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The Recent Transformation of Participatory Employment Practices in Japan

Takao Kato

2.1 Introduction

This paper presents findings from our most recent research on the transformation of participatory employment practices of Japanese firms in the 1990s, during which the Japanese economy slowed down considerably. The Japanese experience of employee participation and labor-management cooperation appears to be of particular public policy interest for many countries considering participatory employment practices as a way to improve their productivity performance and thus competitiveness.

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

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Probably as a result of these favorable environments in the postwar Japanese economy, particularly in manufacturing, participatory employment practices spread widely and were established firmly (e.g., see Kato and Morishima 2002). Indeed, these practices became the hallmark of "Japanese management," which in recent years has been inspiring (or in some instances necessitating) U.S. corporate experimentation with employee involvement and labor-management cooperation (Levine 1995).

The economic slowdown in the 1990s and a rapidly aging workforce have allegedly been eroding the aforementioned participation-friendly environments. A closer look at the recent Japanese experience with participatory employment practices will help us better understand two key questions regarding participation: (a) What are the conditions under which participatory employment practices are best introduced and best sustained? and (b) in what way will participatory employment practices need to evolve when external environments change? To address these questions, we have been gathering and analyzing both quantitative data from national surveys and qualitative data from our own field research on evolving employment practices in the 1990s. This paper reports the first findings from our analysis of these data on the responses of Japanese firms in their use of participatory employment practices to the economic slowdown in the 1990s.

The paper is organized as follows. In the next section, we provide an overview of the scope, nature, and effects of participatory employment practices in postwar Japan (including quantitative evidence on evolving practices in the 1990s). Section 2.3 presents findings from our field research on the responses of Japanese firms in their use of participatory employment practices to the economic slowdown in the 1990s, and section 2.4 concludes.

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

We first provide an overview of participatory employment practices in Japan, followed by a brief review of the evidence of their effects on firm performance. For a couple of participatory employment practices (joint labor management committees and employee stock ownership plans), our overview also includes quantitative evidence on evolving practices in the 1990s.

2.2.1 Joint Labor-Management Committees: Employee Participation and Involvement at the Top

One of the core mechanisms for labor-management relations within a large Japanese firm is joint labor-management committees (JLMCs). Established at the top (corporate or establishment) level and involving both management and union representatives, JLMCs serve as a mechanism for employee participation and involvement at the top level on a large variety of issues ranging from basic business policies to working conditions.

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

According to Shimada (1992), JLMCs were one of the many labor-management institutions proposed at the beginning of 1950s by the Japan Productivity Center. After a decade of tumultuous labor-management relations between 1945 and 1955, Japanese unions and management, with the endorsement from the central government, began to implement a number of well-known human resource management techniques, including JLMCs and semiannual bonus payments to all employees. According to Kato and Morishima (2002), in 1960 about 38 percent of all firms, including both manufacturing and nonmanufacturing firms (close to 50 percent for manufacturing), had standing JLMCs. During the next decade, use of the institution spread rapidly. Thus, by 1970 the figure had risen to close to 60 percent (70 percent for manufacturing). For the next two decades the use of this institution increased steadily and, as of 1992, fully 80 percent of all firms (nearly 90 percent for manufacturing) reported to have standing JLMCs.

Many observers attribute the peaceful firm-level labor relations observed in Japanese firms to the establishment of JLMCs (Shimada 1992; Inagami 1988). Within JLMCs, which meet almost once a month, a number of issues are discussed, ranging from basic business policies to social and athletic activities sponsored by the firm (see Kato and Morishima 2002).

Finally, we have been collecting and analyzing quantitative data from recent national surveys on the transformation of JLMCs in the 1990s. We present the first findings from our analysis of such data. The *Survey of Labor-Management Communications* conducted in 1995 by the Ministry of Labor provides the most recent aggregate data on JLMCs. The same survey was conducted also in 1988 by the ministry. Using various cross tabulations published from the 1995 survey as well as those from the 1988 survey, we produced figure 2.1 and tables 2.1 and 2.2.

First, figure 2.1 shows how the proportion of establishments with JLMCs has changed from 1988 to 1995. For all establishments (labeled "total" in the figure), the proportion of those with JLMCs has not fallen significantly over this time period, remaining a little below 60 percent.[1] In

1. This figure is substantially lower than what Kato and Morishima (2002) report. The sample universe of the survey conducted by Kato and Morishima was the Toyo Keizai Kaisha Shiki Ho, which provides a list of all firms listed on Japan's three major stock exchanges (Tokyo, Osaka, and Nagoya). The *Ministry of Labor Survey* is, however, an establishment-

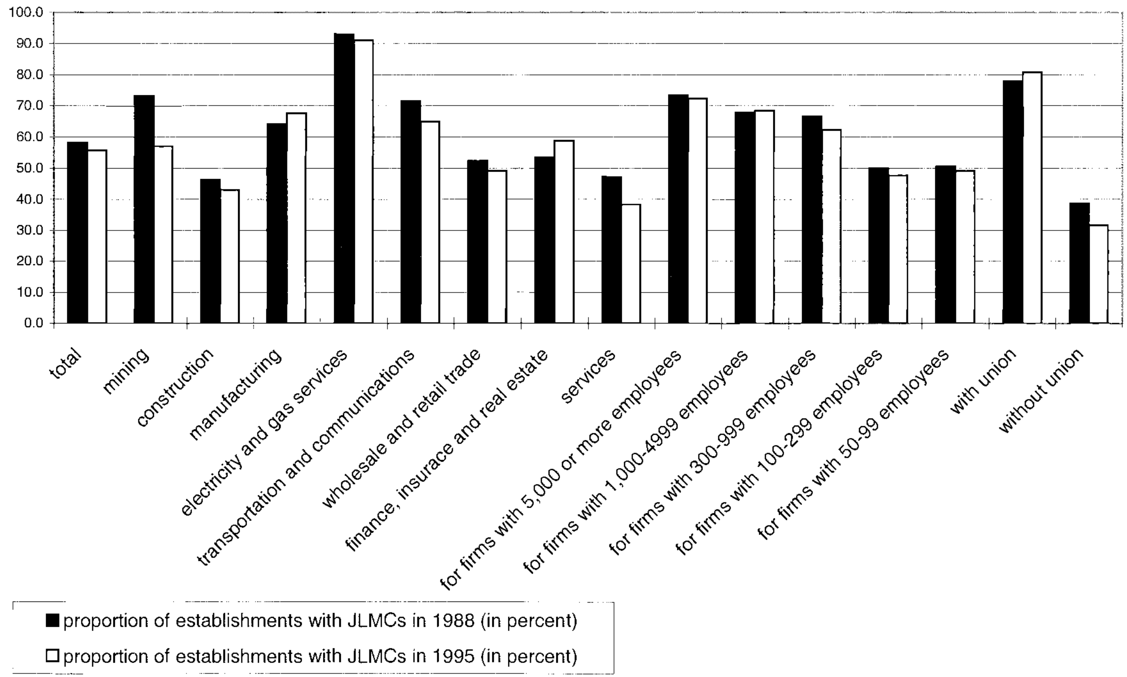

Fig. 2.1 Proportion of establishments with JLMCs in 1998 and 1995

Table 2.1 **Average Number of JLMC Meetings per Year and Average Number of Special Subcommittees in 1988 and 1995 for Establishments with Varying Characteristics**

	Average Number of Meetings per Year		Average Number of Special Subcommittees	
	1988	1995	1988	1995
Total	14.2	9.1	3.3	2.8
Mining	5.9	6.6	3.4	2.7
Construction	8.3	7.8	2.8	2.5
Manufacturing	12.5	9.3	3.8	2.7
Electricity and gas services	25.0	18.7	2.8	3.1
Transportation and communications	25.0	11.4	2.4	2.8
Wholesale and retail trade	9.9	8.1	3.7	3.3
Finance, insurance, and real estate	10.8	6.4	3.0	2.5
Services	7.4	8.1	3.4	2.4
For firms with 5,000+ employees	21.3	12.4	3.2	3.2
For firms with 1,000–4,999 employees	10.6	8.7	3.8	3.7
For firms with 300–999 employees	10.3	10.1	3.5	3.0
For firms with 100–299 employees	8.7	7.6	2.2	2.5
For firms with 50–99 employees	7.1	7.9	2.2	1.8
With union	15.4	9.8	3.3	3.1
Without union	7.7	7.2	2.7	1.8

Sources: Japan Ministry of Labor (1988, 1995).

other words, overall, the economic slowdown in the 1990s in general and the recent banking crisis in particular have not caused any significant dismantling of JLMCs.[2]

Conceivably, the adverse shock might have hit certain sectors of the economy particularly hard, and for those hard-hit sectors the dismantling of JLMCs might have begun. To see if this is indeed the case, we repeated the same analysis for establishments in different industries, establishments of firms of differing size, and establishments of firms with and without unions. As shown in the figure, the proportion of establishments with JLMCs has declined noticeably for mining, services, transportation, and communications, and for nonunion sectors (although it is still premature

level survey and the sample universe in all establishments with more than thirty workers. It follows that the *Ministry of Labor Survey* includes many establishments of small private firms that are not included in the sample universe of the survey conducted by Kato and Morishima. This probably accounts for the discrepancy. Fortunately, the *Ministry of Labor Survey* also reports the proportion of establishments with JLMCs for establishments of unionized firms that are probably closest to the sample universe of Kato and Morishima. Reassuringly, the figures for those establishments were very close to those Kato and Morishima report.

