

NEW HUMAN RESOURCE MANAGEMENT AND MANAGEMENT STRATEGY IN JAPAN

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INTRODUCTION

Human resource management is not self-contained activity. It has to be considered in terms of related activities as well as broader social and cultural structures including education, training and labour market regulation. The individual components cannot be understood in isolation or changed piecemeal. This is true for the personnel practices of single firms as it is for the roles of workers, management and government interactions at the regional, industry and national levels.

Employment practices interact with business competitive strategies at the enterprise level. It is taking an increasing importance as firms restructure their operations in light of changing markets, technological opportunities and new conceptions of the relationship between production and labor. However, it also appears that competitive strategies and employment policies are determined outside the boundaries of individual firms. In countries where state policies, strong institutions for worker representation, and more centralized structures exist, competitive strategies and the ability to adjust employment practices may be restrained. Thus, knowing the linkage between different competitive and production strategies and human resource practices in different industries or segment of industries, and what role industry associations and government policy play in restraining, strengthening and diffusing one set of linked practices over another, has emerged as an crucial issue.

Changes in Japan must be considered in this socio-economic and cultural context. Prosperity induces a diminished work ethic and a reject of egalitarianism leading to a reconsideration of the relations of employees with their firm. Deregulation of the economy, liberalized capital markets and loosening of the interfirms relationship leads to a growing assertiveness of shareholders. Privatization of the public sector companies and the decreasing weight of blue collar workers in the workforce are causing a decline of traditional organized labor in manufacturing. However, at the same time, growing job instability and reconsideration of welfare corporatism is pushing white collar middle managers to create unions (Sakata & Shibara, 1995). The economic difficulties are perceived as structural and not only due to business cycles variation. The long term growth of the Japanese economy is likely to be in the range of 2.5-3.0%. Low profitability increased interfirm competition and the decline of keiretsu links. Firms are challenged by the low wage competition from Asian countries and the renewal of Western companies less hindered by any social burden when they operate from delocalized basis.

The success of Japanese industry in the 1980s reinforced the consensus in Japan that the system had advantages to be attributed to the loyalty, diligence, innovativeness and flexibility of employees. This was part of lifetime employment, seniority plus merit pay and promotion systems, supported externally by a multiple stakeholders corporate governance with cross-shareholding arrangements insulating firms from the financial markets. The high level of organizational commitment that it created (Lincoln & Kalleberg, 1990) allowed firms, contrary to the neo-classical version of the convergence theory, to sustain frameworks resolving Williamsonian (Williamson, 1993) and asymmetric information constraints on employee-employer relationships. This permitted a type of industrial relations and human resource management which an arm's length contractual environment would have ruled out.

However, in the 1990s, doubts are expressed about the sustainability of the system. Welfare corporatism is accused of the same negative effects as the European welfare state. The lifetime employment and seniority-based pay and promotion system is under attack. The end of the *akubyodo* (bad egalitarianism) and the emphasis on *noryokushugi* (meritocracy) are the dominant themes, completed with the argument that more attention must be given to the shareholders. The acceptance of close consultation of the company with employees or their union and of the need to engineer consensus are put into question. Advocacy of the necessity of a radical revamping is common and constantly reinforced in the academic, media, public and business circles.

The perception of a flexibility trade off appears more apparent by the day because there is no reason to believe that Japan should be an exception to a worldwide trend (Thurow, 1996). New technologies will change the work organization and alter competitive strategies. Linked to this are shifts in work rules and changing patterns of employee participation within the firm. New compensation schemes will affect the level, structures, and forms of compensation of both blue collar and white collar workers. Patterns of skill formation and training will have to match the new needs of the firms. As in Europe will be related to the shifting balance between the public and private provisions not just education and training but also the whole set of social welfare benefits and services. At the same time can be expected a reconsideration of the traditional corporate governance system. It is widely acknowledged now by private companies, the employers' federations (Nikkeiren, 1994) and the officialdom (Ministry of International Affairs and Industry, 1995) that a shift from an enterprise-centered to a more market oriented approach requires the development of a different mix of short- and long-term priorities. This renders necessary an adjustment process emphasizing more the "exit" than the "voice" aspects in the way companies are governed and appraised by the markets (Hirschmann, 1970).

THE PUSH FOR CHANGE

Growing Impatience of Capital

So far, Japanese companies have reacted to cyclical and long term or structural declines in product demand through a number of society-wide adjustment mechanisms.

Transition from decline to renewal in new industries was done with the protection of the state and the regulation of the work force primarily by natural attrition and use of keiretsu relations to shed redundant workforce. The entrepreneurship and the needed risk capital to take advantage of the new opportunities was provided internally. The new skills required were taught to the existing work force as well as obtained through hiring of young graduates. Doing that, the firm could survive with activities of a different nature. Internally generated growth was considered as an ideal form of adjustment allowing to keep intact the internal labor market.

However, the system required an insulation from the short-term demands of shareholders and a regulated capital market. Only "patient capital" could permit rigid employment practices from which firms could gain the advantage of commitment and flexible attitudes to work from a core of stable, long serving workers. Keeping shareholders patient meant retaining their confidence in management. The firm's eventual problems were to be normally considered as the result of objective circumstances, not of management blunders. Consequently, this supposed acceptance that the constraints under which firms operate, particularly those of the rigidity of the employment practices are unavoidable.

This is not the case anymore. Many investors request urgently more transparency and accountability of management. Few believe that the drive of the managers of large companies and internal risk capital provision, can compete in the long run with the dynamism of the US entrepreneurship. A change of attitude of the shareholders is possible in such an environment. The example of CALPers, the Californian public servants pension fund, exerting a strong pressure on invested companies and looking inquisitively at its return on investment in Japan, is well known. It will be followed by others, both foreign and domestic, urging Japanese firms to pay out more dividends.

