
Business Strategy and Human Resource Management at Contract Companies in the Manufacturing Sector

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Summary

In line with the revision of the Worker Dispatching Law and changes in corporate policies on the use of contract services, it is becoming increasingly important for contract companies to review their business strategies and develop human resource management policies that correspond with their business strategies. The essay has classified major business strategies of contract companies and examined the relationship between human resource management practices and business strategies at contracting companies by using data from surveys and case studies. First, it has found that companies constantly generating high earnings are equipped with production site management, hiring, and personnel management (evaluation and training) systems that suit their respective business strategies. Second, companies pursuing a business strategy of handling high-skill operations and improving operation management, which are likely to be increasingly important, are not necessarily active in devising human resource management policies that suit this business strategy. Contract companies themselves must make efforts, but it is also necessary for client companies to review their current policy on the use of contract companies which gives priority to cost reduction and supply of needed amount of manpower in order to remedy this situation.

1. Introduction

Production sites in the electric and auto industries have been expanding the use of contract workers in order to reduce personnel costs and turn labor cost into a variable costs since the 1990s (Sato, [2001] Denkisoken,

[2004] Sato, Sano, Fujimoto, and Kimura, [2004]).¹ Contract workers now provide labor services that are indispensable for manufacturing goods at many production sites. Contract companies have been growing since the 1990s by increasing clients through price competition and their ability to supply needed number of workers anytime.²

However, as the number of contract workers increases, however, production sites using contract workers can experience problems such as increased burden of training these workers, disruption of work coordination and even decline in productivity and product quality (Kimura [2002a], Sato, Sano, and Kimura [2003]). Because the ban on worker dispatching for production duties has been lifted by the revision of the Worker Dispatching Law from May 1, 2004, the use of contract companies in compliance with the law is becoming even more important.³

In line with such changes, an increasing number of client companies now expect contract companies to handle more high-skill operations and have the capacities to manage operations in addition to supplying personnel speedily and steadily at low price. The competition is expected to intensify because temporary staff agencies will be entering the market of worker dispatching for manufacturing duties as the revised Worker Dispatching Law takes effect. For this reason, it is becoming increasingly important for contract companies to practice strategic management that puts their business resources to effective use.

¹ The use of contract workers expanded as contract workers increased their number as an alternative to regular employees, seasonal workers, fixed-term workers, and part-time workers (Nakao [2003]).

² Many contract companies were started in the 1990s when the use of contract workers increased. Even though they are not large-scale companies, many of these companies have been growing steadily (Sato and Kimura [2002] and Shirai [2001]).

³ The biggest difference between on-site subcontracting and worker dispatching in the Japanese law is that contract companies give instructions and orders to workers in the case of the former while client companies give instructions and orders in the case of the latter (see Sugeno [2002] for a detailed discussion on the definitions of “on-site subcontracting” and “worker dispatching” in the Japanese labor law). However, on-site subcontracting in the manufacturing sector was often done in a similar fashion as worker dispatching (Sato and Kimura [2002] and Sato, Sano, and Kimura [2003]). Since companies could not use worker dispatching for manufacturing jobs because of legal regulation, and authorities gave them some leeway by not rigorously regulating such form of subcontracting. “On-site subcontracting” discussed in this essay refers a contract arrangement in which contract workers hired by the contractor (contract company) engage in work for the client company at the client company. This essay discusses contract companies which do not have any capital relationship with client companies and have concluded contracts for manufacturing operations with multiple companies.

It is important for companies to establish human resource management practices that suit their business strategies if they want to generate high profits (Youndt M.A. et al. [1996], Cappelli.P. ed. [1999]). This is particularly true for contract companies – more so for them than companies in other industries – which derive their earnings mainly from labor services provided by contract workers.

As noted above, contract companies are now expected to handle technically challenging operations and to be able to provide onsite operation management. For this reason, it will probably become essential for them to promote long-term commitment from contract workers, raise skill levels of contract workers, and train onsite production managers by devising training programs and compensation system.⁴

In order to address the issues outline above, this essay will first classify business strategies of contract companies. Then it will examine how contract companies are practicing human resource management that suit their business strategies and to how widely such human resource management is practiced among contract companies by drawing upon the results from cases studies and surveys. It will conclude with a discussion of future direction of human resource business in the manufacturing sector.