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

Table 2.2 **Changes in Varying Attributes of JLMCs from 1988 to 1995**

	With Union (%)		Without Union (%)	
Attribute of Establishments with JLMCs	1988	1995	1988	1995
Discusses corporate restructuring	65.4	60.3	48.0	55.9
Discusses hiring and staffing	54.0	51.8	44.7	52.1
Discusses transfer of employees	65.0	66.5	45.1	53.8
Discusses layoff	67.3	71.8	51.2	59.0
Discusses mandatory retirement	71.4	75.8	67.0	60.9
Discusses severance pay or pension	67.9	74.2	61.4	56.8
Establishments with JLMCs that discuss each issue				
Asks employee representatives for prior consent on corporate restructuring	6.1	6.6	6.8	7.0
Asks employee representatives for prior consent on hiring and staffing	7.0	5.7	8.4	5.5
Asks employee representatives for prior consent on transfer of employees	15.4	16.0	19.4	4.0
Asks employee representatives for prior consent on layoff	26.2	34.6	22.8	12.2
Asks employee representatives for prior consent on mandatory retirement	31.8	37.2	31.2	12.1
Asks employee representatives for prior consent on severance pay or pension	33.3	38.6	17.2	9.7
Unionized establishment, union representatives participate as employee representatives	88.1	91.4		
Nonunionized establishment, employee representatives elected by employees			75.2	78.1

Sources: See table 2.1.
Note: Establishments with JLMCs, with or without unions.

to consider this an early sign of the crumbling of JLMCs for these sectors).

The absence of evidence for the formal dissolution of JLMCs is probably not too surprising since, if they decided to end JLMCs, Japanese firms would likely make them dormant by changing their attributes (e.g., reducing the frequency of meetings drastically and trivializing the content of information shared) rather than formally dissolving them. To this end, we created tables 2.1 and 2.2, which demonstrate whether various attributes of JLMCs have changed from 1988 to 1995—and if so, in what way.

Table 2.1 shows the average number of JLMC meetings per year and the average number of special subcommittees in 1988 and 1995. For all establishments, the frequency of JLMC meetings fell substantially from fourteen times a year to nine times a year over the time period. It appears that when news is consistently bad, JLMCs meet much less frequently. The figure also points to considerable differences among sectors. Thus, JLMCs in transportation and communications held JLMC meetings twenty-five times a year in 1988 but only eleven times a year in 1995. The frequency of JLMC meetings in finance, insurance, and real estate has also decreased sharply, from eleven times a year in 1988 to only six times a year in 1995. JLMCs in larger and unionized firms experienced a sharper drop in the frequency of meetings from 1988 to 1995.

Case histories of Japanese JLMCs suggest that JLMCs tend to function well with a number of special subcommittees, such as a special subcommittee on productivity and a special subcommittee on safety and health (Japan Productivity Center 1990). As table 2.1 shows, the average number of special subcommittees for all establishments has declined somewhat from 3.3 in 1988 to 2.8 in 1995. Some differences among sectors are also present. Manufacturing, services, and nonunion sectors experienced larger decline.

A possible way to weaken information-sharing is to undermine the democratic process of selecting employee representatives. In unionized establishments, the democratic selection of employee representatives is typically ensured by union representatives participating in JLMCs as employee representatives. In nonunion establishments, it is normally ensured through election by employees. The last two rows of table 2.2 show the proportion of unionized establishments with JLMCs in which union representatives participate in JLMCs as employee representatives in 1988 and 1995, and the proportion of nonunion establishments with JLMCs in which employee representatives are elected by employees in 1988 and 1995. We failed to find any sign of erosion of the democratic selection of employee representatives over this time period.

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

We selected six issues that are of particular relevance to the economic slowdown in the 1990s, especially the recent economic crisis, and created the rest of table 2.2. The table shows the proportion of unionized establishments with JLMCs that discussed each of these six issues (corporate restructuring, hiring and staffing, transfer of employees, layoffs, mandatory retirement, and severance pay and pension) in 1988 and 1995. It also shows the same figures for nonunionized establishments. In addition, the table shows the proportion of union and nonunion establishments with JLMCs discussing each of these six issues that asked employee representatives for prior consent in 1988 and 1995.

For both unionized and nonunionized establishments, JLMCs are more likely to discuss transfer of employees and layoffs in 1995 than in 1988. For unionized establishments, JLMCs are more likely to discuss mandatory retirement and severance pay or pension in 1995 than in 1988, while they are less likely to discuss corporate restructuring and hiring and staffing in 1995 than in 1988. The opposite pattern is observed for nonunionized establishments. Overall, it is unclear whether JLMCs are more or less likely to discuss issues of topical relevance in 1995 as compared to 1988.

Nevertheless, when one takes a close look at the nature of consultation on each of these six issues, a noteworthy difference between unionized and nonunionized establishments is revealed. As shown in table 2.2, JLMCs of unionized establishments discussing transfer of employees, layoffs, mandatory retirement, and severance pay or pension are more likely to ask employee representatives for prior consent in 1995 as compared to 1988. In stark contrast, JLMCs of nonunionized establishments discussing transfer of employees, layoffs, mandatory retirement, and severance pay or pension are much less likely to ask employee representatives for prior consent in 1995 as compared to 1988. This contrast in the changing nature of consultation over this time period between unionized and nonunionized establishments may suggest that unions effectively prevent JLMCs from becoming dormant by keeping the strong consultative role of JLMCs, whereas for small to medium-sized firms with no union, such role may be weakening. As such, unions and JLMCs may be complements rather than substitutes. At the same time, it suggests that the overall importance of participation in the Japanese economy may be diminishing with the rising proportion of the nonunion sector in the economy.[3]

2.2.2 Shop-Floor Committees and Small-Group Activities: Employee Participation and Involvement at the Grassroots Level

Aside from JLMCs and formal trade unions, many Japanese corporations have shop-floor committees (SFCs) in which supervisors and employees on the shop floor discuss issues such as shop-floor operations and shop-floor environments. Although the potentially important role of SFCs

3. According to the *Basic Survey on Labor Unions* (Japan Ministry of Labor), the estimated unionization rate (the number of union members divided by the number of employees) has been falling in the last three decades, from 35 percent in 1970 to 22 percent in 1999.

in the Japanese industrial relations system has been suggested (e.g., see Koike 1978), the nature and scope of these SFCs have not been studied extensively, largely due to the absence of reliable data. A recent survey conducted by Kato and Morishima (2002) reveals that the average SFC meets about nine times a year (slightly less frequently than JLMCs), and that information shared during the SFC meetings tends to go beyond standard shop-floor issues—such as safety and health, fringe benefits, training and development, and grievances—and includes business and strategic plans. As such, SFCs are aimed at employee participation and involvement at the grassroots level.

Kato and Morishima (2002) also reveal the diffusion of SFCs among Japanese firms in the postwar era. In 1960, a little over 10 percent of all firms including both manufacturing and nonmanufacturing firms (15 percent for manufacturing) each had a standing SFC. Since then, the institution spread steadily; in 1992 more than 40 percent of all firms reported having standing SFCs (45 percent for manufacturing firms).

Small-group activities (SGAs) are those such as quality control (QC) circles and "zero defects" in which small groups at the workplace level voluntarily set plans and goals concerning operations and work together to accomplishing these plans and goals. The widespread use of SGAs such as QC circles by Japanese firms is, by now, quite well known (e.g., see Cole 1989). In 1950 almost no firms (only 3 percent) used SGAs. In 1960 only 6 percent of publicly traded firms had SGAs. The rapid diffusion of the institution began in 1960s. By the beginning of 1970s, about one in four publicly traded firms were practicing an SGA, and the figure reached 44 percent in 1980. Since then the institution has grown steadily; in 1993, 70 percent of publicly traded firms reported practicing SGAs (Kato 1995).

