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EMPLOYMENT POLICY IN JAPANESE COMPANIES. ANALYSIS OF SELECTED MEASURES

Grzegorz Wróbel

1. Introduction

Opinions of Western practitioners and scientists resulting from analyses of the Japanese management style (concerning mainly TQM) are quite polarised. Some downright about the very fact of the Japanese announcing the implementation of new methods of company management, reasoning that all they have achieved was a result of learning from Americans to run businesses basing on Western principles. Others analyse management philosophies of the Japanese corporations and try to implement TQM, counting on similar business success. Does the TQM idea already belong to the past?

In an attempt to analyse the functioning of Japanese business, one can be certain of one thing. After the time of TQM popularisation in the 80s and the 90s, we are witnessing slow but noticeable changes in the Japanese management method. The changes concern among others the area of human resources. The Japanese were induced to consider a reform, or at least to reflect on further functioning of the established management principles, by the over ten-year-long economic regression in the 90s, the growth of international competition, decrease of productivity and work effectiveness rates and greater liberalism of the Japanese government’s economic policy. Japanese businessmen were thus forced to review their hitherto used managing practices, break the rules which so far were deemed stable (secure) and introduce new or altered methods to human resources management.

The aim of this article is to review the basic criteria characteristic for the employment policy as one of the main elements of Human Resource Management, and in which it comes to key changes of the system used so far in the large corporations which determine Japan’s competitive position on the global market.

2. Employment measures in the macroeconomic aspect
The increasingly more distinct and stronger trends on the labour market in Japan show that the ongoing changes do not bear the character of short-term fluctuations. It is confirmed by an analysis of the basic macroeconomic measures in that category, such as employment structure or unemployment rate.

In 2005, 59.5% in the employment structure were so-called regular staff, consisting of permanent employees (53.2%) and executive officers (6.3%). Staff employed under different conditions (non-regular) covered as much as 25% of all employed persons, including: part-time workers (12.3%), temporary workers (5.4%), dispatched workers (1.7%), fixed-term contract workers (4.4%) and others (2%). Self-employed and employees of family businesses constituted 9.9% and 4.4% of the workforce, respectively. Leaving out the latter two employee groups, one comes to the conclusion that in 2005, non-regular staff accounted for almost 1/3 of all employed persons.

The dynamics of changes in the employment structure in the years 1985-2005 shows a definite increase in the number of non-regular staff, from 17% to 32.6% – in all age groups. It should be noted that that increase was to a great extent influenced by the policy of women employment.

The majority of permanent staff in Japanese companies is made up of men (82.3% of all men are permanently employed), while that rate for women is only 47.5%. Women are more and more often employed as non-regular staff (an increase from 38.4% of all employed women in 1995 to 52.5% in 2005). In their case, the most popular form of employment is as part-time workers (5.6 mln women in 1987 and over 11 mln in 2005). Such form of employment is used in the food and beverage industry, real estate agencies, wholesale and retail industry, health-care units, insurance industry and schools. It is more popular in small businesses than larger ones. That increase in the number of non-regular staff affects the growing wage disparities between various employment forms and between sexes.

Employment in general decreased in 1994-2005 by over 1.5%. Looking at the employment structure according to economy sectors, the greatest drop concerned agriculture, forestry and fishery (by over 35%) and management (nearly 20%). Japanese companies started employing many more workers engaged in finances (24%), engineering, specialised or technical work (e.g. IT specialists) (18.6%). Industry employment in Japan is strongly connected with the globalisation of the manufacturing activity. The number of employees in the manufacturing industry was systematically decreasing and in 2004 has fallen to a level of 11.5 mln.

The same period saw an increase of production rate by 15.5% and an increase in the number of workers in Japanese overseas companies.
(mainly in the transport and electric machinery industries). With the dollar exchange rate falling to 80 yen in 1995, not only large corporations but also smaller manufacturers decided to move their production overseas to a greater extent than before. A natural consequence of such activity and of a sudden drop in the construction production was a decrease in employment in the II sector from 33% in 1994 to 27% in 2005.

The services sector saw a systematic increase in employment, to nearly 43 mln workers in 2003, which made up almost 68% of all people employed in the economic sector.