Companies do not intend to discard the keiretsu links. Large shareholders remain primarily partners more interested in business transactions than dividends. However, most companies have in their portfolio shares of firms with whom links are loosening. In a period of low profitability, this leads to an increase of pressure for higher dividends or to increasing sale of marginal shares. In some industries, increased competition and other changes in the business environment (i.e. demographic) make it a necessity to reconsider their portfolio management. For instance, insurance companies are facing a changing balance between premium accumulation and pension pay-out. They also want more in the way of dividends, now that the bubble bursting has destroyed the myth of ever growing capital gains.

Advance of the Deregulation Process

The increased openness of the market, the decline of bureaucratic rule and the loosening of the keiretsu links affect also the traditional forms of regulating competition. Competition from Asia is growing and Western countries are more competitive in fields where Japanese firms thought they had created definitive competitive advantages in the 1980s. Creation of crisis cartels is not feasible anymore, not only because of the outcry that it would cause abroad but because there are too many firms who can no longer be

persuaded to limit imports or to make agreements on level of production to manage prices in case of economic downturn. Some may diversify their supply or control freely their output and price policy from a position of strength but many others can simply not afford such market rigging anymore lest they lose their competitiveness. Moreover, despite vagaries and procrastination, deregulation is advocated by the industrial associations and by the officialdom to improve the industry competitiveness. The Japan Fair Trade Commission has seen its power reinforced to fight against infractions of the anti-monopoly law. This will make it harder to maintain traditional employment practices. In traditional manufacturing industries for example, it will be difficult to persuade all the main players to adopt the same employment policy of compromise with the union in order to avoid large scale lay-offs. In a period of increased competition, some may be tempted to adopt a tougher posture vis a vis the union to gain competitive advantage. Once a big player will decide to play that card, fear of losing competitiveness might push others to adopt the same policy.

Stagnation of Productivity

According to a Ministry of Labor survey, large firms (+ 1000 employees) spend around \$ 450 a year per employee for training (MOL, 1992). The internal expertise is considered the basis of the firm-specific competitive advantage but it is also extremely expensive. The companies now want to recoup the sunk cost invested. It is all the more necessary in view of the shift towards a white-collarization of the labor force in the 1980s. The large scale hiring that took place during the late 1980s mostly involved white collar workers. Personnel related to sales and general and administrative functions made up 33.5% of the workforce of the group of companies examined by Bain Consultants (Hori, 1993) in 1992 compared to 29.2% in a 1984 study. In some companies such as Sony and Matsushita the figures show an even larger shift: Sony increased its production head-count by 6% over the same period but its overhead personnel grew by 139%; Matsushita Electric decreased its blue collar workforce by 24% while its white collar forces increased by 47%. A report on the productivity and the working style of white collar workers (Ministry of Labor, 1994) noted that from 1982 to 1992 the number of white collar workers, defined as people who held management, technical, secretarial and sales jobs, increased twice as fast as the blue collar workers.

Table 1 shows that Japan is closing the gap with the leading Western countries in productivity. However, it does not reflect a higher labor productivity. Table II shows, that the productivity gains can be largely explained by the bigger role of capital stock increase in Japan than in America and Germany in the 1980s. In fact, the negative contribution to the estimate of productivity by the labor element highlights the fact that the increased number of workers during the period contributed less than proportionately to output.

Recent statistics show a relative decline in labor productivity in almost all industries vis-a-vis the USA (Shakai Keizai Seisansei Honbu Shimbun, 1995). However, although Japan is declining also in manufacturing, the white collar workers productivity is the most pressing issue. Japanese companies never developed, mostly because of an over-reliance on educational credentials, appropriate performance measurement schemes in

the management of white collar employees. This contrasts with the efforts of a number of US companies to develop more objective measurement methods to review the job goals and performances of those workers (Boyett, 1991).

Table 1: International Comparisons of Labor Productivity

Japan=100	United States			Germany		
	1970	1980	1991	1970	1980	1991
Year	1970	1980	1991	1970	1980	1991
Total	223	159	132	139	123	116
Manufacturing	158	130	112	139	123	116
Non-manufacturing	258	171	140	152	132	126
Agriculture	477	342	271	181	159	147
Construction	188	130	84	130	118	88
Financial service- real estate	143	105	87	119	125	110
Utilities	118	81	62	93	76	55
Distribution	215	152	145	124	107	103
Transportation- communication	220	188	135	144	140	104

Source: Ministry of Labor, Rodo Hakusho (White Paper on Labor), 1994.

Table 2: Factors Contributing to the Growth of Labor Productivity

Country	Productivity Growth Rate	Technology Development	Capital Stock	Employee Number	Working Hours
Japan	4.7%	2.9%	2.2%	-0.4%	0.0%
USA	2.4%	2.0%	0.4%	0.0%	-0.0%
Germany	2.0%	1.7%	0.3%	0.0%	0.1%

Source: Ministry of Labor, Rodo Hakusho (White Paper on Labor), 1994.

Socio-cultural and Socio-economic Changes

Life employment and seniority promotion had taken over time a socio-cultural connotation that a large majority of firms want to erase. They claim that the individual actual contribution to the organization must be precisely measured and the reward must reflect the differences in the level of the employees. They say that they are looking for a more specialized workforce productive from the first day. In their minds this supposes a more contingent type of mutual commitment. The number of Japanese firms where the personnel manager does general wholesale recruitment of newly graduates should

become a minority. At least in the managers declaration if not yet in reality on a large scale, there is a clear shift towards the ad hoc way of recruiting conformed to the pattern followed by US companies to develop an efficient labour force (Nikkei Weekly, May 23, 1996). On the other hand, the younger generation diversifies its career anchors (Sakakibara, 1992). Because the access to middle management is more difficult, a larger number of middle age employees reach their career peak at an earlier stage. So, younger employees are discouraged because the positions they should naturally have reached before remain occupied by older employees who themselves have nowhere to go. This career collision explains why workers now leave Japanese companies in larger number than before or end up losing any ambition.

