

## 1 The Long-term Employment System

### The “Lifetime Employment” System

The Japanese employment system reflects the tendency of management to favor the in-house training of personnel over a long period of time. This practice serves to strengthen companies and corporate groups, and to allow them to branch out into new business. This is one of the main aspects of what is often called the “lifetime employment” system.

### Long-term Employment System: Background Definition

The long-term employment system became the norm at most companies during the rapid economic growth of the 1960s. Companies found that to adapt more quickly to the shifting economic base and a technological revolution they needed to arm their employees with new skills and a broad range of knowledge through in-house training. To accomplish these goals, employers required workers who were willing to spend their entire careers at one company. Employees, in turn, welcomed a system that provided long-term job security, as well as opportunities for advancement and salary increases. Additional factors contributing to the establishment of the long-term employment system include labor unions’ emphasis on job security and precedents restricting employment.

One key merit of this type of employment system is flexibility. Though the framework is somewhat rigid, it allows for internal maneuverability. American companies do not hesitate to lay off large numbers of employees when business is slow; Japanese companies, on the other, effectuate personnel adjustments over a considerably longer period of time by limiting overtime hours, reassigning employees, and hiring fewer new employees. Corporate groups can also transfer

employees, temporarily or permanently, to another company within the group. Only when all else fails does a Japanese company ask its employees to retire early or voluntarily.

### Labor Migration without Unemployment

Intra-group transfers help corporate groups avoid laying off their employees and are responsible for much of the inherent flexibility in the long-term employment system. When employees are transferred they often remain on the payroll of the company that first employed them while working at another company within the group. More of these transfers have been seen recently due to management diversification, an unfavorable economic climate, and the aging of Japanese society. Young or middle-management transferees generally return to their original place of employment at some point. For older workers, however, transfers are usually permanent.

Despite the flexibility in human resource management and strenuous efforts by companies that have adopted the long-term employment system to avoid discharging employees, only about 20% of corporate group employees work continuously at the same company until age 60. In small and medium-sized companies, employees in their 20s and 30s are more likely either to resign from their jobs to work for another company or lose their jobs because their employer has declared bankruptcy than their counterparts at large corporations. Moreover, since large corporations tend to transfer middle-aged and older employees to another company within their group, there are now few employees aged 45 and over who have spent their entire careers at one company.

