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**“To Whom Does This Company Belong?”
An Instructional Case Unit Concerning Japanese Management and Comparative
Corporate Governance on the 1988 Labor Union Coup at Okuma Corporation,
a Japanese Machine Tool Manufacturer**

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Abstract

This is an instructional case unit designed to introduce students to comparative management practice and comparative corporate governance. Employee participation (management consultation) in the modern Japanese industrial enterprise is dramatically explored by presenting students with a corporate crisis in managerial prerogative faced by the 1988 enterprise labor union and labor union executive of Okuma Corporation. Okuma is global leader in machine tools manufacture, based in Aichi Prefecture, Japan. An unusual feature of the Okuma Case concerns the agent for managerial change with whom students are invited to identify: the executive of Okuma Corporation's enterprise labor union and its recourse to the firm's management council. This instructional case unit contains an instructor's manual, background information, and suggested questions.

Case Introduction

This case explores management consultation (employee participation in management prerogative) by the enterprise labor union of Okuma Corporation, a global leader in the machine-tools industry, based in Aichi Prefecture (Nagoya) Japan. Machine-tools (工作機械; kosaku kikai) are also known as “mother machines” (母になる機械; haha ni naru kikai), since they enable production of other machines essential for industry. Machine-tools constitute a wide range of highly value-added products, from drills and lathes to computerized, numerically controlled machining centers. The machines used in automated assembly lines, including robots, are illustrative of machine-tool industry products.

The machine-tools industry constitutes a rather small, yet extremely important, component of a nation’s overall output of goods, as machine tools are expensive, essential capital investments. Firms in the industry tend to be moderate in size, seldom employing more than 5,000 workers. The industry is extremely competitive and very cyclical in nature. Client firms tend to avoid ordering new products if a recession is anticipated or underway. They will also delay purchases in the early phases of general market upturns due to the high cost of products sold in the machine-tools industry. Thus, the machine-tools industry is, for all practical purposes, an ideal example of a “boom or bust” industrial sector.

The machine-tools industry first emerged during the Industrial Revolution in 18th century England. Global industry dominance shifted over time from England to Germany, then to the United States after World War II. In the early 1970s, Japanese machine-tools makers began to penetrate overseas markets. Steady growth in market share has shifted global manufacturing focus to Japan. Today, world-wide dominance in machine-tools manufacturing firmly resides in Japan, with major production centers in Tokyo, Nagoya, and Osaka. Okuma Corporation, the focus of this case, is one of the world’s leading machine-tools manufacturers.

Part I: Okuma Corporation and management participation

Okuma Corporation was founded in 1898 and is the second oldest machine-tools producer in Japan. It was publicly incorporated as a Japanese firm in 1918. The firm’s growth to the end of the Pacific war was linked to military procurement orders and the war-time Japanese economy. After World War II, the founder’s son, Koichi Okuma,¹ then in his early 30s, assumed the reins of this family-owned firm. A labor union was formed very soon after the war’s end. The earliest collective bargaining agreement that remains in the Okuma labor union archives is dated July 23, 1947. The agreement begins by stating that the company and the union “recognize that labor has a basic significance for production and that production has a important social and national mission” (p. 6). The third chapter of the collective bargaining agreement describes, “The Management Cooperation Council” (hereafter, the “management council”). The management council was formed to, “discuss the support and improvement of

¹ In Japanese, names follow this order: Family name, Given name (Smith Joan). For this case, names are listed in English order: Joan Smith.

management." The council would be composed of management and labor union leaders (Article 13) and meet once a month, but "may be held anytime there is a need" (Article 16). Council members could call for matters to be dealt with in a collective bargaining forum (Article 20).

The management participation function (経営参加機能; keiei sanko kino) described by the management council in Okuma's collective bargaining agreement is a forum for employee participation in the management of the firm beyond the "traditional" labor issues of wages and working conditions.² Legal grounding of this function in postwar Japan is based upon one very important document: the Central Labor Relations Commission (中央労働委員会; Chuo Rodo Iinkai) guidelines for management participation forums, issued on July 17, 1946 (An English translation of the entire text is provided in Appendix 1). The following key passage from the Guidelines summarizes the role and function of management consultation in the post-World War II Japanese workplace.

Management participation forums are based on the spirit of industrial democracy. As workers actively participate in the management of labor, it is a permanent participation forum established through collective bargaining between the labor union and the employer. Different from a simple round-table conference or an inquiry session, representatives of the employer and labor union meet as equal forum members. Both sides assume the duty of planning for implementation of items that are decision outcomes. However, in establishing management participation forums, there is no change in official duty and competence of enterprise executive for general direction of overall management. Simply that what was hitherto despotically decided and implemented by the executive will instead become the assumption of a duty to implement decisions specifically made by the management participation forums (See Appendix 1).

In the decades after World War II, Okuma Corporation survived, even thrived, amidst severe domestic competition and those extreme cycles typical of the industry. Following the oil shocks of the 1970s, however, Okuma Corporation, along with other firms in the industry, experienced a prolonged period of financial difficulty. High fuel costs made energy intensive machine-tool manufacture even more expensive, and the inflated energy costs reduced profit levels throughout the manufacturing world. This was a double blow to firms in the machine-tools industry, as it increased manufacturing costs and substantially reduced customer interest in machine tool investment, as client firms were themselves facing financial hardship.

In response, Okuma Corporation instituted a five-year effort to restructure and downsize. The firm's management council was active throughout this process. Downsizing efforts included the firm issuing formal requests for voluntary resignations to reduce size of the workforce, a step previously approved by the labor union in the Okuma management council.

Continued financial difficulties led, in March 1977, to a management proposal to the management council

² "Traditional," that is, in the particularly U.S. sense, where judicial interpretation of New Deal legislation has made such participation forums illegal.

for the dismissal of specific individuals. This was without precedent at Okuma, and represented a severe measure in a nation where lifetime employment was (and remains to this day) an institutionalized practice. The management proposal came with an assurance that this was a one-time only step, not to be repeated. After a difficult round of labor union meetings, the union leadership failed to receive strike authority from the membership. Such authority was necessary to formalize employee resistance to the specified dismissal proposal. In consequence, at the next management council session, the union executive accepted the management proposal. The firm served dismissal notice on 69 employees.

On December 6, 1977, company president Koichi Okuma, facing continued business difficulties, cited societal responsibility for the continuance of the firm and formally proposed another, broader round of specified personnel dismissals: 480 employees would need to be dismissed (Fujii, 1986, p. 82). On the day this proposal was submitted to the management council, the labor union called an emergency meeting of the membership. By the next morning, 94.3% of the membership had voted to grant strike authority. This was the highest percentage vote for strike authority in the union's postwar history. The labor union also established a "Special committee for rebuilding the firm," derived from the power inherent in the management council forum.

As a result of the union's unprecedented level of unified resistance, the firm withdrew the dismissal proposal on January 6, 1978. The same day, president Koichi Okuma, who had guided the firm for 29 years, resigned.

Takeo Okuma took over the firm from his older brother-in-law on February 9, 1978. The switch was characterized in the Japanese media as "abrupt" and "surprising," coming in the midst of the post 1973 oil-shock recession. Takeo Okuma began his post as president under the slogan, "Reject family management, manage as a joint labor-management body." His ability to assume the presidency was largely attributed to labor union support for three management principles to which he made a public commitment. First, Okuma would no longer be run like a family firm. Second, the Okuma labor union would have a voice in company management. Third, Okuma management would be conducted in a manner as clear as glass.

The agenda for this new arrangement, along with a review of past difficulties that emphasized non-labor origins, was presented at the March 2, 1978 management council meeting. In his first presentation, Takeo Okuma observed that personnel costs were high due to an "excess" of workers. His critique did not stop with personnel costs, but continued into other aspects of firm operations. First, losses were also due to unusual levels of overtime and cost overruns. Second, research and development costs for new products were unusually high. Third, new products were being brought out too slowly and pricing policies were inappropriate. Fourth, the burden of a subsidiary, the Foundry, was a major drain on resources and funds.

