Corporate Mergers and Changes in Labor Management:
A Case Study of Nippon Steel

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Abstract:
Previous studies have explained the efficiency of large Japanese enterprises as based on Japanese-style wages and employment practices. So in past mergers of large Japanese enterprises, how were personnel problems handled? It is important to understand the characteristics of mergers in Japan and the measures used to deal with personnel problems during mergers. To respond to the above question, this paper examines four points: (1) the process and background of a merger; (2) strengthening of personnel management after a merger (foreman de-unionization); (3) the employment environment before and after a merger; and (4) changes in wage and qualification systems following the merger. I argue that because of the importance of personnel management for major Japanese companies, the union and management handled these topics with great care and energy.

1. Introduction
The purpose of this article is to analyze changes in labor management practices, focusing on trends in labor-management relations, that resulted from the establishment of Nippon Steel (Shinnihon Seitetsu) through the 1970 merger of Yahata Steel (Yahata Seitetsu) and Fuji Steel (Fuji Seitetsu). Since the second half of 1990’s in Japan, M&A has increased rapidly, encouraging a great deal of research. This research tends to attach great importance to the tendencies of acquirers or the acquired and the relation between corporate value and M&A; there are few case studies with detailed analyses of transformations of labor-management practices before and after M&A.¹ But even from a contemporary perspective, it seems that case studies of M&A are important.

One of the most important topics in discussing contemporary mergers and acquisitions regards the manner in which management decides to conduct M&A. To understand this issue, it is helpful to clarify characteristics of past M&A cases and compare them with current cases. Further, when analyzing past cases, one useful approach is to focus on changes in particular systems, such as personnel management, because that makes it relatively easy to grasp the subject. Given this perspective, what weight was given to labor management in past M&A cases?

Some studies indicate that wage and qualification systems and life-time employment do a great deal to raise efficiency and reduce costs in major Japanese companies.² We should recognize the possibility that these systems might function even more efficiently following M&A if management would use the occasions to not only maintain but even enhance them. However, previous studies, even when they referred to labor management, have tended to focus on negative aspects, such as factional quarreling over promotions, or operational confusion resulting from differences in company cultures.³ But if we emphasize these aspects, we are likely to overlook the potential benefits for labor-management practices, and to fail to understand the objectives of management in
conducting M&A.

This paper focuses on the attitudes of unions and management toward changes in the status of foremen (foreman de-unionization), employment security, and wage and qualification systems. These issues are important because Japanese wage and qualification systems and lifetime employment play important roles in maintaining management efficiency, and management must coordinate the functioning of these systems following mergers. Furthermore, the new foreman system (*sagyocho seido*) contributed to strengthening personnel management in workplaces, but its introduction triggered furious arguments between unions and management. Finally, the study is important for understanding broader Japanese labor and business issues because labor management practices at Yahata Steel, Fuji Steel and Nippon Steel strongly influenced personnel management and industrial relations in large Japanese companies, and the Nippon Steel merger was one of the largest mergers in the high growth era.

This paper is composed of six sections. The first section is the introduction. The second section refers to the process of the Nippon Steel establishment, and the activities of unions and management. The third section analyzes the role of the foreman system and the process of foreman de-unionization. The fourth section investigates employment security in Yahata Steel, Fuji Steel and Nippon Steel. The fifth section examines the transformation of wage and qualification systems and labor management negotiations about these changes. The final section suggests implications for research about M&A in Japan based on the findings in this paper.

### 2 The Process and Background of Merger

#### 2-1 The Process of Merger

Nippon Steel includes Kamaishi steelworks, the first steelworks operation in Japan with a blast furnace, and Yahata steelworks, the center of Japanese steel production from its establishment. 4

Nippon Steel was established in 1970 by the merger of Yahata Steel and Fuji Steel, two companies founded through the postwar reform that divided Japan Steel (*Nihon Seitetsu*) in 1950. Japan Steel was founded through the merger of Yahata Steel Works with Wanishi Iron Works, Kamaishi Mines, Mitsubishi Iron, Fuji Steel, Kyushu Steel and Tokyo Steel in 1934. Despite of the division, Yahata Steel and Fuji Steel ranked first and second in crude steel production in Japan.