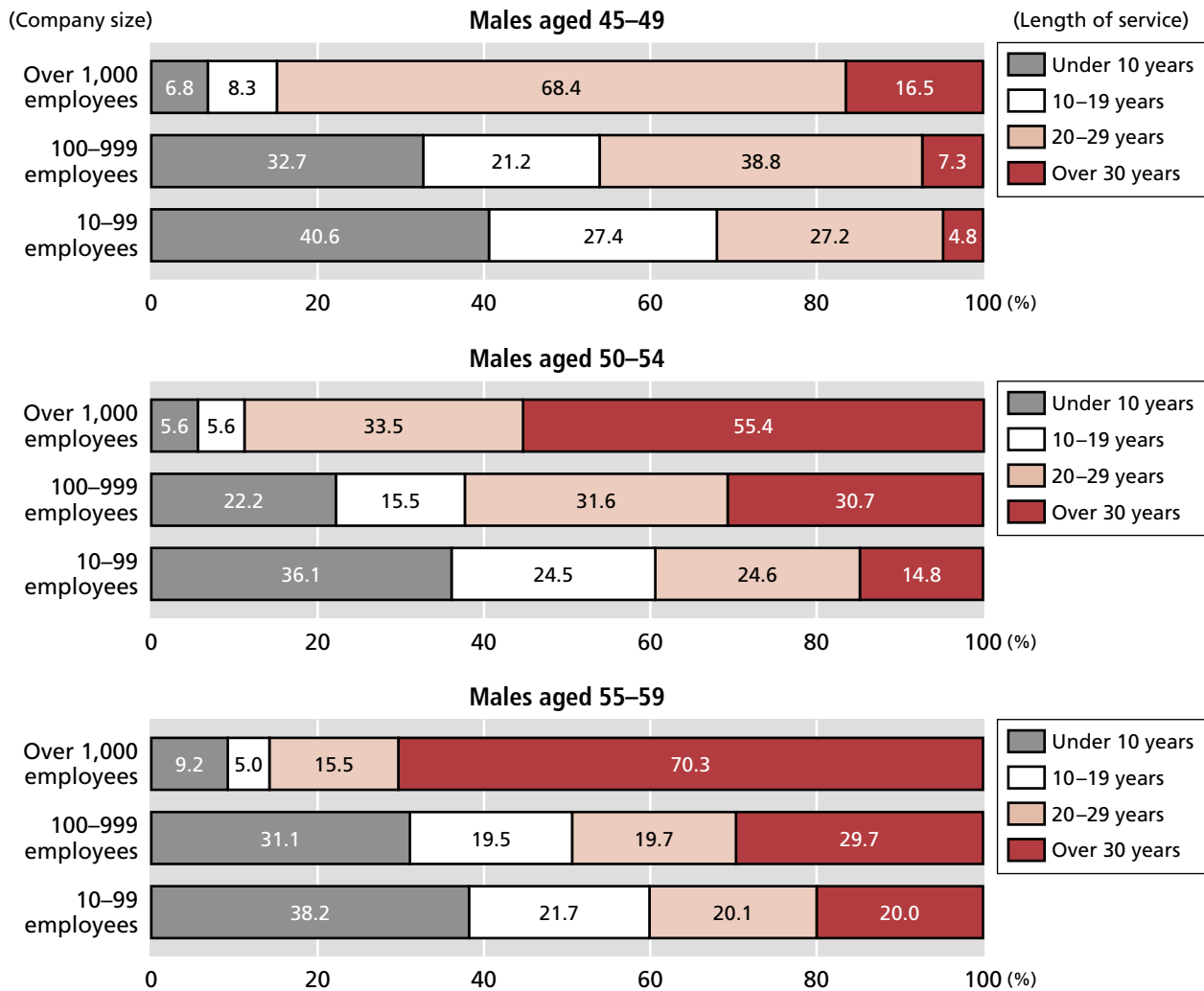
### Long-term Employment System Reform Theories

In recent years, debates over reforming the long-term employment system have focused on the need to adjust to the changing business climate (including poor prospects for sustained corporate growth and Japan’s aging society). Only a minority favor the complete dismantling of the system, however, most proponents of reform simply wish to revise the system in its current incarnation. According to a survey of corporate practices conducted by the Economic Planning Agency in 1997, traditional hiring guidelines, e.g., the long-term employment system, are still the norm at the majority of Japanese companies. Furthermore, most respondents

reported that at their companies, hiring practices geared toward long-term employment would become more prominent between 1998 and 2003 (III-5).

