was pursued in many OECD countries (OECD, 1997a, 1997b). Japan followed this trend in that the skill certificate for white-collar workers was newly created by the government's associated organisation in addition to the successful certification system for blue-collar workers in order to upgrade skill levels. However, the transferability of the German model was not simple unless employers showed a strong willingness and made significant efforts towards the implementation of all of the training processes (Gasskov 1994).

A significant similarity of the German dual system and the Japanese training system was the support of a wide range of institutional structures (Lynch 1994). In a rapidly changing economy, no institution could avoid adjustment. The Japanese training system was supported by institutions but used a rather rigid and divided structure which mainly constituted public educational and training institutions and enterprises. The challenge to the Japanese system was how it could adjust flexibly with good links with each aspect. One measure in response was the integration of vocational training with general education. The trend of introducing internship courses to some Japanese university programmes was an example of this experiment.

The direct beneficiaries of training, such as individual workers, employers, and the nation as a whole, unquestionably agreed about the considerable returns of training in terms of productivity and wage gains. In addition, employer-provided training at enterprise level was very effective at incorporating demand-driven factors into training quality. However, Japanese employers were losing incentives to retain financial investment expertise for their extensive share of workers in long-term employment.

Consequently, the role of vocational training institutions, whether they were public or private, was augmented with efforts to create stronger links with business. Further, the complementarity among other institutions such as educational institutions, trades unions, chambers of commerce, and any non-governmental organisations which represented members of civil society was a key element to building a cost-efficient and effective training system. Building a good partnership between related institutions was indispensable for a coherent training system. There were no decisive models for institutional coordination because the social, cultural, and economic environments are so different among countries. Hence, the voluntary mobilisation of finance, expertise, and willingness of all of the institutions related to education and training had to be pursued with good links among them in accordance with each country's situation.

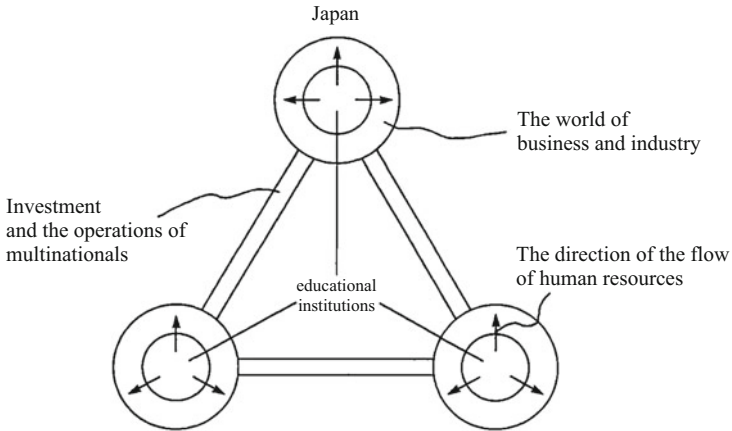
9 International Networking of Institutions With Regard to HRD

The high appreciation of the yen from 1985 fuelled greater foreign direct investment (FDI) from Japan to Asia and the USA. In particular, the expansion of the operations of the Japanese multinational corporations (MNCs) broadened the economic links among countries in the Pacific Basin. As seen in Fig. 10.2, the links between the institutions for HRD and the world of business and industry would be strengthened if the following process made progress.

In general, MNCs adopted a strategy to promote the decentralisation of operations and subcontracting across national borders (the international division of labour). This led to the increasing pace of globalisation for economies which were previously segmented. Accordingly, not only did financial capital move across national borders, but so did workers. In this regard, the latter were an important element of the increasing globalisation of the world economy.

Although unskilled workers did not find it easy to transfer across national borders because of national immigration policies, the exchange of professional workers in integrated economies was an inevitable trend. This was prompted by the international operations of MNCs, the occupational nature of professionals, and the principle of free trade and services within the framework of the General Agreement on Tariffs and Trade (GATT) and a free trade agreement. In Japan, foreign workers who were legally engaged in linguistic and international services amounted to 22,000 at the end of 1992. This was an increase of 50 % over the prior two years. A counselling desk for foreign job applicants was established in a public employment office in Tokyo in 1993. This employment service was for workers who had a professional speciality. The office recorded an increasing number of job offers (*Nikkei Shimbun*, 1 August 1994). In order to develop further, this process required a 'homogeneous' market structure of human resources in varied economies which was based on the premise of globalising economic activities in order to manage the cross-border movement of professionals effectively.

Current situation of the flow of human resources



Future picture of the networking of educational institutions and the flow of human resources

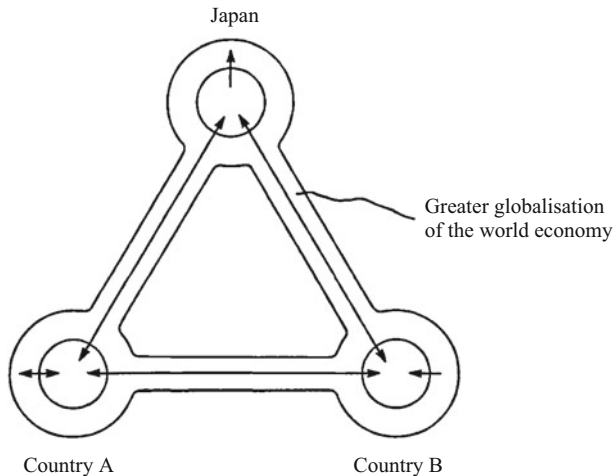


Fig. 10.2 Conceptual picture of the links among the institutions of vocational education with regard to human resource development

With regard to this point, the Japanese educational and training institutions provided accessibility to homogeneous human resources only for the domestic labour market; they did not recognise foreign

workers as part of this homogeneity. For example, Japanese university students were to a greater extent homogeneous in terms of age (18 to 22), ability (measured mainly by the scores of entrance examinations), and race and language (mostly Japanese). Since the occupational career of an individual worker extended throughout his or her life, and a person who could work in an international atmosphere was increasingly requested, access to university and the opportunities presented therein needed to vary. At the same time, educational institutions needed to have students of various nationalities.

Greater globalisation of the world economy in due course required solid links between educational and training institutions in different countries because institutional homogeneity is a *sine qua non* for the personnel management of corporate operations in a fully globalised economy. In addition, the localisation of human resources among MNCs was a subject which was emphasised in order to make improvements. Networking through the exchange of information and experiences, and coordination of institutional strategy among the institutions needed to be promoted.

The ILO Recommendation adopted in 1975 (No. 150) required the development of comprehensive programmes of vocational guidance and training which were closely linked with employment. The Recommendation also proposed international cooperation and stated that

Members should cooperate with each other to the fullest extent possible, with the participation, as desired, of governmental and non-governmental regional and international organizations, as well as non-governmental national organizations in planning, elaborating and implementing programmes of vocational guidance and vocational training.

Further:

Such cooperation may include—making facilities available or establishing joint facilities to enable persons concerned with vocational guidance and vocational training to acquire knowledge, skill and experience which are not available in their own countries; ... the progressive harmonization of vocational training standards for the same occupation within a group of countries with a view to facilitating occupational mobility and access to training abroad . . .

Universal vocational training and education was difficult to attain because of national diversity in terms of methods of teaching and learning, and in terms of the different environments, including communication and language. However, vocational training expanded its fields and interconnected with education and guidance. A comprehensive learning system was explored in accordance with higher skills and technology, mobilising workers beyond regional and national borders, and encouraging more female participation. In this context, vocational training was becoming a narrow and inappropriate term. Thus, the ILO (1973) proposed the use of new terminology such as careers guidance, occupational orientation, vocational orientation, and career counselling at the time of adopting the ILO standards of HRD.

Business schools at the highest international levels of education paved the way for the universality of degrees such as the Master of Business Administration (MBA). However, Japan appeared to be different. In the opinion of 42 % of Japan's senior business leaders, an MBA education was unnecessary (Business Research Institute 2003). OJT in the context of long-term employment, and various individual experiences, were regarded as equally important measures for nurturing global leaders (Takahashi 2013).

Some researchers including Dekker (2013) considered the fostering of global business leadership by private multinational enterprises. Public institutions of vocational training and education focused on domestic fields from local perspectives. However, the trend of cooperation for vocational training and education was encouraging in order to establish common ground. The cooperation of vocational institutions and universities needed to be promoted not only in Asia but also across the world.

Endnotes

The original papers this chapter is based on were presented at the Pacific Basin Symposium organised by Soka University in 1994 in Macau and 1996 in Bangkok. I was greatly influenced by the results of discussions at sessions on human resource development. At the symposium in Bangkok, the founder of Soka University, Dr Daisaku Ikeda, sent a message which mentioned human resource development: 'One of the themes of the present symposium is "human resource development". I recall with great vividness how the late Aurelio Peccei, founder of the Club

of Rome, forcefully asserted that it is the nature and quality of individual human beings which constitute the last great resource which can save humanity from the crisis of our planet. I am filled with hope and confidence that this symposium, as a site of open dialogue, will be redolent with the fragrance of new humanity, and that it will bring together fresh wisdom towards the peaceful unification of the human family.'

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Part III

Labour Standards and Conditions at Supply Chains in Asia

11

The ILO Standards with Regard to Developing Countries in the Late 1980s and in Particular Relation to the Circumstances of ASEAN Countries

1 Introduction

Developing countries constitute more than two-thirds of the members of the International Labour Organization (ILO). The main task of the ILO is to set international labour standards. With regard to developing countries, it is important for compliance with international labour standards to be integrated into free trade systems in order to form the basis for fair competition (Valticos 1982). However, ILO standards do not always correspond to the circumstances of developing countries. One of the reasons for this is attributed to the ILO's history. It was founded in 1919 as part of the Versailles Treaty by the 43 participating countries, most of which were developed countries. By 1987, the ILO had adopted 162 Conventions and 172 Recommendations. Most developing countries joined the ILO after gaining independence. Thus, developing countries did not participate fully from the beginning in the standard-setting activities of the ILO. Occasionally, the representatives of developing countries insisted that they could not participate in the standard-setting process because of their financial problems, their particular circumstances

regarding human resources and labour administration, and the logistics of dealing with ILO matters (ILO 1977).

Developing countries also requested the introduction of various flexible arrangements into the ILO standards at the application and implementation stages because they considered that the standards were too rigid to be applied in a practical way. However, it is very difficult to determine how the law and standards should be made stricter or more flexible. The representatives of the developing countries expressed their concerns regarding the ILO standards at various meetings in the 1980s.

In Asia, the difficulty of applying the ILO standards was expressed by many government representatives. In 1977, the Asian advisory committee of the ILO (1977) encouraged the promotion of the ratification of the ILO standards. In response, the ninth Asian Regional Conference of the ILO in 1980 contained many requests for more flexible measures and for these to reflect the circumstances of developing countries (ILO 1980a). The Director-General of the ILO was forced to respond to the discussions on this topic (ILO 1980b). The Labour Ministers issued a communiqué asking for the ILO standards to reflect reality at the meetings in Kuala Lumpur in 1980, in Singapore in 1982, in Manila in 1984, and in Brunei Darussalam in 1986.

In 1984, the 70th ILO Conference in Geneva provided the most significant discussion points on the issue of ILO standards and developing countries. The statements of the Association of Southeast Asian Nations (ASEAN) countries could be seen as typical of the views of developing countries. As an example, the government delegate of Indonesia expressed the idea that the ILO standards were not necessarily applicable to developing countries. He said, 'the standards do not fully conform with the level of socio-economic development and the specific characteristics of member countries, especially the developing countries, creating difficulties on the part of those countries in implementing some of the labour standards'. Thus, he requested flexibility for the standards, saying that 'such flexibility in adopting the provisions of ILO Conventions and Recommendations will ensure better implementation of ILO standards' (ILO 1984a, p. 12/19).

The Labour Minister of the Philippines criticised the ILO standards more severely by saying that 'international labour standards in more

recent times seem to have served as a pretext for certain countries self-righteously to urge a monolithic model of human society based solely on their own historical experience' (ILO 1984a, p. 13/2).

The Thai government delegate quoted the statement of the former Director-General of the ILO, who said, 'the legislative programme of the ILO never fulfils itself because it constantly renews itself; it is because it is in the nature of any living law to grow with and adapt itself to a living, growing and changing society' (ILO 1984a, p. 18/17). The Thai delegate then went on to insist that the standards must reflect fully the needs, realities, and priorities of developing countries.

The Singapore government representative said, 'Although we fully support the setting of international labour standards, we believe that we must critically evaluate the labour standard-setting activities. Too many new instruments have been introduced at each International Labour Conference. Furthermore, these labour standards are based on those achieved by industrialised and developed countries'. He also pointed out the necessity of the introduction of a more realistic approach because 'ratification and implementation of such standards can only be achieved in stages as developing countries reach certain levels of social and economic development' (ILO 1984a, p. 8/8). In addition, he stressed the need to concentrate on economic development in order to solve unemployment so that member countries would be in a better position to ratify the ILO Conventions.

These statements demonstrate three commonly held views about the ILO standards. First, the requirements of the ILO standards did not conform with the real circumstances of developing countries. Instead, the economic conditions, social conditions, and labour movements of developed countries reflected all the stages of standard-setting. Above all, these stages included the formation of the terminology of the standards and the agenda items of the general conference, which was the main stage for the standard-setting process. For this reason, developing countries requested a reduction in the number of standards which were to be adopted and a review of the contents of the ILO standards. Second, national and international labour standards had a strong connection with the employment and unemployment problems of each country. ASEAN countries, as developing countries, insisted that labour protection

could not exert its effects if employment and economic development problems, including debt issues, could not be improved. Third, the delegates of the ASEAN governments asked for the application of standards by stages. Until then, significant effort had been made to introduce arrangements which had enabled such an approach. However, the standards relating to basic human rights were an exception because these could be applied everywhere in the world.

In point of fact, the ILO constitution provided in Art. 19(3) that the International Labour Conference should consider such factors as climatic conditions, industrial organisation, and other special circumstances while framing a Convention or Recommendation. Thus, the constitution provided scope for the introduction of flexibility among the standards. At the same time, ILO standards had to maintain universality in the context of the standards as international standards.

Since the 70th session of the International Labour Conference, the matter of international labour standards had been discussed at various meetings of the ILO in Asia; for example, at the ILO regional conferences in Jakarta (December 1985), the regional seminar in Manila (24 September–5 October 1984), and the ASEAN symposium in Kuala Lumpur (28–30 April 1986). The focal point of discussion of those meetings seemed to be the participation of developing countries in standard-setting activities at every stage, starting from the early stage, namely suggesting topics for standards. Developing countries were dissatisfied that they had only been involved since the application of existing standards in their own countries.

Taking these circumstances into account, some friction existed among different interests regarding the ILO standards in Asia in the 1980s. An examination of this argument in the 1980s involved a discussion of the origin of the fair labour standards and free trade, which are ongoing topics even today. This chapter clarifies the problems in ILO standard-setting and the suggestions for problem solving. In Section 1, the characteristics of the ILO standards are discussed, including the form and process of standard setting and the nature of international labour standards. Next, Section 2 provides a short comparative study of the real conditions of labour standards in developing countries (particularly ASEAN countries) and the labour standards required by the ILO standards. Section 3 offers a

comprehensive discussion of a fundamental solution to enable developing countries to participate fully in ILO standard-setting activities. In this final section, the entire structure of the problem is clarified and suggestions are made to improve the viability of ILO standards as a universal device for the prosperity and justice of all human beings.

2 ILO Standards

2.1 Conventions and Recommendations

The ILO standards mainly take two forms: Conventions and Recommendations. The basic difference between these two forms is whether or not the standards have binding effects. A Convention 'is designed to be ratified, like an international treaty; a ratifying State undertakes to discharge certain binding legal obligations, and there is regular international supervision' (ILO 1982, p. 25). However, a Recommendation does not have a binding obligation but instead provides guidelines for national policy and action.

These Conventions and Recommendations are often called 'the International Labour Code'. Even so, ILO standards differ from international law mainly because of the following two points.

First, since the ILO is not an organisation of a world government, the effects of the ILO standards largely depend upon the voluntary intention rather than the compulsory action of each member state. Thus, ratification of a Convention is an important action for each member state in order to make the standards effective. Nonetheless, the ILO standards involve more obligations than any other international standards, such as, for example, reporting on unratified Conventions and on Recommendations and effective supervision. Next, in compliance with the basic principles of the ILO, the constitution states that the general conference, which adopts the ILO standards, 'shall be composed of four representatives of each of the Members, of whom two shall be Government delegates and the two others shall be delegates representing respectively the employers and the workpeople of each of the Members'. This tripartite system of government, employer, and worker has been the engine behind

the effectiveness of the ILO and has permeated all of the standard-setting stages. It is unique that not only government representatives but also employers' and workers' representatives participate in the international standard-setting process as formal representatives of each member state. For these reasons, the ILO standards are often described as quasi-legislative.

