Restructuring in the Toyota Keiretsu during the Asian Financial Crash:

An Ethnographic Perspective into Neo-liberal Reforms and the Varieties of Capitalism

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Abstract

The Asian economic crash of 1997 lead to widespread restructuring of corporate organizations in Japan. This paper uses ethnographic field work and historical documents to examine how this played out inside one company, Toyota, when management implemented a restructuring plan to improve the profitability of its companies during the period of 1996 to 1999. The restructuring policies are discussed within the framework of the varieties of capitalism debate. A hallmark of the current discussion on Japanese organizations is that Japan is converging toward the American model of capitalism. I argue that although Japanese companies have adapted to worsening economic conditions by incorporating neo-liberal market reforms, restructuring during the Asian crash reveals that changes in the Toyota organization were based on hybrid policies that fused both liberal and coordinated market economics within the context of the unique institutions of Japanese welfare corporatism.

Introduction

Since the rise of Japan as an economic power in the 1960s, social scientists have been fascinated by the inner workings of Japanese capitalism. At the core of these concerns was an interest in studying organizations and whether, as the first Asian industrial nation, Japan was in the process of converging on the Western model. It was believed that as technology diffused throughout the industrial nations it would be the driving force behind producing similar organizations and institutions (Kerr, Dunlop, Harbison, and Myers 1960; Marx 1976). Dore (1973) engaged in the convergence debate through an ethnographic comparative analysis of Japanese and British factories to show marked differences in recruiting, training, managing, motivating and rewarding workers. Dore was the first to claim "welfare corporatism", an institutionalized system of social support institutions, as the model adopted by Japanese companies compared to the "market individualism" as experienced in Britain. He saw significant advantages to the Japanese model of welfare corporatism particularly in the realm of reciprocal labor management relationships and at the time, it was a model in which Britain was converging toward.

Cole (1979) addressed convergence theory through a multi-method historical analysis of workers in Yokohama and Detroit. He explored borrowing of personnel management practices and the process of adapting foreign innovations to Japanese organizational needs. Cole saw convergence on some important institutions, such as education and common technologies, but divergence when the two countries "developed along their own paths based on their own political, cultural, economic and social histories" (p. 10).

Another stream of theorizing approached the understanding of Japanese organizations through a cultural interpretation. Abegglen (1958) initiated the approach with a discussion of how culture influences the uniqueness of Japanese institutions. He claimed long-term employee commitment to a firm in Japan is based on mutual obligations between managers and employees where the seniority based reward system is linked to service to the firm. Rohlen (1974) engaged in a similar discussion albeit with a Weberian theoretical frame - his analysis emphasized the cultural meaning in the daily behavior of bank employees. The conclusions of these studies are based on the assumption of historical continuity and therefore it is understood that Japanese organizations have a unique trajectory and are not converging on the Western model. Cole (1971) claimed to split the cultural and convergence perspective by arguing that functional alternatives have allowed the Japanese to create structural arrangements to solve common problems in industrial societies.

The pressure of globalization has lead to a reframing of the convergence debate. A flourishing of technology and a wave of new organizational techniques, such as supplier-client relations, just-in-time manufacturing and team production, has provided the means in which organizations in different nations develop collaborative relationships. If technology is providing the means in which organizations can become "global", the liberalization of the international economy has provided the force behind the movement. The ideology behind liberalization is neo-liberalism that is defined by Harvey (2005) as "a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade" (p. 2). It is believed that international institutions are providing the structural dynamic to diffuse neo-liberal social, economic and cultural-ideological changes around the world to force nations to convergence on free markets and free trade (Chase-Dunn, Kawano, and Brewer 2000; Robinson 2004; Woods 2006).

The acceptance of neo-liberal ideology is dependent on nations that are predisposed to the Anglo-American model of shareholder value that are based on equity based finance, an emphasis on profitability over growth and fluid external labor markets (Fligstein 1990). A stark contrast is the stakeholder model found in Japan and Germany that features tightly connected industrial and financial networks, growth over profits and internal labor markets (Ahmadjian and Robbins 2005; Hall and Soskice 2001). With the ascension of neo-liberal ideology and the perceived notion that marketization and privatization are solutions to economic decline, to what extent has globalization influenced Japanese welfare corporatism - a system that has been placed under considerable economic strain in recent years?

The economic downturn in Japan began with the stock market crash of 1989 when stocks lost 60 percent of their value and commercial real estate prices fell 50 percent. The bursting of the real estate bubble in the early 1990s was due largely to a number of bad loans that discouraged investment and lead to chronic deflation. Another exogenous shock to the economy occurred as a result of the Asian financial crash of 1997 that lead to widespread restructuring of corporate organizations. In the 1990s the average rate of growth was approximately one percent per year for seven of the ten years between 1991 to 2001 (Robinson and Shimizu 2006) .

The economic crisis has resulted in a number of studies about how Japanese organizations restructured to respond to the economic downturn. Lincoln and Gerlach (2004) explain restructuring in terms of the network of complex ties of firms in the Japanese stakeholder model. They discuss dramatic changes in the Japanese system with the most significant being the “Big Bang” corporate governance reforms of 1997 to shake up Japan’s failing financial sector and to respond to the new realities of globalization. Deregulation promised new investment opportunities to help resolve the issue of bad loans, to create greater competition and innovation and to overhaul Japan’s faltering, hidebound system of “crony” capitalism. The reforms lead to a number of mega bank mergers and foreign direct investment in large companies throughout Japan resulting in a weakening of the stakeholder model (Lincoln and Gerlach 2004). The most significant corporate governance reform was lifting the ban on holding companies imposed by the U.S. postwar occupation leading to increased restructuring. This new policy meant that Japanese companies could purchase dominant shares in other companies under the legal umbrella of financial and management consolidation that is widely used in the United States. But Lincoln and Gerlach conclude that on average “the process of restructuring proceeded down pathways well-carved by Japan’s distinctive historical and institutional legacies.”

In a large study of Japanese firm behavior in the 1990s, Ahmadjian and Robinson (2001) show that social and institutional pressure shaped the pace and process of downsizing. Large manufacturing companies were resistant to downsizing at first but embraced it as it became more socially acceptable. In a later study, Ahmadjian and Robbins (2005) showed that Japanese firms in the

1990s tended to embrace shareholder value practices, such as downsizing and the divestiture of assets, if foreign ownership increased and if a firm's position within the stakeholder position was weakened. If a firm however was more deeply embedded within the stakeholder system, they tended not to embrace shareholder value practices.

Vogel (2006) also reviews restructuring in Japan but sees radical change toward an American styled neo-liberal economy circumscribed by laws, practices and norms that would not only require dismantling of current institutions but the creation of new ones at all levels of the economy. His is an institutional analysis that merges rational, transaction cost approach of new institutional economics, and norms and social ties into the cost-benefit framework. Although Japanese companies sought to cut costs in the 1990s to survive within the new economic realities, they were "constrained from laying off workers, abandoning their main banks, and cutting off stable suppliers by the logic of the Japanese model itself" (p. 19). Vogel discusses "remodeling" - changes of firms within current institutions - as a more accurate interpretation of restructuring in Japan during the 1990s.

Another stream of literature focuses on the changes at the organizational level in Japan since the economic crisis. Robinson and Shimuzu (2006) analyzed the interviews and appointment calendars of 79 CEOs since 1989 and concluded that they are spending significantly more time on investor instead of bank relations and more time on external factors such as shareholder value and less time on employees, indicating a convergence towards an American style market economy. Chuma (2002) compares the economic crisis of the early 1970s to that of the 1990s by analyzing employment data. He discovers similar unemployment, job separation and vacancy rates of recent graduates but finds dramatic personnel reductions in the 1990s “Heisei” recession compared to the oil shock of the 1970s showing that Japanese firms have incorporated downsizing practices seen in America and other liberal market economies.

Although these studies make significant contributions in understanding restructuring in Japan in the 1990s, they don’t offer an account of how or in what order changes occurred within firms when the Japanese model was challenged. This study will attempt to add insight into the debate about restructuring in Japan through an ethnographic analysis of a single Toyota company that restructured during the Asian crash. The advantage of ethnography is that it provides a bottom-up, micro-social analysis that can be used to analyze the day to day dynamics of change. In this study I will attempt to answer such questions as: Did the old Japanese model maintain its resiliency or did the dramatic changes that occurred at the macro-level sweep away the old system? Did Toyota adopt a select number of American styled practices to adjust to change to form a hybrid system or did restructuring reflect embedded institutional practices unique to Japan to form a new model? Through vignettes of my experience as a participant observer and historical documents provided by the company, I will show that although restructuring policies were shaped by the realities of neo-liberal reforms, the outcome reflected a convergence toward a hybrid model of liberal market reforms and traditional Japanese institutions.