The merger of Yahata Steel and Fuji Steel, called “the biggest merger in the postwar”, was difficult to realize because of that period’s Japanese antitrust policy. The two companies had announced a plan to merge in April 1968, and filled out application forms for the Fair Trade Commission. Before the regular judge, the Fair Trade Commission launched an examination on whether the merger was justified, and pointed out that there was a suspicion of monopoly in four products (rails for railroad, tinplates for food can, pig iron for molding and sheet piles). The two companies suggested measures to counter monopoly, but the Fair Trade Commission advised them to call off the merger in May 1969, and at the same time requested that the courts rule that the merger be suspended. The decision of the Fair Trade Commission came as a great shock to the two companies, and they became pessimistic about the prospects of a merger. 5

After that, Yahata Steel and Fuji Steel decided that they would refuse the ruling of the Fair Trade
Commission, and argued at a trial over the validity of the recommendation. During the trial, they debated whether merger would give rise to monopolies in the four products.

Finally, the two companies suggested two means of resolving the problems. For example, regarding pig iron for molding, one of the most heated arguments in the trials, Higashida No. 6 blast furnace in Yahata steelworks and operating know-how were passed to Kobe Steel, one of the six major steel companies. As a result of these measures, the Fair Trade Commission approved the merger in October 1969. The reason of the Fair Trade Commission approved the merger, despite first calling it off, was that the two companies selected the strategy of not debating the justice of the suspension, but won agreement to the merger by suggesting solutions to the problems.

Through the establishment of Nippon Steel, a giant steel company was created that had a 37.5% market share in domestic crude steel production, over a trillion yen in gross sales and exceeded US Steel in crude steel production.

2-2 The Background of the Merger

According to documents compiled by Yahata Steel and Fuji Steel, the reasons for the merger were as follows: With the beginning of an open economy, severe competition ensued and companies needed to expand and strengthen their businesses. Western steel companies had furthered consolidation, mergers, cooperation and investment in plant and equipment, so Japanese firms had to match them. Technical innovations further pressed companies to increase their scale. In addition, the two companies selected each other for merger partners because: They were alike in company scale and range of products, so there would be greater gains in reducing overlaps of equipment for production, distribution and research than with other companies. In addition, the two companies had been started originally from Japan Steel, so they had human ties and managerial practices in common. And Yahata Steel and Fuji Steel expected to realize ten advantages to result from a merger: (1) being able to efficiently invest in plants and equipment, (2) strengthen efficiency of R&D, (3) efficiently use and transport raw materials though enhanced concentration of materials, (4) group various products in plants, (5) reduce waste of complex transport, (6) complete sales activities and customer services, (7) rationalize management structures and introduction of computers, (8) enhance capital-procurement abilities, (9) tighten up overseas operations, (10) and strengthen corporate governance.

Some researchers have stressed other advantages as well. While Nippon Steel was the industry leader based on its large scale, the five major steel companies (Nippon Steel, Nippon Steel Tube, Sumitomo Steel, Kobe Steel and Kawasaki Steel) could improve business performance by constructing cooperative relations and controlling competition in production, investment and sales. Hence, we investigate this point below.

From the first half of the 1950’s, the six major steel companies (Yahata Steel, Fuji Steel, Nippon Steel Tube, Sumitomo Steel, Kobe Steel and Kawasaki Steel) had pursued modernization and added facilities, and the output of the companies had increased rapidly. At the same time, the process gave rise to severe competition and shifting market shares among the major companies. Table 1 and Table 2 show changes of market share in crude steel. In the 1960’s, Yahata Steel, Fuji Steel, and Nippon Steel Tube had lost market share, while Sumitomo Steel, Kawasaki Steel and
Kobe Steel, which had started to construct blast furnaces in the postwar era, increased their shares. As competition intensified, prices, especially for sheet metal and plates, the main products of the major companies, had fallen and the firms had faced financial difficulties (see Figure 1). However, it was difficult to cooperatively adjust production, investment in plant and equipment and sales among the companies.

In the 1960s, major steel companies argued heatedly over ways of adjusting investments in plant and equipment. Yahata Steel, Fuji Steel and Nippon Steel Tube insisted that the adjustment should be carried out depending on existing market share. But Sumitomo Steel, Kawasaki Steel and Kobe Steel opposed that standard as being against their interests. Under these circumstances, during an incident in 1965 called the Sumikin Jiken (Sumitomo Steel affair), Sumitomo Steel confronted the Ministry of International Trade and Industry over the means of adjusting investment in plant and equipment.

After the foundation of Nippon Steel, the situation changed. For example, cutting crude steel production caused a decline in the market price from November 1970. This was carried out smoothly in quantity and timing even though the process was performed through the independent decisions of the major companies. These circumstances were very different from the 1960’s when decisions on reducing production had to be carried out through the administrative guidance of the Ministry of International Trade and Industry. Moreover, cooperation in coordinating investment in plant and equipment was maintained among the major five steel companies partly though a concession of Nippon Steel in the competition for market share. Nippon Steel made the concession because it concluded that cooperation would produce good results not only for itself but also for all five major steel companies and for Japanese industry. At the same time, it seems that Nippon Steel believed that higher productivity under cooperative union-management relations (see note 7) would make up for the loss of market share.

