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# **Japanese-Style Labor-Management Relations and Employment and Industrial Relations in Small and Medium Enterprises**

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## **I. The "Three-Treasures" Model**

The question has been raised of whether the "Three Treasures" model of industrial relations — lifetime employment, seniority-based wages and enterprise unions — can be applied to all employment and labor-management relations in Japan. Doubts about its applicability are well-founded since the "Three-Treasures" model is expressly based on regular employment at large enterprises.<sup>1</sup> Furthermore, other extensive, varied employment sectors like regular employment in small and medium-enterprises (SME) and part-time workers, who have increased enormously in recent years, have not yet been adequately researched.<sup>2</sup> Nevertheless, the establishment of key concepts should enable us to understand the issue somewhat better. I shall touch briefly on the conceptual parameters.

### **Lifetime employment**

Lifetime employment is the guarantee against dismissal by an enterprise from when the individual is hired, usually immediately after graduation, until mandatory retirement at a certain age. Five points should be borne in mind.

1. In lifetime employment, the company guarantees a status of regular employment rather than assuring the worker a particular job. Workers' assignments customarily progress from easy tasks to more difficult duties. A major feature of this progression is that its parameters are not limited to one trade but frequently even include assignments to different jobs.

2. Although we speak of guaranteed employment until retirement, there is an implicit assumption that if the company is in desperate straits, the employee will accept early ("voluntary") retirement or other measures to help the firm survive. An employee's acquiescence very much depends on the amount of the retirement allowance and other considerations, but although lifetime employment appears rigid, there is a built-in flexibility that enables management to reduce personnel when necessary.

3. Lifetime employment is actually until mandatory retirement (at close to age 60). Yet there is virtually a life-long livelihood guarantee because of the huge retirement allowances, assistance in finding post-retirement reemployment with affiliated firms, and the recent postponement of retirement to later ages.

4. Since older employees in senior positions must retire at a fixed age, promotion opportunities for younger workers increase and many regular employees

sooner or later can rise in a company through seniority. There are different promotion tracks depending on the individual's academic background and other factors, but it is particularly important that employees with the proper academic credentials or outstanding ability can rise to top management. Indeed, many executives identify more with the enterprise staff than with the owners (stockholders). Also, middle-management positions have increased, and many employees are promoted to this stratum through various career patterns.

5. The long-term continuous employment system that supports internal promotions has produced and is sustained by subcontractors, temporary and part-time workers and staff hired indefinitely from companies that provide temporary office help. All these workers are excluded from the benefits and protection of the regular employment system.

### **Seniority-based wages**

Under the seniority-based wage system, an employee's basic salary increases, to a greater or lesser extent, with years of service and it is guaranteed by relatively certain annual increases and periodic raises. The following points deserve mention.

1. The seniority wage system is not just a matter of a worker's age and years of continuous service. The wages are based on promotions and increased ability from when he was hired until retirement. Very important also is his contribution to the company as shown by a willingness to accept early retirement, etc.

2. Accordingly, compensation does not correspond to the value of an assignment. On the contrary, the job actually performed may be irrelevant. When there are not enough senior positions and promotion is blocked, adjustments must be made. For example, when an employee turns over his high-ranking slot, so that a junior person can get on-the-job-training, and shifts to a lower-ranking post, he retains the same basic salary and qualification rating. This is done as a form of financial reward for a willingness to accept the transfer and to train a younger employee who will then understand the job if required to fill it.

3. This basic salary, which corresponds to the employee's status is also the keystone for calculating the rest of the compensation package: other wages, bonuses and retirement allowances and company contributions to unemployment insurance, welfare pension insurance, etc. Thus the basic salary functions as a livelihood guarantee that indirectly corresponds to an employee's life cycle.<sup>3</sup>

4. In recent years many companies have changed the basic salary to a merit pay system based on the individual's job and ability. The trend is to make up for the resultant erosion of the livelihood guarantee by fringe benefits, including social insurance.

5. This seniority-based wage system is fundamentally different from the stripped-down, no-fringe-benefit wages set by the type of job and the individual's abilities received by part-time workers, student employees or personnel from temporary-help agencies.

### **Enterprise unions**

An enterprise union includes almost all regular employees, whose terms of employment have been described above, and functions as a catalyst for a company's fairly self-contained labor-management relations. Its important features are as

follows.

1. While many workers — part-time and temporary employees, etc. — are not members, in many cases the bottom rung of management — administrators and supervisors — are in the union. Not only are white-collar and blue-collar employees lumped into the same organization but in many companies union posts and leadership positions at work places are held by managers and supervisors.

2. The overlap also shapes the outlook of executives. The effect is not just the separation of ownership and management and the purchase by companies in the same corporate group of stock in each other. Most of the executives in large enterprises are not professional managers; they are employees of the corporation who rose through the ranks. They think of the enterprise as a community and bring a long-term outlook to efforts to maintain and improve labor-management relations.<sup>4</sup> Unlike the confrontational style of industrial relations in the West, most large enterprises in Japan enjoy long-term, stable labor-management ties.

3. Although individual enterprises have fairly self-contained labor-management relations, managers and unions each belong to industry-wide organizations. They engage in activities outside the enterprise, like the annual spring labor campaign for high wages and shorter work hours, and in public policy issues like the social security system. Supra-enterprise labor-management ties are also rather extensive.

4. Nevertheless, the primary purpose of labor-management relations at an enterprise is unquestionably to protect and enhance that firm's operations and prosperity, as shown by how the spring labor campaign's wage and other demands vary at each corporation on the basis of its particular situation.

5. This enterprise-level labor-management relationship both reflects lifetime employment and seniority-based wages and is an integral part of the system that makes them feasible.

