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Working Paper

Shukko in Japanese companies and its economic and managerial effects

WZB Discussion Paper, No. FS IV 98-5

Provided in Cooperation with:

WZB Berlin Social Science Center

Suggested Citation: Futagami, Shiho; Waragai, Tomoki; Westphal, Thomas (1998) : Shukko in Japanese companies and its economic and managerial effects, WZB Discussion Paper, No. FS IV 98-5, Wissenschaftszentrum Berlin für Sozialforschung (WZB), Berlin

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WISSENSCHAFTSZENTRUM BERLIN
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SOCIAL SCIENCE RESEARCH
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discussion papers

FS IV 98 - 5

***Shukko* in Japanese Companies and
Its Economic and Managerial Effects**

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June 1998

ISSN Nr. 0722 - 6748

**Forschungsschwerpunkt
Marktprozeß und Unter-
nehmensentwicklung**

**Research Area
Market Processes and
Corporate Development**

Zitierweise/Citation:

Shiho Futagami, Tomoki Waragai, Thomas Westphal, ***Shukko in Japanese Companies and Its Economic and Managerial Effects***, Discussion Paper FS IV 98 - 5, Wissenschaftszentrum Berlin, 1998.

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ABSTRACT

***Shukko* in Japanese Companies and Its Economic and Managerial Effects**

by Shiho Futagami, Tomoki Waragai, Thomas Westphal

Japanese-style management is characterized by the traditional practice of so-called lifetime employment. *Shukko* plays an important role in supporting and supplementing Japanese long-term employment. *Shukko* involves the transfer of parent company employees to an affiliated company or a non-affiliated company. In Japan's current prolonged recession, Japanese companies are forced to transfer employees to affiliated companies and non-affiliated companies in order to cut personnel expenses. So *Shukko* has negative implications. However, *Shukko* also has positive aspects. Japanese companies have strategies to educate and train employees and to enable them to acquire know-how through *Shukko* in affiliated companies and non-affiliated companies. This allows Japanese companies to adapt their capabilities in a flexible way to a changing environment.

ZUSAMMENFASSUNG

Die ökonomischen und managementbezogenen Wirkungen von *Shukko* in japanischen Unternehmen

Eine Besonderheit japanischen Managements ist die Praxis der lebenslangen Beschäftigung. *Shukko* spielt in diesem Zusammenhang eine wichtige Rolle, nämlich dieses Konzept der lebenslangen Beschäftigung zu unterstützen und zu ergänzen. Der Begriff *Shukko* bedeutet, daß ein Unternehmen Angestellte zu Unternehmen entsendet, mit denen Beteiligungsverhältnisse bestehen, aber auch zu unverbundenen Unternehmen. Unter den gegenwärtigen Umständen einer verhältnismäßig lange andauernden Rezession in Japan sind Unternehmen dazu gezwungen, Angestellte zu anderen Unternehmen zu entsenden, um Personalaufwendungen einzusparen. In diesem Sinne besitzt der Begriff *Shukko* einen negativen Bedeutungsinhalt. *Shukko* hat jedoch auch positive Aspekte. Japanische Unternehmen nutzen *Shukko* nämlich im Rahmen ihrer Firmenstrategien zur Ausbildung, zum Training und zum Know-how Erwerb ihrer Angestellten in verbundenen und unverbundenen Unternehmen, so daß japanische Unternehmen ihre Fähigkeiten in flexibler Weise an eine sich verändernde Umwelt anpassen können.

Shukko* in Japanese Companies and Its Economic and Managerial Effects

1. Introduction

The traditional practice of so-called lifetime employment is often seen as one of the main characteristics of Japanese-style management. But lifetime employment is not always equivalent to an employment pattern where new graduates start at a company on the first of April, obtain education and training and reach retirement age within the same company, as described by Urabe¹. There are also many cases in which companies hire employees and where university graduates drop out of the company during the year. Nevertheless, for Japanese companies long-term employment is more common than for their foreign counterparts, although the term of lifetime employment is exaggerated.

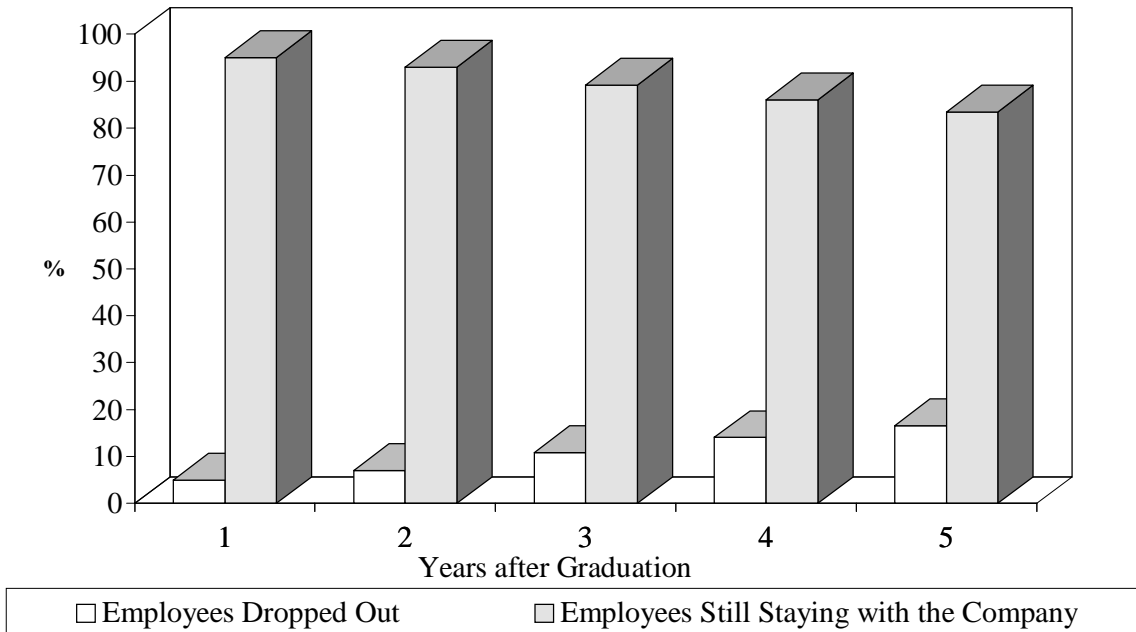
Research of the Institute of Labor Administration in 1995 shows the employment situation of new graduates in figure 1. Although traditional employment practices are slightly changing, the rate of fixation² is still very high. It is 95.0% one year after entrance into the company. And 83.4% of employees still work in the same company five years after entrance into that particular company. However, years of service and rate of fixation vary to some extent when employees are clustered according to education, sex and occupation. Concentrating on employees with high school degrees, presented in figure 2, the rate of fixation is a little lower with 82.6% one year after entrance into the company and 58.4% five years after entrance into the company. In 1994 the percentage of high school graduates who continued their education at universities stood high at 43.3% and the number of university graduates in the same year was 528,132. That is the reason why our study focuses on this cluster.

* Authors acknowledge precious advice from Prof. Dr. Hiromasa Suzuki.

¹ Urabe (1978), p. 9.