⁴ Contract workers mainly engage in simple tasks, and their number is reduced or increased according to outputs. They have common features with *shagaiko* (external workers) who functioned as a “buffer” against “fluctuations of demand for low-ranking semi-skilled workers” and increased after the 1950s in Japan (Yamamoto [1967]). According to Itozono [1978], the wage system for *shagaiko* did not include any mechanism of annual wage increase, and wages were increased only when unit contract prices were increased. According to Kimura [1974], however, *shagaiko* in the steel industry were divided into highly mobile unskilled workers and specialists with low mobility. Companies sought to encourage the later to make long-term commitment by offering them a right to enter company dormitories and pay raises. According to Chubusanseiken [1998], worker dispatching agencies and contract companies in the auto industry have training programs and skill evaluation and merit pay system to promote skill development among contract and dispatched workers who handle works involving engineer-designing. These companies have been able to maintain satisfactory retention rates.

2. Classification of Contract Companies by Business Strategy

Executing and managing production duties are the main services contract companies offer. Therefore, a contract company's business strategy is determined by types of operation the company handles and its policy on operation management. To be specific, business strategies of contract companies can be classified according to the extent to which companies are trying to increase their value added by handling high-skill operations and improving operation management. Therefore, the following section will classify business strategies of contract companies by employing the two criteria: policy on operation types and policy on operation management.⁵

2.1 Classification by Policy on Operation Types

Contract companies' policies on operation types can be classified by their workers' skill levels. If a company attaches importance to operations requiring highly technical skills in order to add value to its services, it will have to have human resource development system for its contract workers such as training programs and a skill-based wage system. Moreover, it is also important to devise promotion and pay-raise schemes and encourage workers to make long-term commitment to develop human resources effectively. We will refer to such policy of emphasizing skill development of contract workers for the purpose of handling high-skill duties as the "development" type.

In contrast, if a company focuses on operations that do not require highly advanced skills, there is not much need for the company to invest in human resource development and devise promotion/pay-increase schemes and other measures for promoting long-term commitment. Because such company can not differentiate itself by the quality of human resources, it will have to add value by offering low contract fees, which are realized through curbing personnel costs, and supplying contract

⁵ In classifying business strategies, we have referred to the classification of key determinants of competitiveness of metal mold manufacturers in Fujimoto [2003].

workers speedily and steadily.⁶ Such policy of emphasizing speedy and steady hiring and deployment of contract workers will be referred to as the “acquisition” type.⁷

2.2 Classification by Policy on Operation Management

The second way for contract companies to add value to their services is assigning onsite managers and improving operation management (Kimura, [2002b]). Operation management of contract companies can be divided into two levels of just operating production lines (carrying out actual manufacturing duties in the production process) and managing operations including giving instructions and administering quality control.

Policies on operation management can be divided into two types depending on whether it is administered by the contract company or the client company. The policy in which the contract company administers operation management for the client company in addition to operating production lines will be referred to as the “the contractor-managed” type. The policy in which the contract company specializes only in operating production lines and relegates production management to the client company will be referred to as the “client-managed” type.

In the case of the “contractor-managed” type, companies can generate more value added than companies of the “client-managed” type by providing operation management even if they do not handle high-skill operations. Companies following this business strategy can add more value to their services by raising their productivity because they can independently manage and improve their operations. On the other hand, it

⁶ According to the “Second Survey on Business and Human Resource Management Strategies at Contract Companies” (survey on branch offices), 70-75% of the sales of contract companies is labor costs for contract workers. Therefore, the extent to which personnel costs can be curbed affects cost reduction efforts at such companies.

