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Bayari, Celal

Nagoya City University Graduate School of Economics, Nagoya
University ECIS

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Celal Bayari

Nagoya City University Graduate School of Economics and Nagoya
University ECIS

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The Japanese Management and Production System in Australia Recruitment, Training and Bonus in Japanese Hybrid Factories

Celal Bayari

Nagoya City University Graduate School of Economicsⁱ and Nagoya University ECISⁱⁱ

1. Introduction

Japanese manufacturers have reconstituted the Japanese management and production system in Australia at different levels of success since the late 1960s (Hutchinson and Nicholas 1994, Nicholas and Purcell 2001, Purcell et al. 1999). Three of the essential elements of the Japanese system, recruitment, training, and bonus payments are discussed in this paper in order exhibit the structure of the labour contract within the Japanese hybrid factories. The Japanese system has been transferred to all the continents in the past three decades (Abo 2011, 2010). It has been studied in the UK (Kumon 2007, 2004a), the US (Abo 2007, Kawamura 2011), and Australia (Bayari 2011). A common characteristic of these studies is that they use 2001 data sets in their discussions. This paper uses the author's data, also from a 2001 research, in its analysis of eighteen Japanese manufacturers in Australia. The common thread that runs through the Japanese system and work force interaction in these three Anglo-Saxon economies is the waves of labour market deregulation since the 1980s (Bayari 2011). This process has undermined the traditional union power base, and reduced the scope of the state institutions to arbitrate. This has occurred over several decades during which market conditions were altered by the government and business in context of the asymmetrically reciprocal relationship between labour and capital. Deregulation also became a common trend in the OECD, including France and Germany, from the 1990s onwards (Klikauer 2005, Matsumura 2004, 2009). Japanese MNE's experience of labour relations in Anglo-Saxon economies appears to be a satisfactory aspect of their foreign investment in the data sets from 2001 (Bayari 2010a). The Japanese system has come to be known as lean production in context of the existing mass-production of the Fordist environment in Australia, and elsewhere (Shadur and Bamber 1995: 343). Since the early 1980s the lean production has had varying degrees of success outside Japan (Schonberger 2007: 403). Shop floor organisation of work (assembly line and its social, mechanical, mecha-tronical, and bureaucratic environment) in the Japanese system is the basis of the practices that include teamwork, training kaizen, JIT, and quality control. JIT is the most readily identifiable element and operates conjointly with *kanban* as articulated in the Toyota Production System (Kawamura 2011: 18). As Kawamura states, lean production is based on *pull* principle of production flow control, as opposed to *push* principle of mass-production line management of the Fordist model. The lean production transfer in Australia went beyond Japanese factories. In the mid-1980s, Ford Australia began instituting workplace participation and workforce consultation (Simmons and Lansbury 1996). Ford was mainly adapting the Japanese style labour organisation of the production process, as was in GM Holden's South Australia plant, but GM Holden's Victorian plant developed a lean production mode that was closer to [now defunct] NUMMI (Fremont, Cal) model, and the company instigated a lean production style supplier-relationship in Australia (Cooney and Sewell 2000: 16). GM Holden Engine Operations, one of the largest automobile component manufacturers in Australia, defines itself as having adapted lean manufacturing principles (see Lean Vision 2010). Team-based work, another significant pillar of Japanese system, remains a requirement of labour contract. This practice has had success in the Australian automotive sector (Bayari 2010b). While some Japanese MNEs try to cut costs by paying for merit instead of seniority, they maintain teamwork as a key element of the system, which can reduce costs and maximise output. As teams, not individuals, are responsible for results, it is socially expected that some members must consistently overwork to compensate for the underperforming members (at least until such time a restructuring takes place but lay-offs are rare in Japan for "core staff"). This is a point of complaint among many employees who, despite receiving performance-based financial reward, have no choice but to accept the nature of the labour volume

input inside the supposed “teamwork”. In manufacturing especially, the lean production style is meaningless without team-based work organisation (Shadur and Bamber 1995: 343). There is correlation between employee commitment and a strong display of organisational identity in the Japanese system (Suzuki 2001: 129), and teamwork is a necessary element of the enforcement of the organisational identity and commitment to the firm (Okabe 2005: 263-265).