2.2 Adoption

The ILO standards are adopted at the general conference, which is normally held once a year. By 1987, 162 Conventions and 172 Recommendations had been adopted; however, developing countries had not participated fully in these adoptions, as mentioned previously. Table 11.1 shows the participation of ASEAN countries at general conferences up to 1985. Because more than 10 conference committees are established at the general conference, member states need a certain number of advisers in addition to formal representatives in order to participate substantially in the discussions. Although the Philippines had sent relatively large delegations from the 1950s onwards, the other countries, apart from Singapore, had increased the size of their delegations to the general conference only from 1975 or thereabouts. Considering that 143 Conventions had been adopted by 1975, it was clear that the participation of ASEAN countries in the adoption of the ILO standards was a phenomenon of just the last 10 or 15 years prior to 1985. Moreover, as the table shows, Singapore had not sent a minimum complete delegation which could vote for the adoption of standards.

As long as a country is a member state of the ILO, the country is influenced by the ILO standards to some extent, even if it has not been involved in the adoption of the standards. In order to maintain its status as an international organisation and have operational efficiency, an international organisation must transcend the traditional concept of national sovereignty. In other words, an international organisation needs to effect a compromise with national sovereignties rather than conflicting with them. The reason for being a member state is that 'the efficiency and effectiveness of an international organization must serve the interest of the

Table 11.1 Numbers of delegates of ASEAN countries to the ILO general conference

Country	Year	Ministers	Government delegates	Employers' delegates	Workers' delegates	Total
Indonesia	1985	1	2(5)	1(0)	1(1)	11
	1980	1	2(11)	1(4)	1(0)	20
	1975	1	2(3)	1(3)	1(3)	15
	1970		2(1)	0(0)	1(0)	4
	1965		No delegation			0
Malaysia	1985	1	2(6)	1(1)	1(9)	21
	1980	1	2(5)	1(1)	1(0)	12
	1975	1	2(2)	1(5)	1(5)	14
	1970		No delegation			0
	1965	1	2(2)	1(1)	1(1)	9
	1960		No delegation			0
The Philippines	1985	1	2(13)	1(4)	1(5)	27
	1980	1	2(8)	1(3)	1(5)	21
	1975		2(9)	1(4)	1(4)	21
	1970		2(2)	1(0)	1(0)	6
	1965		2(4)	1(6)	1(6)	19
	1960		2(6)	1(3)	1(3)	16
	1955		2(1)	1(2)	1(2)	9
Singapore	1985		2(0)	0(0)	0(0)	2
	1980		1(0)	1(0)	1(0)	3
	1975		0(0)	1(0)	1(0)	1
	1970		No delegation			0
Thailand	1985		2(2)	1(2)	1(4)	12
	1980	2	2(2)	1(3)	1(2)	13
	1975		2(1)	1(1)	1(2)	8
	1970		2(3)	0(0)	0(0)	5
	1965		2(0)	1(0)	1(0)	4
	1960		2(0)	0(0)	0(0)	2

Note: Numbers in parentheses indicate advisory delegates

member States as well' (Yokota 1986). This idea resulted in the concept of majority rule with regard to the adoption of the ILO standards; namely, a majority of two-thirds of the votes is necessary for the adoption of a Convention or a Recommendation. Taking this factor into consideration, the ILO standards are not perfect agreements in the same way as national law and conventional bilateral or multilateral treaties. Instead, the ILO

standards are based on a general agreement and voting system. Consequently, the ILO standards have to be flexible to some extent regarding the adoption process.

Adoption itself has little binding power but nonetheless has some effects; thus, the ratification of Conventions is the next important step in order to make ILO standards effective.

2.3 Submission to the Competent Authority

After a Convention or Recommendation is adopted by an ILO conference, the governments of member states must submit it ‘to the authority or authorities within whose competence the matter lies, for the enactment of legislation or other action’. The term within which the government must submit the Convention or Recommendation is 12 or, in exceptional cases, 18 months.

One problem here is whether the length of term for submission to the ‘competent authority’ is enough for member states, particularly developing countries. Although the ILO made efforts to support their activities by preparing the necessary documents and procedures of submission, many developing countries felt that the time limit was not long enough to undertake the task effectively. Further, most governments are obliged to translate the text of the instrument into national languages and arrange for government views on the new instruments. Consequently, some developing countries have been dissatisfied with this matter.

The next problem is the definition of the ‘competent authority’. Most member states regard a national parliament as the competent authority. Indeed, in most cases, the competent authority is the legislature. However some developing countries regard the internal organ of the government, for example the cabinet or the president, as the appropriate ‘competent authority’. The Committee of Experts on the Application of Conventions and Recommendations highlighted two aims which are related to the submission of Convention and Recommendation documents to the ‘competent authority’ (ILO 1984a, para. 126).

- (1) To bring Conventions and Recommendations before the body empowered to give effect to them at the national level.
- (2) To bring them to the attention of occupational organisations and, more generally, to that of the general public.

Because of the latter reason, the Committee recommended submission to the national diet. Another point which must be considered here is the content of a submission. It is very questionable whether or not the instruments are dealt with as substantial agenda items by the 'competent authority' and whether or not notification to the public is undertaken effectively. Finally, most of the developing countries became member states after World War II or later, as mentioned previously. Consequently, before obtaining membership, they did not submit to the 'competent authority' a large number of instruments which were to be adopted.

The absence of such action affects the implementation of the instruments and their ratification. Thus, in order to supply impetus to ratification, the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), provides (Article 5, 1, c) that one of the subjects of the tripartite consultations provided for in the Convention should be 'the re-examination at appropriate intervals of unratified Conventions and of Recommendations to which effect has not yet been given to consider what measures might be taken to promote their implementation and ratification as appropriate'.

In this manner, the submission to a 'competent authority' was not practically secured. Of course, the circumstances of this action depend upon each member state; however, it is necessary to promote an effective practice at this stage because it is a starting point for the interpretation of international standards into national standards.

2.4 Ratification

From 1975 to 1985, the number of ratifications by developing countries far exceeded that of ratifications by the industrialised countries. However, the average ratifications per state in Asia and the Pacific were only 22 as of 30 June 1985, a figure which was considerably lower than the average

Table 11.2 Progress in the ratification of Conventions adopted from 1951 to 1980

	Average number of ratifications per Convention at		
	End of 1963	End of 1973	End of 1983
Conventions adopted 1951–1960	20	35	44
Conventions adopted 1961–1970	–	18	27
Conventions adopted 1971–1980	–	–	21

Note: Excluding the Final Articles Revision Convention, 1961 (No. 116)

number of ratifications per member state (33). Nonetheless, it is not necessarily rational to be critical of a few ratifications. The number of ratifications is not crucial in order to judge the attitude of a government, as many developing countries insisted; the significance varied with the manner of government diplomacy and the category of the Conventions.

Table 11.2 indicates the progress in ratification of Conventions during each of the three decades from 1951 to 1980. The report of the Director-General of the ILO to the Conference of the 70th Session in 1984 explained the *raison d'être* of ratification (ILO 1984b, pp. 9–10). It infers the following from the table: ‘ILO Conventions set standards which are not just the common denominator of existing national practice, but for most countries require the raising or further development of national standards; that efforts are made gradually to attain the protection called for in the Conventions; and that most governments undertake ratification in a cautious and deliberate manner, conscious of the responsibilities flowing from their commitment’.

The report also pointed out that the extent of ratification of the Conventions varies in accordance with the subject matter. The Conventions which were related to basic human rights, employment, and wages received a large number of ratifications. In contrast, the Conventions which were aimed at certain countries and sectors naturally recorded few ratifications. Further, Conventions in some particular fields, for example hours of work and social security, received a limited number of ratifications.

ILO standards as norms had affected the evolution of national law and practice even if the standards were unratified Conventions or Recommendations. At the same time, the report says, ‘a Convention which is ratified

by only a handful of States has, for the bulk of the Organization's membership, the same value as a Recommendation' (ILO 1984b, p. 12).

Despite this, ratification has its *raison d'être* in the long run, as shown in Table 11.2. If a government voted in favour of the adoption of a Convention without an intention to ratify it for the time being, the government could ratify the Convention after a certain period of time when the government was in a position to proceed to such ratification. In this sense, ratification should be considered from the long-term point of view, particularly for developing countries.

2.5 Reporting System and Supervision

The Constitution requests that member states report to the ILO (1) on the measures taken to submit newly adopted standards to the competent authorities; (2) on the position of their national law and practice with regard to unratified Conventions and Recommendations; and (3) on the measures taken to give effect to ratified Conventions. These reports are crucial for the implementation of the ILO standards.

Item (1) is obviously important in order to secure the first step towards ratification. Item (2) has significant effects on the member states of developing countries in particular. This obligation was established in 1948 in order that a government could periodically reconsider the possibility of ratifying certain Conventions as well as using certain Recommendations. The tripartite governing body selects the instruments for review with regard to 'the current importance of the subject and the extent to which circumstances may have changed since the previous review' (ILO 1982, p. 48).

Item (3) is also a constitutional requirement. Ratifying governments must report how the provisions of a Convention are applied, both in law and in practice in their own countries. Because these reports amount to a significant number of documents, it became impossible to examine all of these annually. Accordingly, the intervals for reporting became longer and any governments which ratified certain particularly important Conventions, such as those relating to basic human rights, are now normally requested to report every two years, while other Convention reports are

normally requested at four-year intervals. Thus, the three aspects of reporting must be completed and the results sent to the ILO; the supervisory bodies of the ILO then examine the reports. There are two main supervisory bodies: the Committee of Experts on the Application of Conventions and Recommendations (the committee of experts); and the Conference Committee on the Application of Conventions and Recommendations (the conference committee).

The members of the committee of experts are appointed by the governing body of the ILO based on their qualifications in the fields of the relevant matters. They meet each year in March in Geneva. The committee of experts examines the reports from the governments as mentioned previously. After they discuss any difficulties with the reports, the committee writes a paper which includes the 'observations' which highlight the problems in the application of the ratified Conventions and any insufficient information supplied by the relevant countries. The committee consists of approximately 20 judicial experts with up to 10 members from developing countries.

It was reaffirmed in 1977 that the committee's fundamental principles are independence, objectivity, and impartiality. The specific social, political, and economic conditions of the member states should not be taken into account when examining the extent of compliance with the requirements of ratified Conventions. The stage at which these specific conditions should be considered must be during the standard-setting procedure, not after the adoption of the standards. However, some government officers who were in charge of such matters felt that the committee's discussions were too law-oriented; thus, experts in the social, economic, and even cultural fields were expected to join the committee.

However, in 1983, in commemoration of the 60th anniversary of the establishment of the committee, the committee of experts restated its fundamental principles; namely, 'these are international standards, and the manner in which their implementation is evaluated must be uniform and must not be affected by concepts derived from any particular social or economic system' (ILO 1987, para. 20. p. 12). In addition, the committee felt that it was appropriate to point out that

ILO supervisory bodies also have to consider the nature and timing of efforts made by governments with a view to correcting any shortcomings . . . they regularly take account of difficulties encountered, such as natural calamities or even general economic difficulties. They have also repeatedly stressed the importance which the provision of assistance by the ILO may have in overcoming such difficulties.

The conference committee establishes opportunities for discussion, while the committee of experts mainly addresses written reports. The members of the conference committee are tripartite members who represent each interest group (government, employers, and workers). The conference committee selects problematic cases from those which were mentioned in the committee of experts' report and asks the relevant government to make a statement about the case. Table 11.3 shows the number of cases which have received special mention by the conference committee and the number of cases that have made progress from 1957 to 1983. It is obvious that the cases concerning developing countries exceed in number the cases concerning developed countries.

Under these conditions, government delegates tended to think of this operational machinery as a tribunal and feared interference in the sovereignty of their states. In this regard, the developing countries made a convincing point by saying that 'rather than judging national political systems, one should put dialogue and persuasion in the forefront' (ILO 1984a, p. 12/14). In other words, every effort had to be made in order to achieve the final aim, namely progress towards the solution of the problems by promoting opportunities for discussion.

3 Flexibility and Rigidity; Universality and Regionalism

The interpretation of Art. 19(3) of the ILO constitution is the key to the problems of universality and regionality of the ILO standards. The Article declares that:

Table 11.3 Progress in the application of ratified Conventions (noted by the committee of experts in cases which were the subject of special listings or special paragraphs by the conference committee, 1957–1983 in developed countries and developing countries)

	1957–1964	1965–1972	1973–1980	1981–1983
A. Developed countries				
Number of countries given special mention	8	3	4	4
Number of cases given special mention	8	4	8	5
Partial progress				
-number of countries	3	1	1	-
-number of cases	3	1	1	-
Total progress				
-number of countries	2	3	2	1
-number of cases	2	3	3	1
B. Developing countries				
Number of countries given special mention	15	14	19	7
Number of cases given special mention	47	49	46	22
Partial progress				
-number of countries	-	10	17	14
-number of cases	-	32	30	22
Total progress				
-number of countries	2	7	11	2
-number of cases	2	20	25	12

In framing any Convention or Recommendation of general application, the Conference shall have due regard to those countries in which climatic conditions, the imperfect development of industrial organization, or other special circumstances make the industrial conditions substantially different and shall suggest the modifications, if any, which it considers may be required to meet the case of such countries.

The ILO standards should be applicable to all the member states even if the requirements of the standards are long-term goals. After World War II, the ILO reaffirmed this principle in the Declaration of Philadelphia, which was annexed to the constitution. In this regard, the principles of the ILO standards 'are fully applicable to all peoples everywhere and while the manner of their application must be determined with due regard to the

stage of social and economic development reached by each people, their progressive application to [all] peoples ... is a matter of concern to the whole civilized world'.

Since it is necessary to take account of the different social, economic, and cultural factors of developing countries, which constitute most of the member states (Dhyani 1977), flexibility of the ILO standards is requested. A universal standard must reflect the reality of the world, but at the same time its value should not be undermined to the extent that it becomes ineffective as a standard.

The concept of 'universal' is also controversial among member states. For example, do labour conditions and industrial relations really have a certain universal pattern of development? This question cannot be answered by a simple 'yes' or 'no'. In sum, universality must be secured in order to establish international standards and regionality should be introduced after the universal framework is settled.

The important point to notice here is that this problem must be considered in accordance with the category of each standard. It is often emphasised that there is no room to introduce any flexibility or regionality concerning basic human rights such as freedom of association, the abolition of forced labour, and equality in employment. The standards relating to occupational safety and health have a similar nature which admits little flexibility because they affect people's lives in primary ways.

3.1 Flexibility Devices

'Flexibility devices' were introduced in order to ensure the universality of the ILO standards. Various ways to give flexibility to the standards were considered in the expectation that flexibility would promote further ratification by allowing the possibility of application by stages. ILO (1986) stated that the flexibility devices can be listed as follows.

- (1) Escalator clauses which permit a gradual rise in the level of protection or the extension of the scope of protection.
- (2) Limited application to specified sectors of activities.

- (3) The exclusion of limited categories of workers whose coverage may pose special and substantial difficulties.
- (4) Permitted ratification in parts and the gradual extension of coverage.
- (5) The establishment of the basic principle in a Convention and supplementing it with detailed standards in a Recommendation.
- (6) The use of 'promotional Conventions' whereby ratifying states undertake to pursue the objectives set out in the Convention but which allow ratifying states to adopt their own methods and timing of implementation.

'Substantial equivalence clauses' can also be listed as flexibility devices. These clauses permit departures from a given rule provided comparable protection is afforded overall (Servais 1986). Some modifiers have been used in instruments such as 'where necessary', 'in appropriate circumstances', and 'in accordance with national law and practice'. These also allow greater flexibility in the application of instruments.

Thus, various flexibility devices have been generated; however, the effect of these devices is unclear. The next step is to develop the substantial utilisation of these devices in order to make the ILO standards universal in a real sense.

4 Labour Conditions in ASEAN Countries in the 1980s

4.1 Labour Conditions

4.1.1 Employment Problems

In the process of industrialisation, the mobility of labour is inevitable; consequently, the employment situation is varied and vulnerable in developing countries. Because of the lack of valid statistics, it is difficult to measure the precise employment situation in developing countries. Nonetheless, some features of employment trends can be observed. ASEAN countries have recorded high growth rates compared to other developing areas. However, the employment situation in these countries is

unstable because their experiences differ from those of developed countries. Regarding the unemployment situation of each ASEAN country, by 1985 statistics indicated that unemployment had risen in the Philippines, Indonesia, and Thailand. In contrast, the situation in Singapore and the Malaysian peninsular had stabilised at a low unemployment rate.

Behind the statistics, there was concealed unemployment in developing countries. For example, underemployment was an eminent feature of employment, and much employment was in the 'informal sector'. It is worth commenting here on the latter in connection with the ILO standards. The informal sector is generally defined as all economic activities which are not effectively subject to formal rules of contracts, licences, taxation, labour inspections, etc. (ILO 1984c, p. 25). Such activities include 'a whole range of often illegal activities centering on drink and prostitution; hangers-on in the tourist industry; pavement hawkers, single-person food retailers and very small-scale commodity production recycling waste material into building equipment or sandals' (ILO 1984c, p. 25). The informal sector forms a significant part of all urban employment; it often amounts to one-quarter or one-half of employment in the urban areas of developing countries. The model of industrialisation of the developed countries shows that the informal sector can be absorbed into the formal sector in the process of economic development. However, it no longer becomes transitory but a contribution to the reduction of poverty in fast-growing cities. In this context, labour standards have little effect on the informal sector. Some of the ILO standards, however, aim at the protection of labour in the informal sector. As noted by Servais (1986, p. 200), the Medical Examination of Young Persons (Non-Industrial Occupations) Convention, 1946 (No. 78) is one example. It requires non-legal means to enable the ILO standards to have any effect in the informal sector. For example, Servais (1986) also suggested that 'technical co-operation for development (aimed at increasing productivity and earnings) and the organization of a suitable social infrastructure (clinics, vocational training schools, employment promotion agencies)' can be regarded as effective means.