⁷ If we assume that these two business strategy types more or less correspond to the differentiation strategy” and the “cost leadership strategy”, then human resource management policies of the “development” type and the “acquisition” type should more or less correspond to the “commitment maximizing HRM” and “cost reduction HRM” discussed by Arthur [1992]. Human resource management of contract workers, who constitute a highly mobile workforce, should also be linked with business strategies of contract companies. For companies trying to realize differentiation through operation types and improvement of operation management, the originality of service is rarely an important factor. Their strategy is to take advantage of their skill levels and avoid price competition by entering the market that competitors may find it difficult to enter.

is easy for contract companies following the business strategy of the “client-managed” type to curb personnel costs and offer services at low price because they do not have to assign personnel for administering operation management.⁸

Business strategies of contract companies can be classified into the four types shown in Figure 1 by their human resource development policies, which are determined by their operation types, and policies on operation management.

Figure 1: Business Strategy Types of Contract Companies

		Operation types/ Human Resource Development Policy	
		Development type	Acquisition type
Operation Management Policy	Contractor-managed type	Development/contractor-managed type	Acquisition/contractor-managed type
	Client-managed type	Development/client-managed type	Acquisition/client-managed type

3. Human Resource Management and Business Strategies of Contract Companies

In the previous section, we have provided a theoretical overview of business strategies of contract companies. In the following section, we will first examine the issues contract companies following the four types of business strategy consider important in managing onsite subcontracting business by using data from a survey on contract companies (The “Second Survey on Business and Human Resource Management Strategies at Contract Companies”).⁹ We will select three constantly high-performing

⁸ In onsite subcontracting, onsite managers who give instructions and orders to contract workers at production lines are often assigned by contract companies to client companies free of charge. Contract companies provide such service because it can lead to continuous contract relations with client companies and more orders from them even though it might not generate immediate profits.

⁹ The “Study Group on Utilization of Human Resources and Human Resource Business in Production Sites” organized by the authors at the Institute of Social Science, the University of Tokyo conducted the survey. The study group prepared two types of questionnaire: one for head offices of contract companies and another for branch offices. The former covered contract companies’ business strategies, human resource management policies, and responses to the removal of the ban on worker dispatching for manufacturing jobs. The latter included questions about hiring practices and compensation system of contract workers. The study group has compiled a list of contract companies from information provided by industry associations and internet research and directly mailed copies of the questionnaire for head offices to these companies. As for the questionnaire for branch offices, the study group targeted companies that are participating in the study group or members of industry associations. The

companies of the “development/contractor-managed” type and the “acquisition/client-managed” type out of the eight case-studied companies and examine human resource management practices they are conducting in pursuit of their business strategies.

Concerning the case studies, we have decided to discuss only examples corresponding to the “development/contractor-managed” type and the “acquisition/client-managed” type because only these two fit the strategies of the companies that are continuously performing well among the case-studied examples. However, these two models are diametrically opposed with each other in respect to the two criteria used for classifying business strategies: 1) whether the company is handling high-skill operations or not 2) whether the company is seeking to implement operation management or not. These two therefore have common features with the “development/client-managed” type or the “acquisition/contractor-managed” type. For this reason, it is possible to make inference about human resource management polices of the other two types by examining examples of the “development/contractor-managed” type and the “acquisition/client-managed” type.

3.1 Management Policy Classified by Business Strategy

First, we examine the distribution of the four business strategy types among the companies that responded to the survey on contract companies. In classifying companies by policy on operation types, companies which listed “improving contract workers’ skill level” as one of the issues they considered important (multiple selection from 14 items) are classified as companies of the “development” type, and those which did not are grouped into the “acquisition” type. With regard to classification by policy

study group mailed each of these companies 1-3 copies of the branch-office questionnaire along with a copy of the questionnaire for head offices and requested them to distribute questionnaires to their branch offices to be mailed back to the Institute of Social Science. Both of the questionnaires were mailed and collected between mid-November in 2003 and late January in 2004. The study group sent questionnaires to 983 companies and received 123 effective responses. The effective response rate was 12.5%. The study group distributed 206 copies of the questionnaire for branch offices and received 70 effective responses with an effective response rate of 34.0%. See Sato, Sano, Fujimoto, and Kimura [2004] for a detailed discussion of the results of the survey.

on operation management, companies that emphasize “onsite operation management by employees of the contract company” as companies of the “contractor-managed” type, and those that do not are classified as companies of the “client-managed” type.