2-3 The Attitude of Labor Union toward Merger

In this clause, I describe the attitude of labor unions over the merger of Yahata Steel and Fuji Steel.

The opinions of labor unions toward the merger differed. The left-wing federation Sohyo (General Council of Trade Unions of Japan) opposed the plan, emphasizing antitrust aspects, while it was supported by Tekkororen (the Japan Federation of Steel Worker’s Unions or JFSWU), which included the major steel company labor unions except for Kawasaki Steel Union. But opinions within JFSWU were divided. Small and medium-sized company labor unions were critical, while the five major company labor unions supported the merger. Thus, the decision of JFSWU was based on the major steel company labor unions.

As mentioned before, the management of the Yahata Steel and Fuji Steel argued that merger made possible the efficient assignment of production to each plant and investment in plant and equipment. So, if the merger were realized, there were concerns about reducing employment and transferring union members of Yahata Steel and Fuji Steel to other steelworks. So why did the two unions agree to the merger?

Severe competition, shifting market shares and product price reductions had bad influences on major company workers. First, price reductions reduced earnings and limited wage increases.
During this period, union and management held enterprise level wage negotiations in the spring, and management often denied union demands because of poor earnings caused by price reductions. But unions felt strong antipathy. For example, Yahata Steel Union (*Yahata seitetsu rodo kumiai*) recognized the importance of investment for the development of the company and the treatment of the workers, while pointing out that the reason for price reductions and poor earnings was rampant investment resulting from the strenuous competition among major companies, and that these had negative effects on workers.

Second, intense competition brought intensification of work. Using QC circles, workers had to seek to reduce production costs and enlarge their tasks to make possible personnel reductions. Management argued that these practices were necessary to survive furious competition among the firms.

Workers in the major steel companies had strong interests in the growth or survival of their companies, as they had lifetime employment and seniority benefits, so the arguments of management were very persuasive. But the demands of management had been so harsh that workers anticipated that the merger might ease the pace of rationalization. The above attitude of the major steel companies union was reflected in these workers’ feelings, and it played an important role in the realization of the merger.

3 The Merger and Strengthening of Personnel Management

When mergers occur, ordinarily not only wage and qualification systems but also personnel management are changed. This chapter analyzes the new foreman system, which played an important role in major steel companies, and the process of foreman de-unionization in Yahata Steel and Nippon Steel.

3-1 The Positioning of the New Foreman-system in Major Steel Companies

Postwar Japanese steel companies introduced various Western practices and technologies to improve production and management. On such occasions, major steel companies adopted a new foreman system, called the *sagyocho-seido*, in blue-color workplaces. In the new foreman system, new foremen (*sagyocho*) managed the rank-and-file on behalf of the old foreman (*kumicho*). The reason to introduce the new system was to strengthen production and management in the most basic unit of the organization. Yahata Steel was the first company that introduced this system, on Yahata steelworks Tobata area in September 1958. Thereafter, other major steel companies introduced it one after another.

In Yahata Steel, before the new foreman-system started, the chain of command in blue-collar workplaces had been complex. It consisted of section chiefs, subsection chiefs, foremen, and engineers (*gijutsuin*) under the control of section chiefs, so the authority of foreman who managed rank-and-file workers had been unclear. Moreover, a flaw of the system was that the foremen’s degree of authority tended to depend on their ability since the workplace supervisors, section chiefs and subsection chiefs, had to handle excessive tasks such as supervising operations, improving equipment and work, production control, and data processing.

To solve these problems, engineers and tasks involving improvements in work and equipment
were transferred to the staff section. The new management system was simplified to section chief, subsection chief and foreman, and the task of the foreman was defined as carrying out designated operations, reducing costs, and conducting personnel management. Especially in personnel management, they were given strong powers over work periods, primary employee performance evaluations, and deployment of workers. They were treated as white-collar workers in terms of salary and bonus, in addition to which they could be promoted to higher ranks, which had been monopolized by white-collar employees until then. These measures had strongly motivated blue-collar workers to pursue promotions.

The position of foremen in union-management relations was very important because they had strong personnel management power and were treated like professional managers. Thus, union and management argued heatedly about the justifiability of foreman de-unionization.