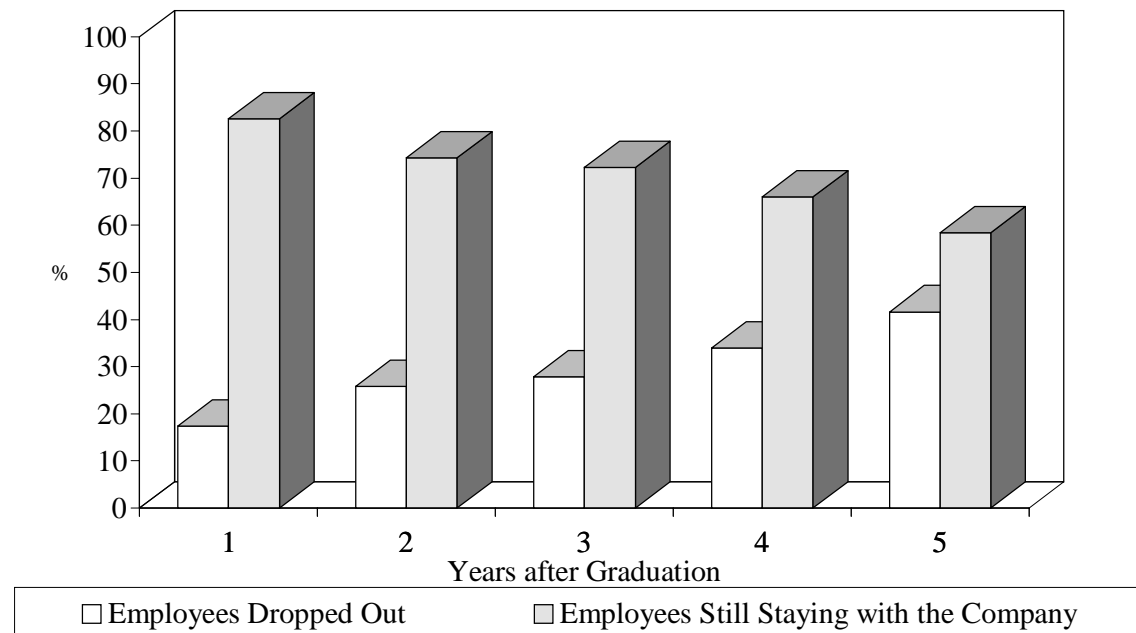
² The rate of fixation is the job tenure rate of the cohort of employees that started at the company at a specified year.

Figure 1: Rate of Fixation of University Graduates



Source: Research Institute of Labor Administration, 1995

Figure 2: Rate of Fixation of High School Graduates



Source: Research Institute of Labor Administration, 1995

Employees of large Japanese companies, especially university graduates, enjoy long-term employment and their rate of fixation is very high. Under these circumstances one will expect to find:

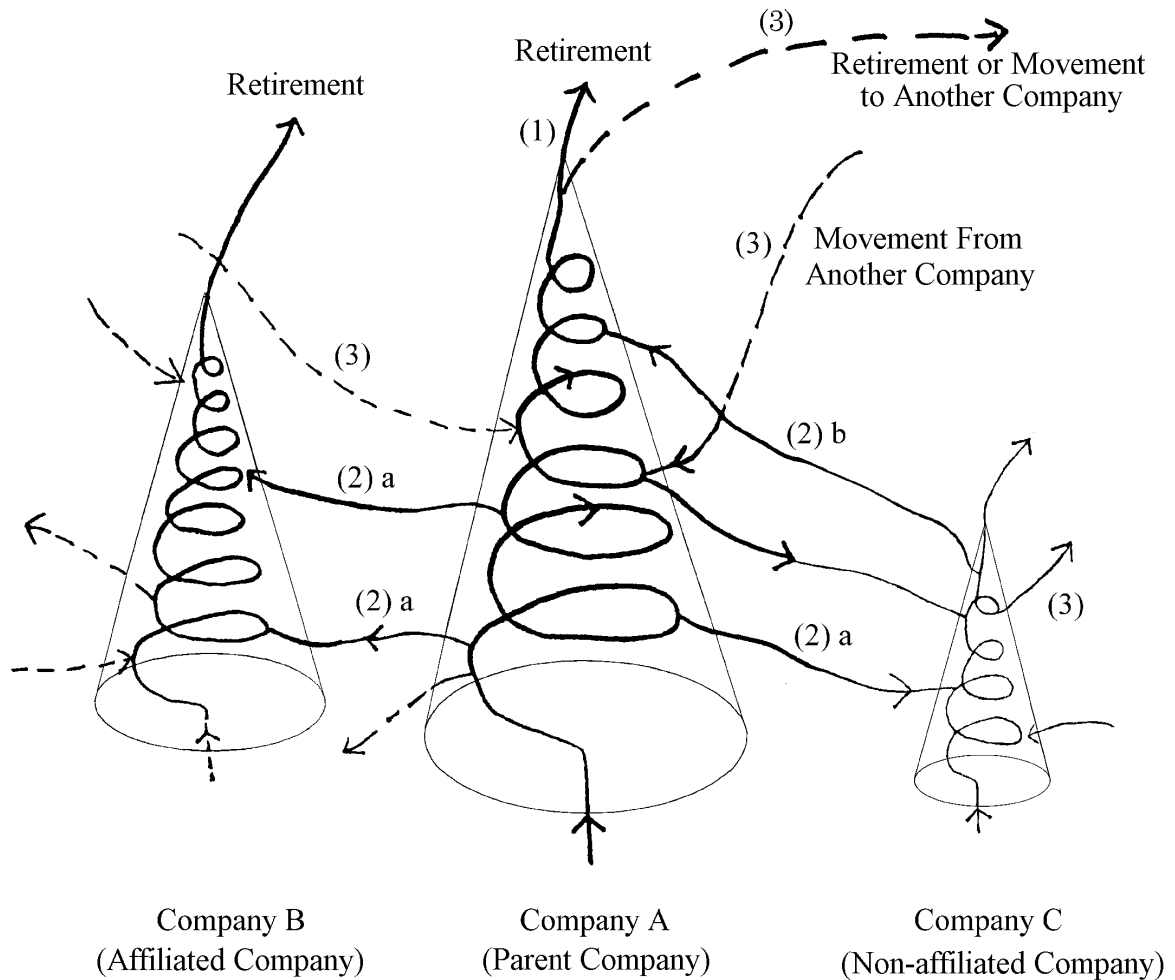
- (a) that employees of big Japanese companies do not have occupational experiences acquired in other companies,
- (b) that big Japanese companies are organized and driven by employees who all have experienced, learned and absorbed the same corporate culture, namely the one of their parent company, and
- (c) that dynamic restructuring of companies in their traditional business fields and shifts of business direction and change of skills and know-how of employees is an internal process that is taking place within the company only, by making use of in-house training or re-education. Additionally, employees always have to be prepared and willing to undertake efforts on their own to reform their skills through constant learning and unlearning.

Although Japanese companies of course have job-rotation in house, mismatch between actual and new business fields and related necessary know-how is a serious problem. The stronger the dynamic changes of the firm environment, the more serious this problem becomes. When for a company the need for one special kind of manpower arises, another kind of manpower becomes obsolete. This matter is incompatible with Japanese long-term employment. But this framework of the Japanese employment system, where Japanese companies are supposed to enjoy the benefits of this system in the long-term, has a hidden subsystem, which is *Shukko*. *Shukko* plays the role of adding flexibility to the rigid Japanese long-term employment system. While some top managers in Japanese companies make efforts to design new employment systems, others make efforts to maintain Japanese long-term employment by making use of *Shukko* as a subsystem.

What is *Shukko*? As figure 3 shows, line (1) represents the employment pattern that Urabe describes. According to this pattern new graduates enter a company, obtain education and training and reach retirement age within the same company. Line (2) represents *Shukko* in the sense that companies transfer employees to affiliated and non-affiliated companies. Employees are not transferred based on their own wishes, but because of companies' personnel strategies. Some employees later return to their parent companies. Other employees never return to the parent companies and have to stay with the affiliated company or non-affiliated company until retirement. In the case of *Shukko*, employees are employed by the parent company. Some parent companies interview these employees periodically and supply parent company news and other information to them.