2. The bonus distribution and merit

The Japanese system has historically developed ‘rings of defense’ for the protection of core workers (Oliver and Wilkinson 1992: 328). Bonus is one of these defensive strategies, and can be worth as much as six-months salary. In Japan, the performance and skill based assessment to determine bonus levels became acceptable in the late 1990s (Matsumura 1997: 189-191). Before the end of the “bubble economy”, the lack of merit-based pay was acceptable as the employers provided life-long job security, but as the latter could not be sustained, the merit-based pay became more common (Tapp 2002: 61). Since then, it became mostly impossible for Japanese companies to maintain the characteristic Japanese management style elements of life-long job security and seniority wage as the nation witnessed malaise, unemployment, and new competition (Kanai and Wakabayashi 2004: 537). Performance-based pay scales were adapted by many Japanese MNEs (Yoshikawa et al. 2004). In Japanese firms that utilise “merit-based” pay scales, employees reportedly perceive a sense of fairness, in terms of financial rewards (Hayashi and Takahashi 2002: 15). However, not all employees understand how their performance-based financial reward is determined in context of their company’s human resource management policy, though they do not dispute that the reward is calculated fairly (Enatsu 2010: 53). If this is representative the most of the Japanese labour market then it would appear that the “merit-based” pay has not disturbed the structure of the Japanese system greatly because the employees think of it as “fair. Still, overall Japanese labour market wage equality does not match that of Nordic nations and Germany, which nevertheless have experienced higher unemployment rates compared to Japan (see Vernon 2006: 414). This prompts the question so as to the existence of a Western-style welfare state support for the underemployed, and the unemployed in Japan, which, for various reasons, was never instituted (Genda 2005, Goodman 2002). Overall, merit-based pay system might still be superseded by ability-based assessment mechanism that would suit the long-term continuity strategy of the firms towards the core employees (Itagaki 2011a: 71). In the US it has been difficult to match the performance evaluation (hence wage determination) of the Japanese system with the local wage structures and their relation to wage scales (Kawamura 2007: 53-55). The transfer of wage systems such as bonus payments are frequently analysed in terms of company culture versus local culture. Transfer of managers between the home and the subsidiary is an element of normative integration between the two (Ghoshal and Bartlett 1988: 371). By contrast, recruiting host country nationals into management highlights the importance of dealing with the local conditions (Humes 1993: 105). While Japanese MNEs train, transfer and assign local managers to different positions, the use expatriates is also a current and effective means of control (Paik et al. 2004: 68). Managers who are transferred from home country to overseas tend to function more effectively if there is a perceived link between performance and rewards (Christensen and Harzing: 2004: 623).

Table 1: Bonus distribution

	n	%
Local top executives	18	45
Japanese top executives	18	39
Local middle managers	18	33
Shop floor employees	18	28
Japanese middle managers	18	28
Office employees	18	22

Data note: In all tables, respondents can choose more than one category

Japanese MNEs use various strategies to integrate local managers into the main management structure (Keeley 2001). In Australian operations of Japanese MNEs, the company hierarchy

corresponds to competence levels of the personnel (Neustupny 1991: 10). In Australia, Japanese MNE wages and conditions contract has been localised (Dedoussis 1994: 211-212) and are utilised to counter problems such as the retention of skilled labour (Dedoussis 1994: 209). This is the broad context of bonus entitlements. **Table 1** shows that among different staffing levels of the eighteen manufacturers, ‘local top executives’ and ‘Japanese top executives’ are the two most likely to receive bonus. That is, 45 per cent of the respondents pay bonus to their ‘local top executives’, and 33 per cent to ‘local middle managers’ most probably as a skilled labour retention strategy. An earlier Australian research (Purcell et al. 1999a: 78) states that 40 per cent of the sampled Japanese manufacturers paid bonus.

3. Shop floor staff recruitment

The Japanese system’s shop-floor level is the basis of the reproduction of industrial engineering as it is the location where work teams, continuous improvement, quality control are built into the labour process (Kawamura 2011: 19). Japan’s domestic shopfloor labour market is divided into two segments, those who are permanent (“core”) staff of large and medium firms, and the rest who are in supply chain work for life [the market majority, the bottom end of which are the urban homeless] (Vernon 2006: 413). This is the socio-historical stratification on which the “company union” system has been built. Japanese factories continue to rely on external labour market for trained workers long after they have been established overseas (Kumon 2004b: 272). This is also the case in their UK factories (Kumon 2007: 160-162). Large and medium Japanese MNEs used to, once a year, recruit graduates into their core staff ranks (Whitley 1998: 75). The system dictates that the “core labour force” are replenished from new graduates, trained for skills specific to the firm, and promoted on the basis of individual and team work performance (see Robinson 2003: 439, 442). This last item, and its connection (or lack thereof) to pay is a source of a perpetual tension in many workplaces. In the 2010s, MNEs increasingly hire non-core staff on contract, on a need basis, and with different wages and conditions. In the US cases, job openings are filled on internal and external competition basis and the best-qualified applicant is contracted (Itagaki 2011b: 183). In the US, Japanese MNE recruitment styles can be predetermined due to the fact that the choice of factory location is an important factor (Kawamura 2011: 33). Across Australia, there are no wages and conditions differentiation that are open to such conduct. Recruitment in Australia is flexible but federal and state legislation define wages, labour activity, and conditions. In Japan, major corporations set the pace for annual wage negotiations (*shunto*) with “company unions”, and labour federations every Spring, and the outcomes ripple through the most of the permanent labour market. The minimum wage (set regionally) is fixed by the government. Among Japanese MNE manufacturers in Australia, the promotion of local labour (internal recruitment) is not stable, largely due to comparatively higher labour mobility in Australia (Dedoussis 1996: 104, Dedoussis and Littler 1994: 181).