Theoretical Framework

The Varieties of Capitalism

An effective way to frame the restructuring discussion is through the varieties of capitalism which is an actor-centered theory that considers corporate organizations to be the critical actors in the capitalist economy (Hall and Soskice 2001). Organizations exist in a competitive space and advance their interests through strategic interaction with other firms (Scharpf 1997). Organizations adjust their behavior in the face of exogenous shocks or international competition. Their activities collectively influence the overall levels of economic performance within a national economy.

The varieties of capitalism employ a relational view of the firm. Firms must use informal or incomplete contracts to reduce problems of adverse selection and shirking. They therefore exist in a relational world in which problems must be solved through coordination with other actors. Hall and Soskice (2001) discuss five spheres of coordination – industrial relations, vocational training and education, corporate governance, inter-firm relations, and relations with employees – that are important in understanding the varieties of capitalism. *Industrial relations* is important in understanding how companies coordinate bargaining over wages and working conditions with labor unions and *vocational training and education* is important in understanding how companies obtain and maintain a skilled workforce. *Corporate governance* is important in understanding how firms coordinate access to finance and how they maintain security for investor's assurance for receiving returns on investments. *Inter-firm relations* are important in understanding the relationships firms have with other firms in maintaining a demand for their products and in gaining access to technology.

Lastly, it is important that firms coordinate problems with *employees* to ensure they maintain competencies and cooperate with management to advance the goals of the organization. Institutions, organizations and culture enter the into the analysis of coordination since actors generally follow both formal and informal rules for normative, cognitive or material reasons.

Scholars in the varieties of capitalism tradition fit the industrial economies into two ideal types – the liberal and coordinated market economies. In liberal market economies, firms coordinate their activities through competitive market arrangements characterized by arm's length exchange of goods and services. Actors adjust supply and demand based on the market calculus of neo-classical economics (Williamson 1985). Firms in coordinated market economies are more dependent on non-market relationships to coordinate their activities. They rely more heavily on strategic interaction among firms in their networks and collaborative instead of competitive arrangements to build the competencies of the firm. Dore (2000) makes a similar distinction between the two types of economies, although he gives them different labels. He views a nation's economic system as "stock market capitalism" if shareholder value is the focus of firms in a nation where the "Smithian notion of profit-seekers, competing with each other, will always be led by the invisible hand to add more to the sum of human happiness than salaried public servants" (p.3). He sees the rights of owners of firms in a welfare capitalist country, on the other hand, to be circumscribed to a diffuse number of stakeholders such as suppliers, banks and local communities.

Examples of liberal market economies include America and Britain whereas coordinated market economies include such countries as Japan and

Germany. During an economic downturn, it is expected that firms in either type of economy will modify their behavior toward a mode of action in which there is institutional support. It is understood that although firms in liberal and coordinated market economies can share similar traits related to management innovation, technology or training, the historical institutional development is far different in the two ideal types and so convergence is unlikely.

To gain a better understanding of how Toyota behaves within the institutional framework of Japanese welfare corporatism and the coordinated market economies, it is important to understand the labor process within the firm and how the organization behaves under an exogenous shock.

Welfare Corporatism or Hegemonic Despotism?

Welfare capitalists have historically claimed that the business corporation, rather than the government or trade unions, should be the source of security and stability in modern society (Jacoby 1997). According to Dore (2000) a main characteristic of organizations in a welfare capitalist society is "welfare corporatism" defined as a set of practices that companies implement to form a unique labor-management relationship. They function as social support institutions where workers the relationship between workers and management requires workers to be loyal and cooperative and in return, the company provides stable employment, housing and other social welfare benefits (Dore 1973). Long-term employment for permanent employees is guaranteed and the wage structure is based on seniority (Abegglen 1958; Gordon 1985). Some have claimed that as a result of long-term employment, a "community of fate" develops among employees, resulting in an intense loyalty to the firm (Cole 1971). The keiretsu plays supports the welfare corporatist system during economic downturns through financial support, transfers of employees to keiretsu firms through work sharing and the takeover of failing companies (Aoki and Dore 1994; Gerlach 1992)

One of the theories behind the adoption of welfare corporatism in Japan is the “late-development” effect. According to Dore, the diffusion of social organizations and institutions adopted from the West, such as methods of personnel management and educational systems, in late development societies allows actors to choose what institutions and organizational forms are best suited for their societies (Dore 1973; Westney 1987). For example, in the early 20th century when trade unions began to form in Japan, capitalists could clearly see their loss of power and what they saw as the rise of social problems, such as strikes and class conflict, in the earlier formation of trade unions in Britain. To ensure economic stability and control, capitalists sought an alternative, to recognize unions only at the enterprise level (Price 1997). Trade unions were allowed to form after the war but were co-opted in the early 1950s when the American occupation allowed Japanese capitalists to replace them with management sponsored second unions (Halliday and McCormack 1978). Dore saw clear advantages of the Japanese system - by starting industrialization later, large corporations were able to develop employment systems without the class-based, institutional rigidities of union-management relations experienced in Britain. In other words, management control of unions was not a detriment as long as they held to their share of the bargain by providing benefits to employees and workers in exchange for long-term service to the company.

Where Dore sees positive attributes of welfare corporatism, Burawoy

(1985) sees employee and labor adversity. He compares factory regimes in advanced capitalist countries in the United States, Britain, Sweden and Japan and concludes that Japan most closely resembles the despotic order of early capitalism “in which the state offers little or no social insurance and abstains from the regulation of factory apparatuses” (p. 144). The result is that the union leadership is dominated by management and employees are dependent on the enterprise system for job stability, housing and benefits. Since benefits and salaries are directly linked to job tenure, as the length of service increases employees become increasingly dependent on a single firm. Hegemonic despotism therefore is a more accurate way to characterize factory regimes in the Japanese welfare corporatist system since without the features of an internal labor market and grievance mechanisms, labor has few opportunities to carve out a space for resistance.

Japanese Welfare corporatism and the Varieties of Capitalism

Labor-Management Relations

With respect to labor-management relationships, firms in liberal market economies tend to have a top layer of management with unilateral control over the ability to hire and fire at will . Labor unions tend to be weak except in some sectors and the maximization of worker interests is generally seen as opposed to goals of shareholders. Wages are controlled by macroeconomic policy and market competition, and if the company is unionized, through collective bargaining (Dore 2000). In coordinated market economies, unions are powerful enough to ensure that members receive a “good deal” in negotiations. There is economy-wide wage coordination and labor leaders work to protect rights and to speak up for claims on wages (Wood 2001).

When the economy experiences an exogenous shock, consistent with arm's length arrangements and supply-and-demand economics, firms in liberal market economies are expected to reduce their labor force and close factories to raise the value of the firm's stock. If the workforce is unionized, companies may experience conflicts between labor and management, but with unilateral control over the decision making process, in most cases, management can leverage their power to cut short-term costs (Fligstein 2001). In coordinated market economies, such as Germany, labor unions are strong enough to protect their jobs during downturns and, since wages are not controlled by the market, they generally don't fall as dramatically as in liberal market economies. With respect to union strength, Japan does not fit cleanly into the coordinated market economy ideal type. Since all unions at private companies are enterprise unions, the influence of management is strong and decisions are therefore made without consulting the union which dramatically reduces their bargaining power (Burawoy 1985; Mehri 2005; Price 1997). On the other hand, since the majority of wages in Japan, for both white and blue collar workers, are determined by overtime and bi-annual bonuses (approximately 60% of the total wage) and opportunities for shifting employees and workers are available within the keiretsu, Japanese companies have a cushion to absorb initial losses to the firm as a result of an economic downturn (Aoki 1990).

The major difference with how Japan compares with other coordinated market economies, such as Germany, is a two-tiered labor market of full-time salaried and part-time employees and workers. During restructuring, Japanese companies will first let go of lower-skilled part-time employees and workers while holding on to salaried, higher-skilled employees to maintain their core competencies. Mouer and Kawanishi (2005) analyze the segmentation of the Japanese labor market and show that small companies employee a disproportionate number of non-regular workers (contract, part-time and seasonal) compared to large companies and the percentage of non-regular workers increases as the firms become smaller. In 2000, firms with fewer than 29 employees had a labor force that was 34.7% non-regular compared to 24.8% for firms with 100 to 499 workers, and 19.1% for firms with greater than 500 workers.

Training, the Employment Contract and Labor Mobility

To understand the role of white and blue-collar labor, it is important to understand training, the nature of the employment contract, and labor mobility. In liberal market economies, when employees enter the firm and a "job contract" determines the salary or wage based on a specific function or level. An external labor market supports high labor mobility and therefore employees and workers tend to obtain more general skills that can be applied to jobs outside of the industry. Promotion is determined through an internal labor market of competitive bids for new positions (Knoke and Kalleberg 1994). In coordinated market economies, training tends to be industry-specific, the job contracts are career oriented and most full time employees are hired out of college or technical school. Labor mobility for white collar employees is low due to the lack of an external labor market (Estevez-Abe, Iverson, and Soskice 2001).