A growing segment of the labor population is not satisfied with the management style of Japanese companies. Employees ask for more codification and standardization of the practices. They do not accept or do not consider relevant anymore the complex rites of interaction, the unwritten, informal and diffuse rules governing the appraisal, promotion and reward system that were traditionally the cement of the management system and of the cohesion of Japanese firms (Miyanaga, 1991). Those rules used to be accepted implicitly by all members, but are now considered to be cumbersome, inefficient and unfair by many young Japanese because of their lack of transparency and, therefore, the danger of arbitrariness they may perpetuate (Debroux, 1993). There is a trend away from *aku byodo*, egalitarianism leading to complacency and loss of competitiveness. The sense of social solidarity which characterized the egalitarianism of postwar Japan is fading away. A growing segment of the younger generation is ready to accept the high risk high return pattern of work. That is why a growing number of Japanese companies are using Westernized systems of job classification, appraisal and reward (MBO, Hay system, etc) with the approbation of their employees (Yokoyama, 1992).

For the older generations, to enter a good company was hard but the difference that it made in monetary and non-monetary terms was worth the effort. Afterwards, almost nobody was going to jeopardize one's position. There was no second chance elsewhere in similar conditions after a few years in the same company. Therefore, there was a willingness to adapt to the job requirements without contesting the right of the firm to control one's career and private life. Now, the difference is not anymore between entering a large company offering higher monetary reward, stability and social status, or struggling in an unstable small firm unable to offer long term job guarantee and fringe benefits. Entering a large firm does not mean that the position is secure for life or will lead to a managerial position. Therefore, managers cannot expect from the employees the same sacrifice that they could from the previous generation. On the whole, willingness to sacrifice personal and family life is declining. Acceptance of being a *tanshin funin* sent away alone to a distant part of the country or the world used to be taken for granted and possibly to reward later. Now it is considered by young people to be an infringement to their rights to a decent private and family life. *Karoshi* death from overwork is not taken anymore as a fact of life symbol of a high organizational commitment. It is something for which the family gathers evidence in order to sue the company.

ASSESSMENT OF THE CURRENT HUMAN RESOURCE MANAGEMENT SYSTEMS

A Growing Heterogeneity

Heterogeneity even within the same industry became noticeable in the 1990s for all the elements of the human management system. Some companies are still very close to the traditional system while others have adopted a system departing radically from the previous practices. In-between are companies in transition gradually implementing new measures. At top management level, some express the view that it is precisely during hard times that companies have to act responsibly vis-a-vis the workers, ie, in respecting the unwritten personnel obligations of job and career security (Okuda, 1993). Others push for radical changes in the management of their company and the need for the development of a pay for performance system for managers without any guarantee of job security in case of under par performance. All those moves reflect a growing emphasis on self-discipline and sense of independence, ie, a critical view of the drawbacks of a system perceived to be bureaucratized. An employee may stay in the same firm for life if he/she does not make any big mistake. Therefore, he/she will be in an environment conducive to a risk-reverse attitude and this will limit the challenge associated with a creative objective (Nihon Ginko, 1994).

A survey of the Ministry of Labor found that, while use of merit pay increased by 50% in the early 1990s, it is being used by only about 15% of Japan's largest companies (MOL, 1992). In the calculation of the basic salary, it globally means that the weight of the group affiliation criteria (*zokujinkyu*) and of elements of a general character linked to non-task related criteria (*sogokyu*) remains heavier than the weight of elements related to job qualification (*shokumukyu*) and ability (*shokunokyu*). As a strategy, it shows the willingness to maintain the traditional concept of fairness. To give a few examples reflecting a mindset aiming to take advantage of group work, solidarity and harmony, many companies keep an ascending wage curve until 60 years old; they have a quasi uniform wage grid in order to limit the wage gap among people of the same category; for instance some firms maintain the wage gap between executives within a 20%-30% band. Concerning promotion, they continue to give priority to the educational credential. They do not have promotion examination either; all employees become eventually executives and, if appraisal includes demerit points, it does not include merit point (Sangyo Rodo Chosa, 1994).

Other companies are in a period of transition from a seniority-weighted system to a more meritocratic one. This means a gradually more dominant weighting of the job-related criteria in the appraisal and reward system. The change goes with a stricter control of the actual individual contribution of the employee to the company performance. There are also attempts at departing from the educational credentials in the hiring and career development process. It is the case among others at Mitsubishi Electric, leading supermarket chains such as Daiei, Ito-Yokado and Nichii and the Sumitomo Bank (Koyo Shinkokai, 1994). In some firms managers promotion is linked to internal examination

based on strict meritocratic criteria (Sangyo Rodo Chosa, 1994). As is the case at Nippon Express (Koyo Shinko Kyokai, 1994) this is often linked to a system of merit points without any consideration of the educational credentials.