In July 1958, when management introduced new foreman system, it suggested de-unionizing foremen to Yahata Steel Union. But the union strongly opposed the plan because: First, if new foremen, who were deployed in the ratio of one out of twenty workers, became non-union members, the power relations between union and management in the workplace would change and union power would decline under pressure from the foremen. Second, the new foreman did not have so much authority that the Labor Union Law (Art. 3, paragraph 1) prohibited them from joining a union by reason of holding a supervisory position on behalf of management. And the union argued that if management had hoped to realize foreman de-unionization, it should have conducted union-management consultation on the shop floor and eased restrictions on union workplace activities. As managers did not want to accept the union demands, they retracted their proposal.14

During bargaining of the labor contract in October 1962, management proposed foreman de-unionization again with an eye on introducing the new foreman system in the Yahata steelworks Yahata district in May 1963. Union and management argued about the influence on the industrial relations and the interpretation of the Labor Union Law. But in this bargaining, management took a determined attitude. It refused to agree to a labor contract if foreman de-unionization was not realized, and it indicated that it would make concessions on conducting union-management consultation on the shop floor and easing restrictions on workplace union activity. In the end, Yahata Steel Union accepted the management proposals, and foremen became non-union.15 The reason managers took a strong stance was that they felt that if they did not achieve foreman de-unionization at this time, they would lose the chance forever.16

The process of Fuji Steel was different form Yahata Steel. The new foreman system was introduced in March 1964, but management did not suggest foreman de-unionization to Federation of Fuji Steel Unions (Fuji seitetsu rodo kumiai rengo kai).17

3-2 The Process of Foreman De-unionization in Nippon Steel

After establishment Nippon Steel, the union and management started bargaining to conclude new standardized labor contract in April 1972. (The union, the Council of Nippon Steel Unions or Shinnihon seitetsu rodo kumiai kyogikai, included Yahata Steel Union and the Federation of Fuji Steel Unions. It was reorganized into the Federation of Nippon Steel Unions or Shinnihon seitetsu rodo kumiai rengo kai.) One of the major problems was the position of foremen in
union-management relations. To conclude labor contracts, union and management first conducted labor-management consultations to confirm and adjust arguments. Management argued that foremen should be non-union members as in Yahata Steel, while the union demanded that they be union members as in Fuji Steel. This problem could not be settled through labor-management consultation and was handled in collective bargaining, where both sides shifted to positions similar to those in Yahata Steel. They sought points of agreement, but remained on different tracks.

The union suggested that both sides should try making concessions on the basis of a spirit of ‘give and take’ to solve the problem, and at the same time expressed the opinion that it could compromise on foreman de-unionization. Then management suggested that they would postpone foreman de-unionization until October 1974 and approve full-time official union activities by union branch officers four days each month, as the union had been demanding in labor-management consultation. The union agreed to the proposals and a new labor contract was concluded in March 1974.

An important point in this process is that management used the occasion of the merger to justify establishing a new contract, and was able to take a strong stance on without incurring strong union opposition. If management had proposed this plan after foremen had been treated as union members for a long time in the former Fuji steelworks, the union would have strongly opposed it as an attack on the union movement and union-management relations might have deteriorated. Considering this point, the period immediately after the merger was important to solving long-running problems.

4 Merger and Employment Environment

4-1 Employment Environment in Yahata Steel and Fuji Steel

In the high growth era, major steel companies, including Yahata Steel and Fuji Steel, rarely dismissed regular employees.

But that did not mean that there was no employment issues in Yahata Steel and Fuji Steel. For example, in the first half of the 1960’s Fuji Steel had problems regarding the Kamaishi steelworks rationalization. The Kamaishi steelworks was inconveniently located far from customers and on a small property, had high production costs and produced products vulnerable to recession. In September 1963, management suggested a rationalization plan for Kamaishi steelworks in the central labor-management council. This plan had the possibility of reducing employment in the long run because it called for not only transfers to Tokai Steel but also abolishing some facilities, personnel retrenchment through outsourcing and contracting-out of manufacturing processes. The Federation of Fuji Steel Unions bargained with management on the basis of the Kamaishi Steel Union principles, namely that they sought to realize stable employment and preserve or improve working conditions. As the union worked to change the original plan, management promised to maintain production levels and produced concrete plans to back up their words. Management responded that it would conduct labor-management consultation to discuss whether to fill vacancies caused by normal retirements and attrition, as filling these was not provided for in the original plan,
and it approved a change in the means of selecting personnel for transfer to Tokai Steel. In the end, the Kamaishi steelworks problem did not cause serious issues such as dismissals but resolved the problems.