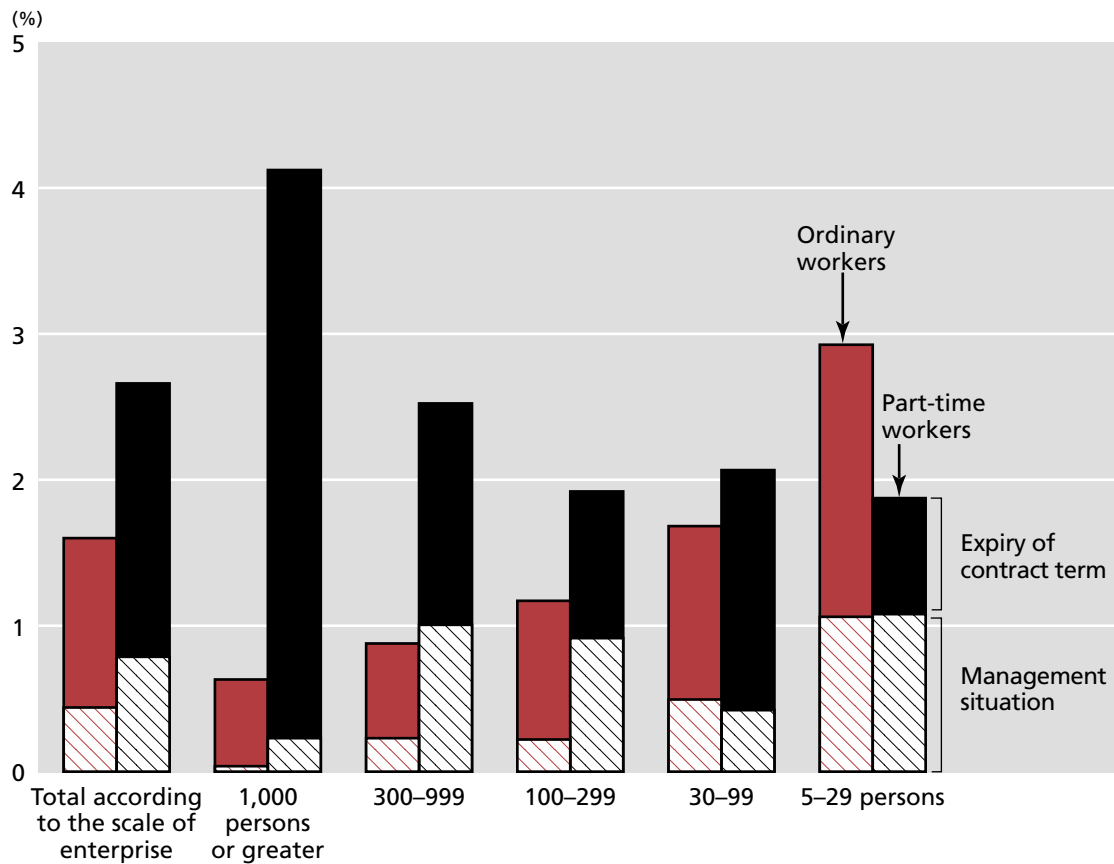
Another report entitled “Japanese Management for a New Era” (Japan Federation of Employers’ Associations, 1995) identifies three main types of human resource management: (1) long-term development of skills, (2) cultivation of highly specialized skills, and (3) flexibility in human resource management. The report recommends that the first type be applied only to those employees whose work requires skills accumulated over a long period of time. While some changes or restrictions may be inevitable, the long-term employment system will, most likely, persist.

III-1 Percentage of Males Working for a Single Company by Length of Service



Source: Statistical Survey Report on the Wage Structure, Ministry of Labour, 1999

### III-2 Rate of Separation at Employers' Request (1992)

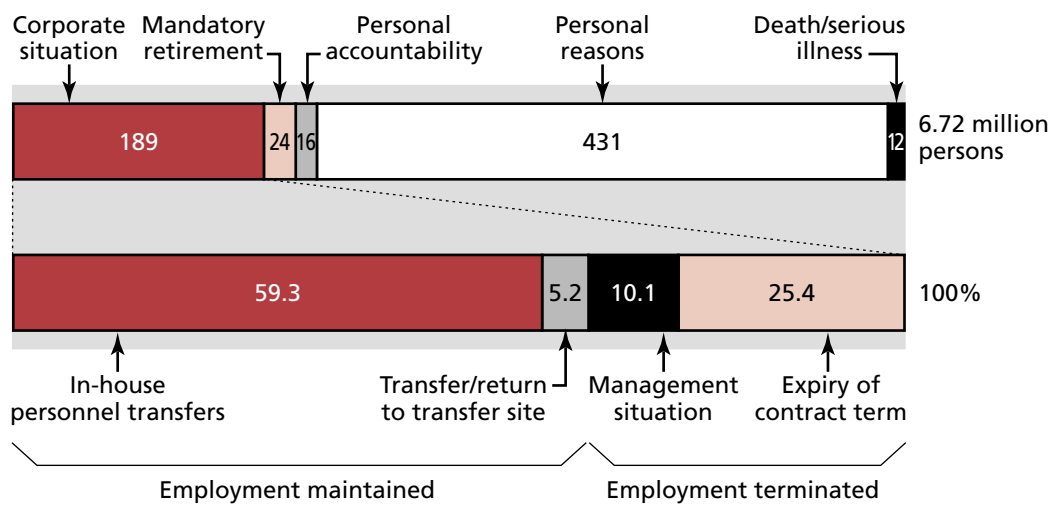


Source: Report on Hiring Trends, Ministry of Labour

Note: Rate of separation at employers' request = displaced workers at the employers' request divided by the number of workers at the beginning of the year.