Small-group activities are clearly more popular among larger firms (80 percent of firms with 5,000 or more employees practice SGAs as opposed to 43 percent of firms with 299 or fewer). Moreover, SGAs are more widespread in the unionized sector (Kato 1995).

2.2.3 Employee Stock Ownership Plans: Financial Participation via Stock

Japanese employee stock ownership plans (ESOPs) are perhaps best understood by comparison of their main features with the better-known U.S. ESOPs. Unlike U.S. ESOPs, Japanese corporations establishing ESOPs (called *mochikabukai*) do not receive any tax incentive to do so. To induce individual employees to participate in the ESOPs, companies offer subsidies (typically the firm matches each employee's contribution by giving 5 to 10 percent of the contribution as well as bearing the administrative costs). Whereas ESOPs elsewhere frequently are structured so as to encourage strong participation by top management, in Japan executives (as well as part-time and temporary employees) are normally ineligible for membership. As is the norm elsewhere, individual participants' shares (and dividends) in the ESOP are held in trust. Unusually, however, each participant has a right to withdraw his or her shares, and share withdrawals are privately owned. Withdrawals are permitted only in 1,000 shares, round lots. While members may freely exit completely from the ESOP, reentry is restricted. Exiting employees will receive their shares in 1,000 shares, round lots, and must sell the remaining shares to the trust at the prevailing market price. Upon retirement, model rules adopted by most ESOPs require retiring workers to exit completely from the ESOP. Finally, the general director (*rijicho*) represents stockholders in the ESOP. The general director is chosen by other participants, on a one-participant, one-vote basis. At the general meeting of shareholders, the general director votes the stock held by the plan, deciding independently rather than by tabulating votes of employee participants. The general director must be a participant in the ESOP and thus is not an executive (Jones and Kato 1993, 1995).

The survey conducted by Kato and Morishima (2002) shows that the ESOPs are a relatively new and the most rapidly spread innovation among various Japanese human resource management practices. Thus, in 1960 the proportion of firms that had ESOPs was only 4 percent. The proportion grew rapidly during the next decade, reaching 26 percent by 1970. In 1967, a special government committee on foreign capital advocated employee ownership as a way to help prevent foreign takeovers of domestic firms. The government, using informal channels, encouraged firms to set up new ESOP trusts to accommodate employee investments in their stock. While the fear of foreign takeovers diminished in the 1970s, the idea of employee ownership took root. Perhaps partly due to this government initiative of 1967, the 1970s were characterized by an astonishing rate of spread of the institution, and more than two-thirds of firms came to have ESOPs by 1980. The diffusion continued even after 1980, and in 1992 it became almost a universal phenomenon (96 percent of firms reported to have ESOPs in that year, and there is no significant difference between manufacturing and nonmanufacturing firms).

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

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

Finally, we have been collecting and analyzing quantitative data from recent national surveys on the transformation of ESOPs in the 1990s. The

National Conference Board of Securities Exchanges has been conducting annually the *Survey of Stock Distribution* to which *all* firms listed on Japan's stock exchange markets respond. The National Conference Board has recently released summary tables from their 1997 survey. Using these most recently published summary tables as well as earlier tables, we created figure 2.2.[4]

In the 1980s, the share prices of most large corporations in Japan rose steadily. It is not too surprising under such steady growth of corporate profitability that ESOPs gained increasing popularity in Japan. Thus, as shown in figure 2.2, both the proportion of firms with ESOPs and the ESOP participation rate (the proportion of the labor force employed by firms with ESOPs and participating in those ESOPs) grew steadily in the 1980s. Moreover, the real market value of outstanding shares owned by ESOPs more than quadrupled and the real market value of outstanding shares owned by ESOPs per participant (the real value of the average stake) more than doubled in the 1980s. The National Conference Board also published the average price of shares owned by ESOPs (the market value of outstanding shares owned by ESOPs divided by the total number of shares owned by ESOPs). The real value of this average price tripled in the 1980s.

The steady growth of share prices ended rather abruptly at the end of the 1980s. For instance, the average firm listed on the Tokyo Stock Exchange lost more than half its value in the early 1990s (Kang and Stulz 1997). Reflecting this rapid asset price deflation in the early 1990s, the real market value of outstanding shares owned by ESOPs, the real value of the average stake, and the real value of the average price of shares owned by ESOPs fell sharply in the early 1990s. As shown in figure 2.2, recovery from this sharp drop has been anemic.

A natural question concerning the responses of ESOPs to this seemingly powerful adverse shock is whether this shock has been discouraging employees from participating in ESOPs. Figure 2.2 shows a surprisingly calm response of the labor force in firms with ESOPs. The ESOP participation rate has not fallen in any significant way in the 1990s although its steady increase in the 1980s did stop in the 1990s: The ESOP participation rate rose in the 1980s by 9 percentage points, from 40 to 49 percent, and has remained at the 49 percent level in the 1990s. It is unclear, however, whether the stagnation of the participation rate in the 1990s was caused by the adverse financial shocks. At any rate, there has been no sign of a frenzied exit of participants from ESOPs in response to the adverse financial shock in the 1990s.

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

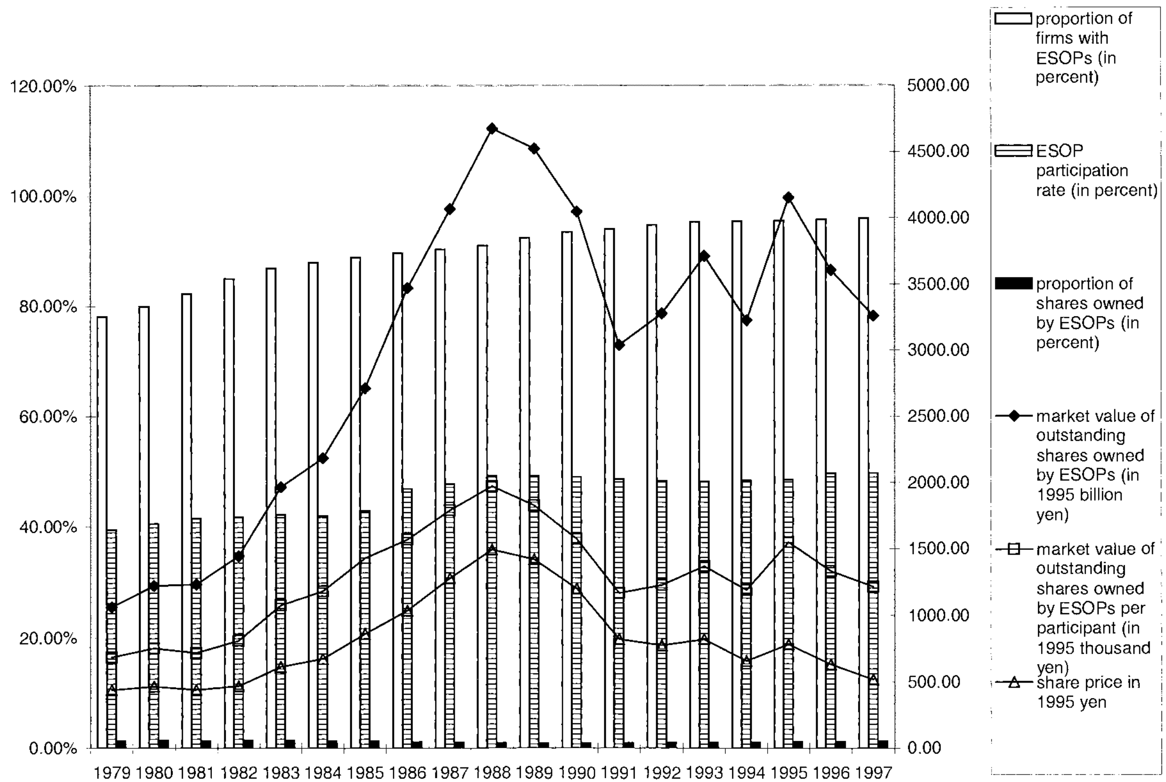

Fig. 2.2 ESOPs in Japan: 1979–1997

Consistent with this relatively calm employees response, very few employers have terminated their ESOPs in response to the adverse financial shock. Thus, as shown in figure 2.2, the proportion of firms with ESOPs has not fallen in the 1990s and ESOPs have continued to be a nearly universal phenomenon among publicly traded firms in Japan (95 percent of all publicly traded firms have ESOPs).

Overall, it appears that neither employees nor employers have panicked in the face of the adverse financial shock in the 1990s. In addition to the summary table for all publicly traded firms, the National Conference Board publishes the summary table for two-digit industries. Conceivably, the adverse shock might have hit certain industries particularly hard, and for those hard-hit industries, many ESOPs might have been terminated and the ESOP participation rate might have fallen significantly. To see if this is the case, we repeated the same analysis for each of 28 two-digit industries. We failed to find any noteworthy example of such industries.

