

# Labor-management lessons from Japan

The following is excerpted from a lecture given as part of the series "On Learning from Japan" conducted through the University of Hawaii College of Continuing Education and Community Service. The lecture series, sponsored by the Japanese Consulate in Hawaii and the university's Department of Political Science, was coordinated by Professors Yasumasa Kuroda and James Dator

By Rep Cec Heftel

More than anything else, Japan has shown us that we must fundamentally reform the relationships between American management, labor and government if we are to remain competitive. To put it simply, we can no longer afford industrial and government relations characterized by hostility and misunderstanding.

While Japan has forged itself into a formidable economic juggernaut by building a powerful national consensus, America remains divided and weakened by internal bickering between unions, business, and government agencies. As a result, our status as the foremost economic power in the world is being threatened. We are learning that it is hard to compete when you keep shooting yourself in the foot.

**IN JAPAN, LABOR** and management have a relationship based on mutual trust and shared interests in economic growth. In sharp contrast, American labor-management relations are characteristically adversarial — if not downright hostile.

Between 1973 and 1978, labor productivity in the U.S. grew at an average rate of 1.4 percent per year. During the same period, Japan's productivity growth rate was 3.6 percent per year. While other factors are undoubtedly important, I believe that labor-management relations play a role in explaining the sharp differences.

In 1978, the U.S. lost 39 million workdays due to strikes; in the same year, Japan lost only 1.4 million days. The last strike in the Japanese auto industry was at Toyota — in 1955. In the U.S., strikes by the United Auto Workers Union seem to be regular events — every three or four years. Little wonder, then, that

the productivity of Japanese auto workers increased almost three times as fast as that of their American counterparts between 1970 and 1980.

All of this argues strongly for a more cooperative, harmonious relationship between management and labor in the U.S., along the lines of the Japanese experience. At the same time, however, we must remember that Americans and Japanese have sharp cultural differences. For this reason, the Japanese model of labor-management cooperation cannot be directly applied to the U.S., but instead must be adapted.

**HOW DO WE** translate the Japanese principles of labor-management cooperation to the U.S. while preserving our cultural identity?

William Ouchi, a management professor at UCLA, has just written a fascinating book, called "Theory Z: How American Business Can Meet the Japanese Challenge." It addresses precisely this question. He concludes that, while Japanese society is perhaps ideally suited to highly cooperative enterprise, many of the general principles could be applied successfully in America.

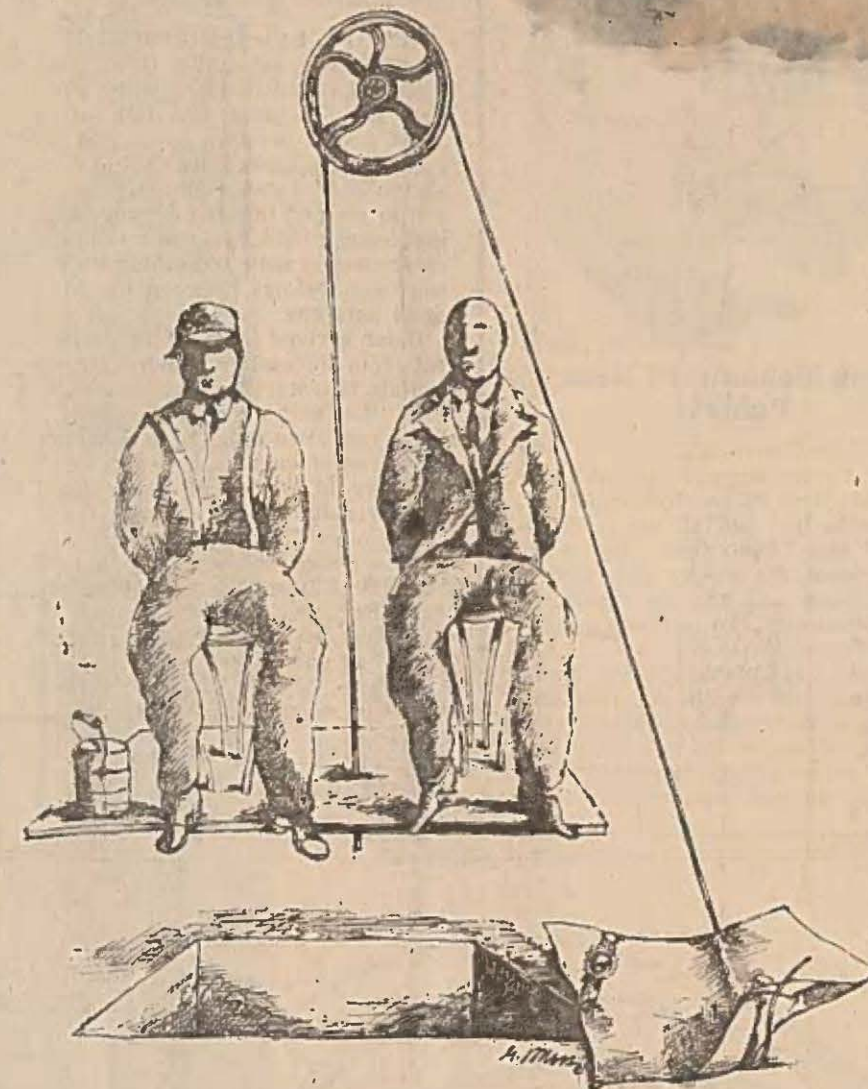
In fact, Ouchi points out that some American firms — such as Procter and Gamble, IBM and Intel — are already applying "Theory Z" with favorable results.