With respect to training, the nature of the employment contract and labor mobility, Japan is like other coordinated market economies in that there is an absence of an external labor market for full-time, white-collar employees. Japan and Germany differ however in a few important ways. In Japan, training tends to be highly firm-specific and therefore on-the-job training is very important for career chances and promotion (Cole 1995; Lincoln and Kalleberg 1985). In Germany, employer associations and trade unions use publicly subsidized training programs to train employees and workers at the industry level (Wood 2001). A well-developed two-tiered labor market exists in Japan compared to Germany, and a larger percentage of Japanese than German employees and workers are part-time, contract or seasonal workers that experience high labor mobility (Mouer and Kawanishi 2005).

Corporate Governance and Finance

Important in the discussion of corporate governance in Japan is the inter-corporate alliance structure called the keiretsu. Gerlach (1992) defines the structure as “Institutionalized relationships among firms based on localized networks of dense transactions, a stable framework for exchange, and patterns of periodic collective action” (p. 3). An organization’s position within the keiretsu structure determines its social networks that allows it to use tight-knit financial and technical ties to engage in mutual business endeavors. A typical vertical keiretsu is composed of a large industrial organization and its part suppliers positioned in a hierarchical pyramid according to size. Large industrial organizations, such as Toyota and its suppliers, are also part of an inter-market keiretsu that is composed of a large bank that provides it with reliable sources of capital and a stable group of long-term corporate shareholders. This alliance required companies in the keiretsu to support one another by engaging in such activities as buying stock in each other and purchasing each other's products (Fruin 1992; Lincoln, Gerlach, and Takahashi 1992).

How finance shapes the objectives and policies of managers is important to understanding the difference between liberal and coordinated economies. In liberal market economies, managers focus on shareholder value and short-term profit at the expense of market share. Since the objective of management is to deliver profits to shareholders, mergers and hostile takeovers are common (Fligstein 1990). In coordinated market economies, access to capital is independent of current profitability so there is an attempt to hang on to market share. Mergers are not uncommon but long-term interests to the firms instead of shareholder value is more of a concern as to whether it is beneficial (Kester 1991). During an economic downturn, managers in liberal market economies will return their organizations to profitability by pulling out of markets. Firms in coordinated market economies, in contrast, will seek new markets and products in growth industries and will transfer the maximum number of employees to new activities (Kester 1991; Sheard 1991). In Japan large manufacturing companies are aligned closest with the coordinated market ideal type. Firms such as Toyota depended heavily on the main keiretsu bank to help them to maintain or increase market share and to break into new markets to increase profitability. Although there were many factory closings in Japan during the 1990s, financial troubles, rather than a desire to maximize shareholder value drove the closings (Lincoln and Gerlach 2004). Table 1 summarizes differences between how firms behave in a liberal economy and a coordinated market economy, and in the Japanese welfare corporatist society.

Table 1: Liberal and Coordinated Market Economies vs. Japanese Welfare Corporatism

Characteristic	Liberal Market Economy	Coordinated Market Economy	Japanese Welfare corporatism
Labor-Management Relationships	- Top management has unilateral control over the firm to hire and fire at will. - Labor unions tend to be weak. - Maximization of worker's interest seen as opposed to goals of shareholders.	- Union leadership is powerful enough to ensure that members receive a "good deal" in negotiations.	- Union leadership controlled by management - Keiretsu supports labor through work sharing
Wages	- Wages controlled by market competition. - Industry-wide collective bargaining for workers in companies with trade unions.	- Economy- wide wage coordination.	- Economy wide wage coordination for base pay which accounts for approximately 40% of total pay - Overtime and bonus (app. 60% of pay) based on individual company performance
Training	- Focused on general skills that can be applied across industry	- Training is industry or firm specific	- On the job, firm oriented training - Collaborative training through the keiretsu
Nature of the Employment Contract	- "Job contract" for a certain salary or wage for a specific function.	- Long-term labor contracts	- Career contracts and most full time employees hired out of college or technical school.
Labor Mobility	- Well developed external labor market translates into high labor mobility. - Engineers and workers obtain more general skills that can be applied to job outside of industry.	- Low labor mobility for white collar employees due to lack of external labor market. - Promotion not through internal labor market process but through a	- Low labor mobility for white collar employees due to lack of external labor market. - High labor mobility for contract and

	- Promotion through an internal labor market of competitive bids for a new position.	system of promotion through the personnel office.	seasonal factory workers - Promotion (same as Germany)
Finance	- Access to capital allows firm to sustain loss of market share because fluid labor markets allow them to readily lay off and rehire employees and workers	- Access to capital independent of current profitability so attempt to hang on to market share since labor institutions are structured for long-term employment	- Access to capital through keiretsu. Independent of current profitability hang on to market share since labor institutions are structured for long-term employment
Mergers and Acquisitions	- Common including hostile takeovers.	- Not uncommon but hostile takeovers rare.	- Not uncommon but hostile takeovers rare.
Objectives of Managers	- Focus on delivering profits to shareholders.	- Working for the long-term prosperity of the firm.	- Working for the long-term prosperity of the firm.
Responses to Decline of Industry Sectors	- Liquidate and downsize making workers redundant. Shift to higher value added market.	- Seek new markets and products in growth industries.	- Seek new markets and products in growth industries. Transfer of the maximum number of employees to new activities to focus on new markets or through the keiretsu.

Using the varieties of capitalism theoretical frame, this paper will analyze ethnographic vignettes and historical documents of restructuring in a Toyota company to show in what way the Japanese model remained resilient, what part of the model failed and what changes were made during restructuring. I believe that Toyota and many other large manufacturing companies in Japan, particularly in the automobile industry, are now hybrid systems. At one level, firms behave as if they were in coordinated market economies, but at another level, characteristics of liberal market economies are deeply woven within organizations to form a hybrid system capable of remaining viable during hard times.

Methodology

This article is based on my three year study as a participant-observer at an upper-level Toyota group company I call Nizumi. It employs over 7,000 workers, maintains more than five offices and factories throughout Japan, and its 2002 sales were over $5 billion. It also maintains a number of sales offices and factories in foreign countries. Nizumi is an original manufacturer of products for Japanese and foreign markets and has its own distribution network. The company also supplies products and parts for Toyota Motors, and, like most companies within the Toyota industrial pyramid, it relies on connections with Toyota to maintain and expand its market share. Although Nizumi is an independent company, it has been an official Toyota keiretsu affiliate (kanren geisha) for several years, and as a result has adopted the Toyota style of management. Nizumi workers have been thoroughly immersed in the various practices of the Toyota Production System such as just-in-time manufacturing.

I conducted over 75 interviews with employees, politicians, lawyers, labor scholars. Interviews ranged in duration from ten minutes to two hours. About three-quarters of those interviewed were Nizumi workers. I interviewed temporary laborers, contract employees, and mid to high level managers. I interviewed engineers and union leaders and workers on the line. Some 20% of the workers I interviewed were foreign temporary workers, while the rest were permanent Japanese workers. I conducted approximately two-thirds of the interviews on company grounds. These were informal talks. The remaining third were held outside the campus and were more formally structured.

From April 1996 through June 1999, I lived and worked in Japan as a computer simulation engineer at an automobile company in the Toyota keireitsu. Despite the many studies on Japanese organizations, few offer an inside perspective on how organizations in Japan restructure and the day-to-day relationships, in the office and on the line, between labor and management when placed under economic stress. One of the reasons for the dearth of information is that my vantage point was unusual. Every night I recorded field notes of the day's events and I became more deeply involved in the study when the Japanese economy, in trouble since 1990, took a drastic downturn in 1997. Then I saw Japan's management system—highly touted and imitated in the United States and elsewhere—placed under desperate stress. I was able to experience the 1997 recession and the company's response to it from several perspectives. I worked with Japanese engineers on product design teams, and I was fortunate to be included in their parties and other social occasions. But as a foreign worker, I was introduced to many informants who were foreigners on the assembly line. My field notes soon became a record of the company's culture and its managerial adaptations during the economic downturn.

To protect the confidentiality of my subjects, I have changed their names and other identifying details, while retaining their professional positions. To give the reader a look at the corporate culture, I have included quotations from the literally thousands of newsletter pages I received at the company. It is customary for Japanese companies to deluge their employees with literature. The company distributed at least a half a dozen regular monthly or bimonthly newsletters and many annual newsletters and booklets. All of this material was for workers to take home to read.