I have touched upon the "Three-Treasures" model of industrial relations at large enterprises because it will be the criterion by which I describe the special features of small and medium-enterprises. Yet the reader should bear in mind that this is just one model of several, and it is constantly evolving. Even more important, although the "Three-Treasures" constitute a multifaceted, integrated system of Japanese-style labor management relations, this is not a rigid system. These arrangements and customary practices are carried out with great flexibility as each corporation adjusts to its particular circumstances. For that reason, countless unwritten rules or tacit understandings have grown up. This seamless web functions to keep an employee with one firm for his entire career, supports the seniority-based wage system and strengthens a company's industrial relations.

## **Materials**

I shall use the above criteria to describe the special characteristics of employment and labor-management relations in SMEs. There is very little comprehensive data in this field that covers all aspects of the topic. I have attempted case studies of five small and medium commercial and industrial enterprises, each with about 100 regular employees. That research has been published elsewhere;<sup>5</sup> here I shall just use the data from that project. In this article I have relied upon a series of surveys on labor-management relations, mainly at SMEs, conducted by the Tokyo Metropolitan Labor Research Institute (Toritsu Rōken).<sup>6</sup> The series includes em-

ployee surveys that were designed to enable comparisons by the same indices of large enterprises and SMEs. The data is from more than 3,000 workers who reside in one section of Tokyo and are employed in many different industries (none in the public sector). Since these were not surveys of companies, there is very little information about personnel administration or labor-management ties. Yet the data does enable us to compare corporations by size based on the experiences and responses of employees.

The data illustrates contrasting employment conditions: lifetime employment versus the impermanent type, seniority-based wages versus compensation determined by trade or ability, and enterprise unions versus no union (rather than industry-wide unions). Behind these obvious differences, however, there are important common aspects. The dissimilarities and commonalities combine to form Japanese labor-management relations that are perhaps un-Japanese. In that sense, this essay should illuminate less esteemed aspects of the "Three-Treasures" model.

## **II. A Comparison with the "Three Treasures" Model**

### **1. An Employment Structure That Cannot Become Lifetime Employment**

#### **Length of employment**

In SMEs, too, the preferred personnel policy would be to hire staff from a fixed time, mainly new graduates, and retain them until retirement. But since they cannot hire or retain sufficient new graduates, SMEs must depend on people who have worked elsewhere, etc. In some cases, SMEs retain older employees beyond the normal retirement age. As shown in Table 1, the longevity rate is very different at about the 1,000-employee range. For males, who are 70 percent of the sample, the ratio of continuous years service with a person's present firm to the possible work years since graduation ranges from close to 70 percent at firms with more than 1,000 employees to 40 percent at companies with less than 10 personnel. Since non-regular employees are included in this data, the disparities are lower; if only regular employees are considered, the spread widens appreciably. That is because, as Table 2 shows, the survey found a more diversified employment pattern in smaller firms with many part-time and daily workers, in addition to family members.

Not only does management prefer to retain personnel for their entire career, but the average employee in SMEs also strongly desires to remain with his present company until retirement. As Table 3 shows, well above half the employees in SMEs have worked elsewhere, but about the same ratio as in large corporations want to remain at their present firm. The reasons however, seem very different from their counterparts at large corporations. Many SME workers gave reasons like "the manager is a good person," or "no other job available"; few cited a lucrative retirement allowance/pension. There is also a huge difference between employees at large corporations and those at SMEs in the percentage who want promotion. In enterprises with fewer than 30 employees, many of the staff want to start their own business, but there is little expectation of promotion.

Why does ambition take such different forms? This is a difficult point to explain, but the following factors seem very important. First, in SMEs there are

**Table 1. Employees' average age, work years and longevity ratios.**

Sex./Company Size		(1) Age (Age)	(2) Years of Service (Years)	(3) Age at Graduation (Age)	(2)/(1)-(3) (%)	Total Employees (Persons)
Male	Below 10	38.5	8.7	16.9	40.3	351
	10 ~ 29	40.1	9.7	17.2	42.4	86
	30 ~ 99	38.7	9.8	17.4	46.0	253
	100 ~ 299	38.0	10.1	17.9	50.2	182
	300 ~ 999	37.5	11.1	18.2	57.5	133
	Over 1,000	37.5	12.9	18.6	68.3	255
Female	Below 10	38.5	6.6	17.4	31.3	160
	10 ~ 29	39.4	4.5	17.4	20.5	40
	30 ~ 99	38.5	4.7	17.5	22.4	106
	100 ~ 299	33.2	5.0	17.6	32.1	58
	300 ~ 999	31.7	5.6	18.0	40.9	46
	Over 1,000	29.6	5.1	18.2	44.7	137

Source: Toritsu Rōken, pp. 34, 37, 41-42, ff., for 1981. Age, years, etc., were calculated by the medium of each category. Graduation age is a person's age when he/she completed their last formal education, when they began and finished school without interruption.

**Table 2. Employment conditions and ratios of union members/white-collar personnel**

Size	Employment Conditions				Administration Technical Clerical	Management Supervisory	Union Members
	Regular	Temporary	Part-time	Family			
Below 10	56.8	7.9	14.3	15.5	17.0	19.0	1.2
10 ~ 29	73.7	6.3	15.5	1.6	24.0	23.0	4.9
30 ~ 99	78.0	5.2	14.2	0.6	26.4	28.2	9.2
100 ~ 299	85.8	7.1	5.0	0.4	39.6	30.8	34.2
300 ~ 999	82.7	7.8	4.5	0.6	41.9	28.0	51.4
Over 1,000	91.8	4.1	3.1	—	60.5	29.3	70.9

Source: Toritsu Rōken, pp. 43, 48, 50, 52 and 155. Unclear responses omitted.