In Yahata Steel, the attitude of union and management on avoiding dismissals was the same as at Fuji Steel. Yahata Steel Union adopted the principle that, in view of lifetime employment, when excess personnel were present, they would agree to reassignment and person for help under the regular standards. From 1965 to 1970, employment at the Yahata steelworks was slashed by 13,100, and the persons were reassigned by placement in new facilities, replacement of departed workers, implementation of the revised shift system (from three shifts-three groups to three shifts-four groups) and transfers to new steelworks. Union and management in this era thereby maintained employment security.

4-2 Employment Issue in the Merger Process

The announcement of the merger plan was caused unease among employee who worked in old steelworks, which would be affected by rationalization of plant and equipment. So union and management had to cope with this problem.

Managements at Yahata Steel and Fuji Steel frequently communicated the situation to the unions once the merger plan had been examined by the Fair Trade Commission. When the plan was approved, the presidents of Yahata Steel and Fuji Steel held a conference with union leaders and explained that they would maintain work condition and refrain from rationalizing plant and equipment. As union opposition would negatively affect investigations, and support from union was important to realize the benefits of the merger, management had to ease union doubts about the merger. However, the workers in the old steelworks were not reassured by the companies' promises. Thus, the unions had to take measures in each steelworks to fulfill the union-management agreement.

In the middle of the 1960s, Yahata Steel investment was concentrated on new steelworks such as Kimitsu steelworks, bringing pessimism about prospects for Yahata steelworks. After the announcement of the merger with Fuji Steel, this pessimism worsened. Yahata Steel Union agreed to the merger while adopting the principle that it would not accept worsening of work conditions and would demand maintaining or increasing production and the modernization of Yahata steelworks. Yahata Steel Union demanded that managers provide a clear plan on the future of Yahata steelworks, and management proposed ‘a master plan of Yahata steelworks’ in January 1969. In this plan, Yahata steelworks would remain the company’s main steelworks in the future, would maintain its production level (twenty million tons in crude steel a per year) through investment in new equipment. Moreover, the union demanded that management explain about not only work conditions in the merged company but also the prospects of Higashida blast furnace and the Nagoya works, where there would be problems of employment security. Management stated that the status of employees in Higashida blast furnace and conditions of Nagoya works would not change, and work conditions would not decline through the merger. The union regarded all of the management answers as acceptable and accepted the merger plan to conclude the bargaining.

In the perspective of the employment environment, Fuji Steel had problems too. The Kamaishi
steelworks situation was perhaps the most obvious because it demonstrated thinking about employment security by union and management.

As stated above, the Fair Trade Commission pointed out that merger would create monopolies in four products. Regarding this issue, some supporters of the merger suggested that Fuji Steel should split off Kamaishi. Because Kamaishi steelworks produced three of the four products, including rails for railroads and pig iron for molding and sheet piles, divestment could go a long way toward solving the problem. This proposal was attractive for management in some respects, as Kamaishi steelworks was not very profitable.

But management of Fuji Steel, including President Nagano Shigeo, did not accept this plan because they refused to sacrifice employees for the merger. Recognizing union support for the merger and its concerns about employment security, management had to reject the split-off option.

4-3 Employment Environment in Nippon Steel

In Nippon Steel started, there were some confrontations between union and management over issue such as the possible shutdown of Kawasaki steel mill, but large-scale plant and equipment rationalization and dismissals did not happen. The reason such situations did not occur was that union and management negotiated agreements on these issues during the process of the merger. Further, new steelworks such as Kimitsu or Oita needed additional personnel, easing solution of this problem. While the union recognized that personnel conditions would be harsh in old steelworks since Kimitsu and Oita needed personnel, they held up the principle in the perspective of lifetime employment and labor-management proceedings that they approved personnel transfers under fixed standards in order to maintain employment security. Moreover, the establishment of Nippon Steel had brought about cooperation among the five major steel companies in production, investment, and sales, and improved corporate earnings freed the firms from pressure to reduce personnel. In the major steel companies, serious threats to employment security were not raised until the recession in 1978.

As mentioned above, there was a common recognition between union and management about the importance of employment security in Yahata Steel and Fuji Steel. Under this recognition, union-management relations had been constructed, and the parties’ practical pursuit of effective utilization of employees contributed to effective corporate administration. As these structures were handed down, employment security was maintained in Nippon Steel as well.

5 The Change of Wage and Qualification Systems Following the Merger

Major steel companies, especially Yahata Steel, introduced wage and qualification systems that attached great importance to job evaluation in 1960s. This was because heavy investment from the 1950s had caused problems for labor management practices based on seniority alone. But in the late 1960s problems also appeared in the new systems, so following the merger that created Nippon Steel, the union and management began working to find a solution. The qualification system was revised in October 1970 and the job-based wage in November 1971.