Other companies are departing more radically from the usual practices. Traditionally, it is the organization's performance, not the individual's that determines wage increase and bonus size. The use of organizational pay incentives can limit initiative but they do have the merit of aligning individual and corporate objectives. Linking everyone's bonus to organizational performance is also one of several strategies for holding down pay differentials between white and blue collar employees and between junior and senior managers; this reinforces a sense of the enterprise as a *unmei kyodotai*, a "community of fate". Nevertheless, a growing number of companies are linking wage and bonus more directly to individual performance. compensation above the section chief (*kacho*) level is annualized (Nikkei Weekly, May 22, 1995); Kao (Nikkei Weekly, May 22, 1995) emphasizes that a 1 million yen yearly income gap can develop at the same hierarchical level; individual bonuses can vary from the equivalent of two months salary to nine months. In another example, Fujitsu (JEI, November 5, 1995) introduced an annual salary system for all 7000 of its management employees and for 6000 non-management employees who are more than 30 years old (altogether accounting for 24% of the total workforce). Affected employees now set performance targets for themselves at the beginning of the fiscal year and use a five-point rating system to judge their accomplishments. Rewards are reflected by two bonuses a year. This system is expected to expand annual salaries from the 11 to 13 million yen (\$110,000 to \$130,000 at 100 yen a \$1 rate) to the 12 to 17 million yen (\$120,000 to \$170,000) range for employees in their mid-40s within three years of their introduction. At the same time, seniority-based promotion will not be guaranteed.

As far as promotion is concerned, Honda (Nikkei Business, October 13, 1994) is systematically bypassing the hierarchy to promote talented people (*batteki jinji*); Yamada (Nikkei Business, November 2, 1994) and a growing number of other companies have a system of status downgrading of under performing executives (*kokaku jinji*); at Fujisawa Pharmaceuticals (Sangyo Rodo Chosa, 1994) the merit and demerit points system may lead to gaps going from three to eight years in the hierarchy.

These examples show the extent of the restructuring steps, especially involving white-collar workers. Going along a trend towards flatter organization reducing the intermediate levels, similar moves at other companies include the reduction of management posts, pre-retirement and the reallocation or transfer of middle management employees and a cut in salary increases (Takanashi, 1994). This complements moves to diversify the career and compensation patterns through the introduction of MBO and job classification schemes (Shigeta, 1994).

Reform and Stability

Although changes might produce overtime a qualitative jump towards a completely new type of intrafirm relations, for the time being firms faces a number of internal and external constraints. Life-style employment may not have old cultural roots (Taira,

1970) but it cannot be denied that the practice had taken on ethical overtones over time. Although disputed now, the concept of *unmei kyodotai* (community of fate) has been considered as the cornerstone of the stability and harmony (and therefore success) of Japanese business at the highest level of the industrial world (Morita, 1986). Despite a growing mobility, organizational commitment is of most concern for the core employees who are secured from the external labor market. They are incorporated with benefits which blurs the distinction between line and staff managers and between management and workers. Such benefits could not be achieved easily if at all where a reliance exists as in Western firms on the external market as a source of recruitment. In such a context, change does occur but it cannot be other than gradual. While fascinating for many Japanese people, an American style corporate culture is unlikely to take root suddenly in a culture where individualism was until recently considered as a deviance acceptable only to marginal people in the realms of religion or art. The organizational culture of Japan has little in common with the Anglo-Saxon approach; patterns of ownership are different, as well as regulations and extra-legal patterns of employment relationship; though their membership is declining, trade unions are more firmly established.

Attempts to introduce Japanese management practices in Western companies in the 1980s have shown how difficult it is to adjust to concepts developed in another socio-cultural and economic environment (Williams, 1994). It is likely to be the same in a Japanese setting with new management tools. For example, interrogation marks should remain on the applicability of a management by objective (MBO) system in a Japanese socio-cultural context. The difficulties have been well identified in Europe and in the United States (Lessem, 1994). MBO is based on socio-cultural assumptions developed in Anglo-Saxon surroundings emphasizing individual responsibility and is difficult to transplant as such in other socio-cultural environments. This has been exemplified by the relative lack of success in non-Anglo-Saxon Western countries such as France or Italy. It is quite difficult to define precisely performance (both the quantitative and the qualitative sides of it) and for superiors to evaluate their subordinates. Given the loose job descriptions and strong group orientation in Japanese companies, similar problems are likely to occur also if they want to apply MBO for planning and goal-setting. Japanese firms tend to link MBO for instance to higher productivity although the link is indirect and remain largely unproven. In fact, it seems that in many of them the schemes are mainly used to justify high rewards necessary to attract and keep highly skilled young graduates or specialists.

What seems also to be lacking in the discussions is concrete examples of what meritocratic, performance-based appraisal and reward, put into the broad term of *noryokushugi* should mean in practice. Blue and white collar workers and managerial careers in Japan were actually always governed by both seniority and merit (Koike, 1994). So, it is necessary now to establish how the system is supposed to change to achieve a concrete outcome in terms of higher productivity, innovation drive or else. What could be the adequate wage differential of same position managers with 20 or 30 years seniority? How should companies deal with bright high flyers? Is it adequate to have them been appointed to section chief level in their twenties and vice-president in

their thirties? If there are indeed a few example of such moves mentioned in the media, what would be the acceptable criteria in more general terms? Some companies, for example Sony, are introducing a stock option system (Nikkei Weekly, March 15, 1996). It might stimulate a few executives but there is little discussion about the potential negative effect on people excluded from the scheme. They will be the large majority and be unhappy with it. There is intense coverage of the shift towards flatter organizations short-circuiting the intermediate levels but little debate either on what might be the advantages of seniority in maximizing cooperative activity or the willingness to strive for organizational rather than personal career.

Taking into account all those elements, an innovative human resource management policy will require a delicate displacement of the equilibrium. Factors that protect employment security limit the freedom for developing a radically new human resource management policy. They result from the socio-cultural norms, government policy, labor legislation and courts attitude, and patterns of industrial relations. They explain why there is yet little evidence of massive changes in employment patterns.