The Ethnographic Analysis

Restructuring Begins

The Asian Crash began with the destabilization of the Thai financial sector. Due to international capital flows the Thai economy soared until early 1997. To fuel their economy, Thai business leaders borrowed money at lower interest rates overseas in dollars. By late 1996, however, the economy accumulated too much foreign debt and suffered from large trade deficits and a banking system weakened by unpaid loans. Foreign investors began to worry that their loans could not be repaid so they rushed to move their investments out of Thailand. The Thai government responded by raising interest rates, which caused the value of the Thai baht to plummet and the economy to crash. Investors saw similar problems throughout the region so they began pulling their money out of South Korea and Indonesia, and as a result, the crisis traveled throughout Asia (Kim and Haque 2002).

During the Asian boom, Thailand had become the company's largest export market, buying over 1200 products a month. Then came the Asian crash. In November, 1997, the section manager [1] released information on monthly sales. In October, Thailand had bought a mere twelve products. A few months later, the economic condition was the highlight of a February 6th 1998 president address by the company's president in an annual management conference. An article about the speech was published in the union newsletter with the title "The tightest condition since the establishment of the company, now is the time for the trial!" The article began by stating that the purpose of the conference was to develop common understanding of the economic situation and to "establish confidence between labor and management." The president discussed an economic projection of a 10% reduction of demand for domestic products due to a 50% decrease in government spending.[2] A considerable decline in sales to Southeast Asia was also discussed. They accounted for 80% of the company's exports and a further 20% reduction of products supplied to Toyota because of the worsening economic conditions in Thailand.[3] The reductions in demand lead to a surplus of 10,000 products. The president ended his talk by saying "Even if we implement every possible countermeasure we must prepare for the worst situation as never before seen."

Within weeks of the Asian financial crash, the section manager announced that overtime and the yearly bonus would be cut for all employees, and within a few months, paid overtime was also eliminated. Further in the process of restructuring, management also received a pay cut. This caused great anxiety since approximately 60% of an employee's salary came from overtime work and bonus. Within three months the company announced it expected more service overtime (*sabisu zangyoo*) in the hope of increasing productivity. Service overtime was an unwritten, hidden rule implemented widely throughout the company that required employees to work overtime without pay. The amount of service overtime varied according to the section manager and the workload. The

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[1] The section manager was a high ranking mid-level manager (Japanese: *jicho*) who managed thirty-two engineers in the division.
[2] A large percent of Nizumi's markets were in heavy industry and hence the dependence of government spending, mostly for construction, for the maintenance and increase in sales.

most severe case of occurred when engineers who were assigned to a Toyota project were required to work up to 100 hours of overtime a month (approximately 5 hours a day) for several months. Only employees in the sales department were not required to work overtime since they did not work on new engineering projects. Their work week was cut back from five to four days a week. To save on electrical expenses during peak hours, in the summer of 1998 the company required employees to work on Saturday and Sunday and moved the weekly holiday to Monday and Tuesday

The initial response to the crisis revealed that Nizumi behaved as a firm in a Japanese welfare corporatist society where the management demanded sacrifice in return for job security. The company did not initially let go of full-time salaried employees or workers but instead cut costs through its unique wage structure. With respect to industrial relations, since management controlled the union leadership, it was able to make cost cutting decisions unilaterally without the need to bargain with the union. An interesting observation was that management also received a pay-cut which is far different than pay raises top managers received at American auto companies when they recently experienced a similar economic crisis. The differences may be due to the reality that managers in liberal market economies have access to an external labor market to move to another firm whereas in Japan managers are at one company for their careers and therefore must show solidarity with their employees. As the crisis deepened Nizumi could not resolve its problems on its own and therefore had to depend on the keiretsu for help.

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[3] Nizumi supplied parts to Toyota, a decrease in Toyota sales therefore resulted in a reduced demand for Nizumi products.

The Role of the Keiretsu

The keiretsu played reacted to the crisis by employing both liberal and coordinated market policies. The main keiretsu bank typically provides the majority of funds for the group companies and during restructuring they reduce the impact of shocks and dislocations by funneling money to keiretsu firms in a financial crisis (Lincoln, Gerlach, and Takahashi 1992).

The Big Bang and the resulting reforms to the holding company laws changed the traditional financial relationship between Nizumi and Toyota. Toyota gradually increased its number of shares in Nizumi and incrementally replaced top level Nizumi managers with Toyota personnel. The company also made the organization more flat by reducing the number of directors from fifty to fifteen. Most importantly, it used its leverage to place pressure on the company to become profitable. For instance, on March 16th 1999 they sent Nizumi an ultimatum - they would buy fifty percent of Nizumi if management ensured the company would be in the black in 2000. If they could not succeed, they would be expelled from the Toyota group.

Coming under the control of Toyota was not considered desirable. In December of 1998, Toyota also discussed the possibility of transferring a Nizumi division with high technology to the parent company. Toyota's technical development policy requires basic research to be conducted at the parent company and then it is transferred to a keiretsu group company, typically a parts manufacturer, for further development. The men were worried that their jobs would be cut or that the whole section would be slashed. To ease their worries the section manager reaffirmed that since Toyota knew little about Nizumi technology they would always rely on Nizumi's engineers. Nevertheless, being influenced by Toyota was not considered favorable since they were known for externalizing their costs to lower level group companies in the form of longer hours, less pay and strict control of management and technology. A hidden rule also exists stating that no other employees who belong to a subordinate company in the Toyota industrial group can make more money than employees who work for Toyota Motors. I asked a few colleagues about their feelings coming under Toyota control. One responded, "We will be the dog of Toyota" and another said, "We will be like mice, afraid of what to say, and Toyota will be the lion, giving orders."

The keiretsu also functioned in a more typical role when Mitsui Bank lent Toyota $200 million to bail out Nizumi and other companies in the keiretsu who were experiencing a sever downturn in sales. The Mitsui financial support was not a unusual. Throughout most of the 1990s, Japanese manufacturing firms instead of abandoning the fabric of relations began to rely more heavily on the keiretsu structure to increase performance. For instance, the dependence on bank borrowing remained high in heavy industry and at the end of the decade, over ninety percent of all Japanese companies still relied heavily on one main bank for financing (Lincoln and Gerlach 2004).

Toyota also engaged in frequent technology reviews of Nizumi to ensure that it maintained a reasonable level of high technology and trained a number of engineers who were working on joint projects with emerging technologies. The technology review allowed Toyota managers to monitor the performance of

Nizumi. A mid-level manager told me the reasons for the review: “If they think the company has good technology they will not make that many cuts, but if they think it is low level, they will cut the Nizumi directors and Toyota directors will fill their positions.” Most importantly, Toyota transferred the production of small vehicles to Nizumi to be manufactured in Japan and the United States creating a number of long-term jobs for the firm.

Nizumi also used work sharing with companies in its keiretsu group to resolve the employment problem. Work sharing in Japan is promoted as a temporary solution to an employment problem and involves transferring employees and workers to group companies who return to their original firm when the demand for work increases. The stated policy however was a camouflage for the permanent transfer of employees to smaller group companies. Work sharing was announced March of 1998 after attempts to get employees to leave or retire failed. The policy was not necessarily well received nor did it work as smoothly as anticipated. For instance, work sharing required the attainment of a position at a smaller Toyota group company with considerably lower wages. One issue when transferring to any company in Japan is that the bonus pay which consists of between 20 to 30 percent of an employees wage is based on seniority and when an employee enters a new company, their bonus pay starts at the entry level.

The impact of these policies on employees and workers revealed the hybrid nature of the Toyota restructuring model. On the one hand, in Toyota’s approach to controlling Nizumi’s management and shaping restructuring, changes in corporate governance allowed it to behave as a firm a liberal market economy. It made use of the new holding company laws by increasing its authority in the company by changing its leadership and threatening to sell the company if it didn't go into the black. Later in the restructuring program, Nizumi was able to meet Toyota's criteria and Toyota decided to purchase the majority of shares in Nizumi. On the other hand, work sharing meant that white-collar employees were not fired at Nizumi as would have happened in a liberal market economy.

It reinforced the two-tiered labor economy that exists in Japan – one where there is a greater number of full time salaried employees at the larger companies higher up on the keiretsu hierarchy and more part time employees in smaller companies who are obligated to fire employees and workers when they receive redundant employees. Consistent with inter-firm relationships in coordinated market economies the keiretsu employed meaningful policies to protect and expand employment at Nizumi. The implementation of these policies also revealed the resiliency of the Japanese welfare corporatism of using the keiretsu network to support companies that are failing. To be sure, the financial and technical support was used to achieve the long-term goals of expanding Toyota's market share. In the early 2000s, Nizumi supported Toyota business by manufacturing Toyota parts and vehicles in the United States and the company would remain independent and out of reach of foreign control.[4]

Vogel (2006) discusses the issue of labor during restructuring in Japan that indicates why Nizumi preserved the position of regular employees. Although large manufacturers sought more flexibility in hiring part time employees and workers to cut costs, most powerful business federation in Japan, the Nikkeiren,

[4] The Big Bang liberal market reforms had a much greater impact on companies such as Nissan, Mazda and Isuzu who could not survive without foreign capital but companies with sound

sought caution in these policies to protect worker participation in management. The resulting Labor Standard Law that was passed in the late 1990s allowed for greater flexibility in hiring temporary workers and in transferring employees to subsidiaries but passed stricter guidelines in laying off full-time employees. These laws effectively “reinforced internal labor markets and constrained external labor markets” (p. 82).