**Table 3. Job change experience and present preferences**

Company Size	Never Changed Jobs	Want to Remain at Present Firm	Reasons for Longevity					Want to Start Own Firm	Want Promotion
			Suitability of Work	No other Job Available	Good Manager	Good Relations with Co-workers	Low Retirement Allowance Pension		
Below 10	28.8	73.0	30.3	19.8	23.6	6.4	0.3	26.6	12.9
10 ~ 29	25.8	66.4	32.5	27.9	18.4	8.1	1.4	19.2	15.7
30 ~ 99	30.9	66.6	38.1	23.8	13.4	10.5	4.2	16.4	19.2
100 ~ 299	38.8	67.5	35.8	22.2	11.1	11.7	4.3	18.8	18.8
300 ~ 999	50.3	73.2	34.4	26.7	3.8	15.3	9.9	16.8	23.5
Over 1,000	69.1	75.8	37.0	23.6	4.0	10.1	13.5	10.7	34.9

very few executive positions either at the director level or as department/section chief. While Table 2 shows that the ratio of supervisory posts to employees is not markedly different in SMEs and large companies, there is a sharp disparity in the absolute number of employees whose goal is promotion. Second, there are many cases of family-owned firms where the owner and relatives hold the executive or supervisory positions. Furthermore, many SMEs are subsidiaries of large companies and often directorships and supervisory posts are occupied by personnel on temporary or permanent transfer from the parent company. Third, many executives and engineers with fast-growing SMEs in high-tech fields are recruited away by other companies. The training and technical know-how of employees in the raided SMEs suffers, and many firms are short of talented people. Fourth, although many SMEs would like to plan their employees' careers by on-the-job training and rotation of work assignments, there are few departments and they cannot spare personnel from their duties. Consequently, SMEs cannot structure employees' careers as the large corporations do.

In summary, even if the employees want promotion, there are no openings. There are still many skilled-labor fields in SMEs, and craftsmen would rather stay at a job to improve their skills than be promoted. These facts are very significant. In big corporations, executives represent employee interests more than the ownership; management and labor are different strata of one organization, and the gap is easily bridged. In many SMEs, there is a rigid class stratification between the managers and employees.

#### Personnel reduction methods

While many more SMEs have instituted retirement systems in recent years, in firms with less than 100 employees, it is relatively common to find no retirement plan. Some companies have systems on paper, but have not implemented them yet. For these reasons, SMEs retain older persons in their jobs.<sup>7</sup> Also, unlike the big corporations, when the time actually comes for an employee to retire, SMEs do not provide large allowances or post-retirement jobs. On the contrary, SMEs are the firms that will employ older persons.

Table 4. Personnel reductions and methods

Size	% of Reduction	(MA, %)		
		Attrition	Voluntary Retirement	Dismissal
Below 10	13.9	47.9	29.6	25.4
10 ~ 29	13.1	41.1	26.8	33.9
30 ~ 99	20.9	38.7	29.3	34.7
100 ~ 299	30.8	50.0	27.0	24.3
300 ~ 999	33.5	58.3	31.7	20.0
Over 1,000	87.5	68.7	33.8	6.1

Source: Toritsu Rōken, pp. 181-82. Percentages include multiple responses; unclear replies omitted.

The disparity in the size of the internal labor market of the enterprise or the enterprise group reflects differences in how personnel cuts are carried out. Table 4 shows responses to questions about work force reductions due to the recession after the 1973 oil shock. There is a striking contrast between small and large enterprises: only 10 percent of the former reduced personnel, compared to 40 percent of the latter. Streamlining themselves rigorously, large companies carried out extensive outplacements. But many small enterprises, chronically afflicted with personnel shortages, were not interested in letting people go; in some firms there was no official reduction but many employees decided to retire.

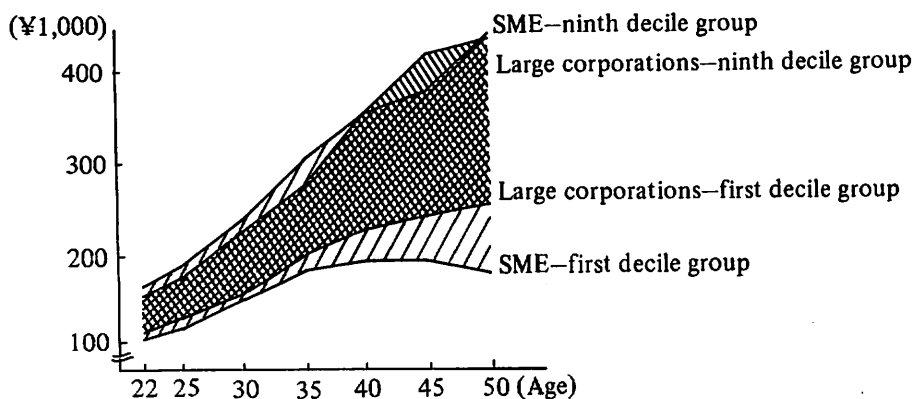
The real problem is the difference in how staff were reduced, and SMEs did not have ready access to an internal labor market and had to resort to dismissals. This corresponds to the labor force composition that can be easily dismissed in Table 2. Large corporations, which can adjust their staffs with relative ease by early retirement, etc., relied mainly on attrition. They also used a variety of internal adjustment methods like transfers and long-term assignments to subsidiaries. They successfully induced "voluntary retirements" by assisting employees to find new jobs and in other ways. This was not the case in SMEs.<sup>8</sup>

## 2. Job/Ability-based Wages

### Structure and determinant factors in wages

A model wage program for new graduates hired by SMEs is virtually the same as in large enterprises. For example, in the standard wage spread for a new high school graduate, as shown in Figure 1, the first decile group in SMEs are lower than the first decile group in large corporations, and the disparity notably widens after middle age. But with the ninth decile group, which is close to the upper limit, SMEs are higher than large corporations until middle age. Accordingly, there are even greater disparities for the same ages in SMEs.

Figure 1. Wage distribution for male workers in manufacturing



Labor Ministry, *Survey of basic statistics of wage structure*, SMEs have 10-99 employees and large enterprises have more than 1,000 employees. Wage is the salary amount agreed to under a labor-management agreement for a typical worker (graduate of a prewar middle school or post-war high school.)