Table 2: Shop floor recruitment methods

	n	%
Recent high school graduates	18	6
Recent university graduates	18	6
Skilled people from outside	18	94
Internal recruitment	18	39

According to the results of Bayari survey (2011) in **Table 2**, for shop floor employee recruitment the surveyed manufacturers predominantly prefer to employ ‘skilled people from outside’ followed by the method of ‘internal recruitment’ [promotion]. The respondents in Purcell et al. (1999: 80) do not have a specific internal/external dichotomy but the two main groups of people from which the firms recruit are the “experienced workers any trade” and “skilled workers in company’s product groups”. Hence, it appears that the average Japanese factory in Australia tend to rely primarily on the external labour market.

4. Training

Japanese labour contract conditions and requirement are reflections of their “socio-economic” context (Pudelko 2006: 138-139). Elements such as training are constants that are transferred to overseas subsidiaries. Foreign MNE subsidiaries in Australia rely strongly on participation in training activities (Harzing and Noorderhaven 2006). The training systems within Japanese electronics and automotive factories in Australia also display characteristics that are in line with the UK and the US cases (Abo 2007: 29, Bayari 2010b). The Japanese system promotes a high level and range of skills among (permanent/core) employees, and on the job training (OJT) provides greater production efficiency and better product quality in Japan and elsewhere (Abo 2004, Kumon 2004). In this sample of eighteen Japanese hybrid factories in Australia the following data for the training methods were obtained.

Table 3: Training methods

	n	min	max	mean	SD
OJT	18	1	3	1.06	0.24
Formal	18	1	3	1.28	0.46
External	18	1	3	1.11	0.32

The scoring method for the three training practices in **Table 3** is as follows. A score of ‘1’ for the practice in question means that it has been transferred to the corporation’s Australian operations and that it functions. A score of ‘2’ means it has not been transferred, and hence not in use in the Australian operation of the Japanese MNE. A score of ‘3’ means it has been transferred but is not considered to be ‘functioning’ by the respondent corporation. Hence, in this scale ‘1’ and ‘2’ are diametrically opposed scores and the score of ‘3’ is neutral. Thus, ‘on the job training’ [OJT] and ‘external training’ mean scores were 1.06 and 1.11 respectively, giving the former the highest score. By and large, MNEs can afford to spend on staff training more than other type of firms (Dedoussis 1994: 202-204). In Purcell et al. (1999: 82) survey, the management and production practices of ‘on the job training’ [OJT] and ‘off the job training’ have the scores of 3.0 and 2.7 respectively in a scale of 1 (‘very unsatisfied’) to 4 (‘very satisfied’). In short, in Purcell et al. (1999) sample ‘on the job training (OJT)’ was more satisfactory among the respondents. In the author’s data too ‘on the job training’ is reportedly more successful in the sample of eighteen factories. Both studies show that Japanese corporations appear to value in-house training more than the training that is provided by third parties.

5. Conclusion

The discussion showed that the dominant form of labour recruitment for the eighteen sampled factories is ‘external’, while the internal training is the most popular style of employee instruction, in agreement with the trends in the US, and the UK. External recruitment essentially emphasises the application of high-skilled labour at the point of production, which is recruited as deemed necessary in the Australian model of the Japanese system. The bonus payment system of the sampled MNEs appears to be a mixture of the home and local policies and it is more common for local management ranks to be paid bonus, possibly in a strategy to retain skilled people at management levels that are essential to manufacturing process, which is located in an industrial sector that has demonstrably shrunk over the last four decades.

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ⁱ Research Fellow.

ⁱⁱ Lecturer.