The Dilemma of Permanent Employment and the Attempt to Shift to Neo-liberal Labor Markets

The economic downturn forced Nizumi to cut back on expenses but the initial restructuring policies were not sufficient in resolving the employment problem. For instance, the smaller group companies were already saddled with redundant employees from Toyota and Nippon Denso so they agreed only to accept a marginal amount of employees on the work sharing program and far short of what was needed. These problems in turn highlighted the dilemmas with permanent employment and neo-liberal labor policies incorporated by Nizumi.

Pay-by-performance was part of a broader re-organization plan that began before the Asian crash. The program was implemented as an alternative to seniority based pay system that was thought to have become an anachronism in a time when employers were expecting more from their employees and workers.

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finances, such as Toyota, remained independent (see Lincoln, James, Michael Gerlach 2004).

It was also widely believed that employees needed greater incentive to work harder.[5] The stated policy in the office was that as long as an engineer was able to produce good results their base pay would rise. An added benefit allowed employees to come and go to the company any time they pleased. It was expected that the flexible-time system would allow more leisure for a worker's family. On the surface it seemed like a logical and appealing solution. However, the new policy required employees to forfeit paid overtime but criteria were not established to objectively judge a worker's performance. More work was assigned to each employee while service overtime was increased.

A colleague expressed his opinion about the pay-by-performance during the annual review period when employees were required to evaluate themselves in a policy called "Hopes", "They want to have an emotional impact on the workers to get them more motivated for their job, in reality, the policy is demoralizing." Furthermore, in many cases the managers simply did not give a positive evaluation because they wanted, according to a mid-level manager, "to get more work for less money." Many of my colleagues referred to it as "hopeless" because they felt they would never be judged fairly. In the 1990s NEC and Fujitsu implemented a very aggressive pay-by-performance program but by the early 2000s both companies abandoned the policy because of a growing problem with employee moral (Lincoln and Gerlach 2004; Vogel 2006)

The pay-by-performance policy also created conflict among employees in the office. When I asked an employee in my section named Kurasawa about his performance evaluation he said he would be ranked low compared to the members of the power group who were close to the section manager. He pointed toward the center of the room and said, “You see, they sit in the center of the room next to the director while lower guys like myself sit on the edge.” According to Kurasawa, whether an employee received a good grade or not, only those who were part of the old boy group would be allowed to rise into high positions.

The failure of pay-by-performance and the general restructuring policies to improve productivity resulted in a new plan called challenge leave in June of 1998. The plan offered any interested full-time employee over the age of 30 a package to quit the company and receive 60% of their pay for one year, not including the annual bonus, toward education for a new job. The alternative, the company said, was that if a certain unstated number of employees did not leave, a 60% pay cut would be applied to all employees at the company. Many employees said they would consider challenge leave but the result of poor economic performance in Japan meant that good high paying jobs were scarce so they declined. By September of 1998 the section manager however called the men into the department meeting to discuss the policy of restructuring. Through “challenge leave”, the company was only able to cut 80 employees. Employees who left were mostly from small towns far outside of Tokyo and the gossip was that they would be happy to move out of the city for a more simple life back home. Many older men were also put out via early retirement but this also had minimal impact.

Since challenge leave was not successful, the management announced a new plan called refresh leave that required an employee to leave the company

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[5] It is interesting to note that while Japanese companies in the 1990s were incorporating American human resource techniques, American corporations were increasingly implementing Toyota Production System techniques into their factories (see Osterman 1994).

for one year. The company would pay 60% of that person's salary and the management promised not to eliminate their position while away. As the section manager spoke, the men sat silently - looking downward, not making a sound. He said that the company decided that one person in our section needed to accept the plan. He spoke, his voice low, pleading many times for someone to accept the offer, but everyone sat silent and did not say a word.

Although I understood the anger toward restructuring, I was confused as to why the men would refuse, particularly the younger ones, at what seemed a great opportunity. I discussed these issues with my colleagues and found their opinions to be quite different - they all rejected refresh leave. Takanashi, a member of my work group, was not afraid in expressing his opinions about company motives, "People don't want to do it because they feel that the company is lying. What they really want to do is restructure and the employees who will go away for a year may not have their job back again." I was surprised with his response, I tried to convince him that refresh leave seemed like a great opportunity, but he continued to insist it was not. His frustration may have been based on the nature of jobs at the company. All jobs were vaguely defined in that they were not pegged to a specific task or position and so could be manipulated and changed at will.[6] An employee therefore needed to be present to protect his or her position. Connections, which are very important for functioning at a Japanese company, also played a significant role. For if one is away, physically out of the office for an extended period of time, personal contacts would be lost. Another issue that arose was the fear of blemishing one's personal record. A

[6] None of the employees at the company have a written contract and when a person enters the company it is human resources in consultation with upper level management that decides the section and division they belong.

manager in the future may not promote the employee thinking that they were lazy in leaving the company for pleasure. A year later I discovered that Takanashi was correct; a number of employees who decided to take refresh leave were forced into voluntary retirement when they returned to the company.

Although most full time employees stayed at the company, a few in my division left when they were offered jobs elsewhere. Management was not typically pleased to lose skilled employees but some were happy to see their colleagues obtain better positions. Responding to the news of a technician in my section an employee responded, "It is good that he is quitting, the salary at Nizumi is so low, I am happy for him" said Kurasawa. He was under 30 years old, so he felt it was his last chance to make a career move. Since Japanese companies do not hire employees from competitor companies particularly when they are older, it is difficult to find a new job above the age of 30 or 35. Most employees however could not leave because they were older and the firm specific nature of training was an impediment to finding a new job. An employee in my section named Nakayama expressed the issue of finding a new job, "We can't get new jobs because the economy is down. I would leave if I could but no one will hire me. The problem with Japanese engineers is that we are too narrow so you can't do many things, and if we are shifted from one group to another, we can't do well so it does not give us incentive to move."

The Japanese model of welfare corporatism had reached its limit. The management at Nizumi attempted to reform the nature of the employment contract creating a hybrid of liberal market reforms embedded within the institutions of Japanese welfare corporatism. The lack of an external labor market and the industry specific nature of job training, which are also hallmarks of coordinated market economies, frustrated the attempts by employees to find work elsewhere or to take advantage of company employment programs. The institutions did not exist to support such a radical shift in labor practices. The unique nature of dependence on connections for job security in Japan also made movement to a new company unattractive. The company therefore had to rely on policies used in liberal market economies, such as severance packages, to induce employees to leave the company. The pay-by-performance policy also became a contentious issue. Instead of motivating employees to be more productive, the lack of criteria used to determine performance and the increase in service overtime coupled with a cut-back in paid overtime meant that it was a camouflage for management to extract more work for less pay. This problem further reduced moral and trust in the firm.

Social Ostracism as a Tool for Dismissal

The extreme nature of economic stress forced the company to rely on social mechanisms to induce older employees to leave the company. An interesting characteristic of Japan is that the office space played a large role in ostracizing employees to depart. When I initially entered the company my impression was that I worked in a makeshift office created from a warehouse by fitting it with desks and lights. I was amazed at its size—it was absolutely enormous and completely open. There were no interior walls. The sections were organized into separate entities by desks jammed close together, carving out a space on the floor and a narrow path through which employees could pass. Although the office was open, there seemed to be complete order, with employees communicating politely and efficiently. With managers and their subordinates working shoulder to shoulder in a space without walls, it seemed that the office had been designed to embody egalitarianism. It would take me a while to learn otherwise.

One event that helped clarify the purpose of the special arrangement of the office occurred shortly after a mid-year transfer meeting, I noticed something peculiar at the Advanced Design group, which was located adjacent to my section.[7] The entire section of about two dozen employees had moved downstairs and left an engineer named Hirama sitting all alone with just one other employee, who was known to be unproductive.

I asked Kurasawa, the union representative in my section, why Hirama was sitting alone in the section, and he responded, “There is no place for him at the company anymore.” I initially thought that he would eventually move downstairs with his group, but several more days passed and he and the other employee remained all alone in that huge open space.

A few months later I noticed that Hirama was now sitting all alone at his section. The other unproductive employee had been moved away. I asked a colleague in my section what he thought about Hirama and he said, “I feel sorry for him.” I sat down at my computer but I could not keep Hirama off my mind. That day, a young technician from an outside group came to me for advice about computer simulation. I told him what had happened to Hirama and pointed him out, all alone in a sea of desks. The young technician got up, walked over, and had a good look at Hirama. Upon his return, he just smiled and said, “It’s the Japanese way.”