Table 1. Employment changes in the main sectors of Japanese industry in 1994-2005

<table>
<thead>
<tr>
<th>Year</th>
<th>Year-on-Year Differences (in %)</th>
<th>Proportion (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Agriculture, Forestry, Fishery</td>
</tr>
<tr>
<td>1994</td>
<td>0.0</td>
<td>-2.6</td>
</tr>
<tr>
<td>1995</td>
<td>0.1</td>
<td>-1.6</td>
</tr>
<tr>
<td>1996</td>
<td>0.4</td>
<td>-3.0</td>
</tr>
<tr>
<td>1997</td>
<td>1.1</td>
<td>-1.7</td>
</tr>
<tr>
<td>1998</td>
<td>0.7</td>
<td>-2.0</td>
</tr>
<tr>
<td>1999</td>
<td>0.8</td>
<td>-2.0</td>
</tr>
<tr>
<td>2000</td>
<td>0.2</td>
<td>-2.7</td>
</tr>
<tr>
<td>2001</td>
<td>0.5</td>
<td>-4.0</td>
</tr>
<tr>
<td>2002</td>
<td>0.5</td>
<td>-5.4</td>
</tr>
<tr>
<td>2003</td>
<td>0.2</td>
<td>-1.0</td>
</tr>
<tr>
<td>2004</td>
<td>0.2</td>
<td>-2.4</td>
</tr>
<tr>
<td>2005</td>
<td>0.4</td>
<td>-1.4</td>
</tr>
</tbody>
</table>

Source: Own study, basing on: Labour Force Survey, Statistics Bureau, Ministry of Internal Affairs and Communications, Tokyo 2006

The Japanese economic pride was always the level of unemployment rate, which due to lifetime employment and human resources repositioning within corporate groups ranged from 1% to 3%. In the early 90s, the rate started to evenly grow to reach 5.4% in 2003. The main reasons for the increase of unemployment included: shifting production to overseas Japanese companies, deflation and low level of domestic demand, bankruptcies and closure of companies. Since that time, the trend turned downwards as a result of a symptomatic economic recovery, settling the unemployment rate at the level of 4.3% (2007).

The causes of problems on the labour market are currently sought in the employers’ dilemma concerning continuation of the lifetime employment system and conditions of hiring young people. The functioning of the lifetime employment system will be described in one of the following chapters. The problem of youth unemployment arose
due to young people resigning from work, making a choice between short-term work and leisure, at the „cost” of the status of an unemployed. Also, recent years have witnessed a quite rapid growth of long-term unemployment. People unemployed for longer than one year make up about 1/3 of all unemployed in Japan (2005).

3. Changes in employment policy as an element of reorganizing human resources management systems

3.1 Discrepancies between employers’ requirements and job-seekers’ expectations

Since the latter part of the 90s, structural and frictional unemployment rates grew, as a result of discrepancies arising between employers and job-seekers. In 2005, the unemployment rate in Japan was estimated to be about 4.6%, out of which 4% was structural and frictional unemployment, and the remaining 0.6% – demand shortage unemployment\(^1\). Japanese analysts estimate that about 80% of the unemployed are people who did not take up work due to the very discrepancies between employers’ requirements and job-seekers’ wishes. The most often indicated cause of work oversupply is lack of vocational skills required by the employers, who in turn impose age restrictions for candidates. As a result, middle-aged and elderly people with professional experience had more opportunities to apply for work.

As it has been mentioned before, Japanese employers decide more and more often to hire non-regular workers. Table 2 presents the answers of employers and employees to the question of reasons for offering and accepting part-time employment.

Table 2. Reasons for offering part-time work by Japanese employers and for accepting it by employees

<table>
<thead>
<tr>
<th>Reasons for offering part-time work by employers (multiple answers)</th>
<th>Respondents in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>need to control wage costs</td>
<td>55</td>
</tr>
<tr>
<td>need for additional personnel on a daily or weekly basis</td>
<td>35</td>
</tr>
<tr>
<td>need to control labour costs other than wages</td>
<td>23.9</td>
</tr>
<tr>
<td>need to adjust hiring practices to changes in business running methods</td>
<td>23.4</td>
</tr>
<tr>
<td>need for more workers due to extended working hours</td>
<td>20.4</td>
</tr>
<tr>
<td>need to meet temporary or seasonal demand</td>
<td>15.4</td>
</tr>
<tr>
<td>opportunity for regular staff to specialise</td>
<td>12.8</td>
</tr>
</tbody>
</table>

\(^1\) On the basis of data from: Japan in figures 2007, Statistic Bureau, Ministry of Internal Affairs and Communications (MIC), Tokyo, 2006
inability to hire regular staff 12.4
need for people with experience and expertise 12.3
need for people capable of doing specialised work 10.1
wish to reemploy older workers 6.4
other 2.4
need to substitute for regular staff (maternity leave and other) 2.1

Reasons for accepting part-time work by employees (multiple answers)Respondents in %
I want to defray household or educational expenses 42.3
I can choose my own working hours 38.8
commuting time is shorter 33.2
working hours/days are shorter 28.8
I want to earn money for my own needs 28
I want to keep a good balance between family life and other activities 25.8
I cannot find a permanent job 21.6
I want to improve and adjust my working conditions 12.4
I want an easy job without much responsibility 10.9
I can use my qualifications and abilities 9.5
I am not tied down to the organisation 7.5
I want to earn more money 7
I am not physically strong enough to work as regular staff 5.6
other 1.7


The most common reasons of employees for choosing non-regular employment are: the possibility to choose working hours and defrayment of household and educational expenses. The most popular reason for hiring part-time workers by employers is controlling wage costs and the need to hire additional workers on a daily or weekly basis.