The “acquisition/client-managed” type is most numerous (52 companies) among the 123 companies that responded to the survey, followed by the “development/contractor-managed” type (29 companies) and the “development/client-managed” type (31 companies). The number of those in the “acquisition/contractor-managed” category is very small (9 companies).

Since the survey used in this analysis is not based on random sampling, the distribution of the four business strategy types may not necessarily reflect the distribution in the industry as a whole. What is certain, however, is that a substantial number of companies attach importance to either high-skill operations or improved operation management while there are many that emphasize neither of them.

In Figure 2, responses concerning business strategies and business management policies are cross-tabulated to show the relationship between the two. Furthermore, we conducted the Chi-square test to examine and compare the differences of response rate of each item between companies pursuing a given business strategy and the other companies.

Overall, many companies attach importance to “responding to orders requiring a large number of personnel”, “improving productivity” and “securing clients from diverse industries” regardless of their business strategies. This is perhaps a reflection of the peculiar state of the industry in which companies are trying to expand market share amidst fierce price competition.

Looking at the classification of contract companies by business strategy, we find that a number of the companies of the “acquisition/client-managed” type attach importance to “securing clients from diverse industries”, and few of them listed “improving productivity” and “handling R & D and designing.” It can be argued that the goal of the “acquisition/client-managed” type is to handle contract operations that can be executed at the current skill level in a wide range of industries rather

than seeking high-skill contract operations.

Figure 2: Issues Currently Considered Important in Managing Subcontracting Business (multiple answers possible, %)

		Acquisition/ client-managed		Development/ client-managed		Acquisition/ contractor-man aged		Development/ contractor-man aged		Total	
Providing Services at Low Price	Frequency χ^2	% 10	19.2 (.212)	1	3.2*** (5.613)	5	55.6*** (10.157)	5	17.2 (.005)	21	17.1
Improving Productivity	Frequency χ^2	% 11	21.2*** (14.150)	12	38.7 (.022)	6	66.7 (2.916)	19	65.5*** (11.916)	49	39.8
Securing Clients from Diverse Industries	Frequency χ^2	% 28	53.8*** (8.603)	9	29.0 (2.019)	2	22.2 (1.257)	9	31.0 (1.602)	49	39.8
Responding to Orders Requiring a Large Number of Personnel	Frequency χ^2	% 22	42.3 (.010)	10	32.3 (2.282)	3	33.3 (.440)	17	58.6* (4.175)	54	43.9
Handling Office and Sales Work	Frequency χ^2	% 2	3.8 (.245)	0	0.0 (2.125)	0	0.0 (.498)	4	13.8** (6.113)	6	4.9
Handling Work in the Physical Distribution Sector	Frequency χ^2	% 9	17.3 (.643)	6	19.4 (.024)	3	33.3 (1.015)	7	24.1 (.222)	25	20.3
Handling R&D and Designing	Frequency χ^2	% 1	1.9** (5.694)	4	12.9 (.798)	1	11.1 (.056)	5	17.4 (2.907)	11	8.9
Handling Quality and Production Management	Frequency χ^2	% 6	11.5 (.818)	4	12.9 (.099)	0	0.0 (1.665)	8	27.6** (4.598)	18	14.6
Starting and Expanding Commissioned Production at the Company's Factories	Frequency χ^2	% 2	3.8 (2.366)	3	9.7 (.133)	1	11.1 (.116)	4	13.8 (1.438)	10	8.1
Providing Consulting Services concerning Contract Works	Frequency χ^2	% 3	5.8* (3.023)	1	3.2 (2.734)	3	33.3* (4.639)	7	24.1** (5.619)	14	11.4
Handling Orders for Short-time Works Lasting for about One Week or so	Frequency χ^2	% 1	1.9 (2.511)	1	3.2 (.469)	2	22.2* (4.944)	3	10.3 (1.373)	7	5.7
Expanding the Geographical Area for Sales Activities	Frequency χ^2	% 11	21.2 (.008)	7	22.6 (.052)	1	11.1 (.586)	7	24.1 (.115)	26	21.1
N		52		31		9		29		123	

***, 1% Significance Level **; 5% Significance Level *, 10% Significance Level

Few of the companies of the “development/client-managed” type listed “providing services at low price.” This is perhaps because companies

might not be able to recover returns on their human resource investments if they set service fees too low. It can be assumed that companies of this type specialize in operation types that require highly specialized skills such as those provided by engineers.