Although the Employment Policy Convention No. 122 and Recommendation No. 122 advocate full, productive, and freely chosen employment, such employment was very scarce in developing countries. Thus, legal discussions on the condition of the informal sector led to a partial

solution because labour standards had no meaning without employment, as many representatives of developing countries pointed out.

4.1.2 Working Hours

The normal working hours designated by labour law in ASEAN countries are generally applicable with regard to a maximum numbers of days and weeks as regulated by each country's legislation. Some countries, Indonesia among others, had a lower level of normal hours in their legislation. The ASEAN countries, except Thailand, had continued with the legislation of their prior suzerain states. Consequently, it was common for developing countries to have advanced legislation on working hours. The minimum weekly rest periods and minimum annual leave were within the average minimum levels of other countries. However, legislation did not explain the realities of working hours. Usually, the hours actually worked were longer than normal legal hours in developing countries. Some available published statistics proved this. In Singapore, for example, the legal working time per week was 44 hours in 1982 but the average number of hours per week which workers in the modernised sector actually worked was 48.6.

Moreover, the working hours of small- or medium-sized industries (SMEs) seemed to be longer than those of larger-scale industries. One result of a pilot case study by Kogi (1985, p. 19) on working hours demonstrated the longer hours in smaller companies in developing Asia. It was based on a case study which involved 56 enterprises in ASEAN countries apart from Brunei, Bangladesh, India, and Sri Lanka. In this study, 'small enterprises' were defined as those with fewer than 50 workers, and 'medium-sized enterprises' as those with between 50 and 299 workers. It should be noted that approximately 70 % (38 out of 56) of the workers in the case study enterprises worked more than 50 hours a week during the period of the study. Because overtime remuneration rates were too high, limits on overtime were strict in the legislation of ASEAN countries. Further, it was not correct to assume that the enterprises, especially in smaller-scale industries, would comply with the legislation. Thus, it was recognised that a gap between legislation and

the real state of working hours existed in the evidence from ASEAN developing countries.

4.1.3 Minimum Wage

Although the ILO was concerned above all with the issue of wages, it was very difficult to set an international standard for wages. Wages relate to the economic development of each specific country. The first standards on minimum wage fixing were adopted in 1928 after the ILO experienced significant difficulties. The purpose of the original minimum-wage fixing standard was to prevent the ‘sweating’ or exploitation of workers and provide social protection for wage earners. The international labour standards, Convention No. 26 and Recommendation No. 30, require governments to create minimum-wage fixing structures for workers in certain sectors of the labour force where there are no arrangements for the effective regulation of wages by collective agreement or where wages are exceptionally low. Further ILO standards on minimum wage fixing followed. These standards, Convention No. 131 and Recommendation No. 135, pay special regard to developing countries. The standards, particularly Convention No. 131, introduce flexibility into coverage, criteria, and forms. However, they do not revise the former standards; rather, they complement them.

Table 11.4 presents a simple analysis of the minimum-wage fixing systems of the ASEAN countries. Singapore and other Asian newly industrialised countries (NICs) had no minimum-wage fixing system because wages in these countries were decided by market mechanisms. Four ASEAN countries had systems, but the main aim of these was to set

Table 11.4 Minimum-wage fixing systems in ASEAN countries in the 1980s

	Form	Coverage	Practical aim	Enforcement
Indonesia	Council	Each state	Guideline	Weak
Philippines	Council	All industry	Guideline	Weak
Thailand	Council	Regions	Guideline	Weak
Malaysia	Council	Four	Protection of unorganised	Some extent
Singapore		occupations	workers	

guidelines for wages. Malaysia was an exception in that it had limited coverage of minimum-wage fixing for unorganised workers. Thus, the basic characteristics of minimum-wage fixing in the 1980s were different from those envisaged in the ILO standards.

4.2 Labour Administration

Considering the conditions of sustainable and social development of developing countries, the creation of more employment opportunities was emphasised as a priority of national policy. In this regard, labour administration is regarded as a part of industrial policy (or manpower policy) which is conducive to further economic and social development. Another important role which labour administration should play is the protection of workers and the provision of a labour welfare service. However, the labour administration of developing countries is usually at an early stage of prioritisation; thus, its ability to execute such tasks is limited because of a lack of finance, facilities, institutions, and capable staff. In particular, the difficulty of labour inspection sometimes makes it hard for labour administrators to protect labour, particularly in rural and smaller-scale industries. Nonetheless, despite many difficulties, the governments of developing countries reinforced and reformed their labour administrations in terms of quality and quantity over several decades. The ILO standards contributed to this improvement by encouraging the enactment and amendment of labour laws. Most governments of developing countries have also established departments which are responsible for ILO matters or other international affairs. The case of ASEAN countries is a good example. Indeed, it is noteworthy that ASEAN labour ministers' meetings were held every two years during the 1980s in order to discuss and develop a consensus on international labour matters, including ILO issues.

ASEAN countries also promoted tripartite consultation in order to deal with ILO matters or the implementation of national labour policy. According to a Philippines Country Paper (1984), the Philippines established the International Labour Association of the Philippines (ILAP) to 'ensure effective consultation, extend consultative services and

facilitate information exchange and training opportunities' regarding ILO matters. Further, the PPKP (the National Tripartite Council for the Improvement of Working Conditions) was another consultative organisation which played an important role in achieving the effective implementation of the ILO programme: the International Programme for the Improvement of Working Conditions and Environment (PIACT).

In Thailand, the Tripartite Sub-Committee for ILO Standards was established by the National Tripartite Labour Advisory Council in 1981 'to study the ILO Standards and to make recommendations to the Government for ratification and adoption of such standards' (Thailand Country Paper 1982). Malaysia's National Joint Labour Advisory Council (NJLAC) was also tripartite and was important in formulating national labour standards. Singapore did not have a formal tripartite consultative organ at that time; but according to an official of the labour ministry in Singapore, informal consultation was ensured (Lay 1986).

5 Towards Full Participation of Developing Countries

5.1 Short Review

When reviewing the problems of developing countries at each stage of standard setting, it should be noted that the key point to solving these problems is to ensure the full participation of developing countries in the entire standard-setting process. This does not mean procedural participation but substantial and full participation. The ILO standards have various flexibility devices to ensure universal standards; however, there was a strong sentiment in Asia in the 1980s that the real conditions of developing countries were not reflected adequately in the text of the instruments.

As noted in Section 2, the effects of standard setting in terms of labour largely depend on the employment situation in developing countries. Further, the validity of working hours' legislation was restricted in practice. The machinery of minimum-wage fixing of developing countries

differed from that of developed countries in that the machinery tended to be utilised to set the guidelines of workers' wages rather than the actual wage figures. These factors explain the gap between the requirements of the ILO standards and the actual working conditions in developing countries. Consequently, it is important to consider the following two factors, namely logistics and a regional approach, in order to reduce the gap.

5.2 Logistics

Administrative officials in charge of the ILO standard-setting process have considerable workloads and must display executive abilities. Hence, support for the logistics of dealing with ILO matters was desirable for the governments of developing countries in particular. Indeed, various problems had been expressed by the representatives of developing countries in this respect. Eminent examples were (1) inadequate responses to the need to suggest subjects for standard setting which were more suited to the conditions of individual countries; (2) inadequate replies to ILO questionnaires; and (3) translation problems, including a comparative study and analysis of the ILO standards and their existing legislation.

Because the ILO standards are adopted on the basis of majority rule rather than unanimous agreement for adoption, the full participation of member states, particularly up to adoption, is significant in order to make the ILO standards effective for all the members.

The most effective way to reinforce the logistics is training, using such forms as seminars, internships, fellowships, and advisory services. Moreover, securing capable officials to be in charge is another important issue, and one which requires an urgent response. The stability of the staff involved in labour administration is uncertain because of the low status of such work within government authorities and because of the financial problems in developing countries.

Even though the ILO has developed the aforementioned training services and made efforts to amend the abilities of the labour administrations of developing countries, financial austerity has obliged the ILO to limit any further development. Thus, developed countries must continue

these initiatives by using their past experience and institutions. Moreover, communication between developed countries and developing countries may generate new dynamics in order to attain the ILO's goals.

5.3 Regional Approach

As some developing countries insisted, it was certain that a number of the member states would take the initiative in setting the ILO standards. Thus, developing a consensus among the member states and the employers' and worker's organisations at sub-regional or regional levels is also essential for developing countries if they are to participate substantially in standard-setting activities. The member countries of the Asian-Pacific Region affirmed that 'geographical factors had brought about a degree of cohesion and identity of interests' (ILO ROAP 1982).

Before the general conference in Geneva, there are many regional meetings in which member states can discuss the ILO standards; for example, regional conferences, regional advisory committee meetings, and regional labour ministers' meetings. This can mean that developing countries are unable to send large enough delegations to the ILO conference because of financial problems. Indeed, it was pointed out that it is becoming ineffective for all delegates of member states to gather at Geneva once a year during a fixed term in order to discuss and adopt the ILO standards. Consequently, regional meetings, as part of the standard-setting activities, will play a much more important role in the future. However, it should not lead to regional standards but to full participation of developing countries in standard setting.

5.4 Agenda for a New Age

Japan stands with Asia. Moreover, the Japanese government has respected Asian views. In 1998, the Japanese labour minister, Mr Amari, reportedly submitted such views to the Director-General elect of the ILO, Mr Somavia, with regard to Asian circumstances (*Asahi Shimbun*, 21 November 1998). The Japanese stance towards fair labour standards

did not seem to be that strong; however, it emphasised the importance of technical cooperation and assistance (Thamrin 1998).

After the financial crisis in 1997, the issue of labour standards entered a new stage. Flexible application had become widespread but was losing its effects in developing countries. In turn, the universal compliance of core labour standards was emphasised in international agreements and multinational negotiations. The campaign for the elimination of child labour was escalated worldwide and gave an impetus to the core labour standards.

These initiatives were not only those of the WTO but were also confirmed by the OECD's Multinational Agreement of Investment (MAI) in 1998 (OECD 1998), the conditionality of finance by the World Bank in 1998, and the Asian Development Bank (ADB 1995). In this context, the understanding of the origin of the ILO standards and the relevant contexts of Japan and Asian countries should be examined once again.

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12

Core Labour Standards and Globalisation

1 Gestation of the International Labour Organization (ILO) Declaration

1.1 ILO and Fair Labour Standards

The ILO Declaration on Fundamental Principles and Rights at Work and its follow-up (henceforth the Declaration) was adopted by the ILO Conference in 1998.

It led to an end of the argument over the universality of international labour and fair labour standards. The Declaration fixed the core labour standards in the fields of freedom of association and collective bargaining, non-discrimination, abolition of forced labour, and abolition of child labour. These are based on universal human rights which in principle cannot be denied by anyone. The Declaration affects many international issues including the labour clause of the bilateral and multilateral free trade agreement.

The original paper was presented at the IW/FAFXM/US Regional Seminar on the Application of the ILO Declaration on Fundamental Principles and Rights at Work and Its Follow-up (Bangkok, 25–27 February 2002).

This chapter examines the gestation (see Table 12.1) and effects of the Declaration.

The ILO was set up for the establishment of eternal peace and social justice in 1919. This universal value has been a guiding principle for setting the ILO standards. In addition, international competition among the original member countries made it necessary to secure and maintain fair and humane working conditions as an international aspect of labour standards (Charnovitz 1994). Article 414 of the Versailles Treaty (which became a part of the ILO constitution) says that ‘the Commission of Enquiry has fully considered the complaint; it shall prepare a report embodying its findings on all questions of fact . . . It shall also indicate in this report the measures, if any, of an economic character against a defaulting Government.’ This clause indicated the possibility of economic sanction against unfair labour standards.

However, this measure was not enforced by the ILO. Eventually, Art. 414 was deleted during the revision of the ILO constitution in 1946.

In this context, the ILO constituency often suggested during the pre-war period that Japan’s rapid development of export trade was due to cost reductions enabled by unsatisfactory labour conditions in its exporting industries. This claim of ‘social dumping’ was denied by the ILO research mission in 1934 headed by the Assistant Director at the time, Fernand Maurette. Maurette’s report illustrated the virtue of dialogue and voluntary involvement in the ILO mechanism to Japan’s social partners (Maurette, 1934).

1.2 ILO Standards After the World War II

Upon the adoption of the Declaration of Philadelphia in 1944, technical cooperation activities were included as an important means of action for the ILO; it can thus promote the ratification of and compliance with conventions by many new-member developing countries.

The field of technical cooperation has focused on economic and employment development. However, technical cooperation on core labour standards has been rare because of its impact on national politics.

Table 12.1 Gestation of the ILO declaration

1919	Versailles Treaty Sanctions against unfair labour standards (Article 414, Deleted)
1934	Maurette Report denied social dumping of Japan
1944	The Declaration of Philadelphia Broad Technical Cooperation Numerous ILO standards
1989	ILO Debate on conditionality of Technical Cooperation with labour standards
1994	WTO Debate on conditionality of trade with labour conditions
1994	ASEAN Labour Ministers' Meeting resisted conditionality
1995	UN Social Summit in Copenhagen
1996	WTO Ministerial Conference in Singapore Empowered the ILO to resolve conflicts over labour standards
1998	Adoption of the Declaration

In terms of standard setting, the ILO has produced a considerable number of conventions and recommendations. All of the 'core labour standards' conventions, except for Convention No. 29 concerning forced labour, were adopted after the war. These comprise freedom of association (No. 87 in 1948) and collective bargaining (No. 98 in 1949), non-discrimination in employment (No. 100 in 1952 and No. 111 in 1958), the abolition of forced labour (No. 105 in 1957), and the elimination of exploitative child labour (No. 138 in 1973 and No. 182 in 1999).

On the other hand, many ILO standards concerning other working conditions were adopted under the strong initiatives of workers' representatives and the constituents of the former communist countries. Some have suggested that this resulted in an overproduction of ILO standards and ratification difficulties for most of the conventions. In fact, the pace of ratification for both developing and countries within the Organisation for Economic Cooperation and Development (OECD) (including Japan¹) stagnated, particularly in the 1970s. Accordingly, the ILO conventions introduced flexibility devices to facilitate ratification, and substantial details on the standards were included in the ILO recommendations. In

¹ The Japanese government has had a strict policy on ratification of the ILO conventions based on their coherence with and relevance to national Japanese laws and practices.

due course, the question of the universality of the ILO standards was raised, particularly by developing countries.

1.3 The Linkage of Labour Standards with Technical Cooperation and Trade

Setting up a 'social clause' has been attempted at various times since the first World Trade Conference in Havana dealt with fair labour standards. The US government has pursued trade sanctions for unfair labour standards, including in agreements under the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA).

The discussion of conditionality in the field of technical cooperation was preceded by the ILO. At the time of the events in Tiananmen Square in 1989, a debate had begun within the ILO on the conditionality of compliance with core labour standards for providing technical cooperation. An ILO report along these lines was submitted to the 252th Governing Body in 1992. The governments of developing countries, particularly from Asia, were critical of conditionality, and employers' representatives also expressed similar views.

The linkage of international trade and international labour standards was discussed in 1994 in preparation for the establishment of the World Trade Organization (WTO). The Association of Southeast Asian Nations (ASEAN) region in particular promptly condemned the proposal at the 10th ASEAN Labour Ministers' meeting in May 1994 and urged the ILO to resist new conditionality that would link a social clause to ILO standards (Chia and Tan 1996, p. 43). The ILO was forced to consider this issue as a competent organisation. In November 1994, the Office submitted a document to the Governing Body, *The Social Dimensions of the Liberalization of World Trade* (ILO GB.261/WP/SLD/I, November 1994). This report touched upon the possibility of cooperation between the WTO and ILO. The report recommended strengthening the ILO's supervisory mechanism to provide more effective enforcement pressures through economic sanctions.

Here again, the governments of developed countries such as the USA and France and workers' organisations such as the International Confederation of Free Trade Unions (ICFTU) supported the idea of linking labour standards and international trade, as did non-governmental organisations (NGOs) concerned with human rights. However, Asian developing countries opposed this proposal as disguised protectionism. Meanwhile, the Japanese government opposed the inclusion of a social clause. Given the strong confrontation between the two sides, the WTO Ministerial Conference in Singapore concluded in December 1996 that the ILO was the appropriate body to set international labour standards. The 1995 Social Summit in Copenhagen also emphasised the importance of the core labour standards set by the ILO for social development paralleled by economic development.