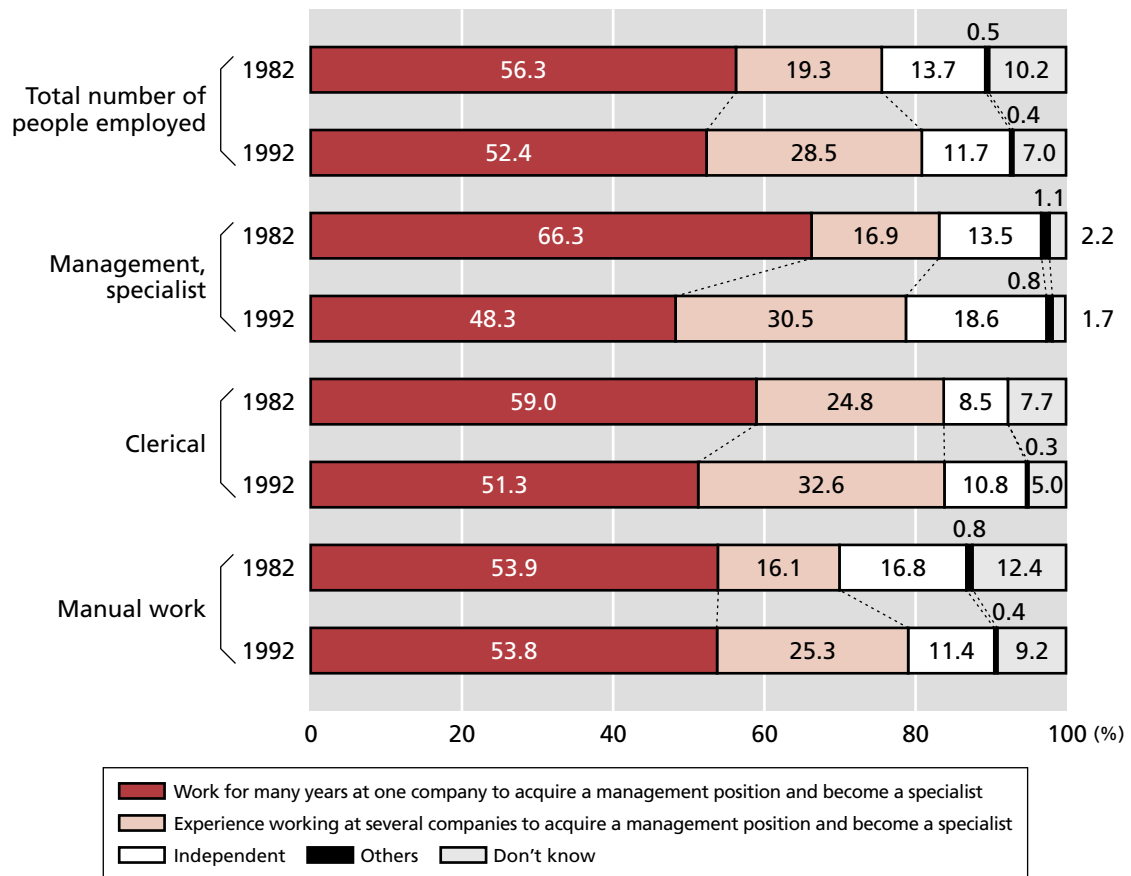
Displaced workers at the employers' request refers to those workers who leave their job during the course of a year either due to the management situation (excluding transfers or return from transfer) or on account of expiry of their term of contract, and excludes those workers leaving on account of mandatory retirement.