2.2.4 Profit-Sharing Plans: Financial Participation via Bonus

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

According to Kato and Morishima (2002), one in four publicly traded firms had a PSP in 1993 (with no appreciable difference between manufacturing and nonmanufacturing firms). The proportion of publicly traded firms with PSPs was only 5 percent in 1960 and grew steadily to 14 percent by 1980. Significant growth occurred during the 1980s, however, with the proportion of publicly traded firms with PSPs reaching more than 20 percent by 1990.

Profit-sharing plans are found to be more prevalent in smaller firms. For instance, the proportion of publicly traded firms with 5,000 or more employees and having any PSP was only 11 percent. The large majority (70 percent) of firms with PSPs reported separate profit-sharing plans for officers and nonofficers. However, Japanese PSPs do not normally distinguish between union and nonunion members (only one-third of firms with PSPs reported separate PSPs for union and nonunion members). Profit-sharing plans are mostly company-wide, with only 12 percent of firms with PSPs reporting separate plans for different divisions and occupations. Moreover, nearly all Japanese PSPs (98 percent) are cash plans, which is in sharp contrast to the United States where deferred plans are more popular (see Kruse 1993, 16–17). Because they are almost always cash plans, Japanese PSPs have no tax advantage (Kato and Morishima 2002).

Kato and Morishima (2002) also report that the majority (55 percent) of Japanese PSPs lack set formulas (or are fully discretionary) for how the contribution should be tied to profits, which is also in contrast to PSPs in the United States, where only 22 percent are fully discretionary (Kruse 1993, 75).

2.2.5 Evidence on Their Effects

In spite of the importance of the postwar Japanese experience with participatory employment practices, there has been little systematic investigation of the economic effects of participatory employment practices in Japan.[5] For the economic effects of financial participation, the Japanese bonus payment system has attracted considerable attention and controversy, in particular the claim that it is a form of PSP. Earlier studies focused on the effects on employment of the Japanese bonus payment system (e.g., see Freeman and Weitzman 1987 and Brunello 1991). More recent studies turned to the issue of the productivity effects of the Japanese bonus payment system. Jones and Kato (1995) use firm-level panel data to find that there is a modest productivity gain from the bonus system. Ohkusa and Ohtake (1997) find that firms with statistically significant positive correlation between their wages and per capita profits are 9 percent more productive than firms with no such correlation. For ESOPs, Jones and Kato (1995) use firm-level panel data to find that the introduction of an ESOP will lead to a 4 to 5 percent increase in productivity and that this productivity payoff does not appear immediately.

For the economic effects of information sharing at the top level, Mor-

5. For U.S. corporations, however, we are presently witnessing an impressive growth of evidence. See, for example, Ichniowski, Shaw, and Prennushi (1997), Black and Lynch (2001), Freeman and Kleiner (1998), Helper (1998), Bartel (2000), Freeman and Kleiner (2000), and articles featured in a special issue of *Industrial Relations* (July 1996, vol. 35). Many of these recent studies in the United States use plant-level (branch-level) panel data within a narrowly defined industry. The benefits of using such data are probably less dramatic for Japan than for the United States since Japanese firms generally are substantially smaller (e.g., see Kato and Rockel's 1992 comparative study of the 1,000 most valuable corporations between the two nations), and their management appears to be less decentralized than that of U.S. firms. Based on our interviews with managers in human resources at the corporate level and top managers in marketing/sales and accounting/finance at the business-unit level of Japanese and U.S. corporations, the power of human resource departments at the corporate level relative to top management at the business-unit level appears to be much stronger in Japan than in the United States. In addition, as Jones and Kato (1995) and Kato and Morishima (2002) show, there are substantial lags (up to seven years) in the productivity effects of participatory employment practices in Japan. Plant-level data seldom provide long longitudinal data and thus may not be as useful in the context of the postwar Japanese experience as in the context of the current U.S. experimentation.

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

Finally, Kato and Morishima (2002) find evidence of the importance of introducing groups of participatory employment practices in the following three areas: (a) employee participation and involvement at the top level; (b) employee participation and involvement at the grassroots level; and (c) financial participation. Specifically, moving from the traditional system of no participatory employment practices to a highly participatory system with participatory employment practices in all three areas led to a significant 8 to 9 percent increase in productivity. The full productivity effect, however, is felt only after a fairly long developmental phase (seven years). At the same time, they find no evidence for significant productivity gains from changing the industrial relations system from the traditional system to any intermediate systems that lack participatory employment practices in at least one of the three key areas.

In sum, there is evidence for the positive effects of participatory employment practices in Japan in the postwar period, supporting the idea that such practices help align the interest of the firm with the interest of its employees and encourage specific human capital accumulation of employees.[6] In addition, recent findings from Kato and Morishima (2002) suggest that the goal alignment process needs to be supported by both direct methods (financial participation) and indirect ones (information sharing). Furthermore, information sharing needs to take place not only at the top level but at the grassroots level, as well. In other words, the goal-alignment process occurs most strongly when the interests of the two parties are aligned through financial participation and when this interest alignment is facilitated by mechanisms at both the top and the grassroots levels, which curtails parties' opportunistic behavior.

Kato and Morishima's (2002) findings also point to the importance of a long-term perspective in evaluating the success of participatory employment practices. First, it does take time for the goal alignment process to take root. It is highly unlikely that instituting a participatory employment practice will instantly create significant interest alignment of groups of employees with the firm.[7] Furthermore, there is substantial learning by doing

6. See Kato and Morishima (2002) for further discussion on the goal-alignment and human-capital effects of these practices, as well as their complementarity effects.

7. For similar arguments, see Pil and MacDuffie (1996) and Ichniowski and Shaw (1995).

in the evolution of participatory employment practices, which "mature" over time—and only mature participatory employment practices tend to yield significant productivity gains.

2.3 Evolving Practices in the 1990s: Evidence from Field Research

In the summer of 1999, we conducted field research at a number of Japanese firms. We had written them the previous winter, asking them to locate and assemble some specific data on participatory employment practices of their firms and detailing what kind of questions we intended to ask when we visited them that summer.[8] An obvious advantage of field research is that such research allows for more detailed and richer analysis; but there is also an added advantage. The quantitative data from national surveys are usually not available for the latter half of the 1990s. For example, in the previous section, the lack of available data on JLMCs after 1995 forced us to compare 1988 to 1995. Conceivably, the impact of the economic slowdown in general and financial crisis in particular on JLMCs may be felt only after 1995. Our field research from summer 1999 provides the most recent picture of employment practices. Below we present a number of key findings from the field research.[9]

2.3.1 The Quantity and Quality of Information Shared During JLMC Meetings

In general, our field research provides very little evidence for reduction in the quantity and quality of information shared through JLMCs in the 1990s.

Firm A is a large manufacturing firm with sales of more than 3 trillion yen (nearly half of which is export sales) and employment of close to 40,000 workers in 1998. It is listed in the first section of the Tokyo Stock Exchange. In the 1990s the firm's performance worsened substantially and became much more volatile. It cut 30 percent of its labor force throughout the 1990s, from about 57,000 to about 40,000. The corporation consists of eleven establishments.

On 10 June 1999 we visited the headquarters of firm A. We met with the personnel manager, our primary interviewee, in the personnel department. The interview lasted about four hours. The manager's young subordinate

8. We asked Professor Koike of Hosei University, Mr. Nakashima and Mr. Koike of Rengo-Soken (RENGO Research Institute for Advancement of Living Standards), and Mr. Fukutani of JPC-SED to introduce us to more than a dozen large Japanese firms, including both manufacturing and nonmanufacturing. We wrote all of these firms to which they introduced to us. In our letters, we asked them to collect specific data on their participatory employment practices, and explained what sort of questions we planned to ask when we visited them. All of the firms we wrote agreed to cooperate with us fully. In addition, Professor Fujimura of Hosei University introduced us to a medium-sized firm (referred to as firm C later in the text).

9. See Kato (2000) for a more detailed report of the field research.

was also present during the interview and provided some additional information. We had written them several months prior to our visit, asking them to locate and assemble some specific data and detailing what kinds of questions we intended to ask. They took our request very seriously and spent much time and effort to prepare confidential data for us.

On the next day, we visited establishment P of this firm and spent over half an hour observing a number of shop floors of this establishment. We then interviewed a foreman who is in charge of a section (called *kakari*). He reports to department chief (*kacho*) and has six unit chiefs (*kocho*) reporting to him. Each unit consists of about ten to fifteen workers. The foreman had spent over thirty years in this department and was about to be promoted to *kacho*. The interview lasted a little over an hour, focusing on SFCs and SGAs.