In Japan, *Shukko* has a negative image. In the current prolonged recession many Japanese companies are forced to transfer employees to affiliated and non-affiliated companies in order to cut personnel expenses. Because of the seniority system, which involves promotion and related payment hikes mainly according to length of service and less according to personal merits and skills, a high number of middle-aged and elderly employees block high positions and result in substantial personnel expenses for the companies. As a result, promotions of younger employees have to be delayed. Only strong economic growth provides companies with much needed additional high positions and the financial resources to continue with the traditional Japanese management style. But once growth slows down, the companies are starved of adequate additional positions for promotions and the necessary financial resources. In this context, the use of *Shukko* by a company means pushing out employees in cost-cutting efforts. But *Shukko* does not only have these negative implications. It also has positive aspects. *Shukko* can be of benefit, both to companies and to employees by allowing employees to experience many corporate cultures and broaden their careers. The purpose of this study is to clarify the actual situation of *Shukko* in Japan and to discuss its function and its economic and managerial effects.

Figure 3: Employment Patterns With and Without *Shukko*



Annotations:

- (1) Movement of employees who enter a company, obtain education and training and stay within the same company until retirement
- (2) Movement of employees who experience *Shukko*, based on personnel strategies of the companies (a: *Shukko*, b: Return to the parent company)
- (3) Independent movement of employees who change their jobs according to their personal preferences

(Note: Unless explicitly mentioned otherwise, all graphs, tables and calculations are based on our own research)

2. Data Base

(1) Data and Sample

The sample was drawn from a list of Waseda University Graduates.³ 3,000 graduates were randomly selected and classified by age and faculties.

(2) Measures

Sample data were collected by mail in November and updated in December in 1994.⁴ The number of questionnaires collected were 1,386 (46.2%). Additional interviews were made with Waseda University Graduates, who were transferred to affiliated and non-affiliated companies by their parent companies.

(3) Details of Collected Questionnaires

Table 1: Distribution of the Sample According to Age Brackets

Sex: male

Age Bracket	Percentage (of Total)	Number of Graduates
30-39	11.3 %	157
40-49	37.0 %	513
50-59	45.2 %	626
60-69	6.5 %	90
(Total)	100 %	1386

³ Waseda University is a typical and well-known private University in Japan and has nine departments. The number of graduates who have been informally promised employment was 6,481 in 1995. Waseda University graduates are active as managers in the industry.

⁴ The data were collected by Career Research Group of Waseda University. Within this research group Shiho Futagami directed research on *Shukko*.

Table 2: Distribution of the Sample According to Faculties

Faculty	Percentage (of Total)	Number of Graduates
Politics and Economics	20.0%	277
Law	17.1%	237
Commerce	20.8%	288
Science and Engineering	41.9%	581
Missing Answers	0.2%	3
Total	100.0%	1386

Graduate School, all Faculties (Contained in the Above Numbers)	9.6%	133
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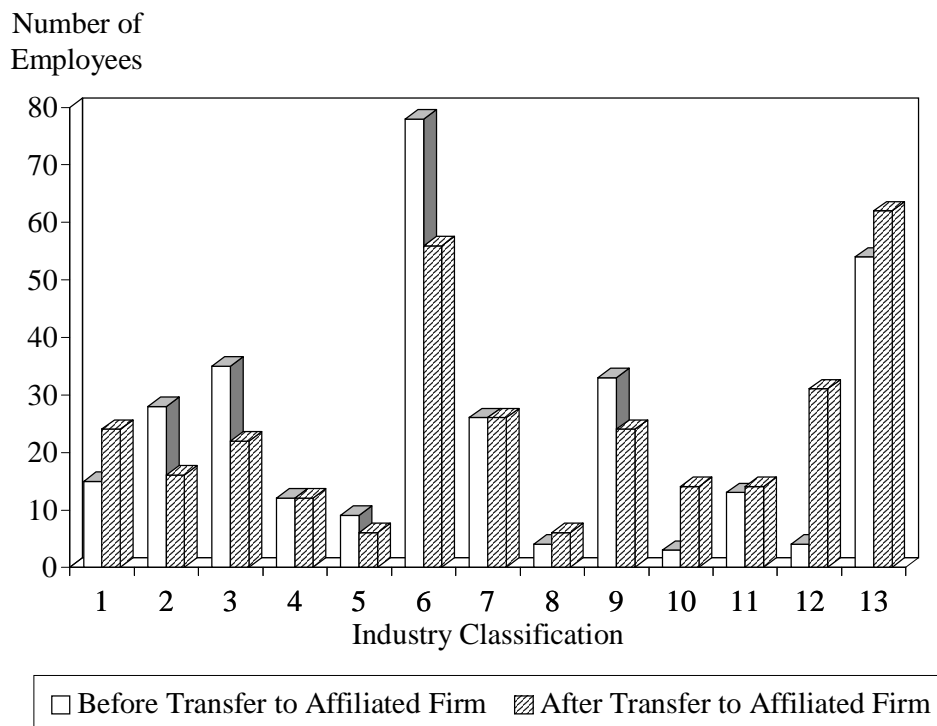
3. Actual Situation of *Shukko*

The number of Waseda University graduates who underwent *Shukko* is 397, (28.6 %). This percentage is higher than expected. The number of cases, where employees were transferred to affiliated companies is 310. This shows that *Shukko* plays an important role of supporting Japanese long-term employment. The number of cases of *Shukko*, where employees were transferred to non-affiliated companies is 87. This number is higher than expected, too.

Japanese *Shukko* shows interesting connections with overall personnel strategies. As can be seen in figures 4 and 5, when parent companies enter a new area, they establish an affiliated company and send personnel to this company by using *Shukko*. Doing so, Japanese companies can shift personnel from declining industries to growth industries smoothly. A comparison of industries of initial employment and active employment of Waseda University graduates who have undergone *Shukko* shows this shift clearly. The figures show that Waseda University graduates who experienced *Shukko* were sent especially from the Textile, Steel/Nonferrous

Metals, and Machine/Electrical Equipment Industries to Information Services/Software Development Industries. In the case of the Finance and Insurance Industries, many Waseda University graduates were transferred to non-affiliated companies.

Figure 4: Transfers of Employees to Affiliated Companies



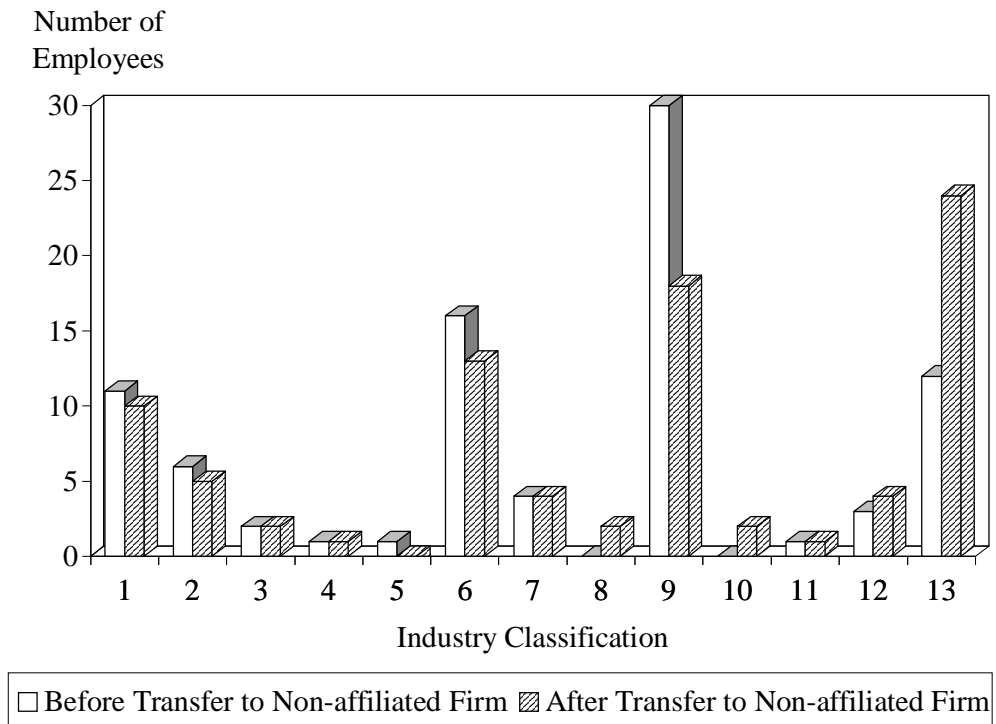
Industry Key:

- | | |
|-----------------------------------|---|
| 1. Construction | 8. Department Stores / Retailing |
| 2. Steel / Nonferrous Metals | 9. Finance / Insurance |
| 3. Chemicals / Pharmaceuticals | 10. Real Estate |
| 4. Food | 11. Communication / Mass Communication/
Advertising / Publishing |
| 5. Textiles | |
| 6. Machines /Electrical Equipment | 12. Information Services / Software Development |
| 7. Trading / Wholesale | 13. Others |

After the oil shock in 1973, Japanese companies started an industrial phasing-out process, allowing industries like Textile and Steel / Nonferrous Metals to shrink or even to die and at

the same time avoiding harsh employment shocks by gradually shifting employees to growth industries like Information Services and Software Development through *Shukko*, a trend that continues until today.

Figure 5: Transfers of Employees to Non-affiliated Companies



Industry Key:

- | | |
|-----------------------------------|---|
| 1. Construction | 8. Department Stores / Retailing |
| 2. Steel / Nonferrous Metals | 9. Finance / Insurance |
| 3. Chemicals / Pharmaceuticals | 10. Real Estate |
| 4. Food | 11. Communication / Mass Communication/
Advertising / Publishing |
| 5. Textiles | 12. Information Services / Software Development |
| 6. Machines /Electrical Equipment | 13. Others |
| 7. Trading / Wholesale | |

In figures 6 and 7 a comparison of the firm size before and after a transfer shows that it is common for employees to be transferred from big companies to small and medium sized

companies. This includes both aspects of *Shukko*, positive and negative ones. The negative aspect of *Shukko* consists of transfers of employees to small-sized affiliated companies and non-affiliated companies in order to cut personnel expenses. In a positive sense the company initiates personnel transfers through *Shukko* to educate and train younger employees by providing them with chances for career opportunities, developing their abilities and broadening their experiences in smaller companies, often in advanced positions. While Waseda University graduates are likely to work in big companies (number of employees ≥ 3000) before they are transferred, they are likely to work in small sized companies (number of employees 30-299) and medium sized companies (number of employees 300-999) after the transfer. Results also show that Waseda University graduates who were transferred to non-affiliated companies are likely to return to their parent company.

The noteworthy point is that *Shukko* plays an important role in broadening employees' backgrounds (horizontal mobility), and advancing promotional patterns (vertical mobility). Figure 8 shows business careers of Waseda University graduates who were transferred to non-affiliated companies and are now over 45 years old and in top management positions. The movement of single employees should be traced by following the lines from left to right. This figure shows both clerical career patterns and technical career patterns. It is obvious that clerical career patterns show a broader spectrum of activities. Interviews with Waseda University Graduates indicate many cases where they had to change to administrative departments of affiliated or non-affiliated companies and to continue their occupational activities over there. The strategy of Japanese companies consists of allowing employees to gain know-how in affiliated companies and non-affiliated companies through *Shukko*. As a result Japanese companies can adapt their abilities to a dynamically changing environment. The broad spectrum of activities of administrative management careers, as seen in Figure 8, reflects the fact, that *Shukko* allows employees and companies to experience many corporate cultures, and to broaden their careers.

Figure 6a: No. of Transfers According to Firm Size Before Transfer to Affiliated Firms

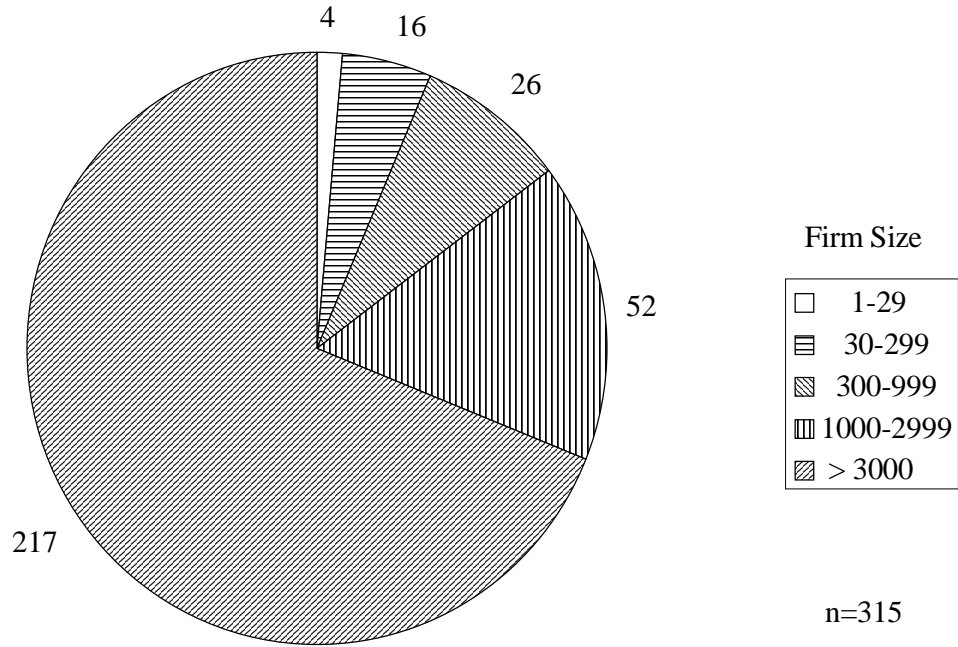


Figure 6b: No. of Transfers According to Firm Size After Transfer to Affiliated Firms

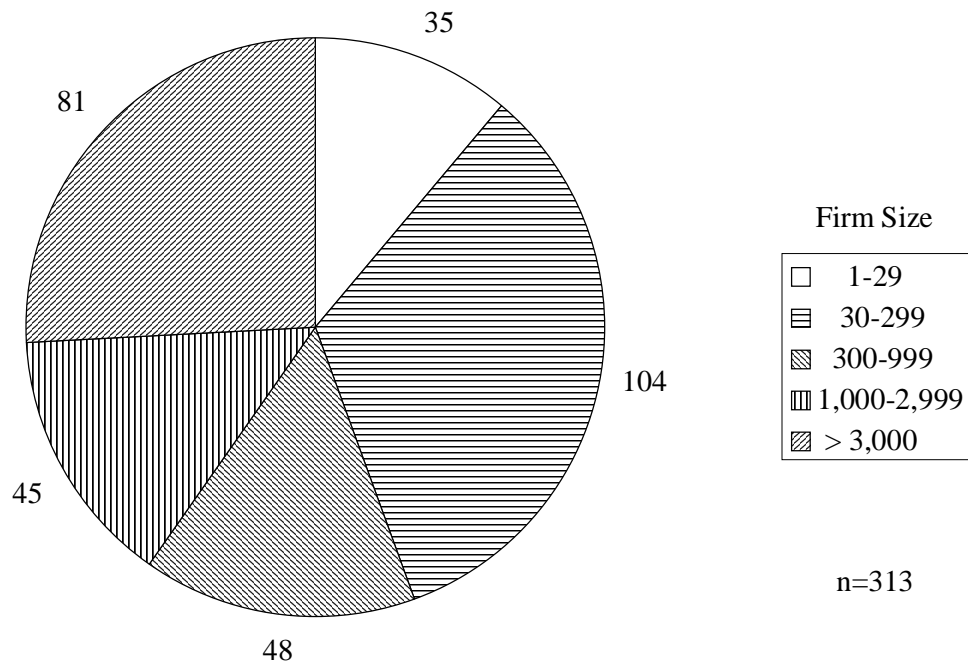


Figure 7a: No. of Transfers According to Firm Size Before Transfer to Unaffiliated Firms