[7] Japanese companies transfer employees from one section to another twice a year. The transfers mostly take place to supply sections that demand more employees due to an increased workload.

One morning when I arrived at the office, I saw that Hirama had been moved to a lonely desk in front of the Director's section[8]. Now all the employees on the floor could see Hirama, sitting there all alone near the Director. This location was particularly severe since it was the place with the heaviest traffic on the floor. After forty years at Toyota, this was how he would remember his final days: sitting by himself under the scornful and pitying eyes of his fellow employees.

Since labor laws make dismissal of full-time employees difficult (Vogel 2006), management at Japanese companies often resort to office bullying (*shokuba ijime*) to humiliate employees to leave the company. It is a common technique used throughout all companies in Japan and often involves harassment in an open space or transfer to a position where an employee must endure humiliating work. Roberts (1994) discusses an incident where a manager punished a female employee for not fulfilling her work duties by having her stand all day outside of his office until she could make a "self-reflection" to correct her mistakes. "She stood the whole time but in the end she couldn't bear it. She ran away home" (p. 50). A number of bullying incidents were reported by the Asahi Newspaper in the 1990s. In one article they quote the Secretary-General of the Tokyo Management Union as saying "Getting employees to resign voluntarily by making their lives miserable at work has been a classic ploy of companies trying to get rid of unwanted people."[9] The use of bullying revealed that Nizumi had to rely on techniques available in liberal market economies but with a twist – instead

[8] In Japan a Director is a high level manager who is typically in charge of a division of several hundred employees. The Director's desk is typically located in a central position on the floor.
[9] Jo, Toshio. May 9th, 1998. "U.S.-Style Corporate Restructuring Washes Up on Japan's Shores." in *Asahi Evening News*. Tokyo.

of outright dismissal of full-time employees the company relied on social humiliation.

The Labor-Management Relationship and Liberal Market Reforms

The cooperative nature of a union is not an issue when the economy is growing – it is expected that plentiful employment and rising wages will not cause contentious labor-management relationship no matter if labor is strong or weak. What is often not discussed in the literature on Japan is the other side to the relationship when the economy experiences a crisis. In this section I will discuss the interaction between labor and management when the restructuring at Nizumi became more severe to shed light into the hybrid nature of the Toyota restructuring model.

All union members in the automotive industry in Japan are composed of full-time, white and blue collar employees (part time workers were not allowed to join). The company manual was a good source of information that defined the relationship between labor and management. The manual included detailed rules that protected full-time employees from dismissal but it also included rules to create a cooperative labor-management environment. For instance, with regards to elections for union representatives it was written in the company manual that "All workers running for an elected position in the union must obtain three to ten written recommendations from management, depending on the position." Another rule stated that if the number of candidates did not exceed the number of positions, no elections needed to be held.

Another set of rules controlled union activities. It was written that "Union activities must be held outside working hours," and "When a union activity is held after seven p.m., the union must receive approval from human resources." Furthermore, "during a dispute, members of the union can only protest in designated areas as decided by the company." As for union meetings, the rules stipulated that only union members could attend and that the chairman always had strict control of the meeting. Without the chairman's permission, union members couldn't voice their opinions, couldn't publicize union events, couldn't display posters to express their dissent -- and couldn't even leave a meeting to show their displeasure. To show their "respect" members had to remain present until after the chairman had left.

It was common at Nizumi for the management and the union to choose candidates for union office in closed-door meetings. At Nizumi, since the number of employees running never exceeded the number of positions available, the election involved merely handing out ballots with the employees already chosen for each union position, and the workers sending back the ballots after checking "yes" or "no." No one could remember the last time the slate had been rejected. As all aspiring managers had to first serve as union leaders, an "elected" candidate occupied a fused position – as union leader and potential company manager.

Each work section had a union representative whose job was to communicate management's policies and to gather information on employee grievances which occurred during a monthly meeting in the section. In February of 1999 many of my foreign friends who worked in the factory were let go and so fearing a similar fate I talked with the union leader about my future at the company. [10] My boss said that the director told him that unofficially 30% of the company's employees were to be cut and if that happened, I could not stay. I was surprised; the planned cuts meant that 8 to 9 guys from my group would have to go. I reacted with worry by requesting that if they planed to let me go I would like to know as soon as possible.

Latter in the day during a union meeting in my section, I openly confronted the union representative to ask him about my position. I was clear and spoke raising my voice. He seemed to be taken a back with my direct inquiry. Word of my confrontation went up the hierarchy. The next day I received an answer. The section manager, who in all of my years at the company had not spoken as much as two sentences to me, told me I didn't need to worry about my job. Later on, my boss told me that the division manager, Abe San, was angered about my situation. He heard that human resources were interested in cleaning out the foreign engineers, and to my benefit Abe became upset and wrote a very strong letter in my support. Apparently he stated, in the strongest words possible, that if my contract was not renewed that an engineering project I was working on with him could not continue.

Despite the preservation of my job, many of the men were worried about theirs. On March 12th 1999 the union representative gave more bad news about restructuring. He sat at the center of the small meeting table at the section, and a small crowd of employees sat beside him as he announced the latest proposal. When the company proposed a new policy to the union for negotiations it was immediately considered company policy since the union put up no resistance.

[10] Most white-collar workers are also hired on contract in Japan. My official employment agreement was as a contract sallaryman (keiyaku shain), and those employees who worked on the line were as a contract worker (*keiyaku rodosha*).

When I asked employees about the role of the union, all responded that the union was useless. Takanashi talked with me about the role of the union, “They are not negotiating with the company at all. When the union representatives attend the meeting they just sit and nod there heads and say yes to anything the management says. If they say anything different, they will be cut.” When I asked my boss about the role of unions he said that during “negotiations” members of the union did nothing but rubber stamp management policies. The cooperative role of labor unions at Japanese companies has been documented by a number of scholars (Abegglen 1958; Cole 1971; Dore 1973) but many of these studies were conducted at a time when the Japanese economy was growing and therefore the impact of the relationship between labor and management during an economic crisis was not investigated.

However at this meeting, the reaction to company restructuring policy was stronger. The union representative discussed the company’s announcement that it would be firing 400 employees and would implement a severe pay cut. Twelve-hundred jobs would also be phased out by combining the sales and the dealership divisions. One of the divisions was also merged with a competitor company eliminating hundreds of more jobs. A few of the men voiced their opinions. An assistant manager sitting beside the union representative folded up his arms and as he walked away he blurted, “We can’t even say anything.” Another assistant manager yelled out, out “I heard a couple of guys at the meeting said there is going to be a strike!” Another employee in anger asked, “are the directors getting fired as well, we can’t be part of the decision making?” The union representative continued his meeting, reading off the list of company demands. He asked if there were any questions, none were asked. Despite the talk for a strike, the supposed plan to defy management's policies quickly faded since the majority thought that striking would have a negative impact on their employment situation.

As a result of the weakness of the union, employees felt hopeless. The industrial leaders, however, maintained a façade of strength. The annual Spring Offensive (the *shunto*) is one manifestation of this behavior. In the past it helped to protect the rights of workers in the form of protests and strikes but the gradual weakening of unions over the years resulted in the annual protests to be more a ritual than a stance against management (Price 1997). When I asked Kume, an employee in my section, about the purpose of the Spring Offensive he responded, "The spring offensive is nothing but superficial, people put on their red banners and shout in the street yelling "let's go for it", but nothing is done."[11] The union newsletters of the annual May 1 labor rally, a time when the automobile unions under the federation called RENGO are supposed to hold meetings to discuss labor action, are instead festivals where worker's children enjoy such activities as carnival rides and eating cotton candy.

This section provides strong evidence to support Burawoy's claim that Japanese management exercises hegemonic despotism over its employees and workers. Rules are used to undermine the power of the labor and the façade of strength is used to generate employee and labor consent in achieving management's goals.

Restructuring on the Line

In the sphere of industrial relations, hegemonic control over labor was instrumental in preserving long-term employment of regular workers but at the costs of a dramatic reduction in wages and an increase in worker discomfort. On the line, a similar speed up in work and an increase in service overtime was experienced by all workers albeit it was harsher since the impact of a two tiered labor market was more strongly felt in the factory. In August of 1998 Kofi, a contract worker from Ghana, informed me about the policy of restructuring in the factory. The initial policy of Nizumi was to first fire all contract workers with the foreigners as the first to go while higher skilled, full-time workers were retained. On his line there were originally three workers but restructuring policies reduced it to one. He was not only responsible for his job of welding but he had to work the jobs that the former two workers used to do. He also experienced a wage cut from $2100 to $1060 a month. Small companies within the keiretsu had a higher number of contract workers so they felt a far greater pinch. An Iranian named Mehdi who worked for a family company of twelve employees that contracted to Nizumi had only two full time employees – the father and his son. During restructuring eight of the ten contract employees were separated from the firm.

