THE JAPANESE KEIRETSU AS AN INTERNAL LABOR MARKET:
LIFETIME EMPLOYMENT AND EMPLOYEE MOBILITY
CONSIDERATIONS

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ABSTRACT

This paper examines the Japanese keiretsu system of industrial groupings of firms and describes the functioning of these keiretsu as internal labor markets (ILM's). It will be demonstrated that the functioning of these ILM's is an antecedent of the Japanese system of lifetime employment by allowing for employee mobility among subsidiaries. The decline of the Japanese system of "permanent employment" is posited to lead to the gradual breakdown of the keiretsu system, which as an internal labor market establishes boundaries within which employees must remain.

I. INTRODUCTION

Before World War II, Japanese industry was characterized by the existence of large holding companies such as Mitsubishi. These holding companies were known as zaibatsu, and were encouraged by the Japanese government (Whitehill, 1991). Zaibatsu chiefly existed in "core" industries such as steel-making and other heavy industries. Such networks exhibited tendencies similar to those in large conglomerate-type organizations. Typically, a dominant firm within each zaibatsu exerted influence among the other companies in the group. Peripheral companies were virtual subsidiaries of the dominant firm. Japan's defeat in World War II resulted in the breakup of the zaibatsu by Allied occupation authorities because many of these were in defense-related industries and had strongly supported Japan's war effort.

A resurgence of these zaibatsu in a different form emerged during the 1950's, and the keiretsu system was established. Gerlach (1992) describes keiretsu as "durable cliques" that have become institutions in Japan. Essentially, they are a group of financially connected Japanese firms that tend to do business among themselves and are usually centered around banks and insurance companies, a structure which increased their financial power. Six major keiretsu currently exist in Japan: those controlled by Mitsui, Mitsubishi, Sumitomo, Fuji, Sanwa, and Dai-Ichi Kangyo (Gerlach, 1992; Whitehill, 1991). Typically, a keiretsu will consist of a dominant bank or insurance company that controls a group of interrelated subsidiaries and subcontractors. Linkages between the firms are maintained by means of interlocking directorships, contracts, informal structures of relationships, and a realization on the part of both dominant and subsidiary firms that the keiretsu system is of benefit to them (Gerlach, 1992). All people associated with a firm understand the mutually beneficial aspects of the system, which is derived from Japanese culture (Sullivan, 1992).
II. INTERNAL LABOR MARKETS

A brief description of the internal labor market process is given here to provide the background for understanding the Japanese system. The internal labor market is defined as "the complex of rules which determines the movement of workers among job classifications within administrative units, such as enterprises, companies, or hiring halls" (Dunlop 1966, p. 32). These labor markets can either be equated with a particular organization, or can be associated with a certain occupational group (Kerr, 1954). The structure of such markets varies, but one element of internal labor markets concerns the promotion ladder (Doeringer & Piore, 1971). By creating a situation in which firms are bound to their workers and workers are attached to the firm, shifts in tasks and economic downturns are moderated (Spelman, 1977). Internal labor markets can be viewed as either rational or natural systems, depending on perspective (Scott, 1992).

Baron and Bielby (1980) point out that "internal labor markets are ideally suited to the bureaucratic mode of social control" (p. 755). These ILM's are said to reduce labor-management conflict and to foster long-term commitments to the firm on the part of workers. Baron and Bielby (1980) also indicate that these ILM's tend to be concentrated in core organizations. Hence, we might expect the Japanese system, one which values smooth operation, to use such labor markets.

III. EMPLOYEE MOBILITY IN LABOR MARKETS

Employee mobility in labor markets is related to the type of structure used. Alexander (1974) classifies such structures as "manorial" (organizations having low interfim mobility), "unstructured" (high interfim mobility), and "guild" (occupationally-based). The focus of this paper is on the manorial structure, as it is believed this most closely approximates the Japanese keiretsu system. The "firms" are the organizations in a keiretsu, which are so closely linked that they resemble U.S. conglomerates in structure (Gerlach, 1992).

Large internal labor markets discourage interfim mobility (Granovetter, 1988) by self-perpetuation and offering advancement opportunities to employees. However, as Doeringer and Piore (1971) point out, large internal markets reduce job security and mobility of workers outside those markets. Workers are "shut out" of internal market jobs. If peripheral industries are characterized by the use of external markets, this results in peripheral industries primarily employing "second-tier" workers. Internal labor markets also provide a buffering function, by creating employment stability and protection from the environment (DiPrete, 1993).

IV. THE JAPANESE KEIRETSU AS AN INTERNAL LABOR MARKET

Low turnover and a greater commitment to the firm on the part of employees are two characteristics of Japanese organizations that are often cited to provide evidence of the existence of Japanese internal labor markets (Cole 1979). Sullivan
and Peterson (1991) characterize ILM's as byproducts of such factors. Cole (1972) discovered that ports of entry and exit (where employees enter and exit firms) are much more limited in Japan, and he believes that these tendencies are caused by the commitment of Japanese firms to the process of lifetime employment for their "first-tier" workers.

Labor mobility is reduced by the keiretsu system. This is particularly true in the case of the large numbers of subcontract workers employed by Japanese firms, since these employees someday hope to be among the few to be accepted into the "first-tier" system as permanent employees. As a result, the mobility of these workers is limited by the desire to associate with the larger Japanese firms and keiretsu that employ the practice of lifetime employment. ILM's play more important roles in shaping organizational careers in Japan because they reduce the capability and desire of employees to change a different keiretsu (Lincoln & Kalleberg, 1990). As a result, the secondary job market in Japan is not as important as in the U.S. (Clark 1979).

V. LABOR MOBILITY

Among the practices Japanese Keiretsu firms use in their organizations are transferring employees from one company to another; transferring employees from parent companies to supplier firms; and loaning workers from one company to another (Sethi, Namiki, & Swanson, 1984). While this system may serve the organization well, by providing benefits of labor mobility without the disadvantages of laying off employees, the process is not always beneficial to the employees. Those chosen to be moved within the keiretsu in this fashion are typically being "pushed out the door" to make room for younger and more capable new hires (Sethi, et al., 1984).

The "lifetime employment system" is not a feature of smaller and even medium-sized firms in Japan, which do not offer this unstated benefit to their employees (Sethi, et al., 1984). The subsidiaries that receive the "gift" of transferred or loaned employees often have to lay off workers to create a vacancy for the new employees. This is in accordance with White's (1970) theory of "vacancy chains." Peripheral areas of the Japanese economy also do not typically feature lifetime employment. The exclusion of minority groups and women from the lifetime employment system is also a characteristic of Japanese organizations (Kenney & Florida, 1988). Significant age discrimination also exists in that new hires are usually recent college graduates, and career changes in midlife are not prevalent in Japan. There are many dualistic traits in the Japanese labor market such as those described above, and such traits enhance the efficacy of the ILM system in Japan for organizations such as keiretsu.

Firm-specific knowledge factors also act to restrict labor mobility in Japan, except within keiretsu. An emphasis on a particular firm's methods and culture makes it difficult for employees to transfer skills and abilities to other employers.
(Lincoln & Kalleberg, 1990). From the above description of the Japanese ILM, it can be seen that lifetime employment is more of an ideal than a reality (Clark 1979). As Whitehill points out, "Few of the benefits enjoyed by elite, male applicants are available to the considerable number of expendable workers recruited by Japanese companies" (1991, p. 138). Most of the employees in Japanese firms do not have lifetime employment, have a low likelihood of movement into such a system, and are exposed to pay differentials (Kenney & Florida, 1988).

VI. LIFETIME EMPLOYMENT DISADVANTAGES

A number of deficiencies in the Japanese system of lifetime employment exist. To begin with, low morale among employees excluded from this system is common, and contributes to poor performance. Japanese employees not given this benefit often do poor work, because they see others being treated in a preferential manner (Schonberger, 1982). This may be why studies of Japanese commitment to employers show no significant differences between Japanese and U.S. levels of commitment (Lincoln & Kalleberg, 1985; Sullivan & Peterson, 1991). In addition, studies show that the attitudes of younger Japanese in regard to lifetime employment are changing, and that 20% of current employees from this age group wish to change jobs at some point in their career (Sakakibara, Kusoniki, & Koda, 1993).

VII. CONCLUSION

Japanese culture is slowly changing, and paternalistic customs are not accepted without question (Sethi, et al., 1984). As greater numbers of Japanese firms move into high-technology manufacturing, these firms are finding increased training costs a barrier. Since employees hired under the lifetime employment system are typically acquired directly out of college, training costs are becoming prohibitive (Sethi, et al., 1984). Clark (1979) points out that periods of rapid technological change can also result in a decrease in the efficiency of ILM's, because there are increased training expenses.

Paradoxically, firms often find themselves "locked in" to the lifetime employment system. Since they recruit from schools and not from the secondary labor market, for a prestigious company in Japan to suddenly stop recruiting would be viewed by society as a sign of economic difficulty (Clark 1979). Therefore, an identifiable trend in Japanese organizations is to further restrict the generalizability of lifetime employment, and to hire larger numbers of temporary workers. In this way, they can keep the ideal of lifetime employment, while reducing labor costs.

REFERENCES

Available upon request.