Indeed, with the recession and dwindling profits, many firms find themselves with large numbers of redundant employees mostly hired in the early 1970s at a time of rapid growth. They are reaching the age at which they should now have expected a senior managerial post. However, if they are now put aside in growing number, through the so-called *shukko* practice of transfers (increasingly definitive) to a subsidiary or dependent supplier, few of them seem to have been compulsorily made redundant on a large scale. Nor do they seem to have been pushed into complete early retirement. 1993-1994 participation rates for men have been higher than they have ever been for 55-59 year olds (94%), and higher than since 1982 for 60-64 year olds (Ministry of Labor, 1995).

The basic rules governing the internal market structure are still in place for most aspects of wages, job design and classification, and deployment of labor and employment security. Even in a number of companies which have otherwise adopted radical changes, elements are kept to maintain the social cohesion and to respect the implicit mutual contract. It explains why, for instance, although managers wage is annualized, they still get lodging and family allowances at Honda (Nikkei Business, October 13, 1994); or although wage increase associated with promotion is based 100% on merit, basic salary increase is guaranteed at Asahi Beer (Nikkei Business, November 2, 1994).

Employment tenure is actually increasing for both blue and white collar workers: white collars used to have a much longer tenure than blue collar workers on average but the gap is closing rapidly (Ministry of Labour, 1992). Average tenures of the employed population covered by the Ministry of Labour (Ministry of Labor, 1995) rose from 12.5 to 12.8 years from 1990 to 1994. For university graduates, the increase in the average age and that in average tenure were identical, indicating no change in employment stability. The small increase in the proportion of redundancy lay-off can be almost entirely explained by cyclical factors. Although there is an increase in temporary work (Nikkei Weekly, May 30, 1996), there is no noticeable trend to replace core employees with temporary and contract workers who can be more easily laid-off. The proportion of the workforce regularly employed was still around 80% in 1992 (Ministry of Labor,

1995). There is thus little evidence of an abrupt departure from the long term employment guarantee.

Employment security in Japan is grounded in legal precedents established by the labor courts during the last 50 years. It remains very difficult to lay-off regular employees with an undetermined duration contract without the employees or the union's agreement. Moreover, long term employment and employment security are explicitly favored by the government. The Ministry of Labor subsidizes up to two-third of the wages of the employees whose companies start temporary factory shutdowns instead of pure layoffs. A growing number of industries, less than 5 in 1992 to more than 200 in December 1993 received subsidies to pay for redundant workers and recycle them (Ministry of Labor, 1995). Everything has to be done to avoid industrial restructuring (notably through industry delocalization abroad) creating a sudden unemployment surge (Shakai Keizai Seisensei Honbu Shimbun, 1995).

Constraints on management and employees are also related to microeconomics and social relations inside the firm. Workers (including the younger one and the students) remain overall deeply conservative in their career patterns (Nemoto, 1993). They may be pessimistic on the possibility of getting a safe employment for life and critical of the way their career is managed (Recruit Survey, 1994). However, they also know that in regards of the standard wage structure and the companies' pension system, they need to stay in the same company to optimize their long term career income. The combination of evaluation of skill level growth and cumulative internal training has given to the relation between average wages and number of years in the company a steeper profile than in the other industrialized countries (Koike, 1994). Moreover, on one hand, if young employees reject the life employment and seniority system in its most traditional form, they (especially the young males) remain attached to some form of job security and to a long term mutual commitment (Suwa, 1991). There is more mobility but the choice of a company is not becoming a purely utilitarian one in a Japanese context. Some stigma remains attached to too high job mobility.

Thanks to the growing mobility of experienced managers, it is easier to bring in personnel from outside, to dismiss ineffective managers and to promote capable ones. It is all the more true in new companies in high technology industries whose workers are comparatively mobile. However, even in those firms any of these acts could easily create a feeling of insecurity and be viewed as a breach of the natural obligation and psychological contract which flows from the dedication and loyalty shown by employees (Debroux, 1993). With the exception of persons with technical skills in newly developed industries or in the small familial firms, there seems to be yet little lateral mobility among most occupations. Once joining a company, the expectation of the majority of the workers is still that they will stay until retirement age (Recruit Survey, 1994).

Weight of Educational Credentials

Large companies hire more mid-career as well as contractual and part-time employees (Nikkei Shimbun, May 24, 1995). Japanese companies are competing with each other

and with foreign affiliated companies for people (young graduates and mid-career specialists) possessing high technical skills in financial management, engineering, information systems, media technology, and other fields. Many of them also decided not to hire any new graduates for one or two years or decreased radically their number. However, it is too early to say whether this represents a radical change or an adjustment to short term difficulties. For the time being, the vast majority of firms are taking only limited steps to hire more contingent and mid-career employees.

It is highly probable that the reliance of most of them on new graduates will continue, albeit with a growing weight of mid-career hiring. In the case of natural science graduates, especially, hiring through recommendation from university professors in a limited number of specific universities is still the norm at the post-graduate level. The informal contract that a number of firms have with certain universities is as crucial as the entrance examination to provide business with some guarantee of hiring employees with the required characteristics. In such conditions, companies will continue to open the door to the professor's candidates as long as they remain satisfied on the whole. They know that first class universities will not recommend candidates for a given job if the applicants do not have the characteristics employers are expecting. So, both sides are determined not to damage a long-term new graduates demand/supply relationship if there is no urgent need of change.