Changes also occurred on the line with a worker form Thailand named Sanan. He worked on fabricating doors and in his group two workers were fired reducing the welding team of four down to two even though they were required to produce the same quota. Overtime was also increased by two hours a day. Although as a foreigner Sanan felt his job was insecure the company extended his contract because they were shipping in cheap labor from Thailand and they wanted him to stay on as a go-between. The Thai workers were brought in on a

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[11] What exists on the surface is often referred to as the *katachi,* the outer appearance in a ritual.

training program and were given a room and $2.40 an hour and were required to work a 12 hour shift. Policies of undermining wages in countries with stronger trade unions are more difficult, such as in the United States, that limit the number of part-time workers and implement a much stricter minimum wage requirement.

One of the more important ways the company improved productivity during restructuring was to increase line speeds and require workers to put in inordinate amounts of overtime. The Iranian who worked for the small Nizumi contract company informed me about overtime during restructuring as a result of a conversation about working conditions. “The main problem though is the working conditions and the working hours, it is very dangerous and if I slack off some days because I am too tired my boss will get angry with me. Sometimes I must work a 24 to 36 hour shift when he needs me.” Another worker named Jorge who worked in the casting plant informed me that they increased the line speed by close to 30% so that the workers had to work an eleven hour shift in only eight hours.

Leveraging the Foreigner to Speak Out

In April of 1999 I heard from Kurasawa about a company wide union meeting open to full-time employees. He told me about the meeting because he wanted me to attend but I thought it was strange since the company had a strict policy of not allowing contract workers into union meetings. They told me the meeting was called because a number of employees were upset with restructuring. While walking to the meeting Kurasawa’s friend joked,

“The American will speak up”

They laughed and Kurasawa said,

“That’s good! The UAW in America is strong, they force the companies to speak, it’s not like Japan.”

It was clear that they wanted me to attend the meeting to exert my natural American tendency to stand up against authority. We entered the meeting room where a number of tables and chairs sat side by side to form a squared off, neatly arranged setting for negotiation. Employees arrived, group by group, until the room was fully packed. The last to arrive were the union leaders. The senior leader sat in the center and his two subordinates flanked his side. They began by talking about the condition of the company and economic statistics meriting restructuring. As they continued it quickly developed into the same litany repeated in company literature - if the employees can persevere and be patient, they will be rewarded. The meeting was planned for one hour and they spoke for a full 55 minutes without breaking for even a moment. No one said a word while they spoke, and then it came the worker’s time to speak. One person asked a question about overtime pay and received a vague response. Another asked a question about bonuses and received a similar response, and another about a leave of absence and received the same answer – endure and you will be rewarded. The question period lasted a short five minutes and suddenly the meeting ended before I could assert myself. I was shocked and disappointed, and as I expected, there was absolutely no negotiation.

When I asked why the meetings were structured this way, an assistant manager in my section responded, “They deliberately keep the meetings short. They speak 90% of the time and allow only a few questions, that’s it.” When I asked Kurasawa about the meeting he responded, “They cannot trust us, we are all like robots, we just do as they say.” When I returned to the office I asked my boss about the meeting he responded, “They have a meeting so they can say they had a discussion, but the reality is they only give a report on what they have decided. After they make a decision there is not a chance it will change.”

These vignettes provide further evidence of the hybrid nature of the Toyota restructuring - a model that is shaped by Japanese institutions of welfare corporatism and one that is positioned in both liberal and coordinate market economies. The Japanese welfare corporatist policy of long-term employment had reached its limit – all policies to reduce costs had been exhausted so the company had no choice but to fire regular employees and workers. The company relied on unilateral authoritarian measures and a weak union characteristic of liberal market economies to get the company into the black. As in liberal market economies, full time employees at Nizumi experienced inducements to leave the company and a number of full-time employees were let-go but the company did not experience massive factory closings or the spin off of divisions as is seen in Britain or America. Deregulation of the holding company laws to allow Toyota to buy 50% of the stock and the resulting policy to get the company into the black by 2000 however meant that Toyota had far more leverage to externalize the costs on to employees. The policy changes broke the system of permanent employment and severely damaged morale and loyalty. Had the corporate governance laws remained as they were before the Big Bang with a diffuse number of stock holders, Nizumi management would have had far greater leverage in forming restructuring policy.

Union- Management Negotiations

This section will analyze company newsletters and documents to add further insight into the restructuring policies of the company and to validate the ethnographic data.

In March of 1998 the union stated its grievances to the company "Employees are staying at the company until midnight, and are working on holidays to construct the new line [for new Toyota vehicle]. They are also required to work on the current line with a 30% reduction in manpower." The management claimed that it could not increase the number of workers and suggested that "It would be best to train skilled workers in many fields to be able to help various sections." The union also discussed the pay-by-performance policy stating that it was important to "raise productivity and to maintain entrepreneurial vitality. The current program is, however, far from ideal. We think the shortening of working hours is indispensable to maintain worker's health and to improve working efficiency." The management responded by saying that it was well received in the company but would continue to observe it.

A request by the union required the company to focus on profits instead of market share, "We should change the company to be more profitable rather than aiming to expand market share. In the past, the race of expanding the market share led to lower prices, which eventually resulted in less profits." The management responded "Increasing the market share will bring steady profits by maintaining the sales of auto parts." The union ended by stating that it has worked hard to cooperate with management and in response management said

“We would like the members to do their jobs understanding that their work will be sure to bring profit to the company in the future. The union should keep in mind that we will face reforms with pain but we would also like you to work with pride and belief in the system.”

The management took a stance that was consistent with Japanese welfare corporatism - labor should sacrifice for the long-term benefit of the company and in return the company would do what it could to maintain employment by diversifying training. Although the maximization of worker’s interest is not seen as opposed to the goals of shareholders as it is in liberal market economies, it is seen as opposed to the goals of management and to the long-term interest of the company. An interesting observation is that the union saw liberal market reforms as a way to resolve the labor problem and therefore pushed to reform the long-standing corporate policy of maintaining and expanding market share.

A year later the company published a series of negotiations with the union. On February 17th 1999 the union recognized the worsening economic situation and confirmed that the economy would not turn around anytime soon. They stated that they will be working with RENGO, the union federation that represented all automotive unions, to help improve the economic situation by revising the tax laws. Given the drastic cut backs in wages they asked management to help improve working conditions by cutting back on service overtime. They also said they would accept five months for the annual bonus.

The company responded by saying that they could not make any concessions and justified their position by stating that the wage demands proposed by the union was an anachronism and that the annual bonus would be cut. Discussions about the depressed condition of the Japanese market lead into a list of initiatives to “get the company out of the deficit to survive in the 21st century.” The negotiation ended with an opinion about the union’s request, “Honestly speaking, we cannot afford to consider a wage increase or a large bonus payment. We are forced to consider cutting employment but we will do our best to avoid dismissing senior level workers.” The company broke the informal contract and dismissed a number of full-time workers (see above) but did so after shifting 600 workers to Toyota factories and dispatching 60 workers through work sharing.

On March 5^{th} 1999 the union released the second union-management negotiation. Their slogan read “Increasing consumption by a raise in wages and resolving insecure employment” and the company slogan read “For the survival of the company, going into the black in 1999 is the highest priority.” Along with a demand to increase wages to compensate for service overtime, the union stated that according to RENGO’s economic projection if wages did not rise economic growth would be 0.4% for 1999 and 0.5% for 2000 and unstable employment would not be resolved. Management recognized the worsening economic condition and said that they had no choice but to continue with restructuring which included an increase in part-time employment. The union then stated that if restructuring is carried out too quickly, it would negatively impact the mental health of workers and they would become demoralized. The management responded that they needed to go into the black by all necessary means. The union discussed the impact of the overwhelming reduction of income on the ability of union members to make a living and to provide for their families. The negotiation ended with management stating that although they understood the union demands, survival was the most important goal of the company so they had to reject all demands. They requested the union to endure the pain (*gaman*) with “clenched teeth” to save the company.

On March 19th the union published the last labor-management negotiation of the fiscal year. The union slogan read, “As a reward for hard work please give us a truthful response” while the management slogan read, “If you are patient this year you will have a bright future.” The union again complained about service overtime related to the new Toyota product “We believe the company’s fate depends on the success of this project and therefore everyone has been putting in a desperate effort to achieve good results.” A number of workers were transferred to the new project and had to work beyond midnight to complete the quality tests because of a reduction in personnel. Workers on the line also suffered from overwork as this excerpt about transportation after hours explains:

> In March we introduced a new change in work program but the biggest problem was transportation. The reason is that many workers had to work two consecutive shifts, from 8:30 a.m. until 5:30 p.m. and then from 5:30 p.m. until midnight. Transportation is not available after midnight so many workers had to stay in the company dorm or their wives had to pick them up at work. This project included effort from family members who worked in cooperation with the goals.