### III-3 Breakdown of the Outflow of Labor from the Workplace (1992)



Source: Report on Hiring Trends, Ministry of Labour

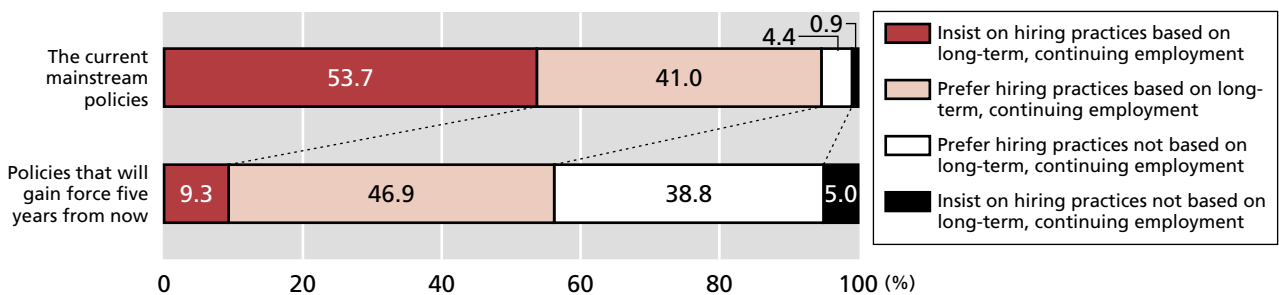
### III-4 Conscious Change toward the Course Taken by Men at Work



Source: *Opinion Poll on Labor Awareness*, Prime Minister's Office

Note: These are answers to the question, "Generally speaking, what do you consider to be the most desired 'course for men to take'?", and represent the complete results regarding only those persons employed.

### III-5 Current Hiring Policies and Directions for the Future



Source: *Survey of Corporate Activity*, Economic Planning Agency, 1997

## 2 Recruitment

Japan's labor market is divided into two markets: one for new graduates and one for mid-career workers. The division in the labor market can also be viewed from the perspective of the corporations—between large corporations and small and medium-sized enterprises. Corresponding to these divisions, corporations differ in their recruitment methods.

### **Recruitment of New Graduates En Masse**

In the market for new graduates, it is quite common to recruit those who just graduated from high school or university all at once. This is one of the major characteristics in the Japanese recruitment system. The most important factor that makes this recruitment system successful and effective is the placement system in schools, which is a system unique to Japan. In this placement system, teachers receive job information from public employment security offices, and recommend their students to specific corporations. It is a common practice that these corporations honor the schools' recommendations as much as possible. Through this system, growing industries recruited a substantial number of new graduates who contributed to high economic growth in the postwar period.

The recruitment of university graduates begins with students' requests for application materials from companies. University students start requesting application materials as early as the end of their junior year. These companies hold information sessions for those students who requested application materials, then administer written examinations, and lastly conduct interviews. Normally, the companies hold interviews two or three times before they make the final decision. Companies usually make their final decision between May and July, soon after these students become seniors, but this decision-making time varies greatly ("Recruitment of New University Graduates and Human Resources in the Period of Radical Change," Report No. 128, Japan Institute of Labour, 2000).

Since the Internet is becoming a popular way to gather information about prospective employers, more

and more students are registering for company information sessions via E-mail. In addition, many students provide some information regarding the type of work they hope to find on registration sites for job seekers. By looking at this information, companies may make direct contact with each individual student rather than only go through the school recruiting system. Consequently, we can see substantial changes in the job-hunting activities among university students.

Companies might offer employment for a specific job, and take the applicant's ability to perform that job as their primary hiring criteria. Contrary to this method, Japanese companies usually adopt a system of recruitment of new graduates all at once under the assumption that these newcomers will get in-house training after they are employed. This system puts emphasis on students' potential ability and positive response to in-house training. This system was established based on long-term employment practices and a tradition of extensive personnel training.

However, it is usually large corporations that adopt the system of recruitment of new graduates all at once; while smaller companies adopt this system less often. In particular, only between 4.4% and 5.0% of companies with fewer than 100 employees utilize this system.

### **Gradual Shift toward the Recruitment of Mid-career Workers**

Various methods are used to secure appropriate personnel in the labor market for mid-career workers, including introduction by friends, intermediation by headhunting firms, classified advertisement in newspapers and magazines, and utilization of public employment security offices ("Hello Work" offices).