Yearly recruitment of new graduates will change with the restructuring of Japanese industry and the need for a new type of human resource management. Skill-grading system is a slow process not only because it takes time to master technical and managerial skills but because the evaluation of the personality, ie, reliability, adaptability and collegiability is a key element, requiring examination in various circumstances. For the time being, the newly hired mid-career specialists mastering high technologies or gifted with managerial expertise still tend to be put into a special contingent category. They have a contract with a determined duration and are rewarded according to criteria strictly linked to performance. Their role of innovators and pace-setters of new management practices will be important in the long-term as they are expected to introduce an entrepreneurial spirit to the company. However, it is well understood that they will not become the norm now but be an ad hoc exceptional response to cope with a harsh competitive environment requiring access to outside technology or managerial expertise.

Indeed, Japanese companies want a different type of workforce and are ready to make efforts to upgrade the level of their employees but they also look as usual for able and trusty people, who will not act without consulting and respecting the opinions of the other employees. Such judgments on personality and ability are directly related to the highly hierarchically organized educational system. Providing general access to a basic level of public education followed by limited access to more advanced levels of public institutions, the authorities have put in place a structure that so far has met most labor market needs.

Merit determines which students can proceed from a general elementary education to the fewer number of public schools and universities beyond compulsory education. Doors

are open to success through self-effort and not privileges. As a consequence the relation between an employee's ability and his/her educational background is strong. Mainstream Japanese companies have always conducted their recruitment and appraisal system on such a basis. There is lesser need for stringent corporate appraisals because the schools are supposed to select the best efficiently. The situation is changing only slowly. In a recent survey (Recruit Survey, 1994), 73.7% of companies said they do not place great emphasis on the prestige of the universities of new graduates, up from 58.6% in 1984. Orix Corp, a leading leasing firm, has decided to throw open career-track management positions, hitherto set aside for graduates of famous universities, to graduates of 2-year vocational schools and junior colleges starting next year. Also influencing the decision was the company's success in recruiting mid-career employees. Such people now account for 20% of Orix staff in their 30s and about 50% of those in their 40s (Nikkei Weekly, May 22, 1995).

However, the transition away from a reliance on educational credentials will be slow in the mainstream companies. Sony "blind" recruiting, ie, without knowing the educational background of the applicants in order to avoid being stuck with the educational credential syndrome, remains a limited experience. The company continues to hire most of its natural science recruits from well-tested channels. Moves signaled at companies such as Toyota or Toshiba to hire about 10% of their natural science human resources through other channels than university recommendation, show that changes will be only very gradual (Sankei Shimbun, May 31, 1995).

As long as companies do not change such practices of recruitment and decrease their too high reliance on educational credentials, the situation is unlikely to change fundamentally.

Changing Trade Unions and Breaking of Consensus

Japanese enterprise unions' generally conciliatory attitudes in salary negotiations (Inohara, 1990) goes along a strong stance on job security for their members. For forty years, companies operated in a system organized in a coordinated way, where they could make, sustain and if necessary change underlying agreements with the union movement or with part of it. In exchange for integration into the training, wage-setting, redundancy systems at companies, and in exchange for appropriate behavior by companies, unions would guarantee cooperative behavior by their members, and companies could rely on the role of organized business as a last resort defender if the union did not carry out its side of the bargain. The equilibrium is now broken by the parallel weakening of the trade unions, business associations and *keiretsu* relations. With the uncertain oscillations between "old" industrial relations and "new" human resource management which is occurring as in the West, the balance between interdependent partners is perceived as increasingly shaky.

As a result, the Williamsonian problem again arises. The longer the relationship and the less clear what things the two or more sides may have to do together in the future, the greater the likelihood that the agreement cannot be drawn up as a legally binding contract. This contractual incompleteness matters if one or both sides have made

significant investments specific to the relationship. Thus each side has to be sure that the other will stick to the spirit of the agreement. In the current labor situation in Japan, both sides are less able than before to guarantee that the other side will behave in the desired manner. This explains the various signs of a growing organization of middle managers. The same people considered to be the pillars of the system, relaying endlessly the flow of information from the bottom to the top and playing a key coordinating role now have doubts about the commitment of the company vis-a-vis themselves. Complete trust is gone and middle managers are not sure anymore that they can just rely on the firm to develop their career (Sataka and Shibara, 1995). The Trade Union Law currently prohibits people representing the employee's interests from joining trade unions. However, there is a recent trend towards the demand of recognition for their unions, as they perceive their job threatened by restructuring moves (Labor Issues Quarterly, Spring 1994). In such a context, even short of an official recognition, more and more groups are bound to form inside the companies to defend the interest of the core white collar employees and executives and the implicit non-lay-off contract (Asahi Shimbun, June 4, 1995).

In such an environment, any attempt to terminate abruptly a member of the management or a group of core employees by coercion (for instance, imposition of a forced resignation with the threat of drastic wages cut if refused) would be met with fierce opposition and anxiety (Nikkei Weekly, April 24, 1995). It is indeed possible to dismiss managers, but the obligation remains to find an adequate alternative to those dismissed, a not so easy task at a time of scarce job opportunities for a wide range of occupations. It is also easier to hire from outside or promote rapidly the brightest people, but it could also put in jeopardy the whole structure if not dealt with adequately, in a strictly limited manner and explained thoroughly (Abegglen, 1992).

EXPECTED CHANGES AND CONSTRAINTS

Private and Public Changes

Responsibility for the formulation and implementation of change has to be shared. Industry associations are committed to smoothing the transition and developing a new type of relation between labour and business (Nikkeiren, 1994). Altogether, the slowness and vagaries of the implementation of the reform adopted in the last ten years by the Ministries of Labor (MOL) and Education (MOE) indicate that radical reform can not be undertaken solely through public initiative. As labor market demands change, the employee's expectation vis a vis companies and the education system need to adjust accordingly.