Nevertheless, whereas there is little difference in the distribution of model wages, in the total wage structure, which includes transferees and mid-career recruits, there is a marked disparity after middle age by company size. That is because the wages of middle-aged and older employees who were hired in mid-career are comparatively low in SMEs. The age curve in an enterprise, especially for blue-collar workers, is mountain-shaped, with the peak in the middle-age years.<sup>9</sup> One explanation is that, excluding skilled craftsmen, there is little demand for the career skills of many middle-aged and older employees. Another explanation, including the craftsmen-pattern also, is that as noted above promotion opportunities are limited and wages have become relatively low.

Some SMEs do not raise the basic salary yearly or pay regular salary increases; this was particularly noticeable after the first oil-crisis recession. Even if an employee stayed with the same firm, his pay did not increase. The seniority increments paid by large firms steadily outdistanced the SMEs. Table 5 shows differences in wage determinant criteria as perceived by employees.

Table 5. Wage decision criteria

Size	Job Performance	Skill/Ability	Years of Service	Age	Willingness	Academic Background	(MA, %)	
							Employee Preferences	
							Job Performance	Skill/Ability
Below 10	56.4	49.9	24.5	15.5	25.2	3.1	70.1	52.1
10 ~ 29	55.8	52.1	35.4	17.8	27.0	4.9	69.7	50.0
30 ~ 99	57.4	45.1	33.7	23.7	27.0	8.6	76.0	51.5
100 ~ 299	48.8	46.7	40.0	33.3	20.8	15.8	75.8	52.1
300 ~ 999	42.5	43.0	51.4	44.1	19.6	25.7	79.9	49.2
Over 1,000	53.0	50.3	52.3	42.6	20.9	37.5	81.1	62.2

Source: Toritsu Rōken, pp. 143-44. Multiple replies are shown. "Job performance" includes the difficulty of the work. Unclear answers not shown. Other "preferences" omitted.

1. Many employees of large corporations cited academic background, age and years of continuous service. In firms with more than 100 employees, additional important factors cited were the job and technical skill/ability. In SMEs with less than 100 employees, traditional standards — job performance, technical skill/ability and willingness are perceived as even more important.

2. These data show that SME wages differ from seniority-based wages which are set on the basis of long-term considerations. In SMEs the present situation — job, skill/ability, willingness — are clearly more important but these priorities are not systematically followed. Employee preferences in Table 5 show that they want wage decisions based more on job performance.

#### Basic salary and other wages system

The importance of the basic salary can be briefly described from the Labor Ministry's "System of Wages and Hours." According to this report, in SMEs the "lump-sum salary" (*sōgō ketteikyu*), in which the various factors previously mentioned are taken into consideration, is a larger part of the total salary package. However, in particular cases adjustments are being made so that the lump-sum

salary will consist of the individual's salary plus a payment based on the job and ability.

1. The individual's salary is decided according to his academic background, age and years of continuous service, but in many cases it levels off at a certain stage.

2. As in big corporations, there are some SMEs where a payment based on the individual's job and ability is clearly specified and it corresponds to a job rating. Yet in many of these companies the criteria are vague and payment is actually determined by seniority.

3. The basic salary is adjusted by the payment of various allowances. In large corporations the livelihood guarantee, which has been weakened by the switch to payment based on the individual's job and ability, is adjusted by various livelihood-related allowances, i.e., fringe benefits. SMEs often use work-related allowances as the adjustment mechanism. Many medium firms pay allowances for supervisory positions and skills; many small firms provide an allowance for punctuality and reliable attendance. In medium-sized firms of 100-999 employees, this kind of adjustment of basic salary is very common. Medium firms have more supervisory positions and their importance has increased. That is because the functions performed by the manager in a small company are shared by several executives. However, the level of supervisory allowances in SMEs is one grade below those in the head office of a large corporation. The allowances for a general manager and section chief in an SME correspond to those of a section chief and chief clerk in a large firm.

The basic wage component in SMEs constitutes a rather different seniority-based wage. The basic wage is the basis for calculating overtime, bonuses, retirement allowances, social security and worker insurance. For employees in large enterprises, these components frequently constitute the seniority-based income structure. In SMEs, some of these include a seniority component, but the greatest portion is influenced by the complex elements of the job, ability/skill, etc. Generally, in the mid- and late-career years, the total income package of large enterprises is much higher.

1. With bonuses, for example, there is not only a slight discrepancy in the ratio of enterprises that grant them but also the bonus percentage paid by SMEs is low and, as with wage increases, employees cannot be sure that a bonus will be paid. Furthermore, although the bonus payment rate is the same age-based, mountain-shaped pattern which peaks in the employees' forties, in 1982, in firms with more than 1,000 employees, those aged 45-49 received 5.2 months' bonus, while in firms with 10-99 employees, personnel aged 40-44 received only 2.9 months' bonus.

2. The retirement allowance system has also spread to SMEs, usually as a one-time payment. According to surveys by the Kanto Management Society and other organizations, SMEs have not reduced wages the way big enterprises have but the SME model retirement allowance is much lower. In the case of mandatory retirement for a high-school graduate, the average allowance for large enterprises is close to ¥20 million, whereas in SMEs it is only a little more than ¥10 million. Actually, a very large number of retirees from SMEs do not have many years of continuous service and their allowance is less than the model amount.<sup>10</sup>

## Employees' appraisal of work conditions

What do workers themselves think about this kind of wage differential? Table 6 shows employee opinions.