Increasingly common employment of non-regular workers is for Japanese companies, in the perspective of the nearest few years, not only a chance to lower costs by combining and matching various working teams. The majority of people in that employment category are young people, and the proportion is systematically growing.

3.2 Lifetime employment system

The lifetime employment system in Japan was a characteristic feature mainly of large companies combined in corporation structures. The small and medium enterprise sector showed more elasticity in that respect, with more common occurrence of non-regular employment. The lifetime employment system, sceptically judged to be ineffective by most Western managers, consists in Japan in annual recruitment of college and university graduates, signing a permanent contract and work within one corporation, often in various companies and at various posts
until retirement. The only factor which used to actually break those rules, included economic crises and bankruptcies. Promotions and wages depended in that system mainly on the seniority and not the results, competences or qualifications. It was assumed in the system that a person working and trained over several years in the same company learns all rules of its functioning, understands, approves or accepts the particular organisational culture and develops his or her know-how. Such an employee becomes thus much more valuable as a worker than a candidate the hiring of whom in one of the links of the company’s hierarchy could shatter the established order, cause distrust among co-workers and require additional costs from the employer in connection with introducing the new employee to the strictly specified company order.

The lifetime employment system functions mainly in large corporations, where there is a possibility of transferring labour force (mostly management and white-collar workers) to other companies within the same keiretsu. The results of such actions are thus not redundancies, as is the case in small and medium businesses going bankrupt, but maintaining the level of employment. The system was organisationally formalised and used on a wider scale during the 60s economic boom. Does it still function today? Yes, it does, but the system is more flexible and less rigid than just a dozen years ago. Macroeconomic symptoms on the labour market, such as the increase in non-regular and part-time employment, limitations of overtime hours and of hiring new employees (unemployment rise among the young) confirm that the principles of lifetime employment have been broken. Workers employed in the same company since graduation until they retire account currently for about 20% of all employees.²

The attitudes of employers and employees towards the lifetime employment system are presented in Figures 1 and 2. It is worth noting that a definite majority of employers still sees the advantages in lifetime employment and evaluates it positively.

Figure 1. Attitude of companies towards lifetime employment

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² Estimates according to: Labour Situation In Japan and Analysis, General Overview 2006/2007, The Japan Institute for Labour Policy and Training, Tokyo 2007, p. 34.
According to respondents, the system allows the employee to learn the practices of the company's functioning, although even here, an at least partial adjustment of the employee to work is inevitable. Only every twentieth company did not introduce the system. The way employees answered shows they are in favour of maintaining the lifetime employment system (nearly 80% favour the system strongly or to some extent). However, the opinion of young employees is much more negative than that of elder ones, which fact stems from increasing difficulties in finding work, several times lower wages and the fact you they have to wait a long time to get a promotion. Employees of more seniority are characterised by a more conservative standpoint on that issue.

Figure 2: Attitude of employees towards lifetime employment
The nearly ten-year-long economic recession in Japan, increasing labour costs resulting also from the growing number of older workers (while maintaining the seniority-based wage system), growing number of employees unable to adjust to rapidly developing technology (mostly in the IT branch) and problems of human resources management in large corporations, started a debate on the further functioning of the system. As a result, large concerns carried out a reform of the seniority-based wage system, mostly abandoning it in favour of the task-based system, yet few of them decided to definitely reject lifetime employment principles. Instead, Japanese companies restrict the number of regular staff, increase fixed-time and dispatched workers’ employment (the latter for particular tasks), employ part-time or commissioned workers.

3.3 Recruitment methods and employers’ requirements towards graduates and mid-career job-seekers

Searching for job candidates among young people, particularly college and university graduates, has been characteristic for the recruitment activity for several years. However, it is mostly done by large companies, international corporations of high renown, employment in which is perceived as a distinction and advancement in Japan. The general tendency is that the larger the company, the greater is the proportion of college and university graduates among newly hired employees. No relationship between the company’s size and the hire of mid-career job-seekers has been determined.

That peculiar labour market division into young graduates and mid-career workers changing their job determines the choice of recruitment methods. The hire methods most commonly used by employers for the former and the latter groups have been presented in Table 3.