Thus, globalisation shed a light on the international aspect of labour standards. The acceleration of globalisation prompted the ILO to respond effectively. Amid the elevated expectation that the ILO would provide a broadly agreeable solution, the ILO took an innovative approach by adopting the ILO Declaration on Fundamental Principles and Rights at Work and its follow-up (the Declaration in the following text) in 1998. The approach of the Declaration effectively responded to the conflicting

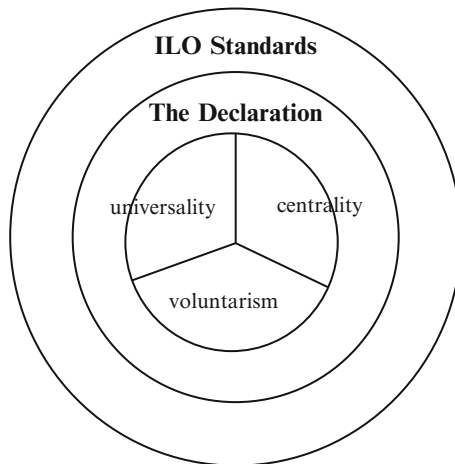


Fig. 12.1 Significance of the Declaration

issues of the universality, voluntarism, and centrality of the ILO and its standards (see Fig. 12.1).

2 Challenges Created by Globalisation

2.1 Universality of ILO standards

Globalisation divides winners from losers and lead runners from followers. It also invokes conflicting interests between industrialised countries and developing countries. Further, globalisation can lead to instability and inequality in national economies.

The discussion of fair labour standards is based on the necessity of setting a minimum social floor throughout the international community, as was once universally agreed. ILO standards have served as a most promising point of reference for fair labour standards. However, the question of the universality of ILO standards has often been raised by developing countries.² The pace of ILO convention ratification has slowed over the last two or three decades, and certain conventions have been denounced.³ It is now clear that the ILO cannot require all member countries to ratify all the valid conventions. The concept of ‘fairness’ is often the source of conflict between industrialised and developing countries, in addition to the debates around the Declaration. However, a common approach is taken for the international aspects of other ILO standards, such as the activities of multinational enterprises and international migrant workers.

2.2 Voluntarism

Common to these standards is the use of a soft (i.e. promotional) approach through interaction and dialogue that encourages the voluntary

² For example, it is often argued that the European concern with the rights of individuals is inconsistent with the collectivist tradition of many non-European cultures.

³ For example, Malaysia denounced the ratified convention on the abolition of forced labour (No .105) in 1990. Singapore had denounced it in 1979.

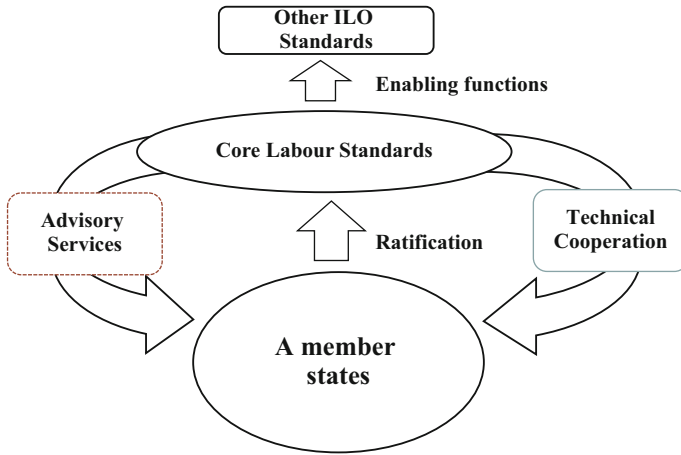


Fig. 12.2 Voluntarism

commitment of member countries and social partners. The follow-up mechanisms of the Declaration provide the technical cooperation and advisory services of the ILO, including the ILO Expert Advisers, to promote the ratification of the core labour standards. The process entails significant interaction and dialogue, which enhance governments' sense of voluntarism (see Fig. 12.2).

The recent intensity of the ratification of core conventions is a good example of the improved voluntarism among member countries; the recent ILO trend towards technical cooperation is another example of the Declaration's strengthened follow-up mechanism. The ILO distinguished itself by adopting the Declaration and outlined its priorities for technical cooperation. The sharing of technical cooperation concerning core labour standards has been increasing recently (Tapiora 2001).

Despite the possibility of taking a hard approach that requires compulsory and unanimous application with some sanctions, a soft approach has been taken in applying the ILO labour standards internationally and there has been agreement to respect the core labour standards. The most recent revision of the Tripartite Declaration of Multinational Enterprises included all the core conventions in its text. The Declaration of Fundamental Principles paid special attention to migrant workers in its

preamble, and the ILO takes a soft approach to migrant worker issues, respecting national sovereignty (Pattern and Practice Survey).

2.3 Centrality of the ILO in Setting and Dealing with International Labour Standards

Globalisation focuses on the linkages of labour standards in various spheres of the global economy. Many international organisations have begun to discuss the importance of international labour standards to their activities. This has placed the *raison d'être* of the ILO at risk. The setting of international labour standards by other international organisations means the creation of another international labour standard without the commitment of social partners. The ILO has had to respond to this challenge and maintain its centrality in setting international labour standards. The adoption of the Declaration had a decisive effect on strengthening the ILO's exclusive mandate to set international labour standards.

Debates over the call for the inclusion of a social clause in trade agreements concluded at the WTO Ministerial Conference in Singapore 1996. It agreed with the Declaration that the ILO was the appropriate body to deal with labour standards. This was reiterated at the Seattle Ministerial Meeting in December 1999 and the United Nations Conference for Trade and Development (UNCTAD) X Conference in Bangkok in February 2000.

Not only the WTO and UNCTAD but also other international institutions began debating linkages with labour standards. Universally agreed minimum labour standards became a key topic. For example, the OECD discussed labour standards for the Multinational Agreement of Investment, and the World Bank and other regional development banks such as the ADB emphasised the conditionality of financial aid to the social dimensions of economic development. The UN Global Compact, the OECD Guidelines, and socially responsible investment funds are keen to include core labour conventions in the socially responsible activities of multinational enterprises (MNEs).

Other organisations included the core labour standards set by the ILO as integral principles of social development. These institutions admitted

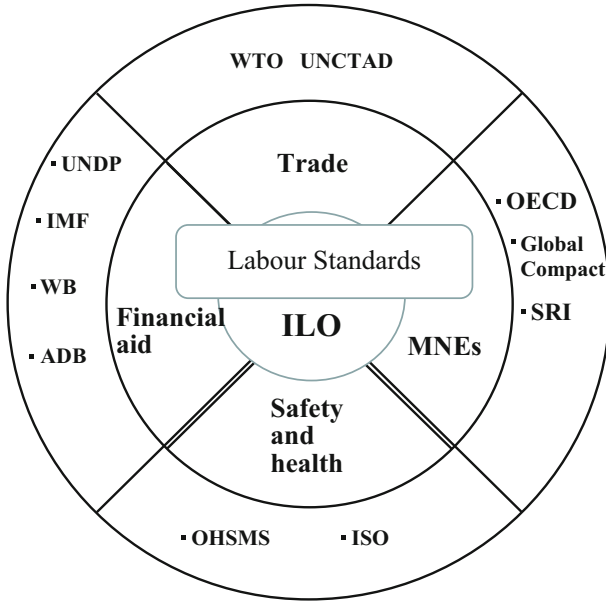


Fig. 12.3 Centrality of the ILO in setting and dealing with international labour standards

the central authority of the ILO on labour standards (ILO GB282/WP/SDG/3, 2001; see Fig. 12.3).

It also enhanced the centrality of core conventions among the other ILO conventions. In addition, it goes beyond the field of core labour conventions. In the field of occupational health and safety, an international consortium established the OHSAS18000 (Occupational Health and Safety Assessment Series) for the international standardisation of management. The International Organization for Standardization (ISO) then began creating a new international standard, but the ISO abandoned this standardisation in 2000. Instead, the ILO Governing Body approved the *ILO Guidelines on Occupational Safety and Health Management* (ILO–OSH 2001) in April 2001, which was published in December 2001. This retained the ILO’s centrality in providing an integrated international model in this field.

3 The Promotion of Social Dialogue

The ILO has to fill in the gaps between setting the core conventions and their application. The engine is the important ILO principle of tripartism, which the ILO currently emphasises as social dialogue. The mechanism under the ILO Declaration depends to a large extent on dialogue, moral suasion, and technical assistance to produce results. To make this mechanism function, effective social dialogue must be promoted at the national level.

Tripartism in Asia features the active involvement of government in social dialogue. A World Bank study pointed out that the establishment of forums, or ‘deliberation councils’, led to the rapid economic growth known as the ‘East Asian Miracle’ of the 1980s. Such forums made the rules clearer to all participants and facilitated information exchanges among governments, management, and labour (World Bank 1993, p. 19). Although the East Asian miracle is over, institution-building for social dialogue with the support of governments could help promote the participation of social partners in the application of and compliance with core ILO conventions, particularly among Asian democracies. Some positive institution-building developments via tripartism have occurred in the Asian region. In China, for example, a national-level tripartite consultation meeting was set up in August 2001 (Wang 2002) to build a national consultation and advisory mechanism for Chinese labour relations.

In addition, drastic changes have occurred in employers’ attitudes to core labour standards in the Asian region. Large-scale companies have been increasingly adopting ‘codes of conduct’ for core labour standards, and enterprises are becoming aware that adopting core labour standards enhances competitiveness and social accountability (OECD 2000, p. 75).⁴

Thus, the conditions favour the further promotion of the application and enforcement of core labour standards. Institution- and capacity-

⁴ The standardised management system is a noteworthy development, though there is less agreement in the business community about standards for labour management than for some other areas (e.g. ISO14001 is a widely accepted environmental management system). Social Accountability 8000 is a labour management standard which is intended to strengthen workplace codes by addressing definitions and concepts that can facilitate the ‘auditability’ and monitoring of codes.

building via social dialogue at the national level is the next step to be explored.

The case of the ILO Association of Japan is a relevant example.⁵ This association conducted informal forums between social partners to provide learning opportunities concerning the ILO. The association is a juridical foundation established in 1949 to re-affiliate Japan with the ILO.

After re-affiliation occurred in 1951, the association continued various activities to propagate ILO values and principles, promote social dialogue on ILO matters, and disseminate information on international labour issues. The association organised various forums about the ILO. For example, the Japanese tripartite members of the Governing Body (GB) of the ILO had a chance to discuss the outcomes of each GB session and of the annual conference. The discussion was published in the association's monthly bulletin, *World Labour*.

The ILO Association of Korea was established in July 1995 as a friendly organisation to the ILO Association of Japan. The ILO Association of France was set up last year. The Director-General mentioned the importance of ILO associations in his report to the Conference in 1999, *Decent Work*. The ILO Association of Japan advocated the creation of national ILO associations in Asia and the creation of a regional network of associations.

Since all the constituents of the ILO agreed with the Declaration, the time is ripe; it is important to promote social dialogue by creating a national institution based on voluntarism such as the ILO association for the effective application and enforcement of core labour standards and to make available their enabling functions.

4 Conclusion

Globalisation has posed challenges for the ILO and its standards, but the ILO Declaration responded to them effectively. It reaffirmed the universality of the ILO standards by setting core labour standards, of

⁵ The ILO Association of Japan was dissolved in 2011, and its task was succeeded to the Japan Association for Advancement of ILO Activities.

voluntarism by setting a new mechanism for promoting the core labour standards, and of the ILO's centrality in setting the international labour standards processed by the tripartite procedures. The ILO should continue along this track once it has overcome its challenges.

Attempts to link core labour standards to the trade system may continue, supported by the international labour movement and governments seeking fair trade. As the description in the Declaration mentions, however, labour standards should not be used for protectionist purposes. Therefore, using a social clause seems unfeasible, and attempts to do so weaken the ILO. However, to a larger extent, the core labour standards are affecting compliance not only by large multinational enterprises but also small and medium-sized enterprises in the global supply chain.

Japan's pre-war experience and the Asian reaction to the adoption of the Declaration suggest that promoting the Declaration through dialogue and assistance is the most effective way to encourage substantial compliance with the core labour standards among member countries.

The key elements of the promotional mechanism set by the Declaration are national social dialogue and capacity- and institution-building. However, the issues of 'business and human rights' are spreading across the global supply chains of private companies. In Japan, some of the pioneer companies are in the electrical and clothing industries. Since 2013, Hitachi Ltd. has organised multi-stakeholder dialogues and launched an e-learning system on human rights, and in 2014 it issued guidance on due diligence.⁶ Fast Retailing and Mizuno have conducted a social audit of the original equipment manufacturers (OEM) in their global supply chains.⁷

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13

Labour Standards of International Corporate Social Responsibility Initiatives and the Perspectives of Asian Employers—With Reference to a Survey of Asian Employers’ Organisations in 2011

1 Issues of Labour Standards and CSR in Asia

For the last few decades, the issue of corporate social responsibility (CSR) and labour standards has been one of the most popular business topics not only in the business world but also among academics and educational institutions such as universities and business schools. Academia has been critical about unilateral links between labour standards and free trade agreements and has analysed the multidisciplinary issues.¹ From the aspect of business education, the Principles for Responsible Management Education (PRME) initiative is a prominent example of educational relationships for responsible business between the United Nations and business schools.²

¹The arguments from academia include the following. Charnovitz (1998), ‘Linking Topics in Treaties’, *University of Pennsylvania Journal of International Economic Law*, p. 19; Bagwati, J. (1994), A View from Academia, In Schoepfle G. and Swinnerton K. (eds.), *International Labour Standards and Global Integration: Proceedings of a Symposium*, Washington, D.C.: US Department of Labour, Bureau of International Labour Affairs; Addo K. (2015), *Core Labour Standards and International Trade, Lessons from the Regional Context*, New York: Springer, p. 27.

²<http://www.unprme.org/index.php>.

The adoption of ISO 26000 in 2010 has had an effect on the rapidly growing business context in Asia. Further, many international initiatives on CSR with reference to labour standards have been created with well-founded promotional frameworks both in public and private institutions. The UN Global Compact and the UN Guiding Principles on Business and Human Rights are representative examples of public institutions' frameworks, while the Global Reporting Initiative and ISO are representative examples of private initiatives.

Labour standards are incorporated in these international CSR initiatives. Following the original discussion on free trade and labour standards at the 1996 WTO Ministerial Meeting in Singapore, the International Labour Organization (ILO) adopted a Declaration on Fundamental Principles and Rights at Work. This defined the core labour standards which are necessary for joining an international free trade system. The recent development of free trade agreements (FTA) requires fair labour conditions, led by industrialised countries. In particular, US foreign policy requires the adoption of national legislation in the countries which are related to five internationally recognised labour principles identified in the ILO 1998 Declaration: freedom of association; effective recognition of the right to collective bargaining; elimination of all forms of forced or compulsory labour; effective abolition of child labour and prohibition of the worst forms of child labour; and elimination of discrimination in respect of employment and occupation.³

In Asia, many trade agreements have contained labour provisions, as listed in Table 13.1. Of the eight trade agreements listed, five have labour provisions as a form of side agreement or memorandum of understanding.

Indeed, the extended Trans-Pacific Partnership Agreement (TPP) agreed in 2015 includes labour obligations (ILO ACT/EMP 2015). Other private initiatives from the developed world for promoting labour commitments, such as SA8000, have been promoted mostly by US trade and industry policy. This adds to a complex picture in Asian developing countries. CSR in terms of universality is always a questionable issue for Asia. For example, the government of Malaysia has often insisted on Asian

³ USTR: Trade Facts: Bipartisan Trade Deal (2007). Available from: http://www.ustr.gov/sites/default/files/uploads/factsheets/2007/asset_upload_file127_11319.pdf

Table 13.1 Asian FTAs with labour provisions

Name of trade agreement	Reference to ILO instruments	Commitment to certain minimum labour standards	Non-encouragement of trade or investment through weakening labour laws
New Zealand–Thailand Trade Agreement (2005)	1998 Declaration	Yes	Yes
Chile–China Trade Agreement (2006)	No	No	No
Trans-Pacific Partnership Agreement (2006)	1998 Declaration	Yes	Yes
New Zealand–China Trade Agreement (2008)	1998 Declaration	No	Yes
Japan–Philippines Economic Partnership Agreement (2008)	Yes (refers to the internationally recognised labour standards)	No	Yes
Taiwan, China–Nicaragua Trade Agreement (2008)	No (but the labour principles contain all core labour standards)	Yes	Yes
Japan–Switzerland Trade Agreement (2009)	No	No	Yes
New Zealand–China Trade Agreement (2011)	1998 Declaration	No	Yes

Source: Excerpt from Ebert and Posthuma (2011)

regionality because Asia is diversified and has significantly different cultures, religions, and values (Mahathir 1994).

The most relevant business actors in the region have always discussed the rationality and universality of CSR. The flexibility and rigidity of some of the rules is an example of the debate. ILO standards do not permit regional standards but allow flexibility. The universality of the standards rests in the process of arriving at the standards and how to implement them (Addo 2015, p. 112).