What are these general principles, what is this "Theory Z"? It is all based on the idea that workers will perform better if they are given an increased stake in their company's performance and welfare. This involves spreading the benefits and risks of enterprise more equally between management and labor.

Above all, Theory Z recognizes that workers and managers are, really, together in the same boat. They can cooperate and mutually steer the ship toward economic prosperity, or they can fight among themselves until the ship sinks due to negligence.

In this light, American firms could benefit greatly if they adopted some principles that Japanese firms have been applying for years, a few specifics:

- Increased employment security — About 35 percent of Japan's work force is covered by lifetime employment. During hard times, paychecks



are reduced for everyone, rather than cutting the employment rolls.

- Greater employee input in decision making — Japanese firms try to involve as many employees as possible when making important corporate decision. Divergent views are often encouraged and a final decision is then made through collective compromise. Employee suggestions are actively encouraged.

- Performance-based compensation — Much of Japanese employees' income comes not from wages, but from large, twice-yearly bonuses that are generally based on the performance of the company. American workers need to be given a similar financial stake in their firms' economic performance. Profit-sharing and stock option plans could be expanded to increase the employees'

sense of awareness and responsibility for their company's welfare.

There is nothing inherently "Japanese" about any of these principles. Instead, it is more accurate to say that Japanese culture turned out to be extraordinarily amenable to this highly efficient form of industrial organization. We Americans can also enjoy success if we adopt some of these same general principles of labor-management cooperation.

**WE ALSO HAVE** much to learn from Japan in the area of industry government relations. In Japan, relations are cooperative and collegial, in America they are uneasy and often antagonistic. Again, this antagonism between government and industry only serves to weaken our international competitiveness. Two examples:

- While the U.S. Justice Department has spent years in court trying to break up IBM, the Japanese Ministry of International Trade and Industry has brought the major Japanese electronics firms together in a massive research project in microelectronics.

- While American industry has spent more than a decade haggling over federal-pollution laws Japanese industry and government have collaborated in the enforcement of pollution regulations more stringent than those in the U.S.

American industry can no longer afford to be at odds with its government and vice versa. Too many foreign governments — particularly those of Western Europe and Japan — are effectively cooperating with their industry, capturing markets at home and abroad, for America to be blind to this fact.

**FORGING A NEW** industry-government partnership in the U.S. will require patience and understanding on both sides. Again, the Japanese model should serve as a useful guide. In Japan, there is a constant give-and-take between industry and government. There are many disagreements — sometimes violent ones — but the Japanese nevertheless persevere toward the common goal of economic growth and prosperity.

American industry needs to become a more constructive partner with the government in safeguarding its citizens' environment, health and safety. It must cooperate with Congress in writing laws and regulations that protect the public welfare. It must develop a closer working relationship with the bureaucracy that implements these necessary federal and state regulations.

For its part, the government must actively strive to create a business environment conducive to economic growth. It must alter tax laws to encourage more savings, productive investment and research and development by firms and individuals.

It must directly fund more basic research to maintain our technological edge. Finally, it must actively encourage exports by providing generous tax treatment and other incentives.

**IF THERE IS** one general lesson that the Japanese have taught all of

us — in industry, labor and government — it is the importance of planning for the future, of lengthening our sights past the short-term.

While Americans have become increasingly preoccupied with immediate benefits and quick returns, the Japanese have been patiently investing in their future. In 1980, Japanese workers saved an average of about 20 percent of their household income — more than three times as much as the average American.

In a similar vein, it is common for Japanese companies to forgo profits for many years in order to develop markets for their products. This sharply contrasts with the current American practice of expecting a return on investment of two or even three years.

Finally, the Japanese government has long nurtured the supply-side of its economy through generous tax incentives for capital spending, heavy support of research and development, and many other direct measures. On the other side of the Pacific, the U.S. is only now beginning to realize that its productive potential is badly sagging after years of neglect and short-sighted government policies.

**WE AMERICANS** should not perceive Japan's economic miracle as a threat or foreboding but rather, we should view it as a challenge, a call-to-arms to rebuild and revitalize America.

I am hopeful that the Japanese challenge will serve to rekindle the American spirit of competitiveness and perseverance which seems to have waned in recent years. I see a welcome rise in economic nationalism in this country, a growing recognition that the prosperity of the nation as a whole must take precedence over individual gains. Let us hope this trend continues.

And, I hope that Hawaii will have a growing role in this U.S.-Japan dialogue because I believe that we have much to contribute to this crucial interchange. We are American, yet we are closer than other Americans to Japan.

Because of our diverse cultural heritage, we have deep roots in both American and Japanese societies. When Rudyard Kipling said, "East is East and West is West and never the twain shall meet," it was clear that he hadn't been to Hawaii.