Table 3. Methods of recruiting graduates and mid-career workers in Japan in 2004
Research the results of which have been presented in governmental reports *Survey of Employment Management* of 2001 and 2004, shows that in graduates recruitment a wider spectrum of methods is applied, using mostly modern information media, e.g. the Internet (38.2%), and direct contacts in recruitment actions at universities and colleges (33.9%). A few years earlier, the basic recruitment methods covered recruitment actions at universities and colleges (38.4% in 2001) and in the company’s own seat (32.9% in 2001). Compared to 2001, by 2004 companies have completely renounced recruiting candidates by means of an independent company website.

To choose the best candidate from among applicants, in 90% of Japanese companies individual, multi-stage interviews, followed by candidate evaluation reports, are preferred. The second evaluation criterion are proficiency and general knowledge (58%), then aptitude and skills (50%), essay writing assessment (42%), group interview (27.4%) and analysis of application documents (22.5%). Few companies allow individual presentation of the candidate or test him or her in group-work abilities, which may be considered surprising, as Japanese companies have been known for putting emphasis on collaboration within project or quality groups.

Research on employment policy conducted in 2004 defined the characteristics of the graduate candidate which were the most important ones for Japanese employers. The ideal candidate should be ambitious and enthusiastic towards work (64% respondents), have good communication skills (53.1%), practical abilities needed for the particular kind of work, including driving ability (31%), a sense of balance and a cooperative spirit (30.9%). Comparing the results with similar research from 2001, enthusiasm and ambition are invariably important, communication skills have gained in significance, and general knowledge is of lesser importance.

When recruiting non-graduates, i.e. workers changing their job in mid-career, a definite majority of companies leave their offers in Employment Offices (64.9%) or advertises the posts in press (33.3%). These methods were also the most popular ones in 2001. Recommendations through acquaintances and personal connections lost in meaning (22.9% in 2001 falling to 6.1% in 2004), and more important became job search magazines and job portals (from 18.1% to 30% according to respondents).
Employers’ expectations towards that group of candidates are somewhat different from those applied to graduates. In the case of managerial posts, the list starts with job experience (57.7%), followed by practical knowledge and skills (48.3%) and enthusiasm and ambition (30.9%). A candidate for a clerical post should have not only job experience (52.7%), but also be enthusiastic and ambitious (41.5%), have general common knowledge and be well-educated and cultured. Practical knowledge and skills (68.9%) and job experience are the most important features for engineers and researchers. Manufacturing workers, beside being enthusiastic and ambitious (58.8%), should also have good health and stamina (47.3%), and appropriate professional experience (38.3%).

4. Conclusions

Having analysed the basic measures connected with employment, both in the macroeconomic aspect and in that of human resources policy (particularly of recruitment and selection methods), the following statements can be formulated.

- The structure of employment forms on the Japanese labour market is changing. The number of the so-called “mobile”, non-regular staff rises. That form of employment concerns mainly women, and seems to be age-independent both in the case of women and men.
- The years 1995-2005 saw increased employment in services and lower one in agriculture, forestry and fishery, and also in industry, in which manufacture was transferred overseas to a great extent as a result of recession and yen appreciation against dollar.
- Looking at the main occupational groups, employment rose in the group of engineers and specialists and of people in the business support (mainly financial) sector.
- A definite majority of corporations declare their will to reform the lifetime employment system. That is mainly seen in limitations of recruitment activity and of employing regular staff for lifetime. Several dozen years of the system’s functioning in Japan determines, however, its positive evaluation by both employers and employees. The lifetime employment system has not been “abandoned”, but its assumptions are being modified, influenced mostly by factors of the macroeconomic environment.

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The labour market defines the framework of employment policy of Japanese companies, together with specific recruitment methods. The latter have been recently evolving both in the case of occupational groups and work candidates groups (graduates, mid-career job-seekers). Recruitment process is based on the following communication tools: modern ones (Internet) – meant rather for young people, common ones – printed magazines, and well-tried ones – company recruitment actions at universities and colleges. The sought for graduate is ambitious, enthusiastic towards his or her work, communicative and skilled. The sought for candidate from the mid-career sector is someone with job experience, practical knowledge and skills.

5. Literature

7. Japan in figures 2007, Statistic Bureau, Ministry of Internal Affairs and Communications (MIC), Tokyo, 2006

Key words:
japanese management style, labour market in Japan, recruitment policy, human resource management

Abstract:
The article presents some conclusions regarding changes in japanese labour market. The author describe employment measures in the macroeconomic aspects as well as an employment policy of companies as an element of reorganizing human resources management systems on base of hiring requirements, lifetime employment system and recruitment methods. The main conclusion is that the structure of employment forms on the Japanese
labour market is changing and the lifetime employment system has not been “abandoned”, but its assumptions are being modified, influenced mostly by factors of the macroeconomic environment.