Employers' organisations also express their ideas. The organisations form regional networks in accordance with regional economic integration. The ASEAN Economic Community (AEC), which aims to transform the Association of Southeast Asian Nations (ASEAN) into a single market and production platform based on the free flow of goods, trade, investment, capital, and skilled labour, has just been established in December 2015. Regional networks of the business community are organised in a subdued manner in Asia. Employers' organisations which are in charge of labour standards in business communities also form regional subnetworks such as the ASEAN Confederation of Employers (ACE) and the Confederation of Asia-Pacific Employers (CAPE).

Currently, under the name of CSR for fair sustainable development, the universal application of international labour standards and their execution in global supply chains which are located in diversified situations are required. The ILO conference in 2016 will deal with this issue. Indeed, it has stated its concerns in that

it is notable that governments and the international community are increasingly spelling out what they expect of business, above and beyond compliance with the law. This can be seen in national and regional CSR policies, and in the United Nations Guiding Principles on Business and Human Rights. The distinction between the strictly legal and the purely voluntary seems to be getting blurred, not least as accountability and reporting mechanisms are tightened (ILO 2015).

This chapter aims to identify regional ideas about labour standards in international CSR initiatives in Asia. The research was originally reported at the AOTS workshop on international CSR instruments to which representatives of major Asian employers' organisations were invited in January 2011. Questionnaires were prepared by the author.

2 ILO Approach to CSR

By referring to an agreement of the definition of CSR at a meeting of the ILO's governing body in 2006, a basic reaffirmation of the significance of CSR in Asia can be identified as follows. The first notable feature of CSR

is that it is a voluntary initiative over and above compliance with laws. The ILO governing body says that ‘CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law’.⁴

As a business entity, an enterprise is a free agent with entrepreneurial and innovative actions in a competitive market environment. The conscience of business in society has become an unavoidable topic during the growth of Asia and is based on this simple principle. The business side, represented by bodies such as employers’ organisations, particularly emphasises CSR’s voluntary initiatives.

Impetus to CSR propagation was given by the need for environmental preservation and the universally accepted value of sustainable development in the 1990s. A symbolic event was the Rio Earth Summit in 1992. The sustainable development concept emphasised the importance of CSR and the requirement for a long-term and global perspective. This interconnectedness of CSR and sustainable development has been strengthened over time. This argument developed into a three-dimensional model of sustainable development. This corresponds to the proposal of a triple bottom line for CSR in the form of economy, society, and environment.

Social responsibility was focused on facing vulnerable situations which were part of the dark side of globalisation. Active voluntary initiatives beyond national legislation were required, resulting from the loss of national governments’ powers and growing multinational corporations. However, the intervention of governments in the Asian region has been strengthened with the introduction of initiatives such as compulsory CSR reporting. Many countries in the region recognise that CSR includes compliance with the relevant law.

The second important facet of CSR is a deep and extensive recognition of stakeholders. The ILO governing body followed ‘a way which gives consideration to the impact of their operations on society and affirms their principles and values both in their own internal methods and processes and in their interaction with other actors’ (ILO 2015). Thus, CSR should apply to all those who are affected by its activity.

⁴ <http://www.ilo.org/public/english/standards/relm/gb/docs/gb295/pdf/mne-2-1.pdf>.

It relates to the extensive influence of business in the world in the context of the far-reaching supply chains of multinational enterprises. The scope of CSR has included other actors affected by its scope. The term ‘stakeholders’ has contributed to the promotion of CSR in terms of practical execution and academic research. In Asia, the argument for CSR and sustainable development has been centred on national policy and has targeted the CSR in relation to the extensive supply chain networks of global production systems.

3 Survey of the CSR in Asia

The author’s survey at the AOTS⁵ workshop in 2011 contained a self-assessment from the perspective of 14 Asian countries about CSR and labour standards.⁶ The survey included an overall picture of CSR activities in 14 Asian countries, taking into consideration the international standards on labour. Although CSR activities are very extensive, the survey focused on creating a picture of the current situation of such activities with regard to labour.

The author sent a questionnaire to the participating countries and received appropriate responses.

3.1 General Conditions for the Sustainable Growth of Enterprises

Options for the basic conditions for the sustainable growth of enterprises were listed in the questionnaire and are summarised as follows (ILO 2007).

- Macroeconomic stability and sound management of the economy.
- Physical infrastructure.

⁵ AOTS is the abbreviation of the Association for Overseas Technical Scholarship. It was integrated with the Japan Overseas Development Corporation (JODC) into a new organisation named the Overseas Human Resources and Industry Development Association (HIDA) in 2012.

⁶ The list of the employers’ organisations surveyed is included in Table 13.11 at the end of this chapter.

- Good governance and social dialogue with effective and efficient civil and political institutions and processes.
- Society and culture supportive of enterprises.
- Equity, and economic and social inclusion.
- Responsible stewardship of the environment.

Among these factors, the responses indicated that macroeconomic stability and sound management of the economy is the favourite condition for the sustainable growth of enterprises. This is followed by good governance and social dialogue with effective and efficient civil and political institutions and processes. Thus, the most influential factor which is deemed to affect sustainable development is economic stability, followed by good governance and social dialogue.

The macroeconomic and overall economic situation are the most influential variables for sustainable growth. The recognition of the microfactor of good corporate governance and social dialogue in a corporation is also an integral part of the basic requirements for sustainable growth. Table 13.2 presents the conditions for the sustainable growth of enterprises as provided by the 11 countries which took part in the survey.

3.2 Company Motivations with Regard to CSR

The survey of member companies' motivations with regard to CSR suggests varied initiatives for CSR activities. This indicates that CSR is a multifaceted concept for employers. The following responses identify the most common expectations as to why companies adopt CSR initiatives.

The selection was from the following (ILO 2007).

- (1) Raising the capacity to attract and maintain a qualified and motivated workforce.
- (2) Improving relations with staff.
- (3) Increasing productivity and quality in the long run.
- (4) Improving risk management, including in the supply chain.
- (5) Increasing access to the market in foreign countries.

Table 13.2 General conditions for the sustainable growth of enterprises

	Economy	Infrastructure	Governance	Social support	Social inclusion	Environment
Bangladesh BEF	⊗	⊗	⊗	⊗	⊗	⊗
Cambodia CAMFEBA	⊗	⊗	⊗	⊗		
China CEC	⊗		⊗	⊗		×
Korea KEF	⊗	⊗				
Laos LNCCI	○		○			○
Malaysia MEF	⊗	⊗	⊗	⊗	⊗	⊗
Philippines ECOP				⊗		
Singapore SNEF	⊗		⊗			
Sri Lanka EFC	⊗	⊗	⊗			
Thailand ECOT			⊗			
Vietnam VCCI				×		×

Notes: ⊗ Favourite requirement, ○ Favourite, × Adverse effect

- (6) Facilitating access to credits, taking into account the current trend of financial institutions to include environmental and social criteria in their assessments.
- (7) Increasing customer loyalty.
- (8) Strengthening brand image and company reputation as essential factors for competitiveness.

Table 13.3 presents company motivations with regard to CSR as provided by the 12 countries in the survey.

As the survey demonstrated, many enterprises in Asia seem to focus on human resource policies as a particularly advantageous factor of CSR for companies. Human resource issues such as workers' commitment and engagement are common interests for CSR. This corresponds to the recent focus of CSR measures on improving employee engagement in order to strengthen competitive advantage. Increasing the capacity to attract and maintain a qualified and motivated workforce is the foremost factor which motivates the adoption of CSR, followed by improving relations with staff.

A detailed survey of the responses from the Employers' Federation of Pakistan (EFP) indicates that improving relations with staff records the highest score, followed by increasing productivity and quality in the long run (see Table 13.3). The Pakistan Country Report says that 'for raising the capacity to attract and maintain a qualified and motivated workforce, CSR is essential and 93 % of people believe that improving relations with the staff and access to the market in foreign countries are the key weapons to strengthen customer loyalty and control the risks in a business' (EFP 2011). Further details of the EFP response are given in Table 13.4.

The growing need for the accountability of corporate behaviour and the pressure to demonstrate the justification of CSR activities from shareholders are two reasons why CSR is adopted for the purpose of competitive advantage. Indeed, employee engagement and competitive advantage are becoming popular topics (Robertson-Smith and Markwick 2009).

Table 13.3 Company Motivation with Regard to CSR

	Attract workers	Staff relations	Productivity	Risk management	Market access	Credit access	Customer loyalty	Brand image
Bangladesh BEF	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Cambodia CAMFEBA				⊙	⊙			
China CEC	⊙						⊙	
Korea KEF	⊙	⊙						⊙
Laos LNCCI	⊙	⊙						○
Malaysia MEF		⊙		⊙	⊙	⊙	⊙	⊙
Pakistan EFP	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙
Philippines ECOP	⊙	⊙	⊙		×	⊙		
Singapore SNEF	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sri Lanka EFC	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Thailand ECOT	⊙	⊙						
Vietnam VCCI	⊙	⊙						

Notes: ⊙ Mostly relevant, ○ Relevant to some degree, × Not relevant

Table 13.4 A survey of company motivation for CSR by EFP of Pakistan

Dimensions	Not relevant (%)	Relevant to some degree (%)	Mostly relevant (%)
(A) Raising the capacity to attract and maintain a qualified and motivated workforce	6	32	62
(B) Improving relations with staff	0	14	86
(C) Increasing productivity and quality in the long run	0	22	78
(D) Improving risk management, including in the supply chain	0	60	40
(E) Increasing access to the market in foreign countries	10	36	8
(F) Facilitating access to credits, taking into account the current trend of financial institutions to include environmental and social criteria in their assessments	14	34	52
(G) Increasing customer loyalty	4	22	74
(H) Strengthening brand image and company reputation as essential factors for competitiveness	0	28	72

Source: Employers' Federation of Pakistan (EFP), Country Report of Pakistan, submitted to the AOTS workshop, 2011, Bangkok

3.3 Challenges of CSR

The challenging issues with regard to CSR can be listed as follows (ILO 2007).

- (1) Limited financial resources.
- (2) Low levels of human resources' expertise.
- (3) Lack of information.
- (4) Weak initiatives from senior management.
- (5) Lack of understanding by shareholders.
- (6) Lack of training and education opportunities.
- (7) Lack of government support.
- (8) Others.

Clearly, CSR initiatives face many challenges. Seeing those encountered by corporations, the expectation for a governmental role is high in Asia. Such a role is a feature of Asian countries because there are strong trends for the enactment of government legislation concerning CSR, such as the obligation of companies to report their CSR activities. These trends are similar to those regarding CSR policy in European countries; thus, a comparative study between Asia and Europe would be interesting in the context of CSR's future in Asia. Moreover, the expectation of government support relates to the issue of national competitive advantage. Table 13.5 presents some of the notable challenges for CSR in Asia.

In this regard, the findings of the EFP survey are very suggestive. They explain the governmental role in promoting CSR in Pakistan. They also highlight that premature awareness of CSR's importance is hindering widespread CSR activities. Thus, a mass awareness campaign is needed, supported by the government, with a 'frequent and open discussion defining and understanding CSR, detailing its nature and promoting and developing methodologies on how local businesses adopt and manage their CSR obligations' (EFP 2011). Table 13.6 presents the challenges for CSR given by the EFP in the survey.

The Country Report of the MEF of Malaysia explained the importance of the governmental role in promoting and implementing the legislation concerning CSR policy. Such legislation can have a nationwide and cross-sectoral influence, including in the SME sector. In this context, the Malaysian Institute of Integrity (IIM) has considered the issue of streamlining and improved existing corporate and social legislation (MEF 2011, p. 11).

3.4 International Instruments of the Labour Dimension of Enterprises' Sustainable Growth

A series of labour standards of international instruments have been developed by many international institutions. At the same time, there is an increasing need to refer to universal standards so that companies can justify their CSR activities. In particular, there is an urgent requirement

Table 13.5 Challenges for CSR

	Financial resources	Expertise	Lack of information	Senior management	Share-holders	Training	Government support	Others
Bangladesh BEF	⊙	⊙	⊙			⊙		
Cambodia CAMIFBA	⊙					⊙	⊙	
China CEC		⊙	⊙				⊙	Short-term benefit
India EFI				⊙		⊙	○	
Korea KEF				⊙			⊙	
Laos LNCCI	⊙	⊙	⊙	⊙			⊙	
Malaysia MEF	⊙						⊙	
Pakistan EFP	⊙	⊙	○	○	○	⊙	⊙	
Philippines ECOP	⊙	×	×	×		⊙	⊙	
Singapore SNEF	○	○	○	○				
Sri Lanka EFC	○	×	×	×	×	×	×	
Thailand ECOT				⊙	⊙		⊙	
Vietnam VCCI		⊙	⊙	⊙		⊙		

Notes: ⊙ Mostly relevant, ○ Relevant to some degree, × Not relevant

Table 13.6 A survey of challenges for CSR by the EFP, Pakistan

Dimensions	Not relevant (%)	Relevant to some degree (%)	Mostly relevant (%)
(A) Limited financial resources	0	40	60
(B) Low levels of human resources' expertise	18	42	40
(C) Lack of information	28	40	32
(D) Weak initiatives from senior management	22	44	34
(E) Lack of understanding by shareholders	28	44	28
(F) Lack of training and education opportunities	0	44	56
(G) Lack of government support	12	28	60

Source: Employers' Federation of Pakistan (EFP), Country Report of Pakistan, submitted to AOTS workshop, 2011, Bangkok

for international standards in order to disseminate CSR globally. The reasons are as follows (ILO 2007).

Corporations need:

- Guidelines for codes of conduct, corporate pledges, commitments, principles, CSR policies, and supply chain policies.
- Universal references and guidance in areas such as the environment, human rights, and labour.
- A licence to operate from society.

ISO26000 identified the core subjects of social responsibility with regard to labour. Although the labour issues are significantly interrelated and it is difficult to define the scope, the factors listed in ISO26000 indicate shared understanding. However, the principal part of CSR's labour dimension consists of the core ILO standards. These standards are included in various international instruments with differing effects. The representative instruments are the following.

- The ILO Declaration on Fundamental Principles and Rights at Work: adopted by the International Labour Conference at its 86th Session (1998) as the ILO's core labour standards.
- The ILO Tripartite Declaration of Principles concerning Multinational Enterprises (MNEs) and Social Policy (1977).
- The UN Global Compact (human rights, labour standards, the environment, and anti-corruption).
- The Global Framework Agreement (GFA).
- The OECD Guidelines for Multinational Enterprises.
- ISO26000 (social responsibility).
- SA8000 (social accountability).

Table 13.7 summarises the relevant findings from the survey on international instruments representing these international instruments

The Country Reports indicate that the UN Global Compact (GC) is the most well-known instrument. The bland image of the UN and its promotional effects on private companies may contribute to this popularity. Also, the GC local networks are disseminating to the regions. The Global Framework Agreement (GFA) with trade unions is less popular, possibly because of its binding power. For businesses and employers, open and interactive relations among the related actors and stakeholders are regarded as an integral part of CSR activities.

SA8000 has a binding power over businesses. However, it is well known in some countries probably because of the pressure which is experienced when exporting products as part of the supply chain. Export industries such as the textile industry need to be accountable regarding the issue of environmental and human rights performance. Table 13.8 presents the views of the EFP about the various international instruments.

Common factors of these international instruments are as follows.

- They are based on universal principles.
- They include the four fundamental principles of rights at work.
- They encourage enterprises to establish dialogue, and contribute to sustainable development and fair globalisation (none are binding except SA8000 and the Global Framework Agreement).

Table 13.7 The international instruments of CSR labour dimensions

	ILO 1998	ILO 1977	Global				OECD	ISO26000	SA8000	Local publication
			ILO 1998	ILO 1977	compact	GFA				
Binding	×	×	×	○	○	Government	×	○	○	
Four fundamentals	○	○	○	○	○	○	○	○	○	
China CEC	⊙		⊙			For MNEs		⊙		
Korea KEF			⊙				⊙			
Laos LNCCI								○		
Malaysia MEF	○	○	×	×	×	○	○	×		
Mongolia MONEF	○	×	○	×	×	×	○	○		
Nepal FNCCI	⊙									
Pakistan EFP	×	×	○			×	×	×		
Philippines ECOP	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙		
Singapore SNEF			⊙							
Sri Lanka EFC	⊙	○	⊙	○	○	○	⊙	⊙	ISO 26000	
Thailand ECOT			⊙							
Vietnam VCCI			⊙					⊙	ISO 14001	

Notes: ⊙ Mostly relevant, ○ Relevant to some degree, × Not relevant

Table 13.8 A survey of international instruments from the perspective of the EFP, Pakistan

Dimensions	Not at all (%)	Some knowledge (%)	Well known (%)
(A) ILO Declaration on Fundamental Principles and Rights at Work; adopted by the International Labour Conference at its eighty-sixth session (1998) as part of the ILO Core Labour Standards.	51	35	14
(B) ILO Tripartite Declaration of Principles concerning multinational enterprises and social policy.	68	22	10
(C) UN Global Compact (human rights, labour standards, the environment, and anti-corruption).	10	57	33
(D) OECD (Organisation for Economic Cooperation and Development) Guidelines for Multinational Enterprises.	68	25	7
(E) ISO 26000 (social responsibility).	77	22	7
(F) SA 8000 (social accountability).	71	23	6

Source: Employers' Federation of Pakistan (EFP), Country Report of Pakistan, submitted to AOTS workshop, 2011, Bangkok

Besides these international instruments, the Malaysian MEF report introduces the successful example of the Roundtable on Sustainable Palm Oil (RSPO). The palm oil industry became a target of environmental non-governmental organisations (NGOs) which alleged that the palm oil industry was a cause of deforestation and social abuse. As a not-for-profit association, the RSPO creates cooperation within the supply chain and promotes open dialogue between its stakeholders for the purpose of sustainable agricultural production. The RSPO has developed and implemented the global standard for sustainable palm oil with the toughest standards in the world. The RSPO assures transparency and traceability with strict verification of the production process (MEF 2011). Consequently, the RSPO has introduced the de facto standards for sustainable palm oil production among major oil producers, importers, consumers, and related non-governmental and governmental organisations.