Likewise, companies' coping with low profitability through downsizing, ie, decrease of hiring, temporary and definitive transfers and retirement, has reach its limits. Without changing their hiring and career development practices, they could end up hampering the changes. Despite appearances, their attitude is not clear-cut. The examination system from primary school to universities has obvious shortcomings, but it does serve as a signal to business of students' ability to learn and their determination. It may impede

creativity and life experiences that otherwise a student might bring to a company or other institution. However, this may be less important on an individual basis than the assurance of a certain standard level of capability. Thus, companies, which would be expected to want an educational system that is not concentrated on tests but helps students to foster creativity and individualism through challenge and discovery, may not be so concerned about the issue as it first would appear.

As long as the selection process associated with the examination system continues to work smoothly for hiring purposes, firms may not push for radical change. This is all the more true in a period of low hiring. Many companies are stuck with employees hired during the 1980s at a time there was such a worry of potential labor shortage that hiring was often made without much discrimination, ie, including from lesser known universities. With their low profitability, few of them can still afford uncertain experiences. They tend to play safe in recruiting again in universities they know can deliver the "standard quality".

It has been argued that corporate creativity can be influenced by human resource development policies promoting intra-company information flow and the selective acquisition of diverse stimuli (Stern, 1992). However, in the short term, firms' cautiousness, including their evident reluctance to tap female talent, at least for general type of work, does not seem to play in favor of a greater opening of recruiting channels (Japan Times, 1995). Pushing for reform, the Keizai Doyukai (Japan Association of Corporate Executives) urges companies to stop asking job applicants about which university they attended (MOE, 1994). However, with very few notable exceptions, actual practices are expected to vary little from the old ones, at least in the short term.

Performance is beginning to catch up with "personality" but it is still at the margin. Rushing the process could create tension in the consultative management procedures as the system is still heavily locked in educational credentialism. The time is not yet coming, when, on a large scale, outsiders come from nowhere, i.e. unknown universities or no university at all, and climb rapidly to the top, bypassing overconfident products of the elitist educational system.

At time, this is however bound to occur and lead to a drastic change in the nature of the relationship. Alternatively either side may worry that the other will have an incentive to leave the relationship in the future, and therefore not be prepared to invest in any further company specific skills now. In the manufacturing sector, large-scale production with manual workers with company specific skills in a particular type of innovation is needed if innovating companies are to have a co-specific asset which other companies do not possess and therefore frustrates the attempts at copying the innovation.

Large scale production including a close collaboration between R&D, production and marketing in which the workforce develops know-how through learning by doing and relating is only feasible if management can be assured that the workforce will be highly cooperative. Once the company has invested in people with company-specific skills, particularly if they have also have marketable skills, such a workforce is in a potentially very powerful bargaining position; management is afraid to fire them because of its investment in them, and they have little difficulty in finding alternative employment.

Conversely, researchers and marketing specialists are unlikely to be prepared to work in companies in which they have to invest in learning joint company-specific skills with production workers, since such skills do not benefit them if they leave the company. The same is true for all white collar workers. Without the prospect of a lifetime career with one company, they will not be as patient as they used to be in waiting for promotions and opportunities for advancement. In the mind of the employee, the feeling is emerging that the sunk cost of investing in one company is too high. Talented people may see a benefit in changing firms before being stuck with hard to sell company specific skills. The problem in Japanese companies will be all the more difficult precisely because of the emphasis on such specific skills. This will make the cost of writing an enforceable legal contract to cover relevant contingencies extremely high.

Conditions of a Shift away from the Education Credentials

Change will come both from the labor side, insofar as companies seek more workers who do not expect lifetime employment tenure, as well as from the university side if reforms developed by the MOE (MOE, 1994) succeed. The MOE wants to train students less oriented to a direct path from school to a lifetime employer (see the experience of the special "integrated" training schools to prepare students for careers and not necessarily for joining a company that will decide the employee's career planning) (MOE, 1994). Students are aware of the hiring criteria. It reinforces the idea that graduates of good universities have a better chance of entering into a lifetime employment type of jobs in large firms. Thus, entrance examinations remain the critical determinant of most students' future job opportunities. Everyone in Japan is against rote learning, cramming, and, therefore, the Japanese examination system. Nevertheless, the business of the *juku*, the ubiquitous cram schools is still growing.

Pupils and parents thinking will evolve only if they are encouraged by changes in companies' hiring or admission policies. The meritocratic element is at the heart of the examination system. Radical changes are unlikely unless a similarly meritocratic evaluation for recruitment is developed. If these changes do not occur in parallel, nothing can change the minds of the parents and students: a large majority of students will admit that something was lost in their youth and most parents are aware that studying night and day to pass rote examination has a high psychological and physical toll on their children. However, that is insignificant compared to the reward for those who pass all the hurdles and the penalty for those who do not. Short of a change in companies' reaction, it can only be caused by the perception of a growing inegalitarianism among the population at large. Unemployment is increasing, working conditions are worsening in many occupations while, at the same time, the cost of education increases. At one point in time, first class education will not be so easily affordable anymore to a large segment of people believing to belong to the middle class. Then, the perception that the system is truly meritocratic might become unclear and causes a demand for revision in bad conditions.