The new president proposed the following goals. First and foremost, he sought productivity improvements and stressed the need for improvements in management efficiency. His next point involved collaborative management. He stated and later published the following,

Next, I wish everyone in the labor union to participate in management. This is a big point in my plan.

Hereafter, I want the union to participate in management meetings as well as every other type of administrative meeting. And this management participation should not end with a superficial participation, but should continue as substantial involvement.

Within a decade the firm not only recovered, but emerged as a major player in the global machine-tools industry. In the recovery process, the major regional lender to Okuma Corporation and a member of the Okuma Board of Directors, Tokai Bank, distinguished itself in providing needed financial analysis and assistance. In May 1987, Okuma opened a manufacturing plant in the United States and distributors were established in both the U.S. and the Federal Republic of Germany. The labor union president was on hand for these occasions. By 1988, Okuma Corporation had substantially recovered, and the firm president, Takeo Okuma, had become a prominent business leader of the central Japan region.

But all was not well within the firm. After taking office, president Okuma oversaw placement of five of his children within the firm or its subsidiaries, all in high management positions. In January 1984, the eldest daughter of the president entered the firm and, within a short time, moved into a supervisory post. In September 1986, the president's third son was placed in a position of responsibility with an affiliate, Nihon Seiki Shokai.

The labor union did not look well upon the placement of family members within the firm. What were the grounds of discontent? First, promotions at Okuma were based upon seniority and performance evaluations. This was because of the many years needed to master the complexities of machine-tool manufacture and the extremely competitive aspects of the industry. Rapid advance of Okuma family members broke this pattern. In addition, there were no full-time women employed in direct production anywhere within the firm. Accordingly, the rapid promotion of a female family member to a supervisory capacity was exceptional. While individual talent might merit this, the cumulative impression of successive rapid advancements of various family members within the very closed internal labor market of the firm began to raise questions.

A major breakdown in cooperative management began, according to union president Keisuke Fujii, "around 1985. There was an important problem about which nothing at all was reported in management council meetings in which the labor union participated." Relations decayed further with the abrupt overseas posting of a managing director of the firm without management council consultation. The individual, sympathetic to the labor union, suddenly found himself dispatched as a company director to the Federal Republic of Germany. Fujii stated, "This was not done in the open and the labor union executive made its opposition clear."

Additional tensions arose over several policies proposed by management in 1986 to compensate for the effect of currency appreciation, which was negatively affecting the firm's financial condition as it entered yet another "bust" cycle. In the Fall of 1986, the firm sought to replace two days off per week with two days off every other week. It also proposed elimination of two vacation days per month without compensation. Labor union opposition resulted in a withdrawal of the holiday cuts. Yet, another request, the reduction of a portion of the year-end bonus (which in Japan is considered an inherent portion of one's annual compensation), received union

approval. Workers received 50,000 yen less as a result.³

Against the background of these trade-offs, employee opposition became complete and irrevocable in April 1987. The firm spent 50,000,000 yen (\$390,625.00 in 1988 US dollars) to renovate the executive meeting room, washroom and toilet in vice-president Hajime Okuma's office. Hajime Okuma was the president's son. An unnamed employee was quoted as saying, "While union members are compelled to sacrifice and cooperate, a director's office is renovated. That work isn't essential at this time and we won't allow it."⁴

The labor union's first formal reaction to the changing management relationship occurred in November 1987; it established a "Special inquiry committee regarding management problems" (経営問題特別調査委員会; keiei mondai tokubetsu chosa iinkai). The union also began an inquiry into accounting procedures used by the firm. One source said, "We suspect the president and vice-president are turning this firm into their personal possession."

January 1988, the presidential succession is announced

Along with other leading individuals who headed famous firms or organizations in the Aichi region of Japan, Takeo Okuma was invited to submit a New Year's statement to the local newspaper. He offered this New Year's resolution, "As we approach the 90th anniversary of the firm's founding, the decisive factor in the company is the daily prudent effort of everyone's combined strength." This was published on January 6th, 1988. On January 12, 1988, a regional newspaper published a very small article stating the president of Okuma Machine Tools Corporation, Takeo Okuma, would resign. The resignation would be effective within the month or, at the latest, by the June stockholders meeting. Two reasons were given. At 77 years of age, president Okuma was the oldest person in the firm. In addition, he was suffering from an unspecified illness. The article ended by noting that the presidency would go to his oldest son, Hajime Okuma (then 46 years old), who was an Okuma vice-president.

The Okuma labor union and the labor union's executive had pursued a long process of management council opposition to this appointment. They now directly faced the most important crisis and challenge in the postwar history of the management council and the labor union.

³ This amount is \$390 (1988 US dollars). At that time in the region, this would be about one month's rent for a 3-room apartment. This size housing is routinely used for a family of three, four (or, indeed, several more!) in space constrained Japan.

⁴ Asahi, January 13, 1988.

Part II: The 1988 Okuma enterprise union coup

The Okuma labor union coup: opening moves

The reaction of the Okuma labor union to the January 12, 1988 presidential succession announcement was immediate and, unusually, quite public. The Okuma labor union president, Keisuke Fujii, called for and held a press conference the very next day. He announced that as the president of the firm's labor union (membership exceeded 1,500 employees), he was publicly demanding the resignations of both president Takeo Okuma and his son, vice-president Hajime Okuma. This was because of, "excessive damage from family management by the father and son, with no relation to the development of the company." He reported that a special inquiry board had been established by the union a year before to look into various charges of mismanagement. The labor union claimed that the company president had made, and now broken, the three promises to the firm's employees dating from 1978. Fujii put it bluntly at the conference, "Its obvious, they've just got to go."

The Asahi newspaper, a national newspaper with regional editions, reported that the union specified a number of charges against Takeo Okuma in a written statement. The announcement that Hajime Okuma would assume the presidency constituted a breach of promise that there would be an end to family management. President Okuma had also placed five of his children in the firm or its subsidiaries, all in high management positions. The union also accused the president of making the firm purchase land and a villa that had been his personal property. A financial daily quoted a union representative, "The firm's personnel are strained. It looks like there's a knot involving personal use of property. There's more, and this raises doubts about management strategy." In the press conference, the union president stated that he had a "mountain" of complaints in his office about the character and disposition of the president and his son which he could not yet make public. Fujii added that while there was an opinion that legal proceedings against the two should be initiated, he had no comment to make on this possibility at the time.

Fujii believed that a return to the earlier labor-management cooperation obliged the employees make this happen by their own strength. He said, "To sweep away these suspicions, the only road open to us is to demand the resignation of the top two. It is a matter that is linked to the welfare of the employees who work for the company." He added, "The opinion that management circumstances are in a dreadful state continues to arise from among the labor union membership." A formal resignation demand would be submitted in the event those responsible did not quit by their own will.

The union president stated that he planned an emergency meeting of the union's consultative board (臨時評議員会; rinji hyogiinkai) the same day. The union would begin the process of submitting a formal resignation demand to the firm and call for a meeting of the management council. Labor union president Fujii said,

The labor union members have gathered together a large number of specific problems relating to management responsibility. We have looked into these. Those facts need to be evaluated in shopfloor discussions and we'd like to take a little more time for this.

Fujii stated he intended to speak with the president of the firm and its major shareholders and he hoped for a positive outcome. The union fully intended to restore the cooperative labor-relations atmosphere that had once existed. To do so, he claimed the union was willing to pursue the issue, if it were necessary, right into the Spring Offensive (Shunto) negotiations, still several months away. He noted that the union had no intention of presenting difficulties to company clients and that regular operations would proceed without interruption.

The same day, the company president, Takeo Okuma, held a press conference at the Nagoya branch office of the Ministry of Trade and Industry. He claimed that a misunderstanding had occurred and explicitly denied the presence of labor union opposition. President Okuma said, "This is an extremely regrettable circumstance. Until this problem is resolved I have no intention of resigning." The switch in management, earlier planned for the June shareholders meeting, would now be indefinitely postponed. The January 14th Chunichi, quoted the president, "This matter is due to a certain company officer dissatisfied with personnel administration. He has swayed the union executive. There is no labor-management opposition." The newspaper reported there were no immediate plans to discipline the officer in question. The firm had not taken any specific steps in reaction to the union's unprecedented press conference, because the union had yet to submit formal demands. If these were submitted, the issue could and would be taken up in the management council.