The RSPO is part of a flexible agreement. As well as bringing the commercial sector together, it involves producers, civil society groups,

governments, and other stakeholders within a loose arrangement. Crow (2006) explains that the RSPO makes flexible and consensual decisions, but has no institutional support mechanism or a structure for implementing measures. This flexible organisation is suitable for Asian circumstances. Regional forums within the Asian region can submit agenda items for RSPO meetings.

3.5 Awareness of the Core Labour Standards

As can be seen from the results of the survey regarding the awareness of core labour standards by the EFP, the concepts of the fundamental principles and rights at work are not recognised by businesses, especially small and medium-sized enterprises (SMEs) (see Table 13.9). This means that there is a strong need to propagate the meaning of these standards nationwide and internationally.

4 Some Observations with Regard to the Promotion of CSR in the Context of Asia

4.1 Asian Values and the Social Aspects of CSR

First, it should be noted that priority is given to environmental issues in the CSR context in Asia. Regional and participatory approaches have been established for water supplies and in other environmental fields. Environmental issues such as global warming are easily understandable as universal problems. Environmental degradation, including deforestation, is reaching a critical level to the extent that it is almost irretrievable. Social issues are more complex in terms of cultural, religious, and societal aspects. Thus, the discussion between universal application and regional deviation has been controversial among different countries and regions.

Second, a flexible approach is another feature of the implementation of CSR initiatives in this field. Asian values are diverse, but there are common traits in the traditional way of thinking about CSR. Discussions

Table 13.9 Survey results regarding the core labour standards from the perspective of the EFP

Dimensions	Little knowledge (%)	Some knowledge (%)	Well known (%)
(A) Freedom of association and the effective recognition of the right to collective bargaining.	48	46	6
(B) The elimination of all forms of forced or compulsory labour.	66	30	4
(C) The effective abolition of child labour.	18	68	14
(D) The elimination of discrimination in respect of employment and occupation.	14	78	8

Source: Employers' Federation of Pakistan (EFP), Country Report of Pakistan, submitted to AOTS workshop, 2011, Bangkok

about the vague features of Asian values have produced certain common elements. These Asian values match the core of CSR from a more philanthropic perspective rather than a perspective of strict interpretation and rule. Debroux (2009) observes that common factors exist for embedding flexibility in the foundation and method of thinking about CSR. Asian values of philanthropic CSR have been highlighted by various scholars. For example, there is less codification of business activities in Asia (Tanimoto 2004); there is also a benevolent and paternalistic attitude shown to employees, customers, and communities based on values of faith and trust derived from Buddhism and Confucianism (Ho 2006). In addition, an overlap between the tenets of Islam and CSR such as the UN Global Compact is observed by Zinkin (2007). Further, Hindu Businessline (2007) reported Tata group's CSR is close to that of Western companies.

4.2 Towards Constructive Industrial Relations

In stakeholder engagement, the method of engagement has been argued about on various occasions. Industrial relations (IR) between workers and employers have been a common subject of debate for a long time. Indeed, there is an Asian way. Japanese IR are one example. In addition, there are not only universal traits, but also regional characteristics.

Social dialogue is a case in point. Social dialogue in Asia is leading towards dialogue-based engagement. In negotiations regarding collective bargaining, the discourse is based on dialogue, and cooperation between workers and managers also takes the form of dialogue. Table 13.10 describes distinct comparisons between stakeholder debate and stakeholder dialogue. The consultation system between workers and employers is a well-known practice in Japanese IR.

The International Trade Union Confederation, Asia and Pacific (ITUC-AP) is moving towards constructive IR. With regard to a decent work agenda, constructive social dialogue is particularly important in Asia. In September 2009, trades union leaders from Asia and the Pacific gathered in Singapore for the ITUC-AP conference on IR. The delegates adopted a definition of ‘constructive industrial relations’. This declared that

on the basis of full recognition of the operations of trade unions in compliance with the ILO Conventions 87 and 98 in pursuit of Decent Work and common welfare, and in a stable political climate where social partners can operate without fear of reprisal; the parties concerned share a common interest in labor standards, performance of business, conditions of national economies, industries and the labor market; and share the principle of fair distribution of output to stakeholders (ITUC-AP, 24 Sept 2009).

Two channels of engagement with employees are part of social dialogue. One channel involves collective bargaining deals with issues such as the fair distribution of output, employment, wages, working hours, and other labour conditions. Another channel involves a labour–management consultation system which deal with issues such as increases in output,

Table 13.10 Stakeholder debate versus stakeholder dialogue

Stakeholder debate	Stakeholder dialogue
Competition	Cooperation
Speaking	Listening
Confronting	Constructive
Separate responsibility	Shared responsibility

Source: Adapted from Kaptain, M. and Tulder, R.V. (2003) ‘Toward Effective Stakeholder Dialogue’, 108(2), *Business and Society Review*

Table 13.11 The list of employers' organisations surveyed

Bangladesh (BEF)	Bangladesh Employers' Federation
Cambodia (CAMFEBA)	Cambodian Federation of Employers and Business Associations
China (CEC)	China Enterprise Confederation
India (EFI)	The Employers' Federation of India
Korea (KEF)	Korea Employers Federation
Laos (LNCCI)	Lao National Chamber of Commerce and Industry
Malaysia (MEF)	Malaysian Employers' Federation
Nepal (FNCCI-EC)	Federation of Nepalese Chambers of Commerce & Industry
Pakistan (EFP)	Employers' Federation of Pakistan
Philippines ECOP	Employers Confederation of the Philippines
Singapore (SNEF)	Singapore National Employers Federation
Sri Lanka (EFC)	The Employers' Federation of Ceylon
Thailand (ECOT)	Employers Confederation of Thailand
Vietnam (VCCI)	Vietnam Chamber of Commerce and Industry

management policy, productivity increases, human resource development, and occupational safety and health.

4.3 CSR as a Challenge for Strategic Business Cases and Competitive Advantage

CSR is not just about charity. CSR is not a burden. These types of perception by corporations hinder the diffusion of CSR in terms of voluntary corporate initiatives in the region. Consequently, employers need to understand the merits of the implementation of social responsibility. The most interesting motivation for CSR concerns employees. The strategic implication of CSR, such as improving working conditions, must be clarified for the purpose of establishing effective means of productivity enhancement by employers and workers. For example, how can long working hours be reduced and hourly productivity be improved at the same time?

Recent experiences regarding the introduction of flexitime working hours at workplaces show the growing potential of synergistic effects in terms of shorter working hours and higher productivity.

The topic of the reduction of working hours is one of the oldest concerns about working conditions. In the early nineteenth century, it was already recognised that working long hours was dangerous to workers' health and to their families. For example, the ILO standards on working hours, adopted in 1919, limited the hours of work and provided for adequate rest periods for workers. Since then, the ILO has added standards on working hours in order to provide a framework for regulated hours of work, daily and weekly rest periods, and annual holidays. The ILO states that these standards have had positive effects which ensure high productivity while safeguarding workers' physical and mental health.

The concept of productivity can be considered from different aspects; for example, labour productivity, capital productivity, and total factor productivity. Productivity can be recognised as a wide social concept. In 1958, the European Productivity Agency described it in the following way: 'Productivity is, above all, an attitude of mind. It seeks to continually improve what already exists. It is based on the belief that one can do better today than yesterday and better tomorrow than today.' This passage has often been quoted as a basic approach to the successful application of the productivity improvement movement during periods of high economic growth in Japan.

Currently, the issue of working hours is often discussed in the context of work–life balance. Lockwood (2007) suggested that work–life balance is an important lever for employee engagement which will contribute to improvements in productivity. Moreover, the debates on work–life balance are moving from the negative side of the conflict between work and life to the positive side of enrichment between work and life.

Thus, a reduction of working hours should be applied in the workplace in harmonious and flexible ways in order to ensure work–family enrichment for employees. A reduction will improve employee engagement and result in higher productivity. Flexible working-time arrangements with shorter working hours based on social dialogue can improve hourly productivity through employee engagement.

Difficulties faced by SMEs are another issue with regard to the further promotion of CSR. Because small enterprises generally exhibit lower productivity than large enterprises, they believe that there is no room for CSR activities. This mindset within SMEs has to be changed because

less favourable working conditions hinder productivity enhancement. Better working conditions can be regarded as an important base for better productivity. However, there are no clear correlations between the size of enterprise, productivity, and working conditions.

The scale of productivity is measured as value added at the company level and at the individual employee level. Value added at the company level can be influenced by various factors. These include good management and workplace practice, the skills and engagement of employees, constructive labour–management relations, capital factors, research and development (R&D), production methods, and technological factors. Working conditions can be regarded as indirect factors which affect direct factors, such as the skills and engagement of employees, and constructive labour–management relations. Thus, working conditions are factors for improving productivity.

Many cases show smaller companies which have more favourable working conditions and higher productivity. The important question for a company to ask is whether less favourable working conditions impede the improvement of productivity and the level of its competitiveness. It is a question for all companies, regardless of size.

5 Concluding Remarks

CSR is not only a concept but also a movement which explores sustainable development and better relationships between corporations and society. According to the survey examined, common and universal agreements appear to be making progress and have influenced a globalised Asia to a greater extent than before over the last decades. However, there is a strong sentiment in Asia that CSR is not legislation and should be based on the voluntary initiatives of corporations and stakeholders. Any unilateral pressure should be treated with care. The labour dimensions of CSR require participatory and open forums with social partners. In this regard, there are many multi-stakeholder or tripartite forums regarding CSR. There is also a mix of promotional measures, including market-based, voluntary agreements, and educational and information measures such as seminars and training sessions.

The labour standards of international CSR instruments play an important role in this context. With regard to international labour standards such as freedom of association, Caire (1977) identified three possible roles: (1) how to gauge the influence of the standards in the legal field; (2) how to assess their educational role; and (3) how to advance their roles through ILO technical assistance in developing countries. Concerning the second and third roles, employers' organisations can assist in many ways. Employers' organisations and their member companies can share their knowledge about the better implementation of CSR and international instruments regarding labour. The dissemination of relevant information among member companies and associated training are important services which employers' organisations can provide. Advocacy to the government is also becoming more important than before.

Technical cooperation which refers to core labour standards is spreading to the Asian region. An example is the Better Work project initiated by the ILO and the International Finance Corporation (IFC). The Better Work project aims to achieve the improvement of working conditions and the promotion of sustainable competitive advantage in collaborating companies, mostly in the textile industry. It helps to establish joint committees in factories called performance improvement consultative committees (PICCs), composed of workers and management.⁷

The common features of Asian CSR good practice can be learned from each other, and there are many opportunities to explore examples of cooperation among employers and stakeholders. CSR benefits business, especially sustainable business. It can improve employee engagement, productivity, financial performance, branding position, corporate competitive advantage, and national competitive advantage. Thus, CSR should be considered strategically. The awareness of the positive effect of CSR is very important for local economies and SMEs. Hence, information and educational activities in local economies should be promoted to SMEs and micro enterprises.

⁷ The author visited a project site of Better Work Vietnam on 13 March 2014. Interviews were conducted with the project manager, Mr Nguen Hong Ha; the BSS manager, Ms Ham Quoc Thuan; and the vice president of the host company (Eins Vina Co. Ltd), Mr Arnold Jung.

There is a strong focus on employees. CSR can be regarded as an internal issue with priority given to employee engagement. In addition, labour and management relations are central to CSR; for example, industrial disputes hinder constructive IR.

The labour dimensions of CSR are larger than any CSR definitions. CSR is evolving and can be applied in different ways. It requires contextual and situational responses in accordance with the diverse backgrounds of countries and regions. Many labour-related issues must be tackled and promoted with regard to CSR activities as labour is multifaceted. In addition, this field has strong connections with labour law. Minimum-wage fixing, for example, is a relevant case in point; wages should be fixed by voluntary decisions within corporations while minimum-wage fixing should prompt these voluntary decisions.

Finally, so-called ethical sourcing for MNEs in the context of international trade has grown as part of the pressure to improve CSR performance in exporting industries. Business sectors and employers' organisations in Asia have championed the value of the Asian approach during periods of regional economic integration.

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14

The Role of Business with Regard to Asian Living and Working Conditions

1 Introduction

Living and working conditions are becoming increasingly relevant for business and management. Globalisation in the world economy, characterised by the liberalisation of world trade and investment, may create wealth and prosperity for some, but is accompanied by serious social and environmental problems. Capital investment is on a constant worldwide quest for lower labour and living costs; and in Asia, debate has arisen over whether this quest contributes to a decline in social factors.

Social issues, such as increasing poverty and the wealth gap, inevitably interfere with the sustainable development of any economy and business environment, shrinking exclusive markets and the capacity for wealth creation. Most governments in Asia have come to the conclusion that a better business environment follows from an inclusive society where all players work towards decreasing poverty and eliminating discriminatory practices.

The original text was published in Kuriyama N. (2009), The Role of Business in Asian Living and Working Conditions, in Hasegawa H. and Noronha C. (eds.), *Asian Business & Management; Theory, Practice and Perspectives*, Basingstoke: Palgrave Macmillan, Chap. 7.

International forums, including the UN's Copenhagen Social Summit of 1995 and the proceedings connected with establishing the UN Millennium Development Goals (MDGs), have discussed issues such as these. The International Labour Organization (ILO), as a core international forum on living and working conditions which involves the key tripartite constituents of governments, workers, and employers, has also addressed these issues and provided a concept conducive to better business, and by extension better living and working conditions. 'Decent work', as proposed by the ILO, is recognised by world forums as a universally desirable target for living and working conditions.

Decent work sums up the aspirations of people in their working lives. It involves opportunities for work that are productive and deliver a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men.

(<http://www.ilo.org/global/topics/decent-work/lang-en/index.htm>)

The term 'sustainable enterprise' was adopted and seen as a major tool for achieving 'decent work' at the ILO's 2007 conference. It was recognised that promoting sustainable enterprise would lead to improved living standards and social conditions.¹ This new approach to enterprise development in society is becoming a focus for issues such as business's relationship to living and working conditions.

This new approach is emerging in parallel to the growing emphasis on corporate social responsibility (CSR) by business stakeholders worldwide. It suggests an important change in how businesses interact with society and local communities: whilst such interaction has to date been largely reactive in terms of working and living conditions, a more proactive mode is appearing. In Asia, with its extraordinary ongoing economic

¹ The ILO works for the international protection of workers and fights against poverty. In other words, it works on improving working and living conditions as well as the application of labour standards. The 2007 ILO Conference discussion on 'sustainable enterprise' in its plenary session was an impressive turning point. The discussion stressed the improvement of productivity and competitiveness for working and living conditions in a sustainable business environment.

development, business interests need to be proactive in this way in order to tackle the emerging social issues consequent on that development. The current chapter outlines this ongoing process.

2 A New Approach to Living and Working Conditions

Corporate development is increasingly affected by the external environment, such as local communities which have a stake in business activity on both the demand and supply sides. With regard to demand, the local community supplies market and custom; with regard to supply, an integral part of a business's resources, such as finance, facilities, and workers, should be sourced within the community.

Because the external environment determines the business-enabling environment, international business in particular has been geographically mobile in its quest for lucrative markets and consumers, favourable human resource conditions, and good infrastructures. Nonetheless, once a plant is established, there is resistance to further moves or restructuring. Consciousness of the business and its role grows, inevitably involving the enterprise in external relations to a greater extent, in particular with the local community. Indeed, business attitudes towards involvement with local communities are becoming increasingly proactive.

The study of enterprises and the external environment has been dominated by reactive responses, as in contingency theory. More recent perspectives are generally more proactive to changing environments and embody strategic outlooks. Such perspectives particularly affect Asian countries, where the external environment of enterprises is more diverse.

