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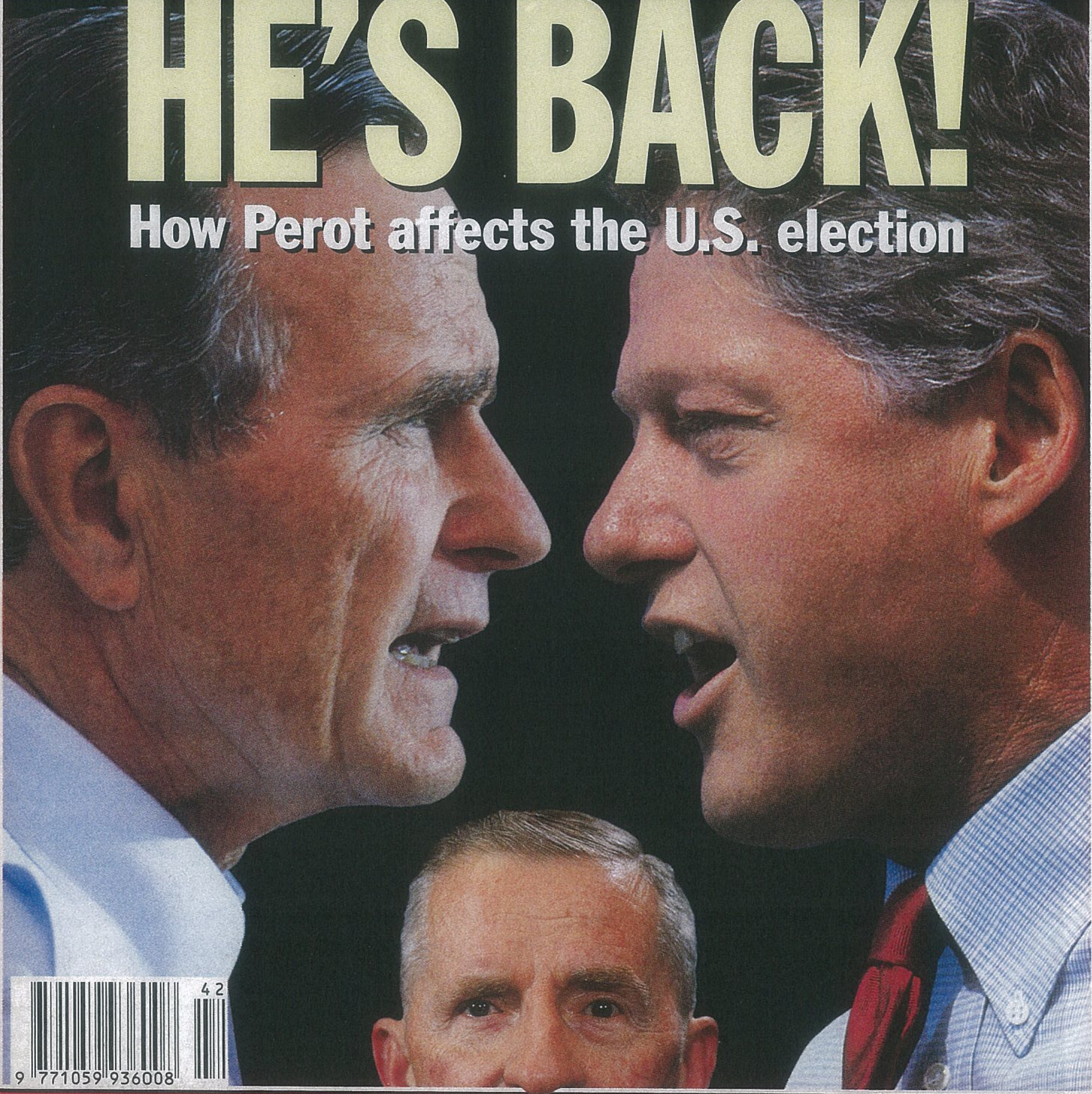
HE'S BACK!