As for charges of excessive family management, President Okuma Takeo stated, "I own less than 1% of the firm's stock. Since my eldest son's appointment as vice-president was urged by those around me, this cannot be considered family management."⁵ In another newspaper report on the accusation of family management, the Chunichi quoted the firm president as saying, "Three children have joined the company, and this includes affiliates. They have received strong internal and external support. There was no special manipulation." The president claimed the labor union had factually misunderstood these placements. His son, the vice-president, was appointed only after following appropriate procedure. This process reportedly included the support of the personnel department and the labor union itself.

The company president had the following reaction to accusations the company bought land and buildings that had been in his name, "I sold it for the welfare and promotion of health of the employees. There is absolutely nothing I feel guilty about." The company purchase was reportedly for use as an employee recreational facility.

The president stated he looked forward to clarifying the issues at the firm's management council. Some irritation was evident, "After so much trouble in building a framework for labor-management cooperation, it is truly a shame to see it destroyed over such a small thing." The same afternoon, after the press conference, a meeting of the firm's board was hastily arranged. There was unanimous support for the president and his policies. Some officers were unable to attend. Yet, aside from the one office previously posted to Germany, the president had contacted all by telephone.

⁵ Asahi, January 13, 1988. The 1988 financial report indicated 45.82% of shares were held by institutional investors. Tokai Bank was the third largest shareholder with 4.98% of shares.

The January 13th Asahi reported that it was "unprecedented" for a labor union of a nationally recognized, publicly-held firm to call for the resignation of several management members in a press conference, let alone the president and a vice-president. More generally, "the Okuma coup" (as it came to be called) was seen by another national newspaper, the Mainichi, as "casting a quiet wave in the often family-managed machine-tools industry." Background newspaper reports, all published within a day of the press conference, offered varied histories of previously unreported, but steadily escalating, internal conflict. The Asahi traced the origins of labor union discontent to January 1984, when the eldest daughter of the president entered the firm and, within a short time, moved into a supervisory post. In September 1986, the president's third son was placed in a position of responsibility with an affiliate, Nihon Seiki Shokai.

A January 14, 1988 article by the regional Chunichi reported the following employment history of the president's offspring,

The eldest son is a vice-president in the firm. The second son is the managing director of Okuma Howa Machinery. The third son, in Nihon Seiki Shokai (also an affiliate) and the eldest daughter, in Okuma Ironworks, both climbed to important positions (section chief level) shortly after they joined the companies. The second daughter has also joined an affiliate.

A local financial newspaper, the Chubu keizai, observed that history seemed to be repeating itself. Ten years earlier, in the face of a 1977 large-scale dismissal threat, labor union opposition at Okuma reached "a flash point." This led to the retirement of Koichi Okuma, a new president and the withdrawal of proposed dismissals. In respect to the present crisis, the labor union chief stated,

If we are to return to the starting point, it seems obvious that president Okuma will be out. Also, the vice-president just isn't going to head the company. We're keeping an eye on company output while working fast on preparing the formal demand for resignation.

In the article, union president Fuji continued, "We shall press on for these resignations to the time of the firm's June stockholder's meeting." This, notably, expanded the union's confrontational time horizon from the Shunto negotiations well into early summer, while also escalating the conflict into the annual meeting of the firm's stockholders.

The January 13th Asahi reported that the firm had 20 corporate officers. Of these, four were on the president's side and five were said to be supportive of the firm's labor union. The article stated that the union feared many of the middle faction could be persuaded to support the president. A union official said, "This is because of such things as the overseas posting of officers as demotions for those who oppose the president's management style. The result is governance by very close associates."

One newspaper noted there had been a lengthy internal conflict within the firm before the issue had been made public by the union. It cited an offer by the company president, "If they were to go along with the appointment of my oldest son as president, I'd be content with a non-authoritative consulting role in the firm." Takeo Okuma had also apparently offered to reshuffle those directors whom the labor union identified as belonging to his faction, even

extending to executive staffing of affiliates, in return for the appointment of his son as president. Formally, the appointment of directors was strictly a prerogative of the president. This made the offer remarkable, without precedent. The union, however, was unmoved; "We're committed to fight until we corner the president and vice-president into retiring."

The overseas posting of an officer sympathetic to the labor union, one year earlier, was identified as a source of unusual tension in the January 14, 1988, Nikkei. The individual was sent as a company director to the Federal Republic of Germany. The paper stated, "the labor union took this sudden overseas transfer as, "a challenge to the labor union by management," and attitudes hardened."

A financial newspaper, the Nikkei shinbun, first mentioned a potential mediator role for the Tokai bank, a large regional bank and Okuma's primary financing source, on January 14, 1988. The article stated that the bank had not made any such offer. The paper went on to report, "the labor union is clearly taking the position that it will thoroughly pursue even the president and vice-president's questionable use of firm capital."

Within a day of the coup, revisions of the president's accomplishments began to appear in the press. The corporate rebuilding and expansion begun in 1978 had long been credited to his managerial talents. After the labor union press conference, one newspaper observed, "the current drama of internal discord suggests it has all been a one-man management line. The internal criticism now being received is a result of this management style." The Mainichi reported that the president's corporate restructuring and joint management policies over the prior decade had coincided with an international boom in capital investment, resulting in sharply improved performance. This, the paper noted, "provided security for the labor-management policy"

The Chunichi of January 14, 1988, named Akira Shimizu as the company officer that had protested the appointments of the company president's offspring. He had found himself abruptly dispatched to Europe to "strengthen the overseas organizational structure." From that point the corporate officers also became embroiled in the internal strife. The paper reported that some employees thought inclusion of the president's children in the public turmoil excessive. Still, the article continued,

most of those associated with this company knit their brows and say, 'If you look at the difficulties from the time of the management reorganization, the children entering the firm, and, moreover, the problem of appointments to executive positions, maybe he's (the company president) just too old....'

Some analysts felt the labor union's role in rebuilding the firm had been overlooked, or that the labor union was now overstepping the boundaries of the post-1978 management participation agreement. One analysis held that a delay in generation-to-generation succession within the family was the greatest problem in this rapidly changing time. Given the extreme labor-management opposition, the article ended by stating, "it looks as though the largest stockholder and top bank, Tokai bank, will be entrusted with mediating the crisis."

A reporter for the Asahi telephoned Akira Shimizu in Germany the same day he was indirectly identified by the president of Okuma as the company officer and "ringleader" of the current turmoil. This is his entire statement, as reported by the newspaper:

Astonishing! I never thought it would come to this. The president's public statement is completely unexpected and, in a word, regrettable. To this point I have never failed in my moderation and I've spoken with sincere honesty about such things as his first son joining the firm, but he's always turned a deaf ear to such things. This New Year's I was suddenly ordered home and had a talk with the president. I made a number of suggestions in regard to the vice-president being appointed president. I suppose he took this badly. While I tried to speak honestly, the president has mistakenly perceived this to be agitation on my part. Several of his officers go for this kind of thing. They are trying to make me responsible and, in doing so, force the matter. This will only increase a sense of alienation and the firm's difficulties will deepen. I can only hope they realize this quickly.

The stock price of Okuma had reached 1030 yen in June 1987 and closed at 970 yen the day before the coup began. On the 13th, after the first reports of the coup, share prices were off 9 yen from the prior day's close. Shares then began to be widely sold and Okuma closed at 940 yen per share. The sell-off continued on the 14th. After reaching a low of 909 yen per share, the stock rallied slightly, ending the day at 920 yen. This was a 59 yen drop in two days, while competing machine tool makers experienced price increases. A market analyst at a leading Japanese brokerage explained, "Looks like the employees have turned away from the boss. Bad material gets sold."

The labor union executive met on the 15th. After this meeting, a number of points were reconfirmed in a press announcement. First, the labor union emphasized it was not acting at the instigation of one corporate officer. The union stressed that president Okuma had broken his promise to avoid family management. The union felt it important to return to the original promise. To disseminate this information, the union issued a pamphlet to company employees reiterating its position. Management, in turn, was reported to be reassuring clients that operations had not, nor would be, affected. Clients were told, "There is no change in labor-management cooperation."