“Providing services at low price”, “providing consulting services concerning contract works”, and “handling short-time operations lasting for a week or so” are prevalent responses among the companies of the “acquisition/contractor-managed” type. Judging from their emphasis on handling short-time operations at low price, companies in this category seem to specialize in light manufacturing works utilizing short-term temporary workers. The reason why few companies belong to this category is probably because it is difficult for companies to cover the costs of operation management with the value added that can be generated from manufacturing works of the acquisition type.

Many companies in the category of the “development/contractor-managed” type listed “improving productivity”, “handling office and sales works”, “handling quality and production control”, and “providing consulting services concerning contract works.” It can be concluded that companies in this category seek to handle more high-skill operations by taking advantage of skills of their contract workers.

3.2 Human resource Management Matching the Company’s Business Strategy

Using the examples of three companies of the “development/contractor-managed” and “acquisition/client-managed” types, the following section will empirically analyze how human resource management and business strategies of contract companies relate to each other.¹⁰

All the three case-studied companies have been generating large

¹⁰ For this section, we have selected three companies practicing human resource management compatible with their business strategies from the eight contract companies interviewed by Sato, Sano, Fujimoto, and Kimura between April and September of 2003. The informants were interviewed according to the following schedule: at Company A, the president, executives, and chief manager were interviewed between 10:00-12:00 on September 18, 2003; at Company B, the head sales manager was interviewed between 10:00-12:00 on July 24, 2003. ; at Company C, the president and the executive manager were interviewed between 13:45-15:45 on April 23, 2003, and the chief of a branch office was interviewed between 13:00-15:00 on August 14, 2003.

profits continuously for the past several years and are ranked among the industry's top 30 companies in sales. Company A follows a business strategy of the “development/contractor-managed” type; it pursues a policy of adding value to its services by handling high-skill contract works and improving its operation management. In contrast, Company B and Company C follow a business strategy of the “acquisition/client-managed” type which emphasizes the company's ability to supply contract workers speedily and steadily, rather than handling of high-skill operations, as the main competitive edge. Company A and Company B operate nation-wide while Company C covers several prefectures in a region in Japan.

The Figure 3 summarizes findings from the case studies of the three companies. The rest of the section will compare and contrast characteristics of the business strategies and human resource management of the three companies.

Company A follows a policy of realizing high value added through improving operation management and handling high-skill operations that require workers to take a relatively long period of time before mastering the necessary skills. In contrast, Company B and Company C attach more importance to speedy and steady supply of contract workers than handling of high-skill operations as the factor differentiating them from other companies. Company B actively and widely carries out sales activities and approaches factories of different sizes in order to find new clients. Company B emphasizes speedy deployment of necessary number of contract workers as one of key determinants of competitiveness. Company C attaches importance to maintaining long-term business relations with existing client companies and securing more orders from them.

Human resource management practices of the three companies correspond with their business strategies. First, we compare their hiring methods. Company A assesses candidates' possibilities of quit by looking at their work history and whether the facilities of the commutation are good and screen candidates with the high possibility of quit at the selection process in order to maintain a high retention rate. It also gives candidates tours of workplaces prior to the start of work so that contract

workers will not be quitting their positions after their assignment.