**Table 6. Employee appraisal of company prospects and work conditions**

Size					
	Doubts about Future	High Wages	Short Hours	Good Work Environment	Good Fringe Benefits
Below 10	10.4	△ 23.3	△ 15.2	6.6	△ 46.6
10 ~ 29	5.6	△ 32.7	△ 19.5	△ 5.9	△ 37.8
30 ~ 99	△ 3.9	△ 34.0	△ 24.8	△ 0.6	△ 35.6
100 ~ 299	△ 4.6	△ 29.6	△ 12.5	△ 1.7	△ 27.9
300 ~ 999	△ 19.0	△ 33.5	△ 20.7	△ 2.2	△ 14.5
Over 1,000	△ 48.5	△ 19.2	△ 3.6	23.2	37.7

Source: Toritsu Rōken, pp. 98, 102-105. Each three-stage percentage, which includes "positive," "negative" and "no preference" replies, shows the excess value when "none," "low," "long" and "bad" were subtracted from "yes," "high," "short" and "good." A triangle indicates minus.

1. The usual response is that wages are lower in the respondent's firm than in other companies but not as low as in small firms.

2. The response is the same for working hours and workplace environment. This suggests that employment conditions vary by company size and that when respondents say "other companies" or "high/low," they are using different criteria. As shown in Table 5, in small firms there is only a slight discrepancy between workers' wishes and the wage decisions based on job performance, hardships/difficulty of a job, and skill/ability. This indicates that employees may be satisfied with the status quo. Regarding the length of working hours as well, the response pattern is due to several factors: the workers earn a considerable amount from overtime, many of the employees are part-time and temporary workers, and even regular employees still often live on or near the premises.

3. The assessment criteria seem to be uniform for fringe benefits, and the smaller the enterprise the more negative the evaluation. Nonetheless, generally, the data suggest that employees of large firms and SMEs make somewhat different value judgments.

When workers were asked if they felt secure about their company's future, in firms with less than 30 employees, anxiety predominated. There was a great gap between the "I'm confident" answer by almost 50 percent of workers in firms with more than 1,000 employees. This confidence gap stems from economic uncertainties of SMEs. Although in SMEs, too, both labor and management prefer personnel to remain with the firm for an entire career, this often proves impossible. As previously discussed, there is little or no internal labor market and the relatively poor work and wage conditions, etc., combine to make employees generally somewhat apprehensive about such companies.

### 3. Undeveloped Labor-Management Relations

#### The ratio of organized labor and management images

According to Table 2, the ratio of union membership ranges from about 70 percent in companies with more than 1,000 employees to below 10 percent in firms with less than 100 employees. Smaller companies have a high percentage of part-time workers and others in non-regular status among their staff, but even when only regular employees are considered, the disparity remains at about the 100-employee firm level. Non-union companies probably have informal and semi-social employee organizations. Over 50 percent of firms with more than 30 employees have organized "workers' association/friendship associations," and these groups function as "actual labor unions."<sup>11</sup> There are probably also many other kinds of unofficial labor-management ties. In short, it is important to ascertain precisely how labor and management interact in settling work and livelihood conditions and what is distinctive about SMEs.

Although some SMEs are subsidiaries of large corporations, many, especially smaller firms are owner-managed. That mixed ownership pattern probably accounts for the findings in Table 7, which shows how employees view managers. In firms with more than 100 employees, the term "stranger" was chosen by almost half the respondents, whereas in companies with less than 100 workers, management's image as "master" was strong. A considerable number of workers had a friendly image of management, as indicated by the terms "fatherly," "elder brother/senior," and "friend." Yet the word "master" in this terminological context suggests a labor-management tie close to a formal, stratified employer-employee nexus.

Table 7. Management images

	(%)					
Size	Stranger	Master	Older Brother/ Senior	Parent	Friend	Enemy/ Competitor
Below 10	20.7	31.5	14.9	13.1	12.1	3.9
10 ~ 29	35.7	26.8	10.8	10.3	9.6	2.8
30 ~ 99	40.7	30.4	8.9	8.9	3.9	3.3
100 ~ 299	47.9	15.8	11.8	8.8	4.6	5.4
300 ~ 999	43.0	18.4	11.2	8.9	3.9	6.7
Over 1,000	52.3	16.6	11.0	4.8	2.0	3.0

Source: Toritsu Rōken, p. 191. Unclear replies omitted.

That relationship, owner management and the low ratio of union membership are all closely interrelated. Since many of the managers founded the enterprise, they probably think they are seen by most employees as the "master." But even among employees in SMEs, there is a perception fairly widespread of the manager as a "stranger." A modern attitude about employment has become diffused among employees.

#### Differences in labor-management communications

What kind of labor-management communications underlie these images of

managers? Let us first examine how employees learn of management policy, which is a crucial premise in decisions on work and livelihood such as employment terms and wages. According to table 8, in firms with more than 1,000 employees the important communications channels are supervisory personnel, labor unions and the manager. In SMEs, workers frequently said they “naturally understood,” especially in firms with less than 30 employees, where the response ratio reached about 50 percent. Natural communication probably works well only with that small number of people.

These are the replies of employees who say they understand management policy. But in firms with 10-99 employees, a great many workers said they did not know what policy was. This seems to indicate that management policy may be unclear, or the “master” may not have informed the employees. Also, information channels may be inadequate. In this situation, the informal employee organizations convey very little information. Statements about management policy and other important matters probably are not perceived by such groups as official, credible news.

What are employee assessments of management policy? According to Table 8, employees in the smallest and largest firms gave the highest ratio of “satisfactory” responses; yet many employees in SMEs did not think policy was very “satisfactory.”

**Table 8. Communication of company policy**

Size	Naturally Understand	Manager	Superior/ Supervisor	Labor Union	Employee Group, etc.	Assessment			(MA, %)
						Satisfactory	Unsatisfactory	Excess	
Below 10	63.3	27.0	9.1	—	2.4	32.1	11.0	21.1	35.4
10 ~ 29	43.2	25.7	24.9	1.7	6.6	21.8	16.2	5.6	43.4
30 ~ 99	36.6	33.0	28.1	4.5	5.4	22.8	16.7	6.1	37.6
100 ~ 299	30.9	31.5	28.4	11.7	8.0	21.7	18.3	3.4	37.5
300 ~ 999	24.0	26.4	32.0	22.4	5.6	22.9	17.9	5.0	30.2
Over 1,000	21.1	30.0	43.2	32.0	6.3	35.5	10.9	24.6	22.7

Source: Toritsu Rōken, pp. 80, 96. Multiple replies included for communication channels. “Excess” is the result of subtracting “unsatisfactory” from “satisfactory.” There were also “no preference” replies.