The management responded:

> We were lucky that we produced more vehicles than expected, thank you for working hard. From now on, Toyota requires our best efforts to meet the demand because now all Toyota group companies have a surplus. To secure production there is competition within the group, and in order to

> compete against other group companies we must have our employees work two shifts on the line, so please understand this.

The union asked the management to postpone the project deadline since employees are all working abnormally long hours. The management refused since the company was continuing to lose money and ended the negotiation by saying “We must protect our company so we don’t want to fight against labor, we must share our pain together.”

Although the Toyota project provided the company with work and potentially increased market share consistent with coordinated markets, the impact of meeting Toyota’s strict production goals coupled with the ultimatum to become profitable while undermining long-term employment reveal the extent to which the company incorporated liberal market reforms. Japanese welfare corporatism remained resilient in a number of ways. The importance attached to market share and labor sacrifice remained a hallmark of the labor-management discussions. The asymmetric nature of management control over the union also remained unchanged. On the other hand, the negotiations again reveal that changes to the holding company laws and the decision for Toyota to remain independent meant that Toyota could extract an inordinate amount of unpaid labor to meet its goals.

Discussion and Conclusion

This article has examined restructuring of a Toyota organization during the Asian financial crash. The theoretical analysis highlighted the liberal and coordinated nature of firm behavior. The discussion also covered how the characteristics of Japanese welfare corporatism remained resilient or changed over time. I believe that I have provided evidence that Toyota restructuring followed a hybrid model of both liberal and coordinated market behavior. The liberal market behavior was composed of newly adopted reforms and policies that were unique legacies of Japanese welfare corporatism.

The hybrid nature of restructuring and what characteristics of Japanese welfare corporatism remained resilient and what failed is represented in Table 1. The columns labeled “liberal” and “coordinated” market economy are the characteristic ways Nizumi behaved as a liberal and coordinated market economy during restructuring. In the third column, Japanese welfare corporatism during restructuring, a failure is defined as a characteristic of the model that could not be sustained during restructuring or that was damaged as a result of restructuring policy. For example, the firing of full time employees is considered a “failure” since the company had to abandon full-time employment for its regular employees. The implementation of the neo-liberal pay-by-performance policy is also considered a failure since it damaged the seniority based promotion system.

Table 1: Liberal and Coordinated Behavior of Toyota Restructuring and Changes to Japanese Welfare Corporatist System

	Liberal Market Behavior	**Coordinated Market Behavior**	**Japanese Welfare Corporatism During Restructuring. What Failed and What Remained Resilient?**

Labor-Management Relationship	Management had unilateral control, labor is weak and did not necessarily receive a good deal in negotiations	Labor leaders worked to protect rights but asymmetric balance of power in favor of management meant demands could not be met.	Resilient: Labor sacrifices for the company Failure: Cost cutting externalized on to labor through overtime and work speed up. Hurts moral and loyalty.
Employee and Worker's Interests	Maximization of interest seen as opposed to goals of management.	Management is not beholden to shareholders.	Resilient: Employee and worker's interest tied to long term goals of company.
Wages	Wages not tied to external labor market but are highly influenced by failure of markets and macro- economic policy	Economy-wide wage negotiation but base pay only accounts for approximately 40% of total pay.	Resilient: Wages highly flexible and fell dramatically (app. 50%)
Training	None	Training is firm specific	Resilient: Firm specific training allowed company to hold on to employees. Failure: Firm specific training limited employment opportunities when company wanted to separate employees from firm.
Nature of Employment Contract	Two-tiered labor market meant that part-time, seasonal and contract employees, and workers paid for a certain salary or wage for a specific function	Career contract for full-time employees and workers who are hired out of college or technical school	Resilient: Labor standard laws and two-tiered labor market protect full-time employees. Failure: Employment contract broken for hundreds of full-time employees. Loyalty existed but only because of lack of external labor market.
Labor Mobility	Two-tiered labor market meant that part-time, contract and seasonal employees and workers were highly mobile and therefore could be readily fired. Full-time employees mobile below the age of thirty-five but firm-specific job training meant it was restricted to auto industry and therefore not typical.	No external labor market so mobility for full-time employees and workers rare.	Failure: No external labor market for full-time employees and company could not sustain them

Promotion	Pay-by-performance but criteria vague so promotion decided by management.	Promotion not through market process but on a system through the personnel office	Failure: Promotion through personnel office but pay-by-performance dysfunctional and reduces moral.
Finance	Access to capital but contingent on meeting Toyota demands or be divested.	Access to capital independent of current profitability so could hold on to market share.	Resilient: Keiretsu and main bank finance maintained Failure: Cross-shareholding reduced as a result of neo-liberal reforms. Majority stock owned by Toyota.
Mergers and acquisitions	Merger of one division with non-keiretsu company but majority share of company controlled by Toyota	No hostile takeovers	Resilient: Company remains independent and with Toyota
Objectives of Managers	Focus on delivering profits to Toyota (but not to shareholders)	Work for long-term interest of the company. Toyota supports Nizumi through expansion of market and jobs to affiliates. No factory closings.	Resilient: Manufacturing potential maintained Failure: Profits to Toyota translated to great employee and worker discomfort

It is clear that during the 1990s Toyota was not converging on the liberal market model and instead responded to globalization by tightening its keiretsu ties. The decade long downturn in the Japanese economy starting in the early 1990s and culminating with the Asian Crash of 1997 did no result to a conversion of Toyota into a neo-liberal world of hostile takeovers, mergers and acquisitions, and the abandonment of manufacturing in favor of a service economy. This policy was verified by the the chairman of Toyota who was quoted as saying "We still have the sales and marketing abilities and vitality to remain pure-blooded."[12] Although this study is of a single case, Toyota is one of Japan's largest and most

[12] Lincoln, James and Michael Gerlach. 2004. *Japanese Network Economy*. Cambridge: Cambridge University Press.

influential companies with close ties to the most important business and government organizations in Japan. The impact of the Toyota organization therefore has a large impact on the way other companies in Japan conduct business **[CITE]**.

The analysis also shows that Toyota does not fit cleanly into the Hall and Soskice frame of a coordinated market economy. It lies somewhere in the continuum between a liberal and coordinated market economy. For instance, it was clear that during the 1990s Toyota incorporated aspects of neo-liberalism that were essential tools in the cost-cutting process. At the core of Nizumi's restructuring strategy was unilateral management control of the firm to cut wages and a two-tiered labor market that allowed the firm to fire workers and externalize labor costs. The maximization of workers interests were not seen as opposed to shareholder interests but opposed to the interest of management.

As much as the neo-liberal policies were used to cut costs, they were essential in protecting the core of higher skilled full-time employees responsible for the long-term future of the company. This paradox informs the debate about Japanese welfare corporatism theory and hegemonic despotism. Although the polices were despotic, particularly for those who lost their job, suffered inordinate amounts of service overtime or line speed increases in the factory, without hegemonic control over labor, the company probably could not preserve the core elements of welfare corporatism. Other key components for the survival of the firm were classic coordinated market economy maneuvers such as financial, manufacturing and technical support, and work sharing through the keiretsu. The most important keiretsu benefit was to receive finances and technical capabilities to expand the market share of the company and it is unlikely that this could have happened had the company been beholden to shareholder value. The company however could not rely on coordinated market policies alone and eventually needed to incorporate liberal market policies to ensure the success of the restructuring program.

One of the more interesting events was the company's incorporation of pay-by-performance and severance packages to induce employees to leave the firm. The severance packages clearly failed since the institutions of external labor markets and retraining did not exist or function properly to allow employees to leave the firm. An interesting aspect of pay-by-performance is that it was clearly failing and yet it remained in place. The company however continued with the plan, albeit in a modified form, because the benefits of saving on labor expenses outweighed the costs of reduced employee morale.

It is clear that welfare corporatism reached its limits during restructuring. The company had to renege on its informal contract of permanent employment and loyalty, trust and morale, all hallmarks of Japanese welfare corporatism were significantly damaged when the company extracted a significant amount of unpaid labor to meet Toyota demands. The financial reforms also had a significant impact on the objectives of managers as the company shifted from the diversity of cross-shareholding to providing profits for the parent company that owned the dominant shares. Another significant development was the increase in part-time and contractual work. Many companies, including Toyota, took advantage of changes in the labor standards laws in the 1990s resulting in a significant increase in non-regular workers in companies throughout Japan (Mouer and Kawanishi 2005; Vogel 2006). In many ways, however, the system remained resilient. Management still retained significant influence so the focus was on long-term market share expansion through keiretsu implemented labor, manufacturing and financial support programs. It remains to be seen what the future holds for the Japanese corporate system but during the 1990s while the Japanese government implemented neo-liberal reforms, the core elements of Japanese welfare corporatism in Toyota remained resilient.

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