5-1 The Unification of the Qualification System

The qualification system was revised for the purpose of combining and coordinating systems in
Yahata Steel and Fuji Steel. It classified employees by divisions that were based on ability and that covered both white and blue-collar employees. In this system, promotion was based on contribution to the company, valued by length of service; this standard, which had not been adopted in Yahata Steel, was introduced and the scope of promotion dependent on ability improvement was expanded. Because of this revision, blue-collar workers attached to Yahata Steel could be promoted at the same rate as those in Fuji Steel.33

The revision of the qualification system of Yahata Steel in 1967 reduced promotional opportunities for blue-collar workers because they were basically decided by job grade. As at other large Japanese companies, promotion-based wage raises (teikishokyu) and bonuses at Yahata Steel were determined by qualification rank. This decline of promotional opportunities created a wage ceiling, causing employees to become unhappy with the qualification system. The revision in 1970 satisfied the demands that were made by Yahata Steel Union in 1969 but not realized. On the other hand, for employees of pre-merger Fuji Steel, the new system provided the same degree of promotion opportunity. But in many cases of mergers, working conditions tend to be between those of the merged companies, so it was appreciated by Fuji Steel workers.34

On the other hand, the revision enabled management to ease the union’s dissatisfaction as well as to strengthen the employees’ motivation to developing skills, as it intended to reduce personnel. It is important to understand the fact that the revision was carried out immediately after the merger when management most needed to reduce personnel. The management of Nippon Steel had a clear business strategy, and they chose the most rational way and best time to achieve it.

5-2 The Unification of Job-based Wages

Yahata Steel and Fuji Steel introduced job-based wages in 1962. The methods to decide pay rates for jobs was to evaluate each job (by eight components in Yahata Steel, and six elements in Fuji Steel) and classify them into seventeen grades. Each worker was paid according to job grades. Job-based wages in Yahata Steel and Fuji Steel accounted for about nineteen percent of “standard-based” pay in 1969.35

The new job-based wage system in Nippon Steel was composed of a fixed amount portion (shokumukyu) and a supplemental portion (shokumukakyu). The fixed amount portion for each worker continued to be decided by the previous methods, but the evaluated components were reduced to six, and the job grades were compressed to thirteen. In addition, the function of each job was expanded and the number of jobs in workplaces was reduced. These changes were carried out for the purpose of using employees flexibly under the job-based wage system.

The supplemental portion reflected the degree of personnel retrenchment and each worker’s ability to perform his tasks. That is, the revenue source of the basic unit (subsection) was calculated by multiplying the total fixed amount portion of its members by a coefficient, which was 0.2566 at the time of the system’s introduction. The ratio of personnel retrenchment in the whole company conducted in the previous half-year period was added to the coefficient, increasing the supplemental portion. More concretely, a one percent personnel decrease raised the supplemental portion in the monthly wage an average of 430 yen for each worker through the coefficient increase. The revenue source of each subsection was divided among its members by multiplying each
member’s fixed amount portion by a rate that reflected the job performance ability of each worker and that was adjusted so as not to exceed the revenue source. Moreover, the supplemental portion was used to provide special allowances for one year for employees directly affected by rationalization.

In Yahata Steel, management conducted personnel reductions based on expansion of job content in the second half of the 1960s. When job content was expanded, management conducted job evaluations again and used them in job-based wages. However, employees were unhappy because the degree of evaluation rise did not reflect expansion of job content sufficiently. Moreover, the expansion of job content caused job reorganizations in workplaces, causing drops in income when workers were reassigned to lower-ranked jobs, and when higher-ranked jobs disappeared. Yahata Steel Union demanded improvements of these problems in 1969, but management denied the request because the merger was drawing near. The revision in 1971 eased union discontent about the job-based wages, but from the viewpoint of management, the revision was necessary to utilize employees efficiently by raising workers’ abilities. As with the qualification system, management revised the wage system when it most needed to do so.

By revising the qualification and wage systems, Nippon Steel reduced personnel and thereby strengthened cost competitiveness and corporate profitability.

6 Conclusion
The main features of the merger examined in this paper are as follow: First, Nippon Steel realized increased corporate profits, not only by rationalizing production and management, but by adjusting investment, production, and sales among the five major steelmakers. Second, workplace labor management was strengthened by foreman de-unionization, as was done at Yahata Steel. Third, personnel reductions following the establishment of Nippon Steel were not as severe as at Yahata Steel and Fuji Steel. Finally, wage and qualification systems were revised because management recognized that it had become more important to develop workers’ abilities in order to reduce the number of workers and transfer personnel to the new steelworks.