On January 16th, the first management council was held since the coup began, at management's request. Management participants included president Okuma, his son, the vice-president, and other officers. The employee representatives included labor union president Fujii and the other members of the union's executive committee. President Okuma opened the meetings by saying, "If there are problem points with management, I'd like to resolve them within the context of management council discussions." The meeting was a heated one-hour confrontation. The union representatives claimed that the firm had suffered exceptional damage from family management. They raised questions about the presidential succession, family appointments, and property purchases. Management reviewed the propriety of all its actions. The management side was reported as stating, "Approval was obtained from every section, all the paperwork was properly done and the matters were correctly dealt with." The purchase of president Okuma's property by the firm was intended for employee recreational facilities. Given this, management was surprised at labor union opposition; "this criticism is strange." There was little common ground; the council members only agreeing to meet again. The session ended without a formal resignation demand being submitted by the labor union.

On the 19th, a regional financial paper, the Chunichi keizai, reported that the "informal" meeting of the

16th increased the probability for an amicable settlement and reduced the likelihood that the union would ever actually need to submit the formal resignation demand. The labor union had offered no opposition to a management statement; "We'd like to resolve this in an amiable management council meeting." Furthermore, the union president stated, "The labor union's activity is linked to pursuit of reward for hard work and a management style that is clear as glass, it does not seek internal discord." The same paper reported that the labor union passed along the outcome of the meeting to workers through a series of shopfloor meetings.

The Asahi had a different perspective. Under the headline of "The front lines: Labor-management conflict at Okuma Ironworks," the newspaper reported,

failure to break the ice of confrontation during the meeting on the 16th means the cooperative relation that has existed to date is in danger. There is a feeling that this could mean a long-term struggle, which would impact management of the firm. Competition is already viewing this as an opportunity to tempt their clients away.

Labor union president Fujii was asked why a formal resignation demand had not been submitted. He replied, "If I reflect on the honor of the president in his contributions to rebuilding the firm, this was, nominally, the correct thing to do." Nevertheless, the union's "declaration of war" remained, due to doubts about the son and the pattern of family succession.

Management, in addition to the internal union pressure, began reporting deterioration in corporate image and client relations. The Asahi observed, "How the president, who has balanced firm recovery with parental thoughts, will deal with the decisions related to this matter is of interest to the major lender bank as well as the employees."

On January 20th, agreement on a negotiation forum was reached between management and the Okuma labor union. For a quick resolution, "executive level negotiations" would include, for management, the company president, his son, the vice-president, and company officers. The labor union president and two members of the executive committee would represent employees. This was considered a major step in avoiding the complete standoff that was thought to be the inevitable outcome of a submission of a formal resignation demand.

Initial negotiations in this format lasted no more than one hour. Both sides confirmed two negotiating principles: first, to continue executive level discussions within the management council, and second, to return to the spirit of the firm's 1978 rebuilding as a precondition for talks. It appeared that the core of future negotiations would deal with the extent of compromise that could be reached in personnel matters. But, the union had clearly won a victory in forcing postponement of the presidential succession. Furthermore, the president had yet to deal with the issue of discipline for the officer he had accused of being the coup instigator.

The Coup: second week (January 21-27, 1988)

Press reports and analysis continued, with interpretations based upon the anticipated resolution to the now very public Okuma labor union coup. One view held that all top management changes involved various adjustments

and these qualifications and misgivings could be duly footnoted at the stockholders meeting. Another assessment, based upon a labor union victory, was as follows,

Look, it'd be a precedent if officer changes followed the thinking of the labor union. If it occurred, I would not even know how to calculate the extent of bad influence... The union has targeted the president and vice-president. Unless there is a fatal problem, the major shareholders ought to resolutely stand by them with a wait and see attitude.

Top level meetings continued between management and labor without signs of progress. President Okuma began meeting with major shareholders and lenders. In a meeting with Tokai Bank officials, he stated that personal visual difficulties might present a medical necessity for retirement. The announcement of a specific and grave medical condition was perceived as a possible way out of the confrontation, as this would provide a face-saving retirement necessity. However, labor union opposition to the presidency of Hajime Okuma was a serious constraint upon the utility of this option. The same newspaper reported that Tokai Bank, the region's leading bank, had played an important supportive role in earlier difficulties that had faced the firm. A continued stalemate might well oblige the bank to become actively involved again. An "interested party" was quoted as saying, "There will be no place else to go but Tokai Bank."

The labor union continued to move the coup along, increasing pressure upon Okuma management. It claimed some domestic competitors had scouts out that were approaching clients with copies of newspaper articles about the firm's problems, saying, "Here is a crack in Okuma's manufacturing structure. You can't rely on their products now."⁶ Other reports of Okuma clients being approached by scouts for the competition began to appear in the press. These claimed the Okuma labor-management standoff presented rivals with an opportunity to, "Push Okuma over the edge," a phrase that was being used, reportedly with considerable zest, by the firm's domestic competitors. Another report hinted at a potentially wider role for these scouts, "Okuma is known as 'the Okuma of technology.' If this confrontation goes long-term, it will not be strange to see scouts becoming active among even the technical management staff."

The Coup: third week (January 28-31, 1988)

The first public comment about the Okuma dispute by Tokai bank officials was on January 28th in the context of a regularly scheduled press conference by bank president Ryuichi Kato. As had been expected, he announced that he would be retiring in June. The new president would be one of three current vice-presidents. One, Akira Matsutani, was said to be particularly likely to assume the post of president because of his leadership reputation. Bank president Kato was asked about the continued internal strife at Okuma. He said, "At present we

⁶ Nikkei, January 24, 1988. Based on personal discussion with Okuma firm members, this was much more than a mere union dispute tactic. Similar reports were surfacing from company sales representatives in the field offices. Both sides in the dispute shared a great concern about the loss of client trust.

have no request to act as mediator, but if there was such a request, we would offer our assistance without restraint." There had been an explanation from the president of Okuma, the bank president said. In this, the Okuma president expressed a desire to achieve a settlement through labor-management consultations. The bank president expressed a willingness to wait and see. Nevertheless, at the press conference the door for involvement was left open, "As the main banker, we'll help by all possible means without restraint. Help refers, for example, to mediation if such a request arose. We'd take it up if asked."

In fact, before the day of this press conference passed, Okuma firm and union presidents had both agreed to request Tokai bank mediation. Formal mediation was scheduled to commence January 30, immediately upon receipt of a written request from Okuma Corporation. This step was taken even though the Okuma president had apparently begun signaling an intention to resign. The labor union remained insistent that both he and his son depart the firm. The stalemate reportedly led the firm's president to "despair over the current disposition of the management structure." He then suggested to the labor union that Tokai Bank be invited to mediate. On the 29th, a formal memorandum requesting the bank to "mediate respective positions" was agreed to by both parties and sent to the bank. Despite the stalemate, the bank's initial position was reported to be: "The president's resignation is inevitable."

The Okuma labor coup ends

The mediation procedure of the bank involved hearing each side and then presenting both with investigative results and recommendations. The company president presented the management case to bank mediators on the evening of the 29th. The morning edition of the January 30th Asahi reported that union president Fujii was "soon" expected to make the union's case to the bank. Yet, the January 30th evening edition of the regional Chunichi claimed a settlement had already been reached. The key to the settlement was dispatch of Tokai bank vice-director Akira Matsutani to assume an interim Okuma leadership role on the 30th, then formally resign his bank post at the end of February. On March 1, he would take an advisory role in the Okuma firm. Mr. Matsutani would assume the presidency of Okuma after the June shareholder and board of directors meetings.

The agreement called for President Okuma to retire to an advisory capacity. Vice-president Hajime Okuma would find his promotion decision rescinded and future promotion horizon, in all likelihood, severely constrained. While he would be permitted to remain at his current post, all decision-making powers and influence over the key departments of personnel and trade would be eliminated. The formal announcement of this agreement was made at 1pm on January 30th.