How Perot affects the U.S. election



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GREG DAVIS FOR TIME

LABOR

LEANER —and Sometimes MEANER

The recession is chipping away at Japan Inc's hallowed lifetime employment guarantee

By EDWARD W. DESMOND TOKYO

AT OKHURA ELECTRIC, DRASTIC action was needed. The Tokyo-based electrical-parts manufacturer (1991 revenues: $141 million) had lost $15 million in 1991, in part because NTT, the national telephone company, canceled several big contracts. So president Junpei Okhura decided to reduce the 1,150-person work force 20% and close a factory in Chichibu, 70 km west of Tokyo, that built telephone-line-monitoring equipment. "We had to cut personnel or we could not survive," he explained. "As a manager, my responsibility is to the shareholders."

Okhura transferred 180 workers to other plants and tried to persuade 130 more to retire early by offering them an incentive package. Fourteen refused; they were dismissed anyway, and eight of them have since launched a lawsuit demanding reinstatement. Says Teruo Kawada, 46, a 27-year Okhura veteran and one of the plaintiffs: "I have six people who depend on me for their livelihood. This is unforgivable."

Many Japanese would agree. In a country that has prided itself on lifetime employment—the unwritten promise that a company will guarantee a job until retirement—the Okhura incident is something of an embarrassment. But as recession bites ever harder, the concept is under assault in more and more firms. "Japanese companies have policies like IBM's," says Ryozo Hayashi, a director at the Ministry of International Trade and Industry. "They have too much invested in fixed labor costs. And now, like IBM, they are in trouble."

Every day newspapers carry stories of "employment adjustments" by companies in such prestige industries as auto manufacturing, electronics and finance. The euphemism covers everything from trimming overtime to cutting recruitment of new employees to not-so-voluntary retirement. Unlike in previous recessions, even white-collar jobs are on the line. Says Yukio Okamoto, the president of a Tokyo consulting firm: "There will be people laid off in this recession, and it will begin with subcontractors and work its way up to the parent companies."

The term layoff, however, is rarely used, since it is considered damaging to a company's image. Says Peter Tasker, a financial strategist at Kleinwort, Benson International: "When a company lays off workers in the U.S., the CEO crows that the firm is now lean and mean. Here, if they do the same, they will never admit it."

Japanese firms generally try to conceal personnel cuts by resorting to *katatataki*, or "shoulder tapping"—the effort to pres-

An "unforgivable" act: former employees at an Okhura union office

sure employees into retiring voluntarily and ahead of schedule. The approach has been used increasingly in recent years against mid-level employees, and the incidence is accelerating in the current recession. Says Atsuo Tsukada, the president of Boyden, a Tokyo executive-search firm: "Lifetime employment is a myth. Companies just try to sell it as part of their image."

The reason is demographic. The unemployment rate is still remarkably low: 2.2%, well under the 3% level of the 1987 recession and far beneath the U.S.'s 7.5%. Some economists warn, however, that the jobless rate may increase sharply, based on their belief that there are several hundred thousand "underemployed" workers at big corporations, mostly in white-collar categories. Even if they were laid off, however, no one suggests that the jobless numbers could hit Western levels.

What worries chief executives more is the declining birthrate, currently 9.9 births per 1,000 people per year, one of the lowest in the world. Looking past the current profit squeeze, corporations expect to have difficulty finding promising recruits in the years ahead. Although many companies must reduce their work forces now, all but the most desperate are keeping an eye on the future. Mitsubishi Electric, for example, has lowered its target for new recruits from 1,350 to 1,220 annually but plans to hold the line there. Says personnel manager Soichi Haranoya: "It will be difficult to recruit even those 1,220 within a few years as the number of university graduates declines. So we are trying to stock up while we can."

Hence the importance of the image, if not the reality, of lifetime employment: job security remains a cornerstone of corporate recruiting. While lifetime-employment understandings cover only 20% to 25% of the work force, mostly at large firms, and are slowly giving way to more flexible attitudes on the part of management and labor, university graduates still see the lifetime pledge as a measure of corporate strength. "The people who handle student placement at universities feel a strong obligation to the students' parents," says Thomas Nevins, the president of TMT, a management-consulting firm. "If a company gets a reputation for firing employees, they won't recommend the firm."