How does management react to employee opinions? Table 9 shows degrees of receptivity, with “unreceptive” subtracted from “receptive.” The major results are as follows:

1. Only firms with less than 10 employees had a majority of “receptive” replies; in all firms with more than 10 employees “unreceptive” replies predominated.
2. Regarding management policy as a “whole,” the replies in large enterprises were frequently negative; in companies with more than 1,000 employees, the minus figure reached 30 percent. In recent years quality control circles and employee suggestion programs have spread and improved. As might be expected, management is more receptive to employee views on work methods and workplace arrangements;

the minus figure is lower for these. In firms with more than 1,000 employees, it is below 10 percent.

3. Nevertheless, management, including large enterprises, often ignores employee views. The dissatisfaction with wages, etc. shown in Table 6 remains.

Labor-management communications is a major problem with large corporations. On the one hand, management policy and important decisions are transmitted through the supervisory network and unions; management policy is regarded as satisfactory. On the other hand, employees perceive management as unresponsive to their opinions. Employees feel that their views do not reach the top; the larger the company the more remote the senior executives seem. Personal relationships with immediate superior probably compensate for the remoteness of top management to a certain extent. The assessments of personal relationships in Table 9 show high plus score for both supervisors and co-workers in the smallest and largest firms, where it reaches about or above 40 percent. In many cases, the "superior" are simultaneously part of the management and leaders of the unions and workplace committees. Contact with these individuals definitely reduces feelings of estrangement among subordinate employees. As mentioned above, this shows the important role played by the numerous middle-management personnel in large corporations. If this analysis is correct, leaving aside companies with less than 10 employees, in SMEs with 10-999 employees the compensatory effect of administrators and supervisors, especially middle-management personnel, is probably far less than in large corporations.

**Table 9. Management receptivity to employee opinion, and work place relationships**

Size	Receptivity		Personal Relations	
	Whole	Work	Superior	Co-Workers
Below 10	10.6	12.5	45.4	48.4
10 ~ 29	△ 11.7	△ 13.6	24.7	27.2
30 ~ 99	△ 20.3	△ 19.5	27.0	24.2
100 ~ 299	△ 25.8	△ 12.5	27.5	23.3
300 ~ 999	△ 27.4	△ 20.7	29.1	33.5
Over 1,000	△ 30.1	△ 9.9	39.5	42.6

Source: Toritsu Rōken, pp. 84, 106-109. Totals show the result of subtracting "not very good" and "bad" replies from "good" responses. A triangle indicates minus.

### **Different methods of handling employee complaints**

How are labor-management communications and grievances about work and livelihood conditions handled? Table 10 shows the channels generally used for various complaints (companies with less than 10 employees are not included).

**Table 10. Resolution of employee grievances**

(%)

Complaint · Size		Speak to No one	Speak out Myself	Through Superior	With Co-Workers	Through Union	Through Employee Groups
Management Policy	10 ~ 29	40.6	28.9	12.4	10.8	2.8	3.1
	100 ~ 299	41.3	13.3	19.6	5.4	12.5	7.5
	Over 1,000	40.8	4.6	18.4	3.3	27.0	3.8
Wage Decisions	10 ~ 29	41.1	29.1	10.3	12.2	3.3	2.1
	100 ~ 299	34.2	10.8	18.8	5.8	24.2	5.8
	Over 1,000	30.4	2.6	10.2	1.3	51.0	2.8
Work Methods/ Assignments	10 ~ 29	38.3	26.1	13.1	14.3	1.9	5.2
	100 ~ 299	23.3	14.2	28.3	7.1	17.1	9.6
	Over 1,000	24.0	4.3	26.3	5.9	29.8	7.1
Work Place Environment	10 ~ 29	35.4	32.2	14.3	12.2	1.6	3.1
	100 ~ 299	27.1	14.2	34.6	8.8	8.3	6.3
	Over 1,000	29.3	6.1	38.8	3.8	15.3	3.8
Work Place Relations	10 ~ 29	45.5	25.6	12.4	10.3	1.6	3.5
	100 ~ 299	42.1	11.7	25.0	10.0	3.8	6.3
	Over 1,000	41.6	5.9	23.5	7.7	10.7	6.9
Fringe	10 ~ 29	46.7	23.2	11.0	9.9	2.6	5.2
	100 ~ 299	32.9	10.0	18.8	7.1	19.6	10.4
	Over 1,000	27.6	3.3	12.0	3.3	45.2	5.6

Source: Toritsu Rōken, pp. 118-124. Unclear responses omitted.

1. The reply, "I don't make complaints to anyone" was numerous, exceeding 40 percent for the subjects of "management policy" and "personal relations in the work place." This answer was given with almost identical frequency by employees of large corporations and SMEs.

2. There is a difference, by company size, on the topic, "how wages are decided," especially regarding fringe benefits. In large enterprises both these subjects are handled through the labor union, whereas in SMEs this regular channel of communication does not exist. Instead, employees speak to their superior, voice the complaint themselves or, more commonly, say nothing. There may not be strong dissatisfaction about issues like management policy and personal relations in the workplace. But regarding wages and fringe benefits, there is no negotiating forum like a union and so the complaints cannot be dealt with.

3. The ratio of "speak-to-no-one" replies regarding work methods, workplace assignments, and the workplace environment is comparatively low in SMEs, too. The explanation is that employees vent their grievances through a superior or with co-workers. In large enterprises, by contrast, in addition to the use of superiors, a high percentage of complaints about work methods, workplace assignments and management policy are dealt with through unions.