The issues of living conditions in local communities and working conditions in enterprises have previously been discussed together in the field of human resource management (HRM). Studies of HRM have also extended their perspectives to the external environment. In the early 1980s, the Harvard model (Beer et al. 1984) provided external analytical factors for HRM (Fig. 14.1). HRM policies are affected by stakeholder interests and situational factors, and the resulting outcomes have long-

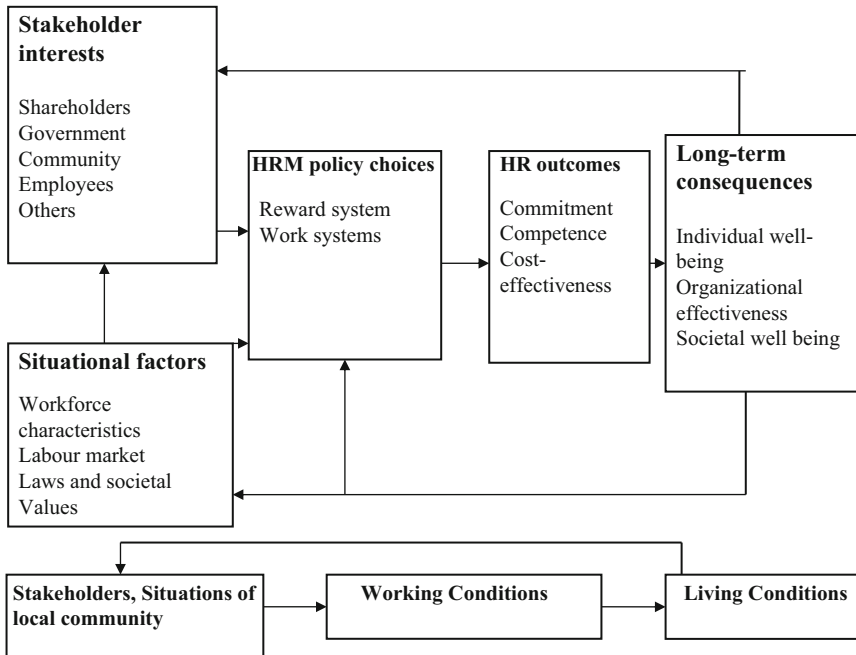


Fig. 14.1 The Harvard model of human resources management. *Source:* Adapted from Beer et al. (1984), with some parts changed and added by the author

term consequences at organisational and societal levels (Bratton and Gold 2007). Likewise, the external inputs and outputs of HRM are interconnected over time, developing the perception of ‘context’ in the external and internal environments of HRM (Bloisi 2007).

Although the interaction of living and working conditions is reciprocal, an inclination of influence occurs from one towards the other. First, there is the influence of living conditions on working conditions. The internal working conditions of an enterprise are largely decided by external conditions. Wage levels in the local community, for example, are influenced by living conditions as well as factors such as industrial relations (IR). Japan’s case is typical. *Shunto* (intensive national wage negotiations each spring between employers and unions) can affect the whole economy, from the industrial sector to public services. Wage negotiations at the company level during the post-war

economic growth period were regulated by the general economic environment, such as increasing commodity prices and changing living conditions. This is one reason why working conditions in Japan became standardised across a large number of enterprises throughout the country.

However, working conditions also have a bearing upon living conditions. Working conditions in companies are more likely than ever to affect internal human resources, and thus external conditions in the community, via the families of employees and the communities' surrounding places of business. Improved working conditions are felt throughout the local community through improvements in workers' well-being.

Figure 14.2 demonstrates that people are internal as well as external stakeholders in enterprises. While enterprises control working conditions, the local community provides living conditions for the workers. Enterprises and local communities are therefore interconnected, with people as the catalyst between them, maintaining the relationship between working and living conditions. Living conditions are forces affecting working conditions, while recent company policy trends have indicated that changes in working conditions are becoming shaping factors on living conditions. This policy

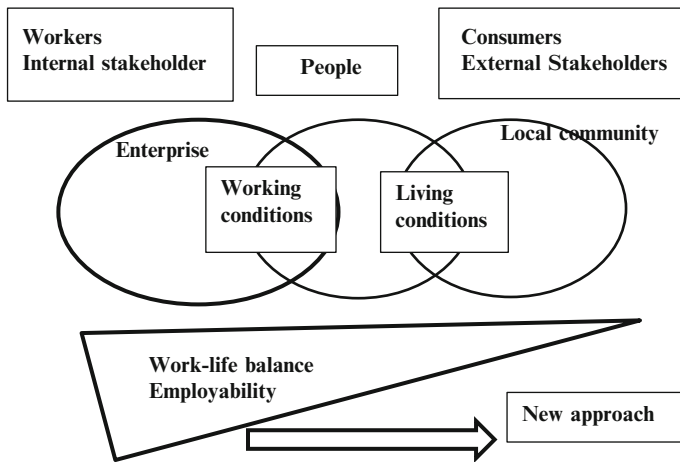


Fig. 14.2 Enterprises and the local community intersect with people with regard to working and living conditions

emphasises ‘work–life balance’, a formula for optimising the potential to integrate aspects of life as lived by the individual.

Employability is another example of the influence of working conditions on living conditions in the community. Skill development is an important working condition because it is a determinant of income. Skills which are applicable to more extensive labour markets can enhance workers’ bargaining power, and in turn the local community can utilise workers’ skills in more extensive fields. A company may lose some capable employees, but can acquire other suitable candidates from the external labour market by increasing the employability of their workers (Rogovsky and Sims 2001).

Thus, living and working conditions are interactive. A new strategic approach can be identified whereby enterprises can create a constructive spiral of interactions between working and living conditions. This chapter reviews this new approach, which is particularly relevant for Asian business development.

3 Why Should Living and Working Conditions Matter in Business?

3.1 The Meaning of Living Conditions and Standards of Living

The term ‘living conditions’ cannot be clearly defined and contains a range of meanings. It covers a broad field of life as lived, including working conditions; accessibility to available goods and services such as employment services, education, and medical care; and life expectancy. The meaning of ‘standard of living’ is defined as the level of goods and services obtainable for a given income. ‘Standard of living’ can also demonstrate cultural and regional variation. Some people in rural areas place value on their existing standard of living and resist any move to cities where there are higher objective standards of living. Further, because it is difficult to improve living conditions through public policy and legislation alone, enterprise development is regarded as an avenue for social and economic development in order to improve living conditions.

3.2 The Meaning of Labour Standards and Working Conditions

It must be noted that ‘standards’ are different from ‘conditions’. In particular, the terms ‘labour standards’ and ‘working conditions’ are used differently in the contexts of labour law and workplace management. Some standards are generally set by regulation, often described as legal requirements. According to Webster’s New World Dictionary of American Language, ‘standard’ is ‘something established as a rule or basis of comparison in measuring or judging capacity, quantity, extent, value, quality, etc.’. Usually, labour standards mean general principles and values of labour, and codes of conduct at work regulated by national labour laws or collective agreements. Labour standards are standards concerning employment and working conditions found acceptable by employers and workers (ILO Thesaurus 1998).

Moreover, labour standards are recognised as universal values based on dignity, respect, trust, and fairness. International labour standards are globally supported by the ILO and its tripartite constituents of governments, workers, and employers. International labour standards have been set to create a win–win strategy for the whole of society, including social partners.

However, working conditions are the physical, social, and managerial factors which affect a worker’s job environment (ILO Thesaurus 1998). They reflect the current situation of workers at the workplace. For employees, working conditions include wages and working hours, health and safety, childcare, family welfare provisions, stress management, emergency loans, and elimination of sexual harassment. Employees’ working conditions can often determine their performance and productivity. Poor working conditions are coupled with factors which may cause unnecessary stress and strain on employees.

The different meanings of conditions and standards have led to quite different experiences in the workplace. For example, labour standards are unable to set a fixed wage level because this is determined by various economic and social factors. However, they can set a guiding principle for wages, including a minimum-wage system. However, working conditions

are formed by financial and economic situations, internal and external circumstances, and the practices and policies of companies.

‘Working conditions’ is a better term to use when focusing on non-legal matters. The issue of labour standards and business is another important topic. Flanagan (2006, p. 7) distinguishes the meanings of the two terms ‘labour standards’ and ‘labour conditions’, and includes labour rights at the core of labour standards and working conditions in labour conditions.

3.3 How Does Economic Development Improve Living Standards?

Living and working conditions in national economies have long been discussed in the field of development research. However, the discussion of relationships between business and living and working conditions is rather new and has been energised by the CSR debate. The major theories and views are as follows.

The ‘trickle-down’ theory set out by Simon Kuznets (1955) explains the correlation between economic development and income distribution. It indicates that although inequality between rich and poor initially increases, it levels off at a later stage of development by ‘trickle-down’ benefits from the leading wealth-creating sectors to the rest of the economy. However, a number of empirical studies have indicated that there is no necessary correlation between inequality and economic growth. Further, a high disparity in income distribution can lead to economic stagnation.

Neo-classical economists explain that wages, the source of living standards, should be set at market-clearing levels. They insist that regulated wage determination brings unemployment. Ideas of *laissez-faire* and deregulation have been promoted in economic policies which seek to make market mechanisms work effectively. Milton Friedman, a prominent advocate of economic freedom, insisted that ‘there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud’ (Friedman 1962).

However, this idea has been questioned in recent times through many empirical studies and policy directives. There is evidence that living standards can be maintained and improved by proper regulatory policies and that such policies reduce the pressure on companies to increase wages. In addition, it is often pointed out that market failure occurs in the absence of public benefits in areas such as law enforcement, abuse of power (monopolies), negative externality (including pollution), and asymmetric information such as insurance markets.

Consequently, certain institutional interventions are often proposed in order to improve living conditions without extending inequality and deal with market failure. For businesses, living conditions matter from the perspective of supply and demand. Living conditions in the community form the quality and quantity of the market and the quality and quantity of the workers available for recruitment from the community.

IR have played a vital role in fixing wage standards as the major point of wage negotiation. The negotiation of working conditions through collective bargaining between employers and workers has been a fundamental mechanism in major industrialised economies, enhancing industrial and social calm. IR which are based on freedom of association and the right to organise are a universal and fundamental right at work. Collective bargaining and dispute settlement as part of wage negotiations contribute to correcting the gap between working and living conditions.

However, it is often noted that IR are not the only dynamic in setting working conditions. Because of asymmetric information between workers and employers, negotiated wage levels often do not reflect real labour market situations. In addition, fixing working conditions by IR is losing effect because organised labour is declining.

As enterprise-level wage fixing extends into the reward system, it becomes a critical factor of a company's competitiveness. It has been observed that wage fixing may be a matter of HRM rather than IR (the transition from IR to HRM). Nonetheless, increasing competitiveness and productivity are a basis for creating better working conditions and sources of better living conditions (ILO 2006). The links between business and living and working conditions have become increasingly strengthened from the viewpoints of both IR and HRM.

3.4 Motives and Rationales of Business for Community Involvement

Living conditions are important environmental factors for the people of a community. Any business operating in a community must be aware of the interaction between the internal and external environments. Business may have various motives for becoming involved in local communities (Bronchain 2003) such as ‘awareness of impact’. For example, in circumstances of a relatively large company in a relatively small community, the company cannot ignore the impacts of employment and the goods and services produced. Other motives include compensating for limited local access to infrastructure and resources. In this regard, business is required to fill the gap between business needs and local needs.² Moreover, building goodwill in the community and enhancing image are important for all business interests.

Community involvement also encourages the strengthening of company culture and employees’ social skills, thereby making the workplace attractive and enabling the development and testing of new products and services in the local market. In the USA, ‘employee volunteering’ has traditionally been the most common way for a company to become involved in the local community. This approach is now spreading in many European countries throughout large and small companies. However, local volunteerism is an expression of a core principle of most cultures. For example, the United Nations Volunteers (UNV) programme practised volunteerism in Thailand because ‘there are two major social foundations supporting volunteerism: Buddhism and mutual aid culture. There are hundred of thousands of Buddhist monks who can be considered as volunteers in different temples’ (UNV Country-Specific Information, Thailand). The use of corporate volunteers in Asia should be carefully explored. From a business perspective, Philip Kotler (Kotler and Lee 2005) suggests that the strengths of community volunteers for business are to build corporate reputation, attract and retain a motivated

² Coca-Cola, for example, has committed to supply to the community the same amount of water which their plants consume for their production.

workforce, build strong community relationships, and leverage current corporate social initiatives.

Hence, the motivation of companies to develop community involvement ranges from internal to external benefits. Increased employee motivation, the development of skills, and embedding company culture are examples of internal benefits. External benefits such as the licence to operate and better employee recruitment motivate enterprises to involve themselves in the living conditions of their local communities.

4 Poverty and Business in Asia

One of the most notable features of Asia is its diversified economies. There are emerging economies with high growth rates and impoverished territories. Often, an informal sector, which operates outside labour standards and regulations, comprises a section of the population living at subsistence level. We cannot discuss living and working conditions in Asia without discussing poverty in sectors such as this.

The high economic growth in parts of Asia has been impressive, exemplified by the remarkable rise in gross domestic product (GDP) in China and India in the last decade or so. The newly industrialised economies, such as the Republic of Korea and Singapore, have successfully reduced poverty within their countries by significantly closing the wealth gap between rich and poor.

In other social aspects of Asia's development, however, and especially in southern parts of the continent, the situation is different. Poverty remains as pervasive in Asia as in Africa; in 2006, an estimated 17.6 % of Asian workers lived in extreme poverty, on less than US\$1 per day, and 51.9 % had less than US\$2 a day.

If earnings of US\$1 a day are used as an indicator of poverty, it appears that poverty has significantly reduced in most countries in the region when comparing data from 1990 and 2003. However, the picture is not so positive at the US\$2-a-day level, which is also below subsistence level. Here, it is evident that most countries have not successfully reduced prevailing poverty, and around 1.9 billion people, representing 60 % of

Asia's population (77 % in terms of the South Asian subregion), were poor and earning less than US\$2 a day in 2003 (ADB 2006).

The poverty situation in Asia is attributable to economic structure. Countries with the lowest income levels tend to have higher ratios of employment in agriculture. As per capita income increases (from left to right) across economies in the figures that are available, the agricultural sector continues to account for the majority of employment in low-income countries. This explains the high levels of underemployment, which cannot meet income needs.

4.1 The Informal Sector and Poverty

Apart from rural areas, urban poverty is the most serious problem for the disadvantaged. A large number of people subsist in the urban non-agricultural sector, also known as the informal sector. A correlation exists between per capita GDP and the size of the informal sector in that the smaller the per capita GDP, the larger the informal sector. This sector is a huge pool of underutilised human resources and an inevitable source of low productivity as well as persistent poverty which is characterised by underemployment.

The persistence of pervasive poverty in Asia's developing countries is related to the region's informal sector. This means that successful economic growth and growth of per capita GDP are coupled with an absence of substantial reduction in income poverty. This also suggests an increase in inequality in the national economy, which is basically caused by what has been called 'growth without employment'; namely, a failure to achieve sustainable development.

Not only is the quantity of employment important in income generation, the quality of employment also affects peoples' income status. Formalising the informal sector is not necessarily an obvious solution. For instance, in a move towards formal jobs, female workers tend to find themselves in unsecured positions, while male workers are likely to benefit; in other words, a move to the formal sector sometimes aggravates gender inequalities (ILO 2004).

4.2 Poverty Alleviation at the Bottom of the Pyramid Market

The idea of making markets work for the poor (MMW4P) is particularly relevant in this context. The important point of this approach is to change the structures and characteristics of markets by involving and benefiting the poor in a sustainable way. This requires the creation of links with micro- and informal-sector enterprises in the region. Value-chain systems of enterprise relations have significant potential to integrate micro, small, and medium-sized enterprises into national and global production systems (ILO 2007a).

The term ‘bottom of the pyramid’ was coined by C.K. Prahalad (2005), who pointed out the potential for an enormous business market which offers a new world of opportunity if the poor were to be seen as value-conscious consumers. Consumers at the bottom of the pyramid prefer goods and services of immediate use and are more value-conscious about costs and needs. Prahalad says that a new approach to marketing and distribution, through the development of new products and services, can create within the poor the capacity to consume.

Business has a large stake in the lives of the poor. In reality, poor consumers pay more than rich consumers for basic services. In some developing countries, 15–90 % of primary education is provided in private schools, and some 63 % of healthcare expenditure in the poorest countries is private, almost twice that in the high-income countries of the Organisation for Economic Cooperation and Development (OECD) (33 %) (UNDP 2004).

The informal business sector provides substandard goods and services to the poor at much cheaper prices than the formal market. If employment and income could be generated among the poorest sections of society, their living standards would improve. Then, if business could provide goods and services while increasing choice and reducing prices, interaction would be stimulated between those at the base of the pyramid. Consequently, the private sector would create opportunities for direct involvement in the market economy (Rajagopalan 2006). A well-known Unilever business model at the base of the pyramid suggests a fresh

approach to consumer affordability. It challenges the traditional cost plus margin method of determining price. Instead, business should find a cost base which supports the margin (Unilever 2006).

Dignity at work depends upon a sufficient livelihood for oneself and one's family, self-respect, and social responsibility (Rayman 2001). Working conditions need to provide a rewarding quality of life so that they create a virtuous circle for better working and living conditions.

The Millennium Development Goals (MDGs) were adopted by the UN as part of a global commitment to eradicate poverty, promote human dignity, and achieve peace and environmental sustainability. The key factor relating to poverty alleviation is productivity enhancement. Labour productivity has become an indicator of the MDG for poverty reduction (ILO 2007b). The eradication of extreme poverty for those living on less than US\$1 a day is the first priority. The UN is beginning to evolve a global development partnership with business, and businesses have begun to accept that they have mutual interests in attaining the MDGs. At the same time, there are growing international demands for companies to be more transparent and more accountable for their economic, social, and environmental impacts wherever they operate. Businesses can contribute to the MDGs through community investment, greater ethical supply chain management of core business activities, and active engagement in public policy dialogue and advocacy activities.