When pressure mounts to reduce costs, most companies follow similar procedures. First, top management accepts a measure of pain by cutting executive pay and perks, like the recent 5% salary and 20% entertainment-allowance reduction imposed on Dai-Ichi Kangyo Bank brass. Then contract and temporary workers, categories filled largely by women at manufacturing firms, face reductions. Overtime, which makes up a significant chunk of salary, has also shrunk, as have bonuses, which typically amount to one-third or more of annual compensation.

The Squeeze is On

ELECTRONICS

Hitachi:
Total employment: 83,000
1991 Sales: $58.4 billion
- Cut two work days per month for two months for 2,200 VCR production employees.
- Plans to transfer 840 of 4,200 employees from the audio visual division to service operations.
- Will reduce recruitment to 2,500 next year from 4,100 in 1992.

Sanyo Electric:
Total employment 30,000
1991 sales: $12 billion
- Will cut 2,000 employees by 1996
- Will introduce optional retirement programs for employees over 50 years of age.

Oki Electric:
Total employment: 30,000
1991 Sales: $5.1 billion
- Plans to cut 2,000 employees over next 3 years.

JVC:
Total employment: 16,700
1991 sales: $6.3 billion
- Plans to shed 3,000 employees by March 1993: 300 job transfers, 600 through attrition, and 2100 part-time positions cut.

AUTOMOTIVES

Nissan:
Total employment: 55,000
1991 sales: $48.2 billion
- Plans to cut 4,000 factory workers in 3 years.

SECURITIES

Nikko Securities:
Total employment: 12,000
1991 revenues: $3 billion
- Plans to cut 1,700 employees by attrition over the next three years. Will reduce recruitment to 420 next year from 880 in 1992.

Nomura Securities:
Total employment: 12,225.
1991 revenues: $5 billion
- Plans to cut 2,000 employees through retirements and reduced recruitment over the next five years.

Big firms frequently shift workers to subsidiaries or to affiliates that are in more robust shape. Matsushita, for example, recently transferred 500 employees from its audiovisual division to general sales, where they will carry out a door-to-door poll of customer attitudes. Often big corporations, especially the depressed steel companies, transfer workers to other industries, like car manufacture, and pay 50% of the workers' salaries as a way to make the deal attractive to auto executives. Sometimes the transfers give employees a new lease on working life, but they can also amount to a kind of shoulder tapping. Says Nevins: "Companies will take people from manufacturing and put them in sales. When they can't sell, they face constant criticism, get an ulcer and quit."

The final stage is to announce a search for early-retirement candidates, and companies are often successful in persuading employees to go voluntarily. Says Jiro Nagata, a manager in JVC's personnel division: "Workers first see their overtime cut, factories shut down temporarily and other measures. So if the time comes for bonus cuts or early retirements, they understand better what's happening." But the company's authority is not always enough to get someone to take the hint. Headhunter Tsukada says that one of his friends, a senior man at a major trading house, came to work one day to discover that he no longer had a telephone. Says Tsukada: "When it comes to getting rid of staff, companies are not warmhearted. They don't ask you to go; they make you go."

Yet dismissals rarely trigger labor actions or lawsuits. One reason is that many labor unions are in fact corporate creations; not surprisingly, they avoid confrontations with management. Taking the issue to court is a lengthy and expensive process. Says Tohru Fukuda, the lawyer handling the worker complaint against Okhura Electric: "A case can take four or five years, and that means the plaintiffs have to find other jobs, which isn't easy when employers know that you are already involved in a labor case." There might be more lawsuits were it not relatively easy for many skilled Japanese to find new jobs, albeit at less prestigious firms for lower pay. Says Masahiko Nakanishi, the president of Benkan, a Tokyo pipe manufacturer: "Until last year we did not have the opportunity to hire the best. Now we do."

Recession will probably accelerate the decay of the lifetime-employment system. Studies show that the young workers of today expect to change jobs during their careers—and are already doing so. From management's viewpoint, the loyalty bred by lifetime employment is important to a company, but so is the need to trim head counts in an economy that is no longer pumping along at a 5% growth rate and may not do so again for some time. "Japanese companies are going to have to address profitability and profit expansion in a period of low growth," says Paul Summerville, a senior economist at Jardine Fleming Securities, Ltd. in Tokyo. "They have never done that before, and they will have to break some of the old rules." ■