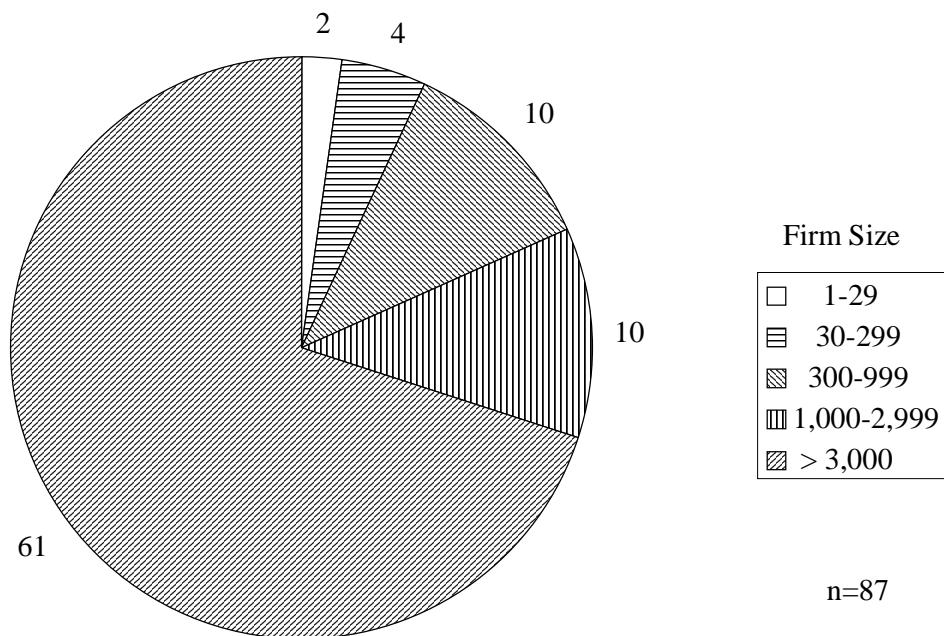


Figure 7b: No. of Transfers According to Firm Size After Transfer to Unaffiliated Firms

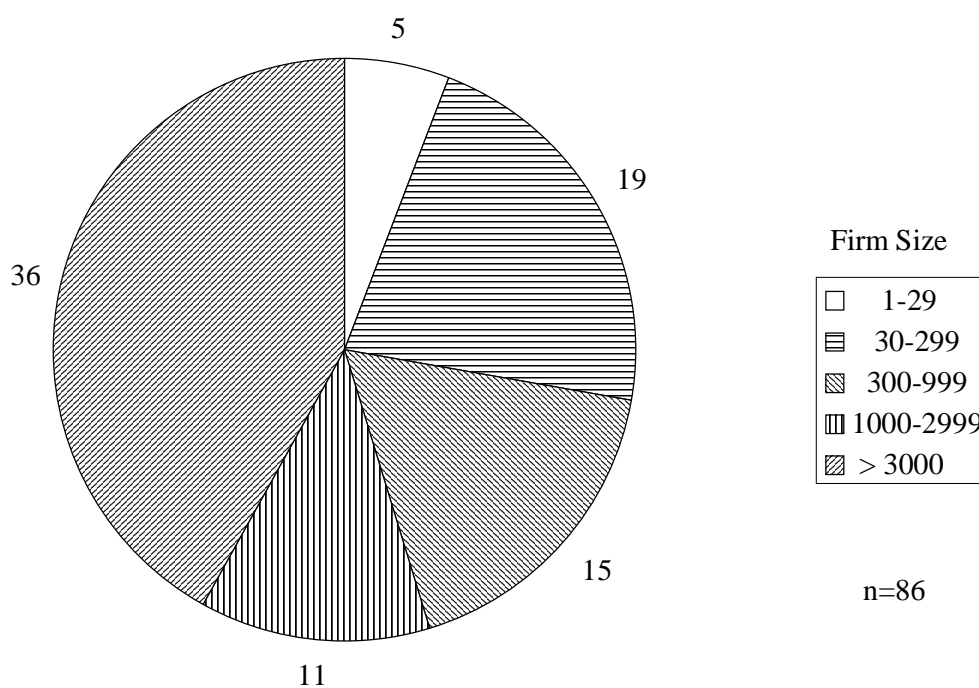
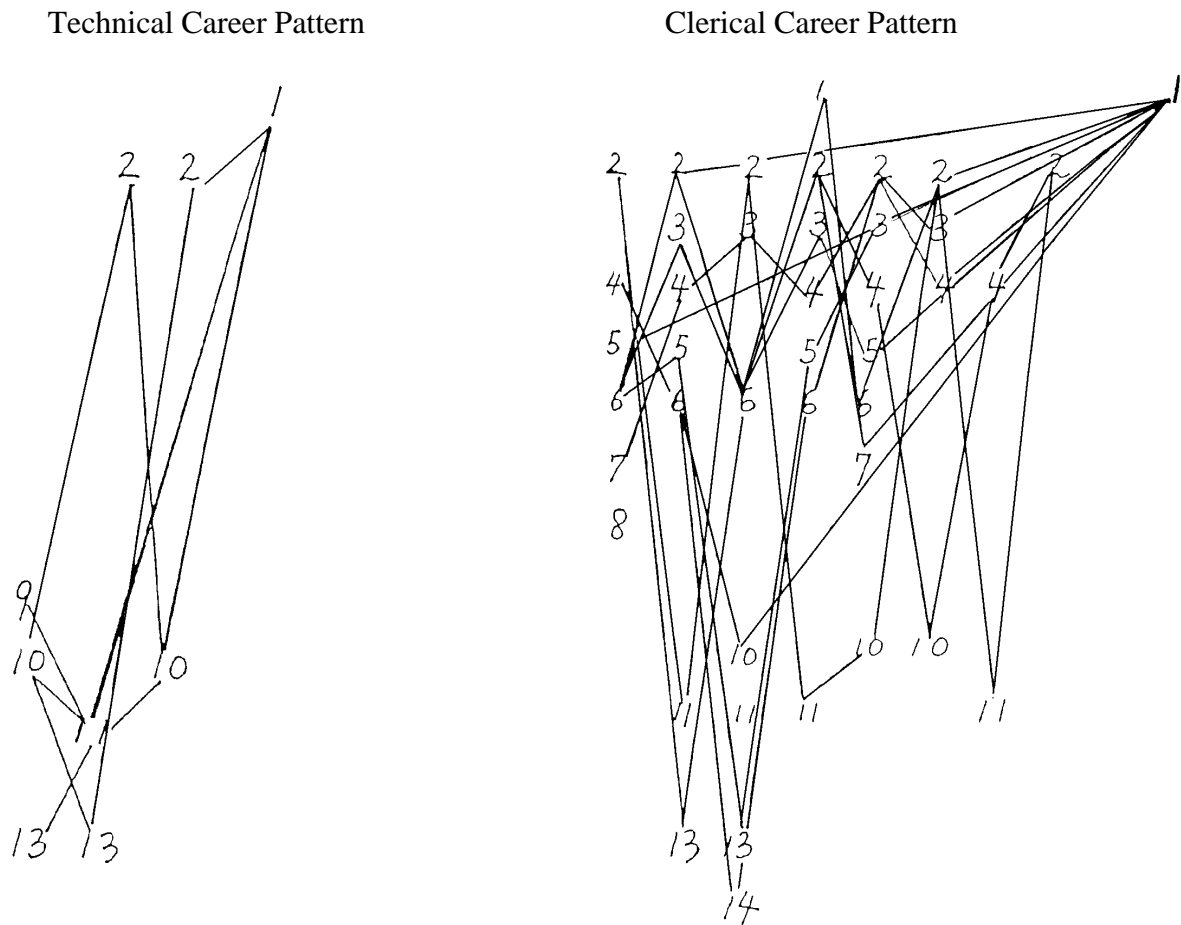
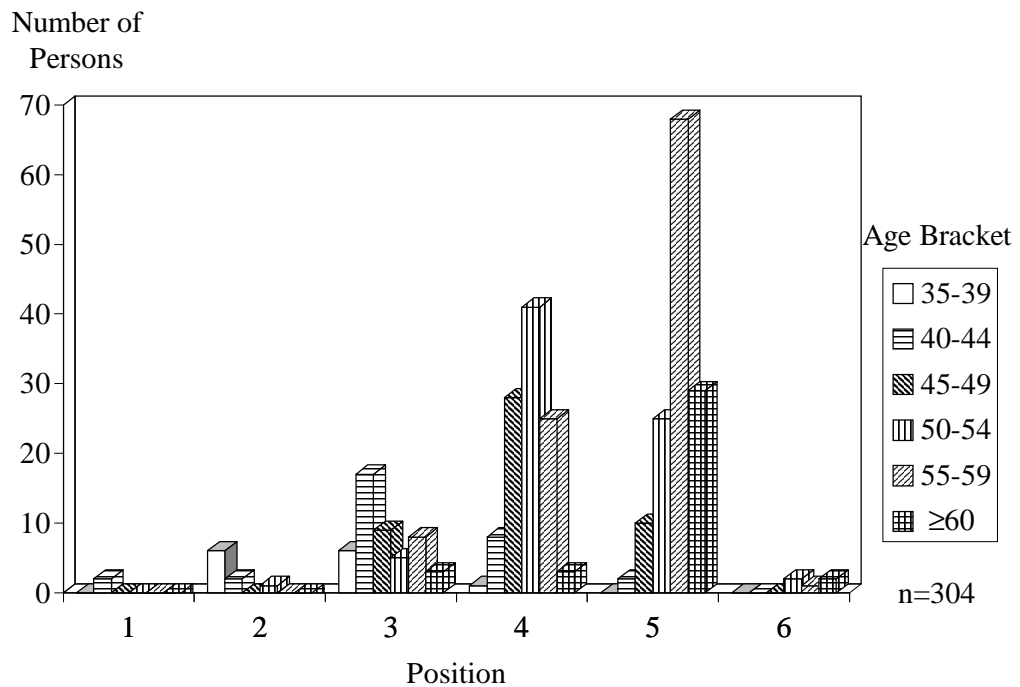