In order to understand the relationship between the merger and labor management, it is important to understand that management emphasized making the best use of employees, and they achieved this objective soon after the merger by revising the wage and qualification systems and through the de-unionization of foremen. Previous studies have tended to point out that there are inefficient aspects to labor management in merged companies. But in this paper’s analysis, we find that management succeeded in revising systems that they regarded as important, especially labor management for blue-collar workers. Given outcomes of past mergers, we should not make light of this outcome.

Of course, we must recognize that there some important differences between the Nippon Steel merger case and most of today’s M&A’s. In M&A today, management regards as important not only the effect of consolidation but also the quick acquisition of business resources. Thanks in part to deregulation, making decisions on M&A’s has become speedy. Further, seniority-based wage system wage increases are restricted and personnel retrenchment is prompt.
However, we should be cautious about emphasizing these differences. Nowadays, consolidation is pursued positively and is important especially in near-mature industries. The means of personnel retrenchment are still dependent on early retirement programs and postponements in filling vacancies, so the means employed are less severe than previously. Moreover, wage increases use seniority systems to serve as a proxy for the development of workers’ abilities. With these points in mind, what kind of implications can gained from the findings of this paper?

In our case study, management revised systems which they attached great importance to. In recent M&A cases, management has probably behaved in the same manner. Hence, if we want to clearly identify what management intends to accomplish through M&A, it is useful to pay attention to how management has treated various kinds of existing systems. And the fact that Japanese managers have preserved Japanese-style labor management practices means that today they continue to place strong importance on the unified effect of M&A.

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1. For example, Miyajima (2007) is representative of recent research trends.
3. Unno (2004). About the merger of Nippon Steel, Yonekura (1991) refers to this theme. Although their style is a little journalistic, Mikami and Hosoda (2002) and Hayashi (2002) have treated this problem vividly.
4. The description about of this clause and next clause is based on Yonekura (1991), Iida, Ohashi and Kuroiwa (1969), Ichikawa (1974), Shinnihon seitetsu (1981b), and Nippon Steel HP (http://www0.nsc.co.jp/shinnihon_english/company_profile/enkaku/enkaku.html).
5. Following the recommendation of the Fair Trade Commission, Nagano Shigeo, the president of Fuji Steel, and Miyata Yoshiji, the chairman of JFSWU, were pessimistic about prospects for the merger (Shinnihon seitetsu 1981b: 83). When the news that the Fair Trade Commission was opposed to the merger spread, some supportive financiers and business executives suggested that the companies should split the Kamaishi steelworks from the proposed new company to solve the problems. This topic is discussed later in the paper.
7. On the attitudes of the labor unions, see Shinnihon seitetsu (1981b: 52) and Nihon tekko sangyo rodo kumiai rengo kai (1971: 639-644). In the labor movements of major steel companies, there were factional conflicts over union strategies until the first half of the 1960s. To improve work conditions, left-wing factions argued for strike-based strategies, while right-wing factions attached great importance to gaining a share of productivity gains under 'mutual trust' relations between unions and management. Left-wing factions lost support of union members through defeats in
strikes in 1957 and 1959, and the right-wing factions took the initiative in the labor movement. JFSWU was a member of Sohyo, but the sides often disputed the course of union movement (Suzuki 2000).

8. For example, see Sokuho (no.11, 1968). Sokuho was published by Yahata Steel Labor Department to provide information to employees on union-management negotiations.

9. On the opinions of Yahata Steel Union on this topic, see Yahata seitesu rodo kumiai “The 45th round Yahata Steel Union mass meeting draft” (September 28-29 1968: 2, 6-7).

10. In Yahata Steel, management always urged the importance of these topics when they replied to demands for higher wage and bonuses (e.g. Sokuho 1968, no. 11; and 1968, no. 37).

11. Actually, even left-wing members of Yahata Steel Union had the same expectations (Takahashi 1978: 150).

12. In this Chapter, the description of the old and new foreman system is based on Hyodo (1997: 163-165).

13. Under the old and new foremen, there were managerial posts (gocho and kocho) that handled supervision of operations and core tasks.


15. Neppu no.552 (January 10 1963). Neppu was the newspaper published by Yahata Steel Union.


19. The paper’s description of the Kamaishi steelworks rationalization is based on Shinnihon seitesu (Fuji) rodo kumiai rengo kai (1974: 595-599, 608-617).