Some survey results indicate that companies intend to reduce their recruitment of new graduates and shift toward greater recruitment of mid-career workers. According to the "Survey on Employment Trend" conducted by the Ministry of Labour for the last 25 years, the recruitment of mid-career people has tended to increase slightly while the recruitment of new graduates

has declined slightly. Since the rate of change for the last 25 years is only 10%, it is an extremely minor trend in hiring practices.

Figure III-7 demonstrates reasons for the recruitment of mid-career people. In the areas of management, technical, and clerical recruiting, “securing human resources possessing specialized expertise” is the major reason given by survey respondents, while “compensating for

lack of new graduates hired” is not a common rationale for hiring more mid-career workers. Figure III-8 shows the important factors in the recruitment of mid-career workers. The most important factors for making decisions are “job experience” for management positions, “professional expertise and skills” in technical areas, and “common sense and education” in clerical areas.

### III-6 Hiring Trends (Recent graduates and experienced workers)

(%)

	Percentage of companies hiring new graduates				Percentage of companies planning to employ mid-career workers		
	High-school graduates (clerical work)	High-school graduates (factory work)	College graduates (clerical work)	College graduates (technical work)	Management	Clerical	Technical
Total	7.7	17.5	11.8	10.9	12.7	31.8	18.2
Over 5,000 employees	42.6	56.0	84.7	57.9	30.3	59.2	47.5
1,000–4,999 employees	29.2	52.2	74.6	51.9	25.4	59.5	36.8
300–999 employees	21.9	42.3	48.3	37.3	21.9	52.7	28.1
100–299 employees	11.0	28.8	18.4	18.3	17.7	41.5	21.1
30–99 employees	4.7	10.7	4.4	5.0	10.0	26.2	15.7

Data: Refer to Appendix 5

Source: *Survey of Employment Management*, Ministry of Labour, 1998

### III-7 Reasons for Implementing Intermediate Recruitment

(Figures reflect percentages of enterprises implementing intermediate recruitment that gave each reason)

(%)

	Compensate loss of workers due to retirements and job switching	Compensate for lack of new graduates hired	Secure human resources possessing specialized expertise	Vitalize the organization by obtaining diverse human resources	Expand business
Management	26.3	0.4	47.0	26.7	20.6
Clerical	71.3	3.8	13.5	9.1	13.3
Technical	41.8	8.0	54.0	14.3	23.9

Source: *Survey of Employment Management*, Ministry of Labour, 1998

### III-8 Points Considered Important when Hiring Employees through Intermediate Recruitment (Figures reflect percentages of enterprises implementing intermediate recruitment that gave each reason)

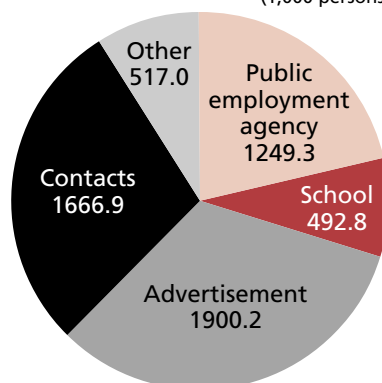
(%)

	No. 1	No. 2	No. 3
Management	Job experience 65.9	Professional expertise and skill 58.8	Energy and ability to get things done 31.8
Clerical	Common sense and education 44.5	Job experience 43.9	Enthusiasm and drive 42.5
Technical	Professional expertise and skill 73.4	Job experience 48.0	Enthusiasm and drive 41.8

Source: *Survey of Employment Management*, Ministry of Labour, 1998

### III-9 Number of Newly Employed Workers by Hiring Route

(1,000 persons)



Total of newly employed workers (1999) 5,826.2

Source: *Survey on Employment Trends*, Policy Planning and Research Department Secretariat, Ministry of Labour, 1999

## 3 Assignments and Transfers

### New Graduate-oriented Employment System

Traditionally, Japanese companies have looked to the current year's new crop of graduates when hiring new employees. In embracing the long-term employment system, companies need to nurture their personnel and equip them with new skills in order to support corporate growth. Managers also believe that new graduates who are trained in-house