Figure 3: Relationship between Business Strategy and Personnel Management at High-performing Companies

	Company A	Company B	Company C
Business Strategy Type	Development /contractor-managed Type	Acquisition /client-managed Type	Acquisition /client-managed Type
Features of Business Strategy	-Handling high-skill operations -High value added achieved through improvement of labor and operation management	-Active and wide search for new clients -Staying competitive through speedy supply of contract workers	-Developing long-term relationships with existing clients -Maintaining a stable supply of contract workers for developing such relationships
Hiring Policy	Hiring practices aiming to encourage long-term commitment (recruitment of workers from workplaces connected with client companies, screening process, pre-placement tours of workplaces etc.)	Speedy supply and placement of contract workers with the use of a registration system	Steady supply of contract workers with using informal networks among foreign workers of Japanese descent
System of Operation Site Management	-Placement of “leaders” in charge of labor and operation management -Managerial support provided by onsite managers and production managers in the head office	-Sales reps (doubling as operation operations managers) inspect production sites at client companies to provide labor management -“Leaders” in charge of labor management	Cooperation between onsite managers handling communications with client companies and onsite managers handling labor management of contract workers and interpretation works
System of Evaluation and Development	-Skill evaluations for contract workers -Offers of regular employment contracts and wage increases based on skill evaluations	No evaluation or treatment systems for rewarding skills development of contract workers	No evaluation or treatment systems for rewarding skills development of contract workers

Company B maintains a human resource database registering those wishing to work as contract workers. Even when the company cannot secure a sufficient number of personnel through regular hiring, it can supply manpower timely by recruiting those who are registered. Company C, which consists mainly of immigrants of Japanese descent (descendants of overseas emigrants returning to Japan), utilize informal networks among immigrants of Japanese descent for reliable recruiting. It has a list of immigrants of Japanese descent wishing to work and utilizes the list in hiring new contract workers.

Company A adopts a hiring method that places weight on promotion of long-term commitment from contract workers in order to handle high-skill operations and train personnel who can manage operations. In contrast, Company B and Company C give priority to an ability to supply necessary manpower, and they have managed to hire and deploy contract workers timely by using a registration system and informal networks.

With respect to production site management, Company A has a mechanism of operation management maintained by “leaders” selected from contract workers to handle management of contract workers and operations. In contrast, Company B rarely assigns operation managers to production sites at client companies. More typically, it sends sales representatives hold operation managers currently to inspect production sites at different client companies. Company C does assign “leaders” to production sites at client companies, but their jobs are mainly taking attendance and supervising production lines, and they rarely handle operation management. At these two companies, onsite managers limit themselves to labor management and do not get involved in operation management.

In respect to evaluation and development systems, Company A employs contract workers without limiting their contract periods and offers pay increase and a chance to be employed as a regular employee based on skill evaluations. In addition, it occasionally conducts job rotations to expand the skill range of contract workers. It also regularly holds training sessions for “leaders” to develop their managerial skills. As shown above, Company A is seeking to develop human resources through skill evaluation and training systems, but Company B and Company C are not very active in providing training for contract workers to raise their skill levels and have not developed skill-based evaluation and treatment systems.

As discussed above, each of the case-studied companies has hiring, onsite management, evaluation and development systems that suit its respective business strategy. Judging from these three cases, it can be argued that all high-performing contract companies are active in maintaining human resource management system that are compatible with

their business strategies.

4. Implementation of Human Resource Management Practices Matching the Company's Business Strategy

It is essential for contract companies to devise human resource management practices that support their business strategies if they want to pursue their business strategies and maintain high performance. The three cases above are success cases of contract companies maintaining high performance by implementing human resource management measures that are compatible with their business strategies.

It is not easy, however, for many contract companies to implement such human resource management measures. One reason for this is because contract fees and profit margins determined by them put a limit on how far companies can let skill levels of contract workers to be reflected in treatment. Another reason is because placement of contract workers is often up to the circumstances concerning personnel at client companies.

Based on data from a survey, the following section examines how human resource management practices correspond with their business strategies at contract companies as a whole rather than targeting high-performing companies. Our analysis combines data from a survey targeting head offices of contract companies concerning business strategies and a survey targeting branch offices concerning implementation of human resource management policies.

However, we will only compare the “development/client-managed” type and “acquisition/contractor-managed” type because few samples for the “development/contractor-manage” type and the “acquisition/client-managed” type could be found and our earlier discussion of cases studies dealt with only these two types as well. The following section will compare companies of the “development/contractor-managed” type and the “acquisition/client-managed” type regarding implementation of wages increase, which is considered effective for promoting high retention and

raising skill levels of contract workers, and rotation, which expands the skill range of contract workers and develop their skills.