On January 31st, a press conference was held at Tokai bank. This was to publicize and explain the mediated settlement that had been achieved in the "unprecedented circumstance" of the Okuma labor-management dispute, "in which the president of a leading company was forced to retire because of relentless demands coming

from the labor union."⁷ Participants included the bank president and its managing director, Yukimasa Iwamoto. From Okuma Machine Tools, president Okuma, managing director Iwamoto and labor union president Fujii were present.

There were opening statements by the dispute principals and the mediator.⁸ The bank president, praised the settlement, referring to a Japanese proverb that essentially means, "Calm comes after the storm."⁹ The comments from each participant follow.

Takeo Okuma, Okuma president:

Labor and management talked and, thanks to the labor of mediation provided by Tokai, the major banker, a similarity of outlook was achieved. On the company's side, we accept the mediated proposal. We will honor it, ensure there are no negative after effects and work hard at manufacturing. For the firm that I have worked to rebuild these past 10 years, there is no one else to entrust it to except Mr. Matsutani.

Okuma labor union president Keisuke Fujii:

To the shareholders, clients and the public, I wish to apologize for all the trouble this has caused. We stand on the principles (such as no family management) established when Mr. Okuma became president in 1978. We are impressed by the mediated proposal of Tokai Bank, which we gratefully accept.

Okuma president designate, Matsutani Akira:

The machine tools industry is presently in difficult circumstances because of currency appreciation. I am an amateur in this industry and there is much I must study. I hope I can help in some small way, bearing in mind the path of labor-management cooperation.

A number of points in the settlement were reviewed in the course of a question and answer period.¹⁰ The president was resigning to devote his full attention to an "unusual eye illness." The agreement included a variety of dispositions for the five Okuma children. The oldest son was to remain as vice-president and his future as a company president would depend upon his effort and job performance. Two daughters would quit their positions in the firm. Two other sons, in affiliated companies, "will each consider their respective firm's circumstances."

The property issue remained a source of disagreement between labor and management. If the firm's employees could use the health and welfare facilities, the purchase would stand. If not, the president agreed to a repurchase. A vacation home, sold to the firm, would be repurchased from the firm by the president.

Accusations that an overseas officer had instigated the dispute were attributed to "misunderstandings." The honor of the officer had been restored and his future was a matter for the incoming management team. Selection of Mr. Matsutani was reportedly based upon a suggestion from Okuma management. President Okuma said, "He is a man rich in discernment and also fine character. No one else came to mind. I think he's the most suitable person."

⁷ Nikkei, January 31, 1988.

⁸ Press conference opening statements are from the Chunichi, January 31, 1988.

⁹ The proverb is "ame ga futte, ji katamaru." Literally: "Rain falls, the ground hardens."

¹⁰ Nikkei, January 31, 1988.

The labor union had established a special inquiry committee to investigate management problems. The union head was asked if this committee would now be dissolved. Labor union president Fujii replied,

Since the union executive has an interest in doing what it can as a labor union to develop the company even more, of course we'll continue with this. Based on our proposals, we want to work together as a joint labor-management team to become the best machine tool maker in the world.

The pace of the "high speed resolution" was reportedly due to a deadline threatened by the labor union. February 9th was to have marked the 10th anniversary of Takeo Okuma's term as company president. Had the stalemate continued to that point, the union made clear it would mark the occasion by submitting the formal "resignation demand." At that, management decided there was no choice except bank mediation: a remarkable concession. The Chubu yomiuri characterized the mediated outcome as one in which "the company has the 'name' and the labor union the 'essence'."

Tokai bank president Kato reported that he first learned of the Okuma dispute on January 13th, when the president of Okuma telephoned, reviewed the situation, and asked that he be allowed to resolve the problem through negotiations as it was a matter internal to the firm. Kato assured him the bank would calmly observe developments. Once negotiations deadlocked, the bank felt it increasingly important to facilitate a resolution. This was due to the extremely competitive machine tool industry and the fear of negative impact of a long-term labor dispute. The bank directed Yukimasa Iwamoto, business manager of the main Tokai branch, to signal he would be willing to serve as a mediator.

Kato reported that it was Takeo Okuma himself who, in a January 26th meeting, first suggested Matsutani assume the Okuma presidency. With three candidates for the bank's soon-to-be-vacant top spot, dispatching Matsutani to a long favored client would hardly endanger Tokai Bank. The suggestion was evaluated on its merits and carried the day.

The potential role of Tokai bank had been noted by media commentators soon after the coup began. Yet, many within the bank itself had, in fact, discounted this possibility. Kato said, "I kept thinking there just wasn't a stage for us to play in Okuma's internal conflict."

The magnitude of the coup continued to astonish many, "Within the local business scene, there is a tendency to shake one's head and wonder, 'How did an in-house thing within such a famous firm become so big?'" The implications of the settlement were viewed with no less surprise. The labor union executive committee cheered upon hearing the results of the final negotiations and conference, "The management reform route sought by the union has been achieved." It was also reported that the labor union, while strongly adverse to the promotion of vice-president Hajime, actually still had considerable esteem for Takeo Okuma and had not, in fact, initially planned to push him into early retirement. One important consequence of the coup was that the Okuma Corporation, continually managed by the Okuma family since the late 1800s, abruptly ceased to be a family managed firm. As one analyst for the Mainichi put it, "for the first time since the firm was founded, governance by the Okuma family has been destroyed. This is no small trade-off for company president Takeo Okuma."

The Nagoya shinbun, a city newspaper, traced the beginnings of Okuma labor relations difficulties to the departure, some years earlier, of Karoku Muraoka. He had worked for Okuma over many years as the financial and business counterpart to former president Okuma Koichi, who had provided technical and engineering guidance. In the absence of Muraoka's personnel skills, this analysis went, conditions deteriorated, forcing the major shareholders to play a critical role in the resolution. These shareholders were mainly insurance companies and banks, with Tokai Bank as the primary local shareholder. The directors of these firms exchanged views on what should be done and achieved consensus on the most solid path for the future of Okuma. The negotiated solution was not, however, considered the final round. The article stated, "here, the gears that need to mesh well to eliminate the smell of something burning will keep on grinding for some time."

The resolution of the succession crisis was viewed elsewhere as a "delicate balancing of labor-management concessions." Hajime Okuma's promotion was now a function of performance based work evaluations. He would, however, continue to remain with the firm. One view of this outcome held that it rendered Hajime an "iridescent-winged bug" that offered each side of the conflict a pleasing, different hue, according to the respective perspectives.¹¹ Takeo Okuma, for example, could continue to hope for his son's ascent to the presidency, based on objective performance criteria. Furthermore, the suggestion that Matsutani assume the presidency had come from Okuma management. In basing the promotion of an Okuma family member upon a strict performance-reward relation, the labor union could justifiably claim it "had liberated Okuma Machine Tools from family management."

In February, the corporate role of vice-president Hajime was substantially reduced. On February 10, it was announced he would no longer be responsible for personnel matters. He would oversee sections on trade, overseas business, administration and inspection to help him become a specialist in domestic business conditions. Despite the stated need for this move to broaden his management experience, the shift was generally seen as the acceleration of a process through which Okuma family management influence would be completely eliminated from the firm. The approaching Shunto contract negotiations had been the proximate cause for this reassignment. The labor union had publicly and successfully stopped this man's promotion. An unnamed Okuma source said, "It'd just be pretty tasteless now to assign (the upcoming Shunto) labor relations negotiations to Hajime, the president's first son."¹²

How Matsutani would run the firm was a question of interest, despite his widely acknowledged managerial talents. He had no previous experience in the extremely competitive machine tools industry. In addition, he would face a disgruntled vice-president, his supporters and "a labor union that displays considerable strength in participatory management." In an interview, when asked of his view of the dispute as it unfolded, he said,

¹¹ The Japanese term was "tamamushi iro," in Nikkei, January 31, 1993.

¹² The head of Personnel has major responsibilities in Shunto labor negotiations and is in direct contact with labor union representatives.