For example, DHL in the Asia-Pacific region aligned its CSR initiatives with the MDGs, focusing its sustainability strategy on three major areas: disaster management; supporting future generations; and creating a market for social change in line with the MDGs. Partnerships with UN organisations (the United Nations Development Programme (UNDP) and the UN Office for the Coordination of Humanitarian Affairs (OCHA)) have been put in place, and the DHL YES award, created in 2007, is given to young social entrepreneurs in Asia who contribute to the UN's MDGs (Koh 2007).

The United Nations adopted the Sustainable Development Goals (SDGs) in 2015. Goal 8 is to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Participating in the framework of 'Business Call to Action' by the UNDP, major Japanese insurance companies such as Sompo Japan

Nipponkoa, and Tokio Marine & Nichido Fire Insurance Co. Ltd. initiated a microinsurance programme in developing countries from 2015. The aim of this programme is to enhance the resilience of small-scale farmers in developing countries against crop damage by offering weather index insurance. This will lead to *inclusive business* as advocated.

5 Changes in Working Time in Asia

5.1 Working Hour Changes in Asia

Working hours in Asia are changing. Global progress is being made to promote shorter and flexible working hours in accordance with economic and social development. A major priority of governments is to set statutory limits on weekly working hours. Table 14.1 shows that the progress of Asian countries in this respect is uneven, although strong policy development is seen in some countries such as Japan and the Republic of Korea.

Statutory standard weekly hour limits vary in Asia. Many countries have a basic regulation of 48 hours, while others have an advanced limit of 40 hours. Singapore is in between, at 44 hours a week. India and Pakistan are two of the few cases in the world where there is no generally applicable weekly limit on working hours.

Actual working hours also vary from one country to another. Comparable data are limited for OECD countries. From a historical analysis of

Table 14.1 Weekly normal hours limits

	No universal statutory limit	40 hours	41–46 hours	48 hours
1984	India, Pakistan, Vietnam	Indonesia	Mongolia, Singapore	Japan, China, Laos, Malaysia, Philippines, Thailand,
2005	India, Pakistan	China, Japan, Indonesia, Korea, Mongolia	Singapore	Cambodia, Laos, Malaysia, Philippines, Thailand, Vietnam

Source: ILO database of working hours laws (<http://www.ilo.org/travdatabase>)

actual working hours, it can be said that economic development is influential in reducing actual working hours up to a certain point where the impact of income on working hours becomes unclear. Actual working hours in Asia are atypical situations. Many countries have excessively long working hours. An ILO study indicated that the benefits of growth have not translated into shorter working hours, while rapid economic growth and productivity gains have contributed to rising real wages in some Asian developing countries (ILO 2005, p. 23). The incidence of long working hours in total employment is rather high in newly industrialised countries among the so-called East Asian Tigers and South Eastern Dragons. Indonesia recorded 51.2 % in 2004–2005, followed by South Korea with 49.5 % for the same period and Thailand with 46.7 % in 2000 (see Table 14.2).

A survey conducted by the ILO on workers with family responsibilities in seven selected countries reveals some interesting cases. Australia has a prominent gender gap with regard to weekly working hours because part-time work is widespread, and female workers can have daily starting and finishing times (flexitime). In addition, the feeling of overwork is low. Although flexibility in working hours is usually considered to be low in developing countries, Malaysian workers at the companies surveyed are likely to have flexitime (although it may not be institutionalised), and, interestingly, the feeling of overwork among female workers is lower than in Australia. The Philippines is also exceptional. Here, there is no gap between male and female working hours, and although flexitime can be arranged, the feeling of overwork among female workers is relatively high (Table 14.3).

Table 14.2 Incidence of long working hours in total employment

	1995	2000	2004–2005	Hour cut-off
Indonesia	46.9 %*	49.1 %	51.2 %**	45+
Japan	28.8 %	17.4 %	17.7 %	49+
South Korea		56.3 %	49.5 %	49+
Macau	41.0 %*	41.9 %	39.1 %	50+
Pakistan			44.4 %**	49+
Thailand	51.8 %	46.7 %		50+

*1996 figure; **2003 figure

Source: ILO labour statistics database, cited in Lee et al. (2007, pp. 46–51)

Table 14.3 Working hours and flexibility (2002)

Country/ gender	Length of working hours (weekly hours in the main job)	Flexibility over daily schedule. (Workers can start work late or leave early if needed without losing pay. The scores range from 1 'absolutely yes', to 0 'absolutely no'.)	Overwork. (This is a feeling of overwork with scores ranging from 2 'often', to 1 'sometimes', to 0 'never'.)
<i>Australia</i>			
Male	45.8	0.46	1.05
Female	29.3	0.74	0.77
<i>Malaysia</i>			
Male	49.1	0.48	0.70
Female	44.6	0.51	0.74
<i>Philippines</i>			
Male	45.4	0.43	1.14
Female	45.6	0.54	1.02

Source: Adapted from ILO survey on work and family, 2002, cited in Lee et al. (2007)

In general, workers in developing countries prefer to work longer hours so as to ensure desirable living conditions. Reducing working hours is extremely difficult and only feasible if it can actually enhance productivity and competitiveness. Malaysia is a successful example. The tripartite National Labour Productivity Advisory Council has produced guidelines on introducing productivity-linked wages. These guidelines are supported by a human resources fund for investing in training for productivity improvement (Lee et al. 2007, p. 124). However, the introduction of flexitime has not been fully explored in many other Asian countries, even though it has significant possibilities for enhancing productivity and developing decent working conditions.

5.2 OECD Experiences of Asia

Enterprises in the global market need to perform better in order to cope with the changing external context. Flexitime arrangements could enhance the overall performance of enterprises, although productivity is not necessarily improved in all cases (Flanagan 2006). OECD studies have

suggested the following outcomes following the introduction of new working-hours arrangements. Flexitime and reduced working hours can enhance work–life balance and have positive effects on employee attitudes and morale. Such arrangements can reduce absenteeism and staff turnover. However, some flexible arrangements such as overtime and unusual working hours, including night, weekend, and shift work, may have negative effects. It is pointed out that flexitime arrangements bring benefits only when workers' preferences and choices are taken into consideration.

Options for working hours would be a good alternative at this point. They allow employees to choose a work–life balance according to their needs. Work efficiency is improved through internal flexibility and the adaptation of work organisations. Options for working hours are likely to be supported by socio-economic, demographic, and cultural changes, and by public and non-public pressures in line with the promotion of a work–life balance.

An OECD study (cited in Evans 2001) lists the following factors as the positive side of flexible working-hours arrangements: lower staff turnover; reduction of stress; better recruitment possibilities; greater diversity; greater overall flexibility in deploying staff; customer-oriented improvement of the public image of the company; and the dissemination of 'ethical investment'. However, there are also negative points such as: bearing costs; direct costs; space enlargement; training costs; supervision costs; disruption caused by temporary absences; administrative costs; and other adjustment costs.

Empirical studies tend to support the positive effects of work–life balance practices. A survey of 732 medium-sized manufacturing companies in the USA, France, Germany, and the UK found that work–life balance practices lead to higher productivity and better working conditions for employees (Bloom and Van Reenen 2006). A recent ILO study (Lee et al. 2007) suggested that shorter working hours and flexitime arrangements would benefit enterprises by increasing productivity per hour or per unit in industrialised and developing countries.

The reduction of working hours in the informal sector is not well documented, but the lack of good employment relations is a cause of long working hours in this sector. At the same time, the interaction of

wages and working hours are pivotal issues. It is not possible to reduce working hours if workers only earn subsistence wages. Anxo (2004) pointed out that decent working-hours arrangements need to fulfil five interconnected criteria, namely:

- (1) the preservation of health and safety;
- (2) being ‘family-friendly’;
- (3) the promotion of gender equality;
- (4) the enhancement of productivity; and
- (5) the facilitation of worker choice and influence over working hours.

Relevant legislation and collective agreements with workers’ representatives in order to secure a working hours framework with unanimous effect are necessary in order to realise reduced working hours in developing countries. In the Republic of Korea, for example, the use of flexible working-hour systems must be preceded by an agreement between employers and workers’ representatives (Lee et al. 2007, p. 126).

5.3 Improving Hourly Productivity through Shorter Working Hours

Recent experiences pertaining to the introduction of flexitime working hours at the workplace have exhibited the growing potential of synergy effects caused by shorter working hours and higher productivity.

Reduction in working hours has been one of the oldest concerns related to working conditions. In the early nineteenth century, it was acknowledged that working long hours took a toll on the health of the workers and well-being of their families. For example, the ILO standards on working time, adopted in 1919, limited hours of work and provided for adequate rest periods for workers. Since then, the ILO has added standards on working time to provide a framework for regulated hours of work, daily and weekly rest periods, and annual holidays. The ILO states that these standards have had positive effects in terms of higher productivity while safeguarding workers’ physical and mental health.

The concept of productivity can be considered in various contexts, such as labour productivity, capital productivity, and total factor productivity. Productivity can be recognised as a wide social concept. In 1958, the European Productivity Agency described the concept as follows: ‘Productivity is, above all, an attitude of mind. It seeks to continually improve what already exists. It is based on the belief that one can do better today than yesterday and better tomorrow than today.’ This phrase has often been quoted as a basic approach to the successful application of the productivity improvement movement during the periods of high economic growth in Japan.

Today, issues related to working hours are often discussed in the context of work–life balance. Lockwood (2007) suggests that work–life balance is an important lever for employee engagement, which will contribute towards improvement in productivity. The debates on work–life balance are moving from the negative side of conflict between work and life to the positive side of enrichment between work and life.

Therefore, the approach of reducing working hours should be espoused at the workplace in a harmonious and flexible manner, which sustains work–family enrichment for the employees. It would result in better employee engagement and higher productivity. Flexible working times and shorter working hours based on social dialogue, coupled with employee engagement, can improve hourly productivity.

6 Corporate Strategies and Living and Working Conditions

6.1 Shared Values

Enterprises should endeavour to increase productivity and competitiveness under conditions of sustainable development. One question is how to attain this goal while improving working conditions. The extensive external changes in Asia now require a new strategy: an internal fit which represents the alignment of working conditions and practices and an external fit between internal management and the external environment in order to

produce a new strategic approach to working and living conditions. In the globalising economy, there is ample evidence that competitive enterprises in international trade have superior working conditions (Flanagan 2006).

Another question is how to implement corporate strategies in society. Companies cannot do this without a business-enabling environment. Porter and Kramer, (2006) stressed the importance of integrating business and society, a circumstance which is increasingly important to competitive success. His paper suggested that investments in a competitive context create shared value in local communities through the value chains. In this regard, he introduced the case of Nestlé's involvement in an Indian city which has a significantly higher standard of living than the surrounding area. This model has also been applied in Thailand and, most recently, in China.

6.2 Productivity and Competitiveness

Productivity is an important source of a company's competitiveness. Above all, labour productivity improvement is a key component of a company's competitive advantage (Pfeffer 1998). Needless to say, corporate strategy's priority is to create competitive advantage in order to survive in business. The management of the human resources of a company, alongside the management of various other resources, should be aligned with improvements in labour productivity. In the Asian context, the potential contribution of human resources would be enormous if synergetic interaction between business and society could become an incremental spiral though labour productivity in internal and external enterprises.

Generally speaking, labour productivity can be increased by the improvement of worker inputs, including:

- (1) investment in people;
- (2) better workplace practices based on better working and living conditions; and
- (3) labour relations at the workplace.

First, productivity and the quality of labour input can be improved through HRD. Skill development plays a critical role in improving the

quality of human capital. One restrictive problem of training is that the return on investment takes time and there is a risk of underutilisation of the acquired skills. Thus, the effectiveness of training depends on external conditions. In this sense, the improvement of human capital cannot be undertaken by a single company alone.

Three major actors have stakes in HRD: civil society (including the government and local communities); businesses; and individual workers. HRD needs a fundamental investment in basic education, health care, and physical infrastructure. This investment has been regarded as the task of public authorities, but businesses have also started to work with people, not only within companies but also in the communities which they serve.

At the same time, companies have strengthened their relations not only with local communities but also with other business entities. As Porter (1990) proposed, forming industrial clusters strengthens competitiveness. The example of industrial clusters in South Asia is evident. HRD can be facilitated by collective action within an industrial cluster. The fundamental concepts in cluster theory emphasise the added advantages of trust formation, information sharing, and networking. Skill development in value chains is also promoted in global supply chains. The effort of making links through supply chains is promoted by multinationals and international organisations. Thus, a corporate strategy to improve the quality of human capital largely depends on externality: business has to work with external actors in, and for, a synergistic effect. Diversified non-profit entities in Asia, including religious groups, could be promising partners for community development.

Second, in addition to human capital investment, progressive workplace practices based on good working conditions can also enhance productivity. Here is a list of key work environment and organisational factors which are conducive to productivity improvement (ILO 2007a):

- decent standards of living and economic security;
- leadership which values employees;
- safe and healthy working environments;
- mutual trust between employers and employees;
- participation in decision making;
- encouragement of initiative and creativity;

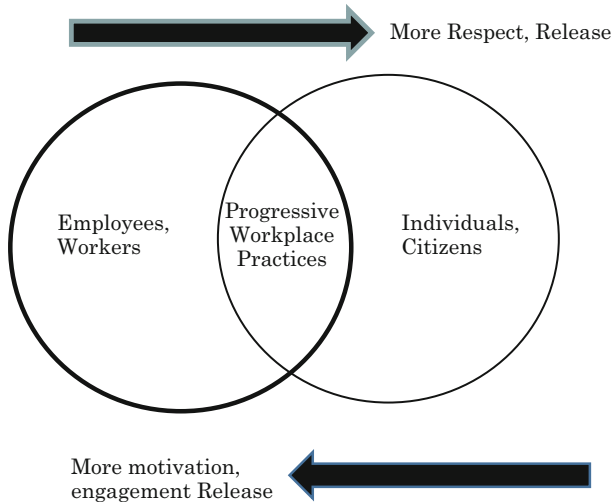


Fig. 14.3 Concept of progressive workplace practices

- supportive supervision at all levels;
- opportunities to use and develop skills; and
- work–life balance.

The ILO report puts decent standards of living and economic security in first place and acknowledges the interconnectedness between working conditions and living conditions. These factors signify an approach which respects the potential of workers and their release from their subordinate role as employees to a more independent and self-regulating status. Partnership on an equal footing creates a symbiotic relationship for mutual benefit. Figure 14.3 shows a conceptual mechanism which explains why these factors contribute to productivity improvement through elevated motivation and commitment to work and organisation. Intangible rewards should be explored in the Asian context in order to attract capable workers.

Third, labour relations can be a critical factor which is conducive to productivity improvement. This factor is included in progressive workplace practices but should be considered separately. An ILO case study has shown that some successful enterprises can increase productivity through

low-cost methods which involve improvements in job quality, such as cooperative work practices (Vandenberg 2004). Indeed, cooperative labour relations correlate with productivity improvement and can result in lower employee turnover, higher sales growth, customer satisfaction, and total shareholder return (Kaplan and Norton 2001). Innovation arising from active employee involvement leads to higher competitiveness. In addition, collective bargaining and social dialogue between employers and workers contribute to an equitable distribution of benefits, resulting in productivity improvement. Here again, partnership creates symbiotic benefits. The Asian way of social dialogue may be more collaborative and harmonious in comparison with the Western way of social dialogue.

Because CSR is becoming a focus of attention in the discussion of sustainable development, businesses have started to consider the social, human, and ethical impact of their corporate activities. However, it takes time to see a return on this investment. Managers have to take a long-term perspective in order to reap tangible benefits. Social responsibility helps ensure that virtually every quality of a successful company emerges over time, thereby greatly increasing a company's chances of long-term success (Reder 1994).

Enterprises can take the 'high road' which involves caring about their workers and local communities while attaining higher productivity and competitiveness. The 'race to the top' spiral is more sustainable with good working and living conditions in society. Companies must avoid taking the 'low road' along which they exploit workers and exercise market power in order to make profits, a situation which leads to a 'race to the bottom' spiral with degraded working and living conditions. Sustainable development for business in Asia needs a high road which heads towards a pole of excellence with strong competitiveness and decent working and living conditions.

6.3 SMEs with High Productivity and Working Conditions

Better working conditions can be regarded as an important base for better productivity. However, there are no clear correlations between the size of the enterprise, productivity, and working conditions.

The scale of productivity is measured as a value added at the company level and the individual employee level. Value added at the company level can be influenced by various factors such as efficient management and workplace practices, skills and engagement of employees, constructive labour–management relations, capital factors, research and development (R&D), production methods, and technological factors. Working conditions can be regarded as indirect factors that affect the direct factors, such as the skills and engagement of employees, and constructive labour–management relations. Thus, the aspect of working conditions forms the basis for better productivity.

Many cases exist of smaller companies with more favourable working conditions and higher productivity. A key question for a company to ask is whether less favourable working conditions would impede the basis for improving productivity and strengthening competitiveness. It is a question for all companies regardless of their size.

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