On 16 June 1999 we visited firm A's union headquarters and interviewed our primary interviewee (the vice president of the union) for about two hours. We were also given an opportunity to interview his young staff members (full-time union officials) for a little over an hour. Our primary interviewee was the union's number-two person and attended all JLMCs at the headquarters level. Our secondary interviewees worked very closely with him and engaged in the day-to-day activities of JLMCs. Several months prior to our visit, we had also written them a letter similar to the one we had sent to our personnel interviewees, asking them to locate and assemble some specific data and detailing what kind of questions we intended to ask. They, too, took our request very seriously and spent a lot of time and effort preparing confidential data for us.

At firm A, JLMCs existed at least in 1955. Initially, JLMCs were functioning as mechanisms for management to explain their decisions ex post to union representatives. However, due in part to the presence of charismatic and aggressive union leader, JLMCs by 1985 had changed their role from information sharing to joint decision making. For example, during JLMC meetings, union representatives tried to veto management's decision to open a new plant overseas. Following the resignation of the union leader in 1985, the joint-decision-making aspect of JLMCs was significantly reduced in 1986, and the current form of JLMC was established.

JLMCs at the headquarters level of firm A consist of five types of meetings: (a) management council meetings; (b) committee meetings; (c) restructuring meetings; (d) production meetings; and (e) individual item meetings. At management council meetings, six to seven top managers (chief executive officer [CEO], vice-CEOs, and the director of personnel) meet with six to seven top full-time union officials regularly. Each meeting lasts half a day. Business strategies and plans and the current status of corporate performance are discussed. The management council meetings are normally held twice a year. They are scheduled right before spring wage offensive and fall collective bargaining so that they can help facilitate each collective bargaining. There was no major change in the basic framework of JLMCs in the 1990s.

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

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

JLMCs at the headquarters level of firm A have a number of subcommittees, including the subcommittee on production, the subcommittee on employee benefits and welfare, the subcommittee on sales, and the subcommittee on development. Subcommittee meetings on production are held regularly twice a year and are attended by six to seven managers from the production department, domestic sales department, export sales department, and personnel department, and six to seven top full-time union officials. Biannual production and staffing plans are discussed. In addition to production subcommittee meetings, occasionally other subcommittee meetings (such as those of the subcommittee on employee benefits and welfare, the subcommittee on sales, and subcommittee on development) are also held.

Restructuring meetings are held on an ad hoc basis. Decentralization, outsourcing, and plant closures are discussed. Production meetings are also held on an ad hoc basis.[10] Unlike committee meetings on production that discuss the overall framework of employment adjust-

10. Our primary union interviewee and personnel interviewee provided slightly conflicting views on production meetings. According to our personnel interviewee, they are held regularly on a monthly basis. According to the data provided by our union interviewee, as shown in figure 2.3, there were fourteen production meetings in 1998. As far as 1998 is concerned, they were indeed held monthly (actually, slightly more often than monthly). However, in the previous years, it was clear that they met less often than monthly.

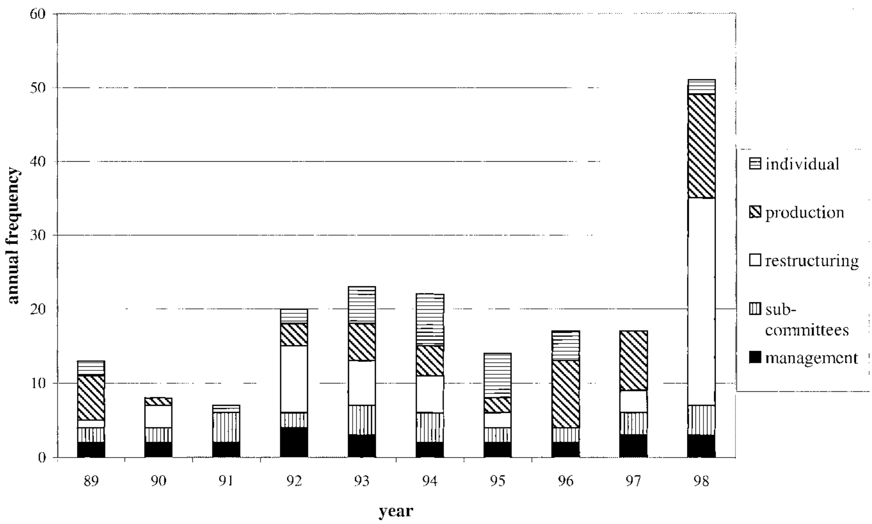

Fig. 2.3 Changes in the frequency of JLMC meetings at the headquarters level over time: Firm A

ments, production meetings deal with actual employment changes in response to changes in output demand. Individual item meetings are held also on an ad hoc basis to discuss items other than what is covered in other meetings.

There is no evidence for reduction in the quantity of information shared through JLMCs in the 1990s. First, there has been no apparent decline in the frequency of meetings in the 1990s. As shown in figure 2.3, the total number of JLMC meetings at the headquarters level reached twenty per year in 1992 and kept exceeding twenty until 1995. The number fell a little for the next three years. This is somewhat consistent with our national survey finding of a declining meeting frequency from 1988 to 1995, as presented in the previous section. However, in 1998, it reached an all-time high level of fifty-one meetings a year. Most of the increase came from restructuring meetings and production meetings. Management council meetings and subcommittee meetings on production stayed pretty much the same over this period.

To be consistent with this increased frequency of meetings, our union interviewee felt that the amount of information shared during JLMC meetings increased in the 1990s. Our personnel manager interviewee noticed that unions have been increasingly concerned about basic business-strategy questions that only the CEO or chief financial officer (CFO) could answer. Consequently, the information shared during JLMC meetings has become more concerned with business strategies than with more directly labor-related issues (such as employee welfare and benefits) and can be said to be more "confidential." Our personnel interviewee added that discussion on restructuring (such as decentralization, outsourcing, plant closures, or selling off segments of the business) naturally had increased in the last few years. This is reflected in an increase in the number of restructuring meetings in the last few years.

Our union interviewee believed that the quality of information shared had also risen in the 1990s. In the 1970s and 1980s, news was almost always good. Wages and bonuses were rising faster than those of the firm's major competitors. There was very little concern about firm performance, wages, bonuses, and employment security among employees. The quality of information shared during JLMC meetings was not of prime concern. In the 1990s, however, firm performance worsened, annual raises of wages and bonuses stagnated, and employees became more concerned about their employment security. The quality of information shared began to be of major concern. Our primary union interviewee said, "When the rank and files are asked to accept zero increase in bonus, for example, they do demand a detailed and convincing justification."

Our primary union interviewee believed that some of the information he received from top management could be considered "insider information" and that top management asked him not to release it to other union members. To maintain a good relationship with top management, he did keep such information in strict confidence. Our secondary union interviewees echo this by saying that most information was shared with them before it was made public knowledge and that it would be possible to use some of the information shared during JLMC meetings to make money in the stock market (i.e., some of the information shared during JLMC meetings could be insider-trading material). They quickly added that they did not engage in such activities.

Firm B is a large manufacturer with sales of a few trillion yen (about one-quarter of which is export sales) and employment of close to 20,000 workers in 1998. It is also listed in the first section of the Tokyo Stock Exchange. The firm has over ten establishments. Similar to that of firm A, the firm performance of firm B continued to worsen in the 1990s, and it cut almost 50 percent of its labor force during that time. On 26 May 1999 we visited the headquarters of the firm. We met with our primary interviewee in personnel (the general manager of labor relations in the personnel and labor relations division) first. The interview lasted about three hours, including lunch. After lunch, we met with our secondary interviewee in personnel (the manager of labor relations) for an hour and half. As in the case of firm A, we had written these individuals several months earlier, asking them to locate and assemble some specific data and detailing what kind of questions we intended to ask. They took our request seriously and spent much time and effort to prepare a variety of in-house data for us.

After our visit to firm headquarters, we went to the union headquarters of firm B and met with our union interviewee (the general secretary, number two in the organization). The interview lasted over one hour. Several months earlier we had written him a letter similar to the one we had sent our personnel interviewees, asking them to locate and assemble some specific data and detailing what kind of questions we intended to ask. They also took our request very seriously and prepared in-house data for us.

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

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

Management council meetings and labor-management committee meetings are complementary. For example, a plant closure plan is proposed to the management council meeting and the union asks for its justification there. Labor-management committee meetings work out an agreement on the size of and conditions for labor transfers as a result of the plant closure. There has not been any major change in the basic framework of JLMCs.