It was unexpected. For a firm with a joint labor-management path as famous as it is, I wondered what really was going on: half-believing, half-doubting. The first time I met the president of Okuma was in 1978, when management there was against the wall and we were lending a hand in rebuilding. In the fall of 1983 I also went on a study tour of the plant in Oguchi-machi, Aichi Prefecture. After that I again had opportunity to talk with the president, but I never heard that labor relations were getting bad.

In reaction to questions about his lack of experience, Matsutani explained that his six-month period as Okuma advisor would be a study period from the bottom up. He recalled that many who said farewell to him at the bank had commented that Okuma was among the most technically advanced firms in the world. Reflecting on this, he said, "If labor relations there are given a structure in which a collaboration of strength is possible, then I think the firm will improve even further."

In the weeks after the coup, the press explored the implications. One weekly journal summarized the issues associated with the Okuma coup in the title of an article on the subject: "Companies! Who do they belong to anyway?" The Okuma coup was being taken as a warning bell tolling for management based upon ownership rights alone. The same article contrasted the common owner-manager pattern of Japan with the more clear distinction between stockholders and managers found in the United States of America. It concluded that the success of an entrepreneurial founder does not insure hereditary managerial talent. One commentator noted the difficulty of family management in the machine tools industry. The technically skilled workers and severe competition obliges the founder to treat their children with particular severity if they enter the firm, for an indoctrination tougher than ordinary workers, simply to gain the respect of employees whom they hope to manage in the future.

The role of Tokai bank received considerable attention. When Hajime Okuma was stripped of responsibility for personnel matters, this function was transferred to an operations manager. This man had been dispatched from the bank to Okuma when it faced financial difficulties in the late 1970s. The transfer was perceived to strengthen the bank faction within Okuma. The bank was seen to be source for critically important staff in mid-sized firms within the region. Of the 200 individuals who retire from Tokai bank each year, approximately half take up roles in executive, accounting and general affairs sections of regional firms. With the increasingly competitive business environment brought about by the yen appreciation, this trend was thought likely to accelerate in the future.

To Whom Does This Company Belong?
A Case Study of the 1988 Labor Union Coup at Okuma Corporation,
a Japanese Machine Tool Manufacturer

Instructor's Manual

Synopsis

Employee participation (management consultation) in the modern Japanese industrial enterprise is dramatically explored by presenting students with a crisis in managerial prerogative faced by the 1988 enterprise labor union and labor union executive of Okuma Corporation, a global leader in machine tools manufacture based in Aichi Prefecture, Japan. An unusual feature of the Okuma Case concerns the agent for managerial change with whom students are invited to identify: the executive of Okuma Corporation's enterprise labor union.

The Case proceeds in two parts. Part 1 is a preparatory reading with assignment. It combines background information on Japanese management consultation with the management crisis faced in 1988 by the Okuma labor union executive. The immediate source of crisis, in January 18, 1988, is the announced appointment of the son of the resigning president as the new company head. This is in apparent violation of a decade earlier commitment by the resigning president to end "family management" of the firm. The first assignment invites development of specific steps to be taken by the Okuma labor union executive in the face of this presidential succession crisis. Part 2 builds on student proposals and class discussion by presenting a reading assignment that recounts the 1988 Okuma labor union coup, through which the union successfully restored rational management practices to the firm. The second round of discussion centers on student reaction to the "Okuma coup," opinion about whether the coup evidences success or failure of Japan's approach to management consultation, and the potential significance of management consultation in the emerging global economy.

Teaching Objectives

The Instructor's Manual and Case together comprise an instructional unit exploring the comparative nature of "Japanese management" and the contemporary function of employee participation in Japanese management prerogative (management consultation). The Case is primarily designed for international management courses, to introduce them to participatory management arrangements common in Japan, countries of the European Union, and elsewhere throughout the world. It should also be a valuable instructional tool for a variety of fields, including Asian and Japanese studies, comparative – international industrial relations, industrial sociology, organizational theory and, due to the major role played by the Japanese press in reporting the events at Okuma, even journalism and other media courses.

Teaching note

Introduction

Management participation refers to a wide range of measures that involve employees in the life of a firm. The key point to this involvement in any particular national industrial relations system is that it extends, to varying degrees, through different frameworks, beyond the collective bargaining issues of wages and working conditions. The apparent necessity for consultation in modern industrial societies has made this a central theme in industrial relations and allied fields. This is true even in the United States, where consultation has traditionally been viewed with suspicion, albeit for different reasons, by each of the major actors in the industrial relations system: government, management, and labor. A recent U.S. Presidential Commission studied issues related to the future of the U.S. employment relationship. The Commission's final report stated, "employee participation and labor - management partnerships are good for workers, firms, and the national economy" (Dunlop Commission, 1994). In Europe, where consultation is less foreign, works councils of some form appear an inevitable part of the European Community horizon (Bridgford & Stirling, 1994; Ferner & Hyman, 1992). Elsewhere, experimentation is widespread. Management councils have been recognized in South Africa. The 1995 Labour Relations Act includes provisions for workplace forums by collective bargaining agreement or Act provisions (Government gazette, December 13, 1995).

This broad array of research, advocacy and experimentation in management consultation recalls its widespread diffusion in the aftermath of World War II. In a paper documenting this process Wolfgang Streeck wrote,

Today the remarkable fact of the almost universal establishment of works councils after 1945 in otherwise very different national contexts, as a integral part of a worldwide recasting of the political economy of capitalism after the economic and political catastrophes of the interwar period, is largely forgotten (1995, p. 313).

Yet, current diffusion of management consultation differs from the postwar episode in one critical aspect. Then, the prevailing model of the Federal Republic's co-determination/works council structures, and those of the earlier Weimar era, were the primary inspirational sources. Even today, these retain an attraction as a high-water mark for formally legislated systems, ironically even among Japanese industrial relations scholars. What is new is that the current worldwide discourse on consultation is everywhere defined, either explicitly or implicitly, whether in praise or condemnation, by the inescapable presence of "Japanese management," its economic prowess, and the potential Japanese management has for transfer or adaptation elsewhere. "Elsewhere" in this discourse has an astonishingly broad domain: no national industrial relations system is exempt.

This widespread impact is documented in the literature; from the "Easternisation" of developing nations (Kaplinsky, 1994), to the "Japanization" of the labor process in advanced industrialized settings like Australia, Canada, the United Kingdom, and the United States of America (Elger & Smith, 1994). Despite widespread interest in and knowledge of specific "Japanese management" production techniques, such as "kanban" production and kaizen sessions, remarkably little is known about the historical origins, theory, and praxis of Japanese management councils (経営協議会) themselves.

Analysis: management consultation in postwar Japan

A review of Japanese labor law and industrial relations literature indicates that scholars have long characterized Japan's management consultation approach as "informal" (Gould, 1984, 1993; Shirai, 1976, 1996; Sugeno, 1992, 1996). In the instance, "informal" appears to refer to the absence of legislative obligations for establishing management consultation mechanisms in Japanese firms. But this characterization is disingenuous. First, the label derives from a flawed comparative judgment; the Japan approach is "informal" because it differs from the German case where explicit legislation on consultation obtains. Yet, the Japanese approach derives from a precise, legally formal, and quite informed adaptive appropriation of the German co-determination / works council structure (Kettler & Tackney, 1997).

Furthermore, the "informal" label has does not clarify the actual function and very widespread diffusion of consultation forums throughout the postwar Japanese industrial relations system. The reader can take a simple test. What percentage of Japanese firms maintains a formal management consultation process within the enterprise: some type of structured, substantive employee voice in the life of the firm beyond issues of wages and working conditions? The fact is that almost every Japanese company large enough to be known anywhere (either in Japan or overseas) by anyone has a management consultation system of some kind. The extent of this diffusion is astonishing. More than 80% of unionized firms in Japan have consultation procedures. Firm size is important - more than 70% of all Japanese firms having 5,000+ employees maintain formal consultation structures, and have generally done so for decades (Ministry of Labor Policy, 1995). In fact, an impressive number of consultation structures began functioning very soon after World War II, even in advance of the passage of labor legislation.

This broad diffusion of consultation, along with Japan's near half-century of experience with such structures, introduces the third reason that "informal" is a disingenuous term. In point of fact, the rules governing consultation within the firm, as determined by collectively bargained agreements, are themselves quite formal at the firm level. This has been so since the end of World War II and the role of these councils has only become more important for Japan over the passing decades. The evidence presented in this case suggests that Japan's management councils constitute a central and defining feature of the social relations of production within postwar Japanese firms. They are a key component in the enterprise based well-spring from which emerged the various production and quality techniques we now term "Japanese management practice" and are everywhere confronted with today. In the present wave of post-World War II discourse about consultation and its role in contemporary national industrial relations systems, a thorough understanding of these participatory forums is essential. Comparative models of organizational legal ecology represents a helpful tool (Figure 1). This case is a step toward that comparative understanding.

Case Instruction guidelines and suggestions

This case has two parts. The first part provides background and leads the reader to the brink of the 1988 Okuma crisis. One instructional approach is to assign the first part as a reading assignment. The next class can combine some further background from the teaching note, such as the chart of organizational legal ecologies (Figure 1). At this time the instructor can field questions students might have, and then proceed with the problem assignment, which ideally would be done in small groups, or teams, reflecting the nature of a union executive committee. Request the teams to work alone, discussion of action plans with other “union executives” is to be avoided. Each team should develop a one-page handout and make sufficient copies before class for all other students (to save paper, overheads could be used).

Part 1: Problem assignment:

After the reading has been reviewed, the Instructor has provided any additional information thought necessary, and small groups determined, s/he can introduce the case assignment:

“Congratulations! Your small group is now the Okuma enterprise labor union executive committee. Please develop an appropriate plan of action to deal with the crisis you now face. Be prepared to specify your view of what constitutes the key issue(s) of this crisis and be able to justify the steps you propose. Remember, as members of the labor union executive, quitting the firm is not a viable option.”

Class discussion: In the next class, student teams can take turns presenting their analysis and strategies. Discussion will proceed from the similarities or differences in analysis and proposed action plots. It is possible, although unlikely, that a student group will propose something close to the Okuma labor union’s coup. Insightful action plans ought to be carefully explored and discussed. Once the plans have been examined, students will be well prepared and ready to take the second part of the case home and read what actually happened.

Part 2: Discussion Questions:

Class discussion of the implications of the 1988 Okuma coup can proceed on several levels. Initial impressions, similarities or differences from the student group action plans, and other issues should be used to start the discourse. Then, there are a few basic questions to be asked about the case itself.

1. Management participation in Japan is defined on a firm-specific basis in collective bargaining contracts. It is clear from Part 2 of the case that the labor union took the unprecedented step of making an internal dispute very public. Does this mean the system was working (in the instance), or is the Okuma labor union coup an instance of a breakdown?

Answer: This is the most perplexing issue about the Okuma coup. A wide range of views is possible here, and students should be encouraged to think about what employee participation signifies. The case author’s present view

on the question is: the Coup represents a necessary strategy to correct a failed participatory management arrangement. It is, then, perhaps ironically or paradoxically, a remarkable testimony to the success of Japan's postwar participation approach. At the end of World War II, the grounding of employee participation in collective bargaining agreements presumed the need for learning (and, of course, struggle) on both sides: employers and employees. By 1988, Japanese employers and employees had 40 years of practice in this arrangement. That the Okuma enterprise labor union could develop, execute, and succeed in restoring "responsible" management indicates that the Japan's organized workers, in at least one instance, had well-learned the meaning and significance of employee participation. That coups are not at all common in Japan suggests their approach remains largely a successful arrangement.

2. Regardless of the national setting where this case might be taught, the next question is: could this happen here, in (fill in country name)?

Answer: Obviously, there are as many possible answers to this question as there are national industrial relations arrangements.

3. Based on a class consensus to the prior question, next invite the class to consider implications of employee participation. Is it good for society, or for the global competitive markets we face? Does participation involve handicaps for global competition?

Answer: Again, there are many possible answers. A central issue that might be worth eliciting concerns the need for trust between employers-employees in the manufacturing of complex, value-added products for the global economy. The Okuma Coup is a single case instance. Yet the evidence is strong that management participation is at the heart of the social relations of production in Japanese firms; indeed, these relations are the historically antecedent conditions from which the various "Japanese management" techniques were developed, including Toyotism, lean production, and ongoing, incremental improvements (改善; kaizen).

Suggestions for further readings and discussion:

There are several more levels of potential discourse this case can introduce. These require some background reading (Holland, 1990, Johnson, 1982)

A. There is the comparative industry level: the remarkable growth of the Japanese machine tool industry coincides, chronologically, with the sharp decline of machine tool manufacture in the United Kingdom and the United States (not, however, Germany, where co-determination and works councils are mandated by legislation). Holland has written an excellent case study of the demise of one U.S. machine tools manufacturer. With Holland's text as background, a number of questions can be posed:

1. Holland attributes the demise of the U.S. machine tools industry, to a considerable degree, to stark differences in management styles and business practice. What does the Okuma coup suggest about presumptions that "management" is everywhere the same? How should we be defining "Japanese management," which Holland clearly cites as a contributing factor to the demise of the U.S. machine tools industry?

Answer: The simple answer is that the two cases very strongly indicate that Japanese management is not the same as United States management. Class discussion can proceed from this recognition to consider the nature of the differences, and their significance.

2. What factors in the Okuma case might help to explain the rise to dominance of Japan's machine tool industry? Can these factors be adaptively appropriated to other national settings? What obstacles might prevent such appropriation in any national instance?

Answer: Employees at Okuma expect continued employment with the firm for the duration of their careers. This is both a cultural expectation and a norm enshrined by case law. Employment, including management participation, resulted in company success. This, in turn, secured their livelihood with an equitable sharing of company success. It is no coincidence that Japan has the lowest executive compensation multiple of any advanced industrialized nation. Appropriation of such factors to other national settings depends strongly on the legal framework governing employee relations and/or the capacity to change these legal norms.

B. From the preceding questions, students will very likely be eager to discuss the implications of this case at the level of comparative political economy. Allow them to read Chalmers Johnson's excellent text on Japan's Ministry of Trade and Industry (MITI). Against the background evidence Johnson provides documenting MITI's role in fostering and guiding Japan's postwar economic recovery, consider this question:

1. From a comparative viewpoint, presume that Johnson's thesis is necessarily valid for Japan (that is to say, presume MITI mattered a great deal). Does the coup suggest grounds for thinking the Johnson thesis necessary, yet insufficient? What is missing?

Answer: MITI was and remains important, but the nature of Japanese management itself is an essential explanatory factor.

Epilogue: Okuma and the industry after the 1988 coup

At the time of the 1988 coup, Japanese machine tool makers were producing a quarter of the world's machine tools, were profitable and could expect to continue in this leadership position for the foreseeable future (Collins, 1987).¹³

The August 29, 1992, Economist observed that the Japanese machine tools industry may be the "the world's most nimble."¹⁴ By 1992, Japanese firms reduced capital spending by 15%, with a further 10% reduction planned for the next year. Despite a decline in orders, the industry's Japanese firms maintained gross profit margins

¹³ Collins reported, "the average post tax return on equity for the largest Japanese machine tools companies over the last cycle was 12.6%" (1987, p. 26).

¹⁴ "Harmony, the greatest virtue," p. 60.

of approximately 8%. The Economist observed, "This is well below the 18% they achieved at the top of the boom in the late 1980s; but it is still twice as high as the average margin for all Japanese manufacturers" (p. 60). The drop in margins was reported to be an industry-wide anticipation of a coming recession, with appropriate measures taken well in advance of other industries. Okuma, for example, began in-house manufacture of many expensive parts that were previously bought from suppliers ("Harmony, the greatest virtue," p. 60). This was part of an effort to anticipate the coming drop in orders while protecting the full-time, highly skilled, and unionized workforce.

The firm came under the presidency of a "native son," Maeda Yutaka, who replaced interim president Matsutani in February 1991. Mr. Maeda had joined the firm after graduation from university. He was generally credited for a strong leadership presence in establishing Okuma's Numerically Controlled (NC) system, a key aspect of the firm's strength in mechatronics. With this new, "up from the ranks" leader, the Okuma Corporation continued in existence. It continued to face the particularly troubled economic period of the 1990s, as an enterprise with an usually public labor relations profile.

Research method

A word on research method will be useful for context. Knowledge of the 1988 Okuma labor union coup comes from an association with the firm and labor union that began with a year as the firm's first foreign "researcher" during the term of a Fulbright dissertation research scholar to Japan. This was arranged with the help of the Management Department of Nanzan University, then Chancellor of Meijo University, Koichi Okuma, the Okuma Personnel Department, and the Okuma labor union. I was permitted to begin the year along with the new employee orientation program of April 1991. I learned of the 1988 succession crisis ("our union's coup") from conversations with employees and management, formal and informal discussions with representatives of the personnel department and labor union, and through the detailed newspaper chronology I was given access to by the Okuma Labor Union president, Mr. Fujii.

My knowledge of the succession crisis has been greatly informed by field research at Okuma Corporation. Nevertheless, the case study, with the exception of a rare footnote comment, is wholly derived from published accounts in the public domain. For ease of reading, footnotes were kept to a minimum; citations generally follow the chronology (listed in references) as the coup unfolded. All translations from the Japanese are my own. The case and teaching note benefited from suggestions offered by three anonymous reviewers; I hope that the extent of my gratitude for their careful work is evident in this revised product. I alone am responsible for any errors in fact or interpretation.

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Appendix 1: Central Labor Relations Commission guidelines for management participation forums, Issued July 17, 1946

The establishment of management participation forums is recommended by determining suitable terms in collectively bargained agreements according to the specific characteristics of each enterprise. This is because conformity to a forcibly determined set of one-sided regulations can easily give rise to structures uselessly created which do not adequately demonstrate the original function of such forums. Moreover, if we consider the various bargaining disputes, given the actual circumstances of management participation forums now being established and the different aspects of management participation forum establishment, there are points that specifically need to be considered in establishing management participation forums now. Providing reference material to facilitate reflection on these problems for those generally involved to enable logical commentary will help avoid one-sided, useless argumentation. At the same time, no small contribution will be made by adequately demonstrating the essential function of management participation forums.

This guide is based upon the present condition of management participation forums along with that of current collective labor contracts. It is also aimed at qualitative improvement in the practical utility of future collective agreements and the gradual development of the range of items that should be dealt with through the function of management participation forums. The following commentary is based upon the standard of the ordinary publicly held (stock) firm. However, adequate attention is also given the respective features of non-private, managed enterprises, such as the national railways, as there is a rough resemblance in principles.

1. The essence of management participation forums

Management participation forums are based on the spirit of industrial democracy. As workers actively participate in the management of labor, it is a permanent participation forum established through collective bargaining between the labor union and the employer. Different from a simple round-table conference or an inquiry session, representatives of the employer and labor union meet as equal forum members. Both sides assume the duty of planning for implementation of items that are decision outcomes. However, in establishing management participation forums, there is no change in official duty and competence of enterprise executive for general direction of overall management. Simply that what was hitherto despotically decided and implemented by the executive will instead become the assumption of a duty to implement decisions specifically made by the management participation forums.

Moreover, for publicly held corporations stock may be given to workers so they may attend the general shareholders meeting. An individual recommended by the labor union may become a member of the board of directors. These and other methods of worker participation are conceivable, but they are completely different from management participation forums. Management participation forums premise to the utmost that the management executive and labor union stand together; these forums are institutions that recognize continuing management participation by the worker.

2. The establishment of management participation forums

Management participation forums are established through collective agreements between employers and labor unions. Accordingly, if an employer one-sidedly established a mechanism to permit worker participation in management without relying on a collective agreement, this mechanism would not be a management participation forum.

3. The constitution of management participation forums

Management participation forums are constituted by representatives of management and workers as defined by a collective agreement.

a. The number of members may be determined by option through the collective agreement. It is not necessary that the employer and labor sides always have the same number. When faced with a difficult problem, a one to one opposition will in the end develop. For multiple problems decisions will not be able to be made as stated in the postscript.

b. The executive officials are free in terms of how many will be put forth to represent the employer. However, to further progress in harmony in the forum, it is desirable that the president, managing director and plant chief attend of their own responsibility. Otherwise, after something has been decided in the management forum, the board may reject it. This would, in turn, easily give rise to friction with the labor union.

c. Forum representatives of labor are to be decided according to independent, formal procedures. Interference in their selection by the employer will not be permitted. The representative(s) of the labor side should have the confidence of the entire labor union. These individuals should necessarily have complete representative competence. If possible, those things that the representatives obtained unanimity about should be, in the same way, followed by the labor union so that all labor union members are so constrained

d. Adding a third party representative is to be determined as an option of the collective agreement. For example, for public transportation enterprise functions which directly relate to daily life of the public, there are many good occasions where it would be good to include a third party public representative.

4. The authority of management participation forums

The authority of the management participation forum, that is, the degree to which workers are permitted to participate in management, is something suitably specified in collective bargaining according to the characteristics of each enterprise. The nature of the firm and the actual power of the labor union involved logically provide one self-certain range of limit. Current law provides no legal enforcement to that specified limit. If we consider actual examples:

a. Issues for participation are, most ordinarily, working hours, wages and the manner of wage payment according to legal standards. In addition, other issues may involve those related to appropriate working conditions, labor welfare, improvement of labor productivity, regulation of the intensity of work, and other issues related to the preservation of labor power. Principally, items for discussion also concern those related to the profit of the actual workers, such as practices of worker health and welfare, issues dealing with materials distribution, productivity measurement

documents and necessary work documents for such activities. There is no legal understanding extant regarding the limitations of management participation forums in respect of their authority arising from their nature.

b. Personnel standards related to worker hiring, dismissal and other matters, such as work organization, are not infrequently considered to be management participation issues concretely involving participation in actual personnel matters. However, actual participation in personnel matters may, conversely, easily give rise to a variety of negative effects. Thus, to instead obtain labor union understanding, a degree of room for objection would seem good to allow and define in advance within the collective agreement.

c. It is not a legal violation of forum structure to include issues like profit distributions, directors and other company executive personnel matters in management participation forums. However, to prevent problems from arising in regard to the firm's articles of incorporation, these rules should be included therein. Otherwise there is a danger that a problem may arise afterward in regard to invalid restraint of the general shareholders' meeting under the law.

d. In the event of a dispute, this should necessarily be discussed within the management participation forum and a solution found. Otherwise, it is desirable to have preventive means in place through clause articles that insure disputes between both sides do not occur.

In addition to the preceding points, other items for participation forums include detailed manifestation of accounting details of the firm, this in order to obtain worker understanding. This will have no small role in preventing disputes and sustaining labor relations harmony.

5. The character of management participation forums

A management participation forum is not a simply round-table meeting [懇談会, kondankai]. Opinions about participation forum issues should be stated without alienation by both labor and employer sides to facilitate understanding. This is the mission of these forums. Accordingly,

a. Forum resolutions should, by custom, be reached in unanimity. Even if resolution methods are set by agreement that involve rules applied to complex decisions, these are not usually of practical effect. If the opinion of participants on both sides divides over a major issue, it will not matter how many the number of participants are, the result will be a one-to-one opposition and participation forum solutions will naturally not obtain.

b. Accordingly, for such instances of opposition, it will be good to have established clauses in advance for third party mediation, arbitration or final arbitration.

c. The effective force of forum resolutions should be understood as being identical to the effect of collective agreements. Participants share a common obligation to work for the actualization of such resolutions. In the event a certain resolution requires shareholder action or approval, there should be no procrastination. In the absence of shareholder action, the firm will only be all the more legally constrained. In practice, the effort of those representing the firm in the management participation forum can generate acceptable proposals based on reflection over actual company circumstances. Accordingly, harmonious solutions to these issues are expected. It is unreasonable to wait for legally binding resolutions: appropriate provisions ought to be previously included in the firm's articles of incorporation. Without exception, legal issues inherently contain paths to a resolution.

Figure 1: Comparative organizational legal ecologies