20. The first management plan assumed that the work force of 1,500 was going to be reduced, and that 900 workers would be transferred permanently to Tokai Steel, and 600 would retire and not be replaced. Tokai Steel was a steel company founded by Fuji Steel and financiers of Tokai district in September 1958, and combined with Fuji Steel in October 1967. In the transfers to Tokai Steel, the parties concerned were given standard and special severance pay allowances and maintained their base wages and seniority in Fuji Steel.

21. Regarding transfers to Tokai Steel, the Federation of Fuji Steel Unions did not oppose it because quite a few union members hoped for it. Thus, the union demanded that transferred personnel should be selected from applicants first, and that nominations and repeated recruitment should be avoided. The demands were achieved.

22. Yahata seitesu rodo kumiai “The 42 round Yahata Steel Union mass meeting draft” (September 17-18 1966: 101).


24. Yahata seitesu rodo kumiai “The 46th round Yahata Steel Union mass meeting draft” (September 17-18 1969: 61-67) and “The 47th round Yahata Steel Union mass meeting draft” (March 8 1970: 131-138).

25. Yahata seitesu rodo kumiai “The 45th round Yahata Steel Union mass meeting draft”
(September 28-29 1968: 14).
29. Kawasaki steel mill was separated from Nippon Steel in May 1973 and re-started as a subsidiary company because of poor business performance. The mass media had already reported the possibility in 1970, but management denied it in the labor management council. Therefore, the management decision shocked Nippon Steel Union. But in the end, employees of Kawasaki steel mill remained employed through transfers to other steelworks and so on (Shinnihon seitetsu rodo kumiai rengo kai 1982: 462-473).
31. Through the recession in 1978, excess personnel became apparent in Nippon Steel, which began to reduce personnel throughout the company. After 1978, management did not carry out dismissals, but restrained wage raises, curbed new hiring and used transfers between steelworks. On the situation of steel industry after the oil crisis of 1973-74, production adjustments among steelworks in 1978 and union-management relations, see Nitta (1988: Chap 4).
32. The analysis of the changing wage and qualification systems immediately after the establishment of Nippon Steel is based on Sugiyama (2005).
33. As Yahata Steel and Fuji Steel were originally established by the breakup of Japan Steel, their qualification systems were similar.
34. In Fuji Steel, a qualification system for blue-collar workers was introduced in 1967, but the relation between job grades and qualifications was not very clear. About this point, see Shinnihon seitetu (Fuji) rodo kumiai rengo kai (1974: 765-773).
35. As with qualification systems, the wage systems of Yahata Steel and Fuji Steel were similar. That is, their standard-based wages included base pay, two efficiency wages, a job-based wage, and some allowances. In addition, the job-based wages of the two companies had features in common. The resemblances of the Yahata Steel and Fuji Steel wage and qualification systems made it easy to conduct the merger. In this paper, we do not examine the unification of efficiency wages, which was carried out in 1971 and 1973, because it largely involved the adjustment of wage levels.
36. See note 3.
37. On the foundation of JFE Steel in December 2001, which was established by the consolidation of Nippon Steel Tube and Kawasaki Steel into a holding company, management did not inform the union of the plan until the press reported it (Mizoue 2003). For major steel companies, this was the first corporate reorganization in a long time, and it took place under considerably different conditions than the merger of Yahata Steel and Fuji Steel. However, there were some common features between the two cases, such as Nippon Steel Tube and Kawasaki Steel placing strong emphasis on arranging a merger of equals (Hattori 2005).
38. For example, if a company takes a company in order to acquire its R&D capabilities, it is possible that management would not unify the personnel systems, so that employees from the
acquired company would continue to be treated as before.

References
Shinnihon seitetsu (Fuji) rodo kumiai rengo kai. Fuji seitetsu rodo uno shi. 1974.
Yahata seitsuzu rodo kumiai. “The 42 round Yahata Steel Union mass meeting draft” (September 17-18 1966).
———. “The 45th round Yahata Steel Union mass meeting draft” (September 28-29 1968).


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Table 1. The Market Share Trend of Major Companies (Crude steel).
(1,000 tons, %)

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<td>18.8</td>
<td>18.7</td>
<td>35.7</td>
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<td>87026.2</td>
<td>92406.3</td>
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* Yahata Steel until 1969.
** Including the production of Tokai Steel.
Table 2. The Market Share Trend of Major Companies (Cold-rolled coils).


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<td>11.0</td>
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<td>12.7</td>
<td>14.0</td>
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* Yahata Steel until 1969.

** Including the production of Tokai Steel.
Figure 1. The Fluctuation in Price (Cold-rolled sheet: 0.8mm).
Source: Made from Zenkoku tekko donya kumiai (1986: 36).

Note. The prices until 1959 were hot-rolled sheet of 0.8mm.