Before this happens, to any large extent, it is up to the firms to decide to apply other hiring criteria. So far, the system has served them well. This explains their reluctance to

implement but cautious measures. A key issue is whether they will continue to invest in internal training programmes or if they are beginning to prefer to hire more specialized personnel on the spot. The answer is probably that they will pursue a multipronged strategy (Nikkeiren, 1994). A generalist background will always be required for those in a lifetime employment type of job and specific training will be wanted for the contractual, part-timers or temporary employees. To provide internal training to employees in a long term relationship with the firm will remain a key factor in retaining competitive advantages. At the same time, the high placement rate for students graduated from technical schools and the relatively lower one for graduates from general schools shows that companies are looking for people mastering a specialty, at least for some kind of jobs (Murdo, 1995). In that sense, the policy engineered by the MOE of integrated learning and offering of lifelong learning opportunities at universities is likely to meet the market demand. Japanese firms are just beginning to consider all the opportunities offered by the universities (conversely, many universities are only considering just now the necessity of closer contact with the business world). If companies are convinced that they can benefit somehow from more stimulus at local universities, the distant relations that they have had so far with them except for recruitment may change. Therefore, they may establish working relations with schools and universities to promote internal training programmes. The opportunities offered to people already working to follow university courses and get credits would complement the internal training policy companies develop themselves, for instance the opening of company run two-year colleges delivering a degree with the authorization of the Ministry of Labor (Stern, 1993).

CONCLUSION

It appears that it is still difficult to draw conclusions on the extent and the possible outcomes of the changes and the weight of new practices compared to the traditional ones. There are changes and the pace is accelerating but in many respects the system still operates on the same basis as before but with more consistent control and better feedback. Any abrupt departure from usual patterns could make contradictions appear.

A shift towards a more entrepreneurial system would require fundamental changes. The USA can produce a seemingly endless flow of world class entrepreneurs, and a striving venture capital industry because they have the best universities in the world and open labor and capital markets. They can take advantage of the large flow of science PhD, Americans and foreigners alike, who acquire in the universities laboratories the knowledge and the innovative drive which they take into their business offsprings or make available to existing firms on the R&D labor market. Japanese universities are light years away from that, and it should take more than one generation to create something approaching the US model. A complete revamping of the whole educational system from primary level on would be necessary at a time there is little political consensus to go beyond piecemeal reform on the subject. Meanwhile, the only way for large Japanese companies will be as usual to hire younger scientists with a master's degree, keep them within the firm and help them to develop expertise and organizational

learning skills. However, doing so, they will impede the entrepreneurship drive encouraged by the MITI and supposed to create the companies of the future. Japan will be unable to develop its own venture business industry until two basic interrelated conditions are fulfilled: first, financial constraints to capital access require a drastic deregulation of present rules. The recent reforms are steps in the good direction but pace remains too slow; second, the lure of the big companies must decrease and those corporations must cease to have a hold on the best and brightest of students (especially natural science students). This is only possible with an open labor market for natural science human resources offering the possibility of moving from one company to another or back and forth from the university to the business world.

Companies which want to change the traditional system should be prepared for various reactions from the employee side. Encouraging risk-taking, mid-career changes and merit-based pay have positive as well as negative, largely unintended consequences. Obviously, the people leaving currently their company are not always those the company wants or expects to leave. It is an issue Western firms have to cope with for a long time already but it would be the first time to see the same evolution on a large scale in the post-war Japan. Japanese companies and workers are used to adapting to new circumstances but the current evolution of human resource management and employment practices is unusual. For the first time after the Second World War, changes are likely to create a large gap not only in terms of wage and bonus as it existed already (Koike, 1994), but also in non-monetary reward and employment stability among people having the same educational background. Employment insecurity is bound to increase and become a structural factor as in the West.

As in Western countries this trend is likely to raise concern about social effects: psychological stability in such an unstable society; the educational, psychological and time-wise costs involved in the transfer to another professional occupation or the search to find another one. In a sense, Japanese firms, which used to bear such costs under welfare corporatist schemes, now face a dilemma between their threatened economic interest and social responsibility. At the macro-economic level, the Japanese authorities have to ponder several alternatives. So far, the threat of rising unemployment during the ongoing slowdown in Japan has been met with the use of an existing programme to subsidize employers that keep workers on their payrolls. Special programmes also continue to protect small and medium sized enterprises and lagging economic regions against the forces of economic changes. These programmes suggest that Japanese authorities will not passively accept sharp reductions in the employment and relative wages should such forces emerge.

However, it is likely that, as in the other developed countries, technological changes and other factors will lead to a structural employment instability and a widening income differentials that Japan's limited government resources could not resist effectively. This trend is already apparent: there is a growing pay inequality in Japan. Since the late 1980s, the top decile of the male employees' earning distribution has grown relative to the median (OECD, 1993) and the gap is bound to increase further in the future. It was believed for a long time (Katz & Revenga, 1989) that, compared to the USA, the

potential of third world wages driving down the income of unskilled or semi-skilled workers was less likely. The "white collarization" of production workers (Koike, 1984) in Japan had given them the flexibility to adopt to shifting demand structures better than their American counterparts. While workers with close to permanent employment status may have that flexibility, the same is not true for Japanese who switch jobs, be they white or blue collar workers. They often suffer severe losses of income (Ostrom, 1996).

Restrictions on purchases from abroad by putting a brake to the deregulation process (including market access to foreign goods and services) would lead to substantial price increases and loss of competitiveness. Maintaining wages levels artificially would also have negative consequences. Indeed, European countries have experienced less change in the inequality of wages than the United States since the 1970s. However, they have also experienced greater increase in unemployment. So, all public and private players have to adapt to the new challenge. It will not be easy as the valuations of the current system are made in a social context of credentialism, consensual decision-making, distrust of individualism and veneration of loyalty. Therefore, it remains to be seen how the Japanese companies will be able to keep their effectiveness while shifting to a new paradigm requiring the understanding and acceptance of values and practices opposite to those adopted so far. They will have to revamp the system to make it efficient in a new environment while keeping in mind that any drastic moves could have a deep impact on the social fabric, creating only a few winners but large cohorts of demoralized losers if the reform are not understood and accepted. This could destroy the competitive advantage that a coherent human resource management had allowed during the past forty years.

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