Generally, informal employee groups have a very limited function in the resolution of worker grievances. They seem to be somewhat active in medium enterprises,

but even there the highest response rate is 10.4 percent concerning fringe benefits. The reason is probably because such groups concentrate mainly on social and recreational affairs, with some welfare activities also. Thus the existence of absence of a labor union has a great impact on the resolution of worker complaints. In non-unionized enterprises workers must voice dissatisfaction individually or with co-workers but a high percentage do not speak out at all. Employees who cannot resolve grievances move to another company; this turnover reduces the length-of-service rate in SMEs. Labor unions would undoubtedly stabilize employment and improve industrial relations in SMEs.

### One facet of SME unions

However, as Table 11 indicates, many members of SME unions, particularly in firms of 300-999 employees, believe that strikes are a necessary tactic. Unlike their counterparts in large enterprises, these union members are not absolutely committed to cooperation with management. Participation in union activities is greatest in firms of 300-999 employees; these unions are more dynamic than those in large and small enterprises. Two factors are operative: personnel management and workplace administration is not as sophisticated as in large corporations and, as shown in Table 6, there is probably a high degree of dissatisfaction about wages and work hours.

**Table 11. Attitudes toward labor union activities**

Size					
	Tough Negotiations/ Avoid Strikes	Use Strikes	Avoid Confrontations	Actively Participate in Union	Union Activities very Useful
Below 10	50.0	33.3	16.7	—	—
10 ~ 29	52.4	23.8	19.0	14.3	14.3
30 ~ 99	48.5	27.3	24.2	42.4	21.2
100 ~ 299	40.2	39.0	19.5	30.5	13.4
300 ~ 999	42.4	44.6	12.0	46.7	21.7
Over 1,000	45.3	36.7	16.9	30.6	18.3

Source: Toritsu Rōken, pp. 157, 159, 163. Unclear responses about negotiations omitted; participation in and evaluation of union activities has been summarized.

Many SME unions are not affiliated with industry-wide federations. In firms with less than 100 employees, for example, only one-third of the unions are. Many managers, too, do not belong to any particular management organizations. Thus, the organizations handling labor-management relations in SMEs, unlike in the large corporations, are not tied into industry-wide groups. To that extent, they are susceptible to market forces and public policy. Unlike the informal employee groups that include part-time and other temporary workers, SME unions restrict membership to regular employees. This is a similarity with unions in large corporations; the major differences have been noted above. Generally, SME labor-management relations, depending on whether there is a union or not and the varied nature of unions, are much less stable than in large firms.



### **III. The Classical "Three-Treasures" Model**

The Three-Treasures model has been used as a standard to analyze the distinctive features of employment and industrial relations in SMEs. Various similarities and differences have been noted. I would like to briefly summarize the results.

#### **Lifetime employment**

1. Some SME employees stay their entire career with the same company, but the great majority have worked for other firms. Moreover, there is relatively little lateral movement of skilled craftsmen from one company to another.

2. Despite the low longevity rate, both employers and employees strongly prefer long-term employment. The obverse of this shared preference is that the strong desire to set up an independent shop or business, once quite widespread, is now found only among a stratum of younger workers. Yet the desire to stay with one company for a whole career, unlike the motivation in large enterprises, is not based on hope of promotion. That is because, for many reasons, advancement opportunities in SMEs are very limited.

3. Even if employees want a career as a generalist or to be a multi-skilled worker, they are blocked by the narrow range and shallowness of the internal labor market and inadequate company training and planning.<sup>12</sup> The undeveloped internal labor market has checked the creation in SMEs of middle-management posts between the managers and employees, which usually represent the interests of the latter. Thus, the morale of SME workers is sustained in a simpler way, by the work itself, by employee efforts to improve their ability in specified tasks, and their willingness to work overtime to earn more income.

4. In the past employees worked as long as they were able. While the recent trend toward later retirement for older workers does not go that far, it has become fairly widespread. This has happened because, as noted above, there is no "up-or-out" crunch over promotions and the retirement allowances are not large. But in enterprises where the burden of retirement allowances and personnel costs is expensive, relatively early retirement has become standard practice.

5. In SMEs many of the personnel are part-time or temporary workers whose employment status differs from regular employees. However, some staff reductions excluded regular as well as part-time staff, so regular status in an SME does not protect the worker as much as in large companies.

#### **Seniority-based wages**

1. The model wage structure in SMEs for employees hired immediately after graduation, despite some uncertain aspects, is very similar to the wage structure in large enterprises. But the total pattern diverges because SMEs hire transferees, lack promotion opportunities and pay relatively low wages to the middle-aged and older workers in the few middle-management posts.

2. SMEs also consider the long-term contribution to a company of variables like education, age and years of service in setting wages. However, short-term variables like the individual's present qualitative and quantitative performance, ability and willingness to work are the major decisive factors in setting wages.

3. Objective standards are not explicitly and systematically applied. Recently,

salary systems based on the job and ability have been adopted. But in many companies, the basic salary has actually become seniority-based. For that reason, a system of work-related allowances for supervisory positions, skills, etc., had to be instituted. As jobability linked salaries have spread, in line with administrative emphasis on ability, the big corporations have had to adjust the livelihood guarantee, which corresponds to the employee's position and contribution, by livelihood-related allowances and fringe benefits. But SMEs are in a different situation.

4. Work and livelihood conditions, including bonuses and retirement allowances, differ in SMEs from large corporations. While the old days when workers were told, "You pay for your own lunch and your own doctor bill if you're hurt on the job," are gone, the work conditions for parttime and temporary employees are inferior.

5. Other aspects intensify the differences in lifestyles. So, the large-corporation model does not apply to work and livelihood conditions in SMEs.

### **Enterprise unions**

1. A small number of labor unions have been organized in SMEs. Most are enterprise unions and restrict membership to regular employees, including workplace level administrators and supervisors; they are similar to unions at big corporations.