4.1 Pay Raise

Figure 4 shows the proportion of companies which review wages of contract workers according to skill level and the length of service. 2/3 (66.7%) of companies of the “acquisition/client-managed” type do not review contract workers’ wages unless contract unit prices are increased through negotiations with client companies. In contrast, nearly half of the companies of the “development/contractor-managed” type (46.7%) review wages regardless of whether unit prices are reviewed by client companies or not. This is perhaps an indication that the skill-based wage scheme is more established among companies of the “development/contractor-managed” type.

Figure 4: Pay Increase for Contract Workers (%)

	Number of surveyed branch offices	Pay increase when unit prices are increased	Pay increase even when unit prices are not increased	No pay increase at all
Development/contractor-managed type	15	46.7	46.7	6.7
Acquisition/client-managed type	21	66.7	28.6	4.8

Note: Eight companies of the “development/contractor-managed” type and thirteen of the “acquisition/client-managed” type are equivalent to branch offices in this figure.

Even within the “development/contractor-managed” category, however, over half of the companies reported that they do not either review contract workers’ wages at all or review wages only when contract unit prices are increased. Hence, even among the companies emphasizing skill development of contract workers, many do not give skill-based wage increase.

4.2 Job Rotation

In respect to job rotation, the proportion of companies which rotate contract workers among factories of different client companies is 73.3%

for the companies of the “development/contractor-managed” type and 95.2% for the companies of the “acquisition/client-managed” type. It is normal for companies to rotate contract workers regardless of their business strategies.

As for reasons for rotating personnel (see Figure 5), many companies, both of the “development/contractor-managed” type and “acquisition/client-managed” type, listed “To respond to fluctuations in the workload and secure sufficient level of manpower” and “to secure employment of contract workers.” Few of the companies of either type rotate personnel “To assign workers to positions appropriate for their skill levels”, and none listed “To train and educate contract workers.” Regardless of their business strategy types, not many companies are carrying out rotations for the purpose of developing contract workers.

From above, it is clear that contract companies in general are not necessarily active in implementing human resource management measures that fit their business strategies.

Figure 5: Main Reasons for Rotating Contract Workers (up to two responses possible, %)

	Number of surveyed branch offices	To assign workers to positions appropriate for their skill levels	To improve treatment of workers with high skill levels	To train and educate contract workers	To secure employment for contract workers	To respond to fluctuations in the workload and secure sufficient level of manpower
Development/contractor-managed type	11	18.2	27.3	0.0	63.6	72.7
Acquisition/client-managed type	20	25.0	5.0	0.0	75.0	70.0

Note: Figure 5 includes only branch offices that rotate contract workers, and therefore the denominator used for calculating the ratios is different from the one used for Figure-4. Six companies of the “development/contractor-managed” type and twelve companies of the “acquisition/client-managed” type are equivalent to branch offices in this figure.

5 Conclusion

This essay has shown that contract companies in general are not very active in practicing human resource management that are compatible with their business strategies even though those companies that are performing

well are practicing such human resource management.

One possible reason why companies do not practice such human resource management is that their business strategies have not been disseminated among individual branch offices. Another possible reason is that companies lack expertise on human resource management.

Moreover, even though they expect contract companies to improve contract workers' skill level and handle operation management, many client companies give priority to price of service rather than the quality of personnel and human resource management policies in selecting contract companies. Such attitude can be considered as one of the causes (Sato, Sano and Kimura [2003]).

To realize effective utilization of contract workers at production sites, contract companies must make efforts to implement personnel management measures that suit their business strategies, and it is also important that client companies reconsider their current policy regarding the use of labor contract services.

* This essay is an abridged version of Kimura Takuma, Sano Yoshihide, Fujimoto Makoto, and Sato Hiroki "Seizo Bunya ni Okeru Ukeoi Kigyo no Jigyo Senryaku to Jinji Kanri no Kadai (Issues concerning Business Strategy and Personnel Management at Contract Companies in the Manufacturing Sector), *Nihon Rodo Kenkyu Zasshi* 526 (May 2004).

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