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

To be consistent with his remarks, there has been no indication of a de-

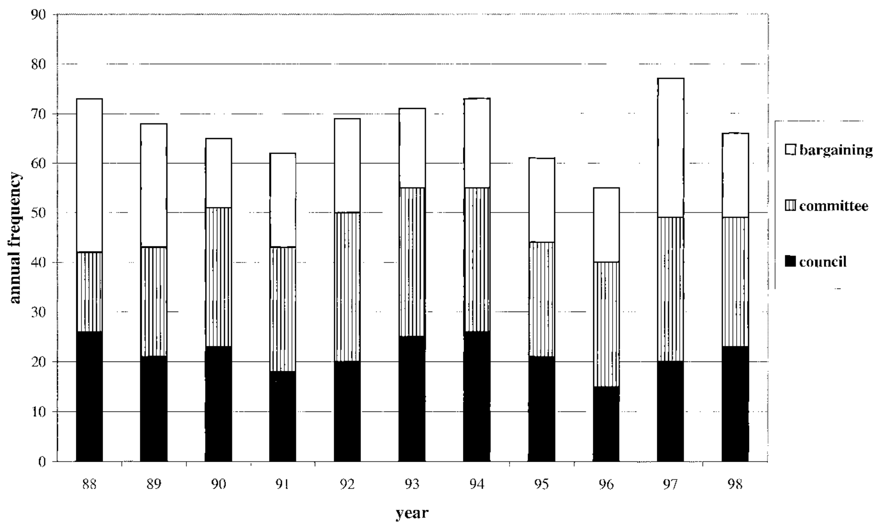

Fig. 2.4 Changes in the frequency of JLMC meetings and collective bargaining over time: Firm B

cline in the frequency of JLMC meetings. As shown in figure 2.4, we see no downward trend in the total number of JLMC meetings per year in the 1990s. Please note that the numbers for management council meetings and labor-management committee meetings include headquarters-level meetings as well as establishment-level meetings, and therefore that they tend to be quite high.

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

In addition to firm A and firm B, we also conducted field research at six other large manufacturing firms, two large retail chain stores, and one large city bank, all of which tell essentially the same story. However, we learned a somewhat different tale from firm C, a medium-sized manufacturing firm with sales of 150 billion yen and employment of over 2,000 workers in 1997. Unlike firm A, firm B, and other large firms that we visited, firm C is not publicly traded. On 23 June 1999, we visited the headquarters of that firm and interviewed the president of the firm's union. He has been the president over twenty years. The interview lasted about two hours. After that, we met with our interviewee in personnel (manager of the personnel department) for about an hour. Again, we had written these individuals a few weeks prior to our visit, asking them to locate and assemble some specific data and detailing what kind of questions we intended to ask. They took our request seriously and prepared confidential data for us.

Performance of firm C clearly worsened in the 1990s. Inflation-adjusted real sales peaked in 1990 and then continued to fall until 1994, when real sales were at almost half their 1990 level. Since then, recovery of real sales has been sluggish at best. Real net profit (after tax), return on assets and return on equity continued to decline in the early 1990s and experienced negative profit two years in a row (until this time, the firm had never experienced negative profit since its founding in 1945). Since then, recovery of profitability has still been rather weak. The firm began downsizing its workforce in 1993, and by 1997 the firm's employment became almost 80 percent of its 1992 level.

The firm has JLMCs only at the headquarters level. JLMCs began in 1970. However, until 1978, JLMCs held informal meetings three or four times a year in which labor and management exchanged ideas with no specific agenda. JLMCs were formalized in 1978, with specific agenda set for each meeting. In the 1990s, they started to hold meetings regularly once a month. In addition, upon request of either management or the union, JLMC meetings can be held on an ad hoc basis. In fact, to discuss the present issue of permanent transfers of workers to related firms, one of those ad hoc JLMC meetings was scheduled in the afternoon of our visit to the firm. Each meeting lasts four hours. In addition, subcommittees are occasionally formed to discuss specific issues. For example, currently they have one subcommittee on the issue of extending the mandatory retirement age from sixty to sixty-two.

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

Regular participants in the JLMC from the management side include vice-CEOs, other executives, and the director of personnel (six to seven executives in total). The CEO used to attend all JLMC meetings before 1990. However, at the union's suggestion, since 1990 the CEO has attended only a couple of meetings a year when wage negotiation is complete. Depending on the agenda items, top managers of the relevant establishments also attend. Regular participants from the union side include union officials at the headquarters level and union representatives from each of the five establishments (ten to twelve officials in total).

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

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

To conclude the section on the quantity and quality of information shared during JLMC meetings, we address an issue raised by critics of participatory management—in particular, of JLMCs—that participatory management is too time consuming and that it cannot adjust effectively to a rapidly changing competitive environment. Critics also argue that it consumes too much management, union, and general-employee effort that could be used for more productive activities.

Both management and the unions of our large, publicly traded firms argued that JLMCs rarely delay important management decisions, and stressed the benefits of having a labor force that is thoroughly educated about and supportive of management's plans, which results from having good JLMCs. When management decisions are actually implemented, there are no surprises, no misunderstandings, and no confusion among employees, which makes the process of implementation smooth and prompt. Our personnel interviewee of firm A, however, recognized that the firm did experience a major delay in its decision to open a plant overseas due to its union's strong objection in 1985, and that the current system was built on the premise that the same problem should not happen again. He further added that restructuring meetings and individual item meetings could be held immediately at either management's or labor's request. The increased use of these meetings (as opposed to more regular meetings, such as management council meetings) can be viewed as a mechanism to achieve timely management within the existing framework of JLMCs.

In contrast, top management of our medium-sized, privately held firm, firm C, appears to subscribe somewhat to the beliefs held by critics of participatory employment practices, by proposing to reduce the frequency of JLMC meetings and shorten the length of each meeting from four to two hours.

2.3.2 The Nature of Employee Participation at JLMCs

The basic nature of employee participation at JLMCs can be summarized as "consultation on business strategies and plans, yet joint determination on their implementation." Specifically, labor representatives ask for and receive detailed justifications for business strategies and plans yet do not try to change the overall framework of the plans. However, on the implementation of these plans, labor representatives decide jointly with management when the plans have significant effects on employees.

For example, at firm A, during management council meetings and subcommittee meetings on production, management explains and the union asks questions. The union receives detailed explanations from management on business strategies and plans (including investment, opening and closing of plants, sales and production plans, introduction of new products) during management council meetings and committee meetings on production. The union then asks questions, in particular asking for justifications for these plans, but does not try to change the overall framework of the plans. Our primary union interviewee of firm A stated plainly, "We do not have any right to change these plans. We do not have any intention to decide on basic business strategies jointly with management." As a result, it is rare for union representatives to offer alternative plans to management insofar as basic business strategies are concerned. Nonetheless, union representatives sometimes offer ideas about what kinds of products may sell. Our personnel interviewee recalled that union representatives suggested that some redundant factory workers could support the sales department by handing out sales ad fliers.

However, when they discuss the consequences for employees of these business strategies and plans during restructuring meetings, production meetings, and individual item meetings, they decide jointly with management. For example, plant closures and outsourcing were proposed several years ago from top management to union representatives during their management council meetings. Although the union did ask many detailed questions about why these steps were necessary, they did not try to change the decision to close the plant and outsource. Instead, they successfully negotiated with top management during restructuring meetings to delay the plant closure for several months and to get favorable conditions for those employees who were transferred as a result of the plant's closure and outsourcing. For example, when employees are transferred to subsidiaries, they usually face poorer working conditions, such as lower wages and longer working hours. The union negotiated diligently during JLMC meetings to set up a policy of minimizing changes in working conditions as a result of transfers to subsidiaries.

In the 1990s, however, in response to worsening firm performance, discussion on basic business strategies and plans between management and labor became more extensive and intensive. Unions tend to ask more and harder questions on basic firm performance and business strategies, such as why a certain product is not selling or why the firm has so much debt. This reflected an increased interest and concern in the overall firm performance and hence employment security among employees. Nonetheless, there have not been any major changes in the overall nature of employee participation at JLMCs, that is, consultation on business strategies and plans yet joint determination on their implementation.

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

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

2.3.3 Employee Interest in JLMCs

Interest in JLMCs among employees rose in the 1990s. For example, at firm A, participation in union meetings increased in general. In particular, white-collar union members at the headquarters were traditionally somewhat apathetic to the newsletters unions use to disseminate the information shared at JLMCs. In the last few years, however, they have started to read these newsletters more often and more carefully. Our primary personnel interviewee of firm B felt that the union is taking JLMCs more seriously, and that the union's need for getting good information at JLMCs and for understanding and explaining that information well to its members are increasing in the face of increased competition. This point was confirmed by our primary union interviewee. Employees are more sensitive to firm performance and competitive environment. The rising employee interest in JLMCs was observed for firm C, a medium-sized, privately owned firm. Our union interviewee believed that general employee interest in JLMCs rose in the 1990s. Lately he had received more feedback (personal letters to him concerning the proceedings of JLMC meetings that are distributed to all union members). He even received requests from plant-level managers to send the proceedings to them. More important, our union interviewee felt an increasing desire among the employees for the union to help management make good decisions through JLMCs.