2. They differ from unions at giant enterprises in that few belong to industry-wide organizations, while there are some combined unions, the great majority are independent, single-enterprise unions. Very few of the enterprise managers participate in business organizations. Both labor and management are isolated in the enterprise. Not being very powerful, it is utterly impossible for the organizations to exclude societal influences.

3. Particularly in firms with less than 100 employees, the manager is still the "master." Only in the smaller firms is two-way communication between labor and management close and effective. In other SMEs, important management information frequently is not transmitted downward; there are no adequate channels. This deficiency in labor-management communications is closely related to the personality of the manager and the dearth of middle-management positions.

4. There is not as broad a consensus on management policy among employees as exists in a large company. There are no adequate means of resolving dissatisfaction about wages and fringe benefits, and this has a negative impact on workers remaining with the company.

5. However, there are also some unions, mainly those in enterprises with 300-999 employees, which have a high ratio of long-time workers, that are not co-operative, unlike unions in big corporations. Their members are also much more active participants in union affairs. To that degree industrial relations have become problematical and there is a pronounced trend toward labor conflicts. On the other hand, while union activities have picked up, there are also cases where the unions are participating in management through the labor-management consultation system and various committees like product prices.

Although we use the term SME, size is not the only difference in enterprises; there is a great variety of company types. For example, the average wage scale by size of the enterprise shows there is a very wide dispersion rate for businesses. So

the same label cannot be put on all the SMEs. By nature, the "Three-Treasures" model frequently causes a divergence between nominal and actual practice, so we cannot understand what is really being done just through examining policy and rules. By contrast SME employment, wages and labor-management relations are all still unsystematic; even where they have been formalized, there is great flexibility in implementation. This feature also probably gives SMEs their special ability to adjust quickly to new circumstances and opportunities. In that sense, SMEs show an important aspect of the classical formative period of "Three-Treasures" model.<sup>14</sup>

## Notes

1. See Shōjiro Ujihara, "Nihon ni okeru daikōjō rōdōsha no seikaku" (Workers in large factories in Japan), the first detailed authoritative work on the subject, in Ujihara's *Nihon rōdō mondai kenkyū* (*Study on Japan's labor problems*), 1966. For comments on these works, see the author's *Rōdō keizai no kōzō henkaku* (*Structural change in the labor economy*), 1977, p. 136ff.
2. For an important hypothesis, see Mikio Sumiya, "Sengo rōdō mondai no kōzō" (The structure of postwar labor problems), in Sumiya ed., *Gendai Nihon rōdō mondai* (*Modern Japan's labor problems*), 1979.
3. For a discussion of these aspects of the internal labor market, see Naomichi Funabashi, *Nihonteki koyō to chingin* (*Japanese-style employment and wages*), 1983. For more on this issue, see the author's "Kigyōnai rōdō shijō rōshi kankei no tokushitsu" (Special features of enterprises' internal labor markets and labor-management relations) in Sumiya ed., *Gendai Nihon rōdō mondai*.
4. This perception is spreading. See Taishirō Shirai, *Gendai Nihon no rōmu kanri* (*Modern Japanese personnel administration*), 1972.
5. Although the approach was somewhat different, I have done a case study of a small manufacturing firm with less than 100 regular employees. See *Kōreisha no koyōhoshō* (*Employment insurance for older workers*), 1982, chapter 4. For the present study of a manufacturing enterprise with about 100 employees and a medium-sized business establishment, see "Chūshō kigyō no koyō to rōshi kankei" (Regular employment and labor management relations in a small and a medium enterprise), *Keizai shirin*, Vol. 52 No. 1.
6. Toritsu Rōken, *Chūshō kigyō no rōmu kanri to rōshikankei* (*Personnel administration and labor-management relations in small and medium enterprises*), do., *Chūshō kigyō no rōshikankei no jittai* (*Labor-management relations in small and medium enterprises*), 1982; and especially do., *Kigyō kibobetsu rōshikankei no jittai* (*Industrial relations by company size*), 1981.
7. However, the extension of retirement age past 60 in medium-sized companies, from 300–999 employees, has been slow. On the other hand, work to a later age, particularly systematic re-employment, has spread to medium enterprises. The different reasons why mandatory retirement has not been formally implemented seem to include: because of a young work force, management is not yet concerned about later retirement; contrariwise, so many personnel are approaching retirement that the company cannot start the practice; like large corporations, some small and medium enterprises are reducing staff and labor demand is provided by subcontracting and personnel from temporary-help companies.
8. For management views on more extensive personnel reductions, see my *Nihon no koyō mondai* (*Japan's employment problems*), 1979, chapter 2, and "Dainiji genryōka to rōdoshijō no tenbō" (The second wave of personnel reductions and labor market prospects), *Keizai hyōron* (August 1983).
9. See my *Kōreisha no koyōhoshō*, p. 250.

10. If fringe benefits, etc., are also included, the larger discrepancy in labor costs since 1970 are even clearer. Considering only regular employees of manufacturing enterprises, with 100 as the base figure for a corporation of more than 5,000 employees, the amount paid per person in a company with 30–99 employees for retirement allowances, non-salary fringe benefits and education/training is below 30. See my “Nijū kōzō to koyō/shitsugyō mondai” (The dual economic structure and employment/unemployment problems), *Keizai hyōron* (January 1983).
11. See Kazuo Koike, *Chūshō kigyō no jukuren* (Skilled workers in small and medium enterprises), 1981, chapter 5, especially survey data in note 6.
12. From the worker's perspective, large enterprises do not pay much attention to skill development either; many companies leave such training largely to the job situation. See my *Kōreisha no kōyōhoshō*, p. 88ff.
13. Small and Medium Enterprise Agency, *Chūsho kigyō hakusho* (White paper on small and medium enterprises), 1983, p. 154.
14. Historical proof is required, but for amplification of this point, see my “Nihongata nenkōseido no tokushitsu” (Special features of the Japanese-style seniority system), *Ekonomisuto* (Aug. 11, 1980).