Figure 8: Career Patterns**Key:**

- | | |
|--|--|
| 1. Top Management | 9. Fundamental Research / Applied Research |
| 2. Planning / Investigation / Editing | 10. Development / Design |
| 3. Personnel / Labor / General Affairs | 11. Manufacturing Technique / Quality Control |
| 4. Accounting / Financial Affairs | 12. Self-Employed / Special Service |
| 5. Trading / Business Affairs | 13. Others |
| 6. Sales (Line, Staff) | 14. Special case (One employee held two positions at the same time; Trading [5] and Sales [6]) |
| 7. Purchasing / Procurement | |
| 8. Information Processing Engineer (no event occurred) | |

What does *Shukko* mean in terms of vertical mobility? What are the promotion patterns of Waseda University graduates who underwent *Shukko*? Figures 9a and 9b highlight that the structure of position is arranged according to the seniority system.

Figure 9a: Position After Transfer to an Affiliated Firm



Key:

1. Ordinary Employee

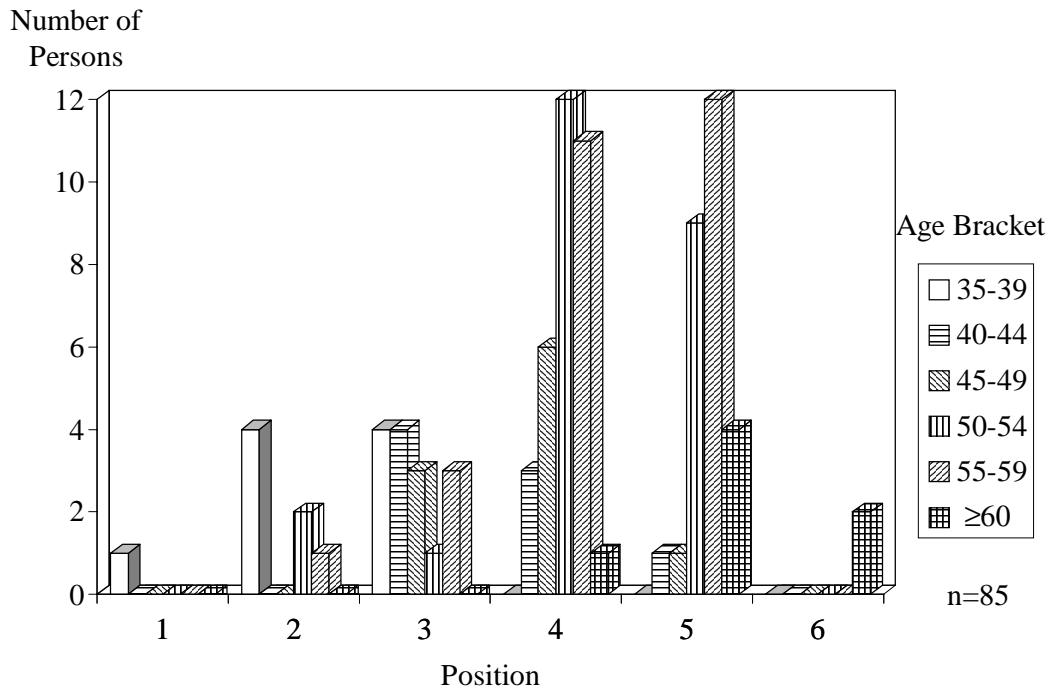
2. Supervisor

3. Chief of Section

4. Chief of Department

5. Executive / Chief of Division

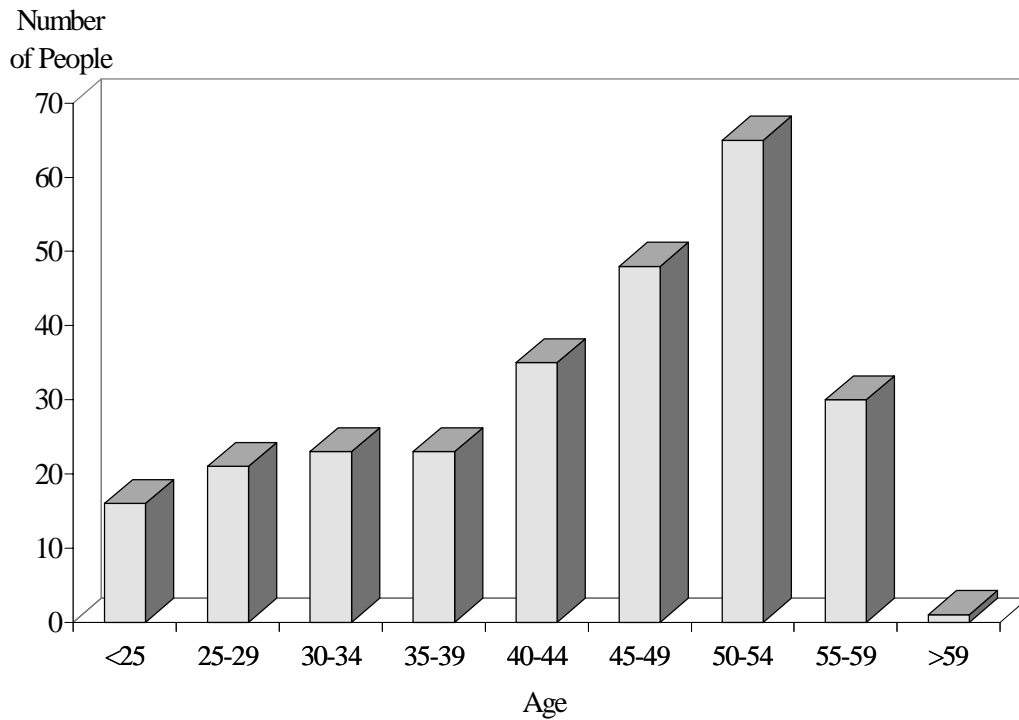
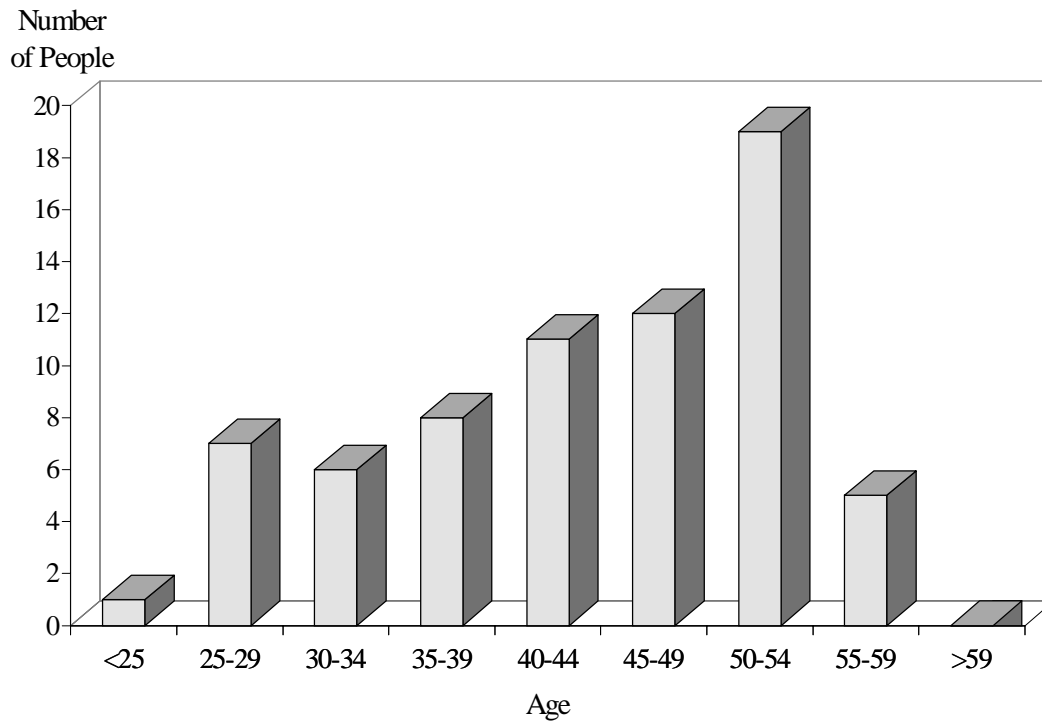
6. Others

Figure 9b: Position After Transfer to an Unaffiliated Firm

Key:

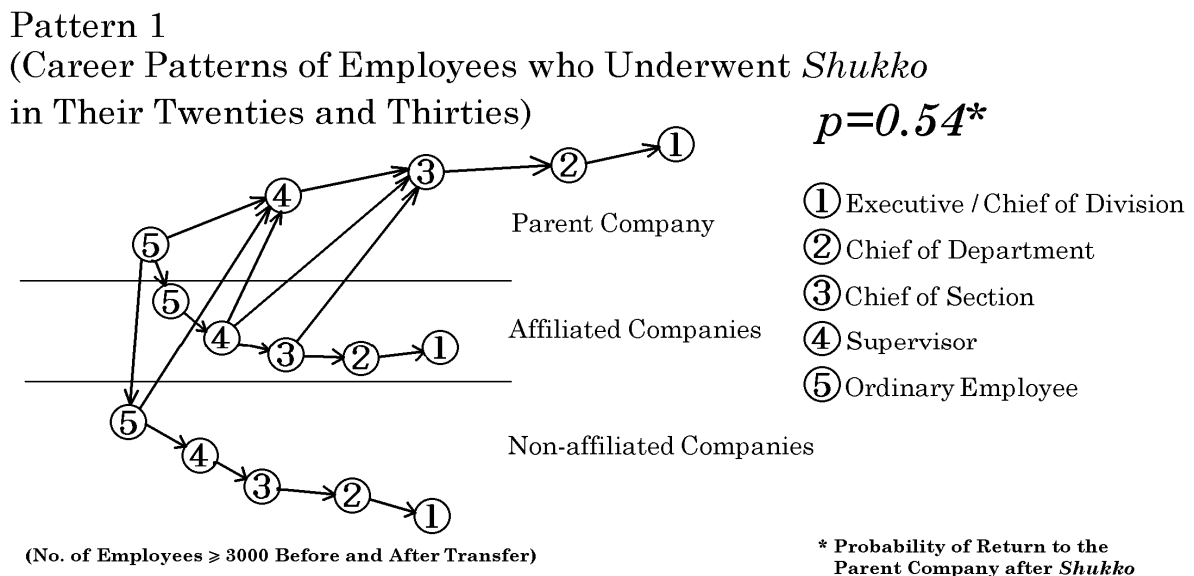
- | | | |
|----------------------|------------------------|----------------------------------|
| 1. Ordinary Employee | 3. Chief of Section | 5. Executive / Chief of Division |
| 2. Supervisor | 4. Chief of Department | 6. Others |