2.3.4 The Importance of SFCs

In general, the management philosophy of large Japanese firms in recent years has been leaning toward more-decentralized decision making. In other words, the power and authority of headquarters has been weakening while the power and authority of business units has been rising. In parallel to this trend, the importance of SFCs, or information sharing at the grassroots level, appears to be rising.

For example, at firm A, there are more than 400 shop floors (each shop floor consists of about 50 to 100 employees). The firm used to have no formal standing shop floor committees, although upon request from the union each shop floor did hold committee meetings occasionally. In spring 1996, the union felt a need for better communication at the shop-floor level and requested the firm to establish more formal, standing SFCs and to hold regular meetings. Management and the union jointly decided to establish more formal SFCs and to hold regular meetings (with a target of three to four times a year for white-collar shop floors and once a month for blue-collar shop floors). Since then, the union has been gathering monthly data on the incidence of meetings at each shop floor. As shown in table 2.3, for the last two years, the average SFCs met four times a year. The incidence of meetings, however, has been far from uniform. Our union interviewee remarked that there are negative correlations between the number of SFC meetings and the number of shop-floor complaints made to upper-level union organizations.

At firm A, SFCs have two functions: (a) resolving shop-floor-level work condition issues (such as air conditioning, smoking vs. nonsmoking environments, bathrooms, paid vacations, and cafeteria menus), and (b) giving explanations of shop-floor production plans and related staffing issues by a manager in charge of the shop floor. The link between JLMCs and SFCs is strong. First, what is not resolved at SFCs goes up to JLMCs (at the establishment level). (For example, labor representatives requested the introduction of air conditioners to its shop floor during SFC meetings. However, a manager in charge of the shop floor did not have the budget to pay for them. The issue was discussed at the next JLMC meetings at the establishment level, and top management of the establishment decided to purchase several spot air conditioners for the shop floor.) Second, SFCs discuss shop-floor production plans, which are derived from establishment production plans that are discussed during JLMC meetings at the establishment level.

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

Both our union and personnel interviewees recognized the benefit of SFCs and their increasing importance in the future. Employees are generally interested in SFCs. However, if SFCs fail to produce concrete results, such as satisfactory resolution of employee requests for air conditioning, employees tend to lose interest in SFCs quickly.

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

Table 2.3 **Number of SFC Meetings per Month at Each Establishment, September 1996–August 1998: Firm A**

	Establishment Number											
	1	2	3	4	5	6	7	8	9	10	11	Total
September 1996	3	16	3	18	9	4	20	12	1	4	12	102
October 1996	3	16	3	18	9	4	20	12	1	4	12	102
November 1996	45	11	1	16	11	7	21	4	2	3	7	128
December 1996	1	19	3	15	7	4	27	9	4	4	11	104
January 1997	12	14	0	13	8	5	15	12	12	5	3	99
February 1997	9	19	0	13	7	4	13	13	6	8	12	104
March 1997	1	10	2	7	11	1	16	7	4	8	2	69
April 1997	12	7	0	9	8	7	13	12	4	6	11	89
May 1997	4	14	1	9	8	3	14	10	4	12	10	89
June 1997	1	7	1	6	8	3	13	7	2	8	6	62
July 1997	5	9	0	2	4	0	10	8	0	3	8	49
August 1997	14	1	4	0	0	2	6	6	0	0	0	33
Total	110	143	18	126	90	44	188	112	40	65	94	1,030
Number of shop floors, September 1996–August 1997	42	42	3	27	17	16	31	19	12	19	35	263
Annual average number of meetings, September 1996–August 1997	2.62	3.40	6.00	4.67	5.29	2.75	6.06	5.89	3.33	3.42	2.69	3.92
September 1997	11	20	4	10	3	3	12	8	0	15	35	121
October 1997	21	14	2	14	5	6	14	11	4	10	26	127
November 1997	5	17	1	11	4	2	13	9	6	12	19	99
December 1997	0	28	1	10	5	6	19	9	4	9	9	100
January 1998	79	29	1	9	9	6	14	6	8	14	21	196
February 1998	1	24	1	11	9	2	11	7	5	13	22	106
March 1998	0	18	1	6	7	1	11	6	2	10	69	131

(*continued*)

Table 2.3 (continued)

	Establishment Number											
	1	2	3	4	5	6	7	8	9	10	11	Total
April 1998	0	22	0	7	4	3	10	3	2	7	28	86
May 1998	0	17	2	3	4	1	13	9	2	6	37	94
June 1998	0	18	0	4	4	1	11	6	6	5	31	86
July 1998	2	20	0	1	4	4	10	3	6	8	36	94
August 1998	4	11	0	6	4	6	10	4	0	7	29	81
Total	123	238	13	92	62	41	148	81	45	116	362	1,321
Number of shop floors, September 1997–August 1998	41	55	4	25	17	16	32	18	12	19	69	308
Annual average number of meetings, September 1997–August 1998	3.00	4.33	3.25	3.68	3.65	2.56	4.63	4.50	3.75	6.11	5.25	4.29

Source: Internal documents of firm A (see text).

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

Our personnel interviewee stressed the importance of the manager's ability to communicate for successful SFCs, and pointed out that some SFCs do not function well due to the manager's lack of ability to listen to labor representatives. When managers lack the ability to listen, SFCs become an extension of regular supervisor-supervisee relationships and labor representatives do not feel at ease expressing their views—hence the SFCs stagnate.

Establishment P of firm A holds its SFC meetings at the section level (about 500 employees). Section Q regularly holds an off-hours meeting on a monthly basis. These usually last one hour. In addition, upon request of the section's union representative, additional meetings can be held. During the previous year, section Q held two meetings a month on average. Our foreman interviewee added that it had been an unusually busy year in terms of SFCs.

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

2.3.5 Enduring SGAs

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

Most recently, however, plants have not been very busy and QC activities have been somewhat stagnant. Our personnel interviewee argued that when plants are not busy, possible sources of productivity and product quality improvements tend to be disguised. The SGAs for white-collar occupations have not been as active and successful as those for blue-collar occupations.

Neither our personnel interviewee nor our union interviewee was aware of any relationship between SGAs and SFCs, except that both take place at the shop-floor level. As a result of aging of the labor force, which was accelerated by limited hiring in the last few years (the average age of employees at this firm rose from thirty-seven to forty in the last decade), the transmittal of the skills and ethos of SGAs to the next generation is increasingly becoming a major concern.

We were very fortunate to be able to spend half a day in establishment P of firm A, observing the actual operations of shop floors and QC circles and interviewing a veteran foreman. The smallest organizational unit of establishment P is called a *han*. Each *han* consists of fifteen to twenty employees, and the *kocho* is in charge of each *han*. In addition to the *kocho*, each *han* normally has one to two *shidoin* and four leaders. Each leader is in charge of one of the four main objectives: (a) safety, (b) high quality, (c) cost reduction, and (d) punctual delivery. Each leader will carry out various activities to achieve the assigned goal. These activities may take the form of SGAs. At any rate, these activities are not voluntary, are fully directed by the *kocho*, and are part of work, and hence are done during regular hours. On the other hand, a QC circle *is* voluntary; and depending on the project, it will change its QC captain, who is not necessarily a leader (people with one year of tenure can and will become QC circle captains). Projects are also chosen by circle members with some indirect guidance from the *kocho*. Each QC circle carries out six to twelve projects a year.

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

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

Firm B has a long history of SGAs, dating back to 1962. The firm outlines the purposes for its SGAs as follows:

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

According to the statistics provided by the firm, there is no evidence for stagnation of SGAs in the 1990s. The total number of SGA groups declined from close to 4,000 in 1992 to close to 2,500 in 1997 as the firm has downsized its labor force. However, since the number of SGA groups did not fall as fast as the total number of employees, the number of groups per employee (dividing the total number of SGA groups by the total number of employees) increased during this time period.

The total number of projects completed during each year also diminished, from 22,000 in 1992 to 16,000 in 1997. Nonetheless, the number of projects completed per group actually rose from 5.86 to 6.40 because the total number of SGA groups fell faster than the total number of projects completed. The proportion of blue-collar workers participating in SGAs remained stable, at around 95 percent. In short, in the 1990s, there was no sign either of a declining employee participation rate in SGAs or of a diminishing number of projects completed by each group. We failed to obtain any systematic data on the quality of the projects over time at firm B.

2.3.6 Employee Commitment to ESOPs

There is some evidence for weakening commitment of employees to ESOPs. For example, firm A has a standard ESOP with 5 percent subsidy from the firm. The ESOP participation rate (proportion of the labor force participating in an ESOP) remained around 30 percent in the 1980s. The firm embarked on a major ESOP promotion campaign during 1987, and as a result the ESOP participation rate jumped to 70–80 percent. Since then it has been falling steadily, and it is currently a little below 50 percent. The share price of the firm is currently one-third of what it was in 1989. Many employees who joined the ESOP during the firm's ESOP promotion campaign in 1987 are experiencing substantial capital loss. For 1998, the firm experienced over 1,000 employees exiting from the ESOP for reasons other than separation from the firm, and only 204 people joined the ESOP.

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

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

To shed further light on the nature of the recent transformation of ESOPs, we were able to obtain unusually rich data on the subject from firm D, a large manufacturing firm with sales of a few trillion yen (about one-third of which was export sales) and employment of close to 40,000 workers in 1998. The firm is listed in the first section of the Tokyo Stock Exchange. Unlike the first three firms, firm D's sales and employment did not fall dramatically in the 1990s although its share price did fall as drastically as those of the other firms over the same time period.

Firm D introduced its ESOP in 1971. Like in the case of firm A, the initial objective of the ESOP was threefold: (a) enhancing the sense of participation and motivating employees, (b) providing a source of retirement income, and (c) acquiring a stable shareholder group. By the end of 1980, the ESOP participation rate reached one in four employees and the average monthly contribution reached 13,000 in 1995 yen. Since 1990, the participation rate has fallen to almost one in five employees. The average monthly contribution also decreased in the early 1990s to less than 12,000 yen, and the subsequent recovery has not been strong.

The falling ESOP participation rate is accounted for by a decrease in new participants and an increase in exiting participants. The number of new participants has fallen from nearly 1,000 a year in 1990 to a little over 200 a year in 1998. On the other hand, the number of exiting participants doubled from 400 in 1990 to 800 in 1998. It follows that in 1998, there was a net loss of 600 participants. Unfortunately, the data do not allow us to find out how many of these exiting participants were exiting from the trust while remaining in the firm and thus were "voluntarily leaving the ESOP trust." However, according to our primary interviewee in personnel, nearly all exiting participants were also leaving the firm.

However, ESOP participants, although remaining in the trust, fine-tuned their commitments to the trust by changing their monthly contributions. During 1990, as shown in figure 2.5, more than 1,000 continuing par-

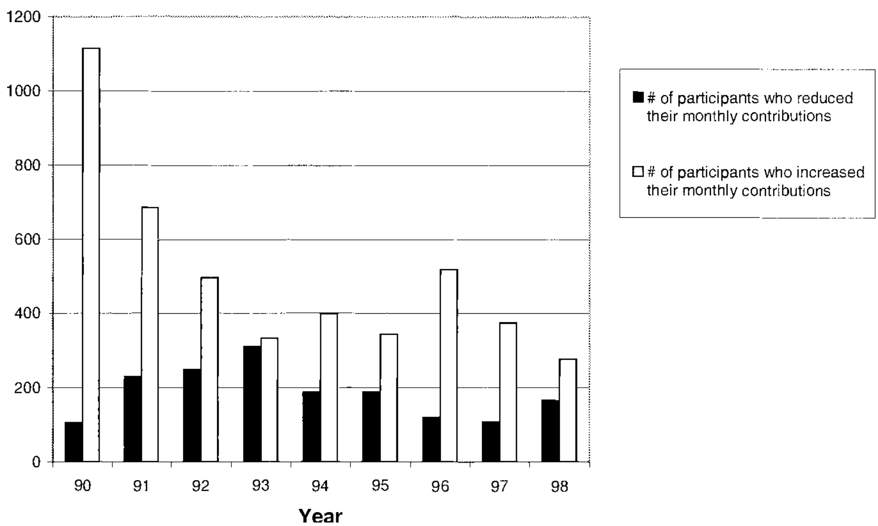

Fig. 2.5 ESOP participants who reduced and increased contributions: Firm D

ticipants increased their monthly contributions, whereas only 100 reduced their monthly contributions. In the early 1990s, fewer and fewer of these continuing participants were increasing their monthly contributions and more and more were reducing them. By 1993, the number of those reducing their monthly contributions became nearly identical to the number increasing them. Since then, the number of those increasing their contributions has stopped falling, whereas the number reducing their contributions has declined somewhat. As a result, during 1998 there were still more continuing participants who increased their contributions than those who reduced them. However, the difference between the two (about 100) was much smaller than it used to be in early 1990s (e.g., more than 900 in 1990). In short, although most ESOP participants remain in the trust unless they separate from the firm, fewer participants increase their contributions to the trust and more reduce their contributions. The overall commitment of ESOP participants to the trust appears to be falling somewhat as a result of worsening stock performance of the firm.

2.3.7 Complementarity of Employment Practices[11]

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

Our field research also revealed two kinds of complementary relations

11. For complementarity of various employment practices, see, for instance, Fitzroy and Kraft (1987); Weitzman and Kruse (1990); Levine and Tyson (1990); Jones and Pliskin (1991); Ben-Ner and Jones (1995); Kandel and Lazear (1992); Kruse (1993); Holmstrom and Milgrom (1994); Baker, Gibbons, and Murphy (1994); Milgrom and Roberts (1995); Ichniowski, Shaw, and Prennushi (1997); Black and Lynch (2001); Helper (1998); Kato and Morishima (2002); Eriksson (2003); and articles featured in a special issue of *Industrial Relations* (July 1996, vol. 35).

between collective bargaining and JLMCs: (a) complementarity in scope and (b) complementarity in time. According to the complementarity-in-scope model, collective bargaining deals with wages, bonuses, working hours, and agreement revision whereas JLMCs deal with all other items. Thus, depending on an item to be discussed, either JLMCs or collective bargaining will be used. According to the complementarity-in-time model, all items will be discussed first at JLMCs and collective bargaining will be used only when JLMCs cannot resolve differences between management and labor. The majority of our firms subscribe to the complementarity-in-scope model. No firm suggested that they are substitutes.

2.3.8 Gap between Full-Time Union Officials and the Rank and File

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

2.3.9 Overloaded Labor Representatives and Limited Supply of Full-Time Union Officials

Many firms have been downsizing. For example, firm A reduced its labor force by more than 30 percent in the 1990s. To keep pace with this downsizing, the number of full-time union officials in firm A has also fallen in the 1990s. However, as shown in figure 2.3, the activities of JLMCs have not diminished accordingly. Rather they have recently intensified. This is making full-time union officials exceedingly busy while there is no sufficient monetary compensation for this increased work load. For example, our secondary union interviewees at firm A complained that the amount of work they were asked to do had recently increased substantially, and they appeared to be looking forward to returning to some management positions within the firm after their current union posts end.

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

2.4 Conclusions

In this paper we have shown that participatory employment practices appear to be generally surviving the economic slowdown of the 1990s, whereas subtle yet potentially important changes in their attributes are taking place.

Kato and Morishima (2002) provide econometric evidence for the complementarity of these participatory employment practices. Terminating a single practice may not only eliminate its own positive effect but reduce the positive effects of other practices. In the extreme case, the termination of a single practice may cause the whole system of employee participation and labor-management cooperation to halt. For example, it was found that the goal alignment process needed to be supported by both direct methods (financial participation) and indirect ones (employee participation and involvement). Removing financial participation will cause employee participation and involvement to be ineffective and vice versa. Furthermore, we found it is necessary for participation to take place not only at the top level but at the grassroots level. Discontinuing participation at the grassroots level will cause participation at the top level to be ineffective, and vice versa.

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

There are a few early signs of trouble even for large, unionized firms that might eventually result in the breakdown of the system if left untreated. First, the number of full-time union officials has been falling as a result of continued downsizing of firms' labor forces. The amount of time and effort that union officials need to put into participatory employment practices have not been falling. This often results in an uncompensated increase in work load for union officials. If this trend continues, labor representatives for JLMCs will become less prepared and less committed to the interest of the rank and file, and thus less effective. Second, at least in our medium-sized firm case, top management is finding its participatory management system detrimental to timely and efficient management, and has begun to streamline the system. Overloaded union officials may offer less resistance to such management initiatives. Third, the current system tends to produce a gap in the quantity and quality of information acquired from management between top union officials and their general membership. It is conceivable that such a gap may eventually result in the breakdown of the system. These are still preliminary observations. Clearly, more work is necessary to find more definitive answers to these important questions.

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