Figures 10a and 10b show the number of cases of transfers to affiliated and unaffiliated companies according to the age of employees at the initiation of *Shukko*. They indicate a trend of a rising number of employees (in other words a rising chance of) experiencing transfers through *Shukko* with increasing age up to the age group of 50-54 years. But the difference in the nature of personnel transfers at different ages only becomes clear when promotion patterns are classified into four groups as it is done in figure 11.

Figure 10a: Age at Initial Transfer to an Affiliated Firm**Figure 10b: Age at Initial Transfer to a Non-affiliated Firm**

As figures 11a-d show, the career tree⁵ of Waseda University graduates varies according to the age of their initial transfer to affiliated companies and non-affiliated companies. When employees are initially transferred to affiliated or unaffiliated companies in their twenties or thirties, there is a high probability that they will return to their parent company. But when an initial transfer to affiliated or unaffiliated companies takes place in their forties and fifties, they are likely never to return to their parent company. Instead, they have to stay in those companies until retirement. Within the affiliated or non-affiliated companies they occupy a higher position than before in the parent company. Japanese companies transfer the middle aged and older employees in cost-cutting efforts by raising their formal positions but controlling the degree of extra *Shukko*-allowances in compensation for differences in payment levels at affiliated or unaffiliated companies. Compared with this age group, younger employees are transferred to affiliated companies and unaffiliated companies, in order to be further educated, to train their abilities and to broaden their experiences. This helps them in their future careers. They can be quite sure to return to their parent company, further advancing their occupational careers in line with personnel strategies of the parent company.

Figure 11a:



⁵ A career tree portrays the career paths followed by all individuals during their employment in the organization. Rosenbaum (1979, 1984). Pucik (1985) and Hanada (1987) use the career tree technique to analyze promotion patterns in a Japanese company. Nagano (1993) analyzes *Shukko* in Japanese companies according to four patterns. This paper is the first study which applies the career tree framework to analyze *Shukko* and which pays attention to outplacement in the career tree.

Figure 11b:

Pattern 2
 (Career Patterns of Employees who Underwent
Shukko in Their Forties)

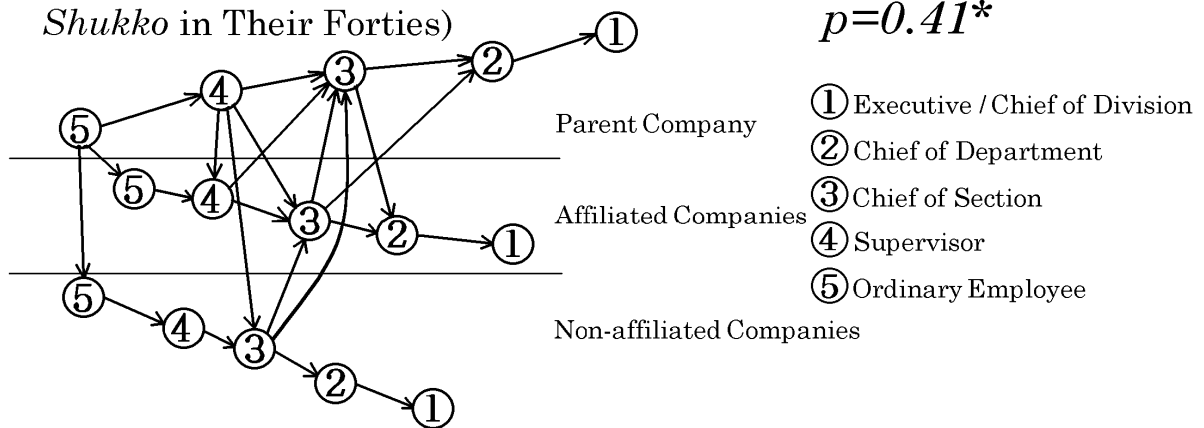
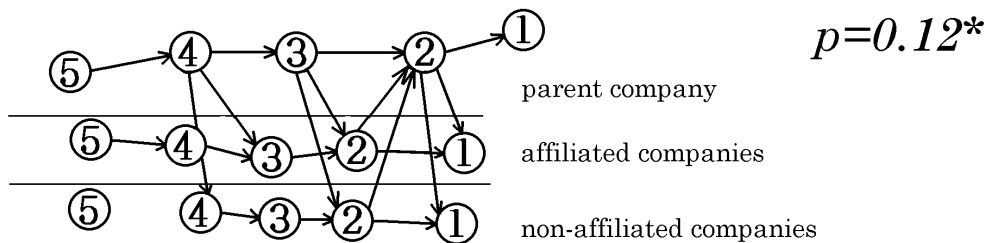


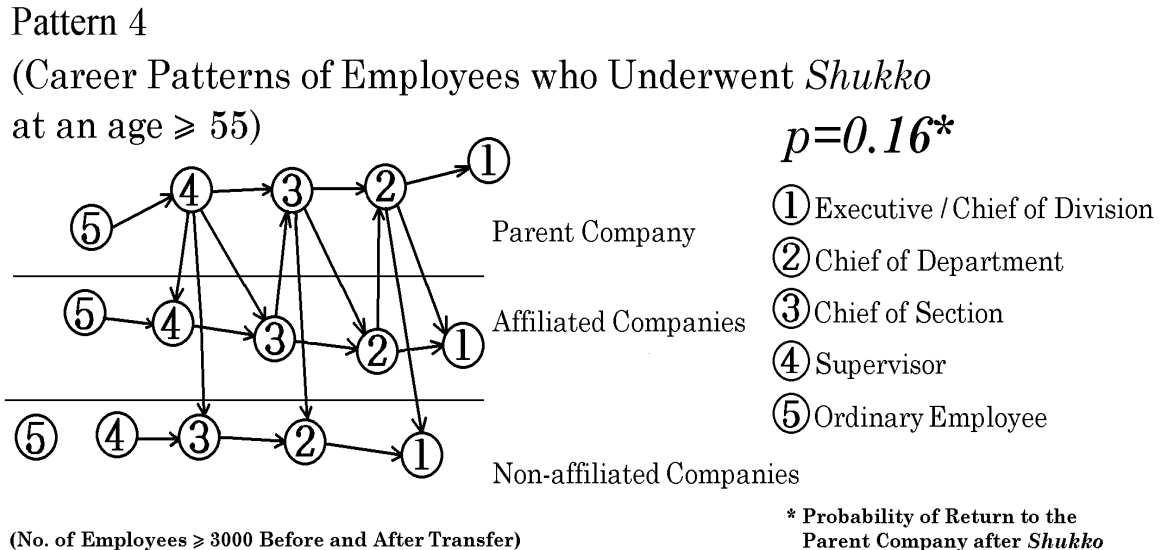
Figure 11c:

Pattern 3
 (Career Patterns of Employees who Underwent
Shukko at an age of 50-54)



(No. of Employees \geq 3000 Before and After Transfer)

* Probability of Return to the Parent Company after *Shukko*

Figure 11d:

4. Comment and Conclusions

A Comment

The system of *Shukko* in Japan is quite unique when educational systems in different countries are compared. Germany has a so-called dual-system of education after graduation from middle school (Hauptschule or Realschule) or high school (Gymnasium). On entering a company, employees are usually at first employed as apprentices (Auszubildende). They obtain a standardized, company specific education (in-house education) together with general and industry specific skills (occupational school education). The Chambers of Industry and Commerce supervise the standards and are responsible for the final examinations. They adapt educational outlines to changes in the industrial environment in cooperation with their member companies. After finishing this form of education employment their status is changed to „regular employee“. According to industry or workplace requirements further education may be obtained through in-house training or outside special courses. In Germany, *Shukko* is possible, but occurs only very seldom. Attempts to transfer employees to affiliated or unaffiliated companies by delegation might quite likely lead to the result of the employee giving notice (Kündigung) and looking for a new job elsewhere. The narrow specification of employment contracts in Germany on the one hand and the more general and less company

specific education together with the (compared to Japan) higher labor mobility of employees aspiring top management positions on the other hand give employees every opportunity to act in this way. German employment contracts have too little flexibility to cover *Shukko*, so *Shukko* is quite a unique system to Japanese-style management.

We conclude the following from our analysis:

1. *Shukko* contributes to the manpower-transfer from shrinking and dying industries to growth industries.
2. Manpower tends to be transferred from large companies to small and medium sized companies by *Shukko*.
3. It is observed that the career tree of top managers experienced *Shukko* is horizontally and vertically wide. Top managers enlarge their job experiences through *Shukko*. In such cases *Shukko* means a job training beyond the barriers of a single company.
4. When employees are transferred to affiliated company or non-affiliated companies initially in their twenties or thirties, the probability that they will return to the parent company is high. When the employees are transferred to affiliated or non-affiliated companies initially in their forties and fifties, they are likely never to return to the parent company.

5. For employees in their twenties and thirties, *Shukko* may mean job training which enables them to gain many corporate cultures and know-how beyond the barrier of a single company. Because the job training system of Japanese companies is normally closed in-house, such an education and training process is very important for the dynamics of Japanese companies.

6. For the employees more than fifty years old, *Shukko* is mainly equivalent to being thrown out of their companies. This contributes to the employment adjustment which under the long-term employment of Japanese companies can otherwise be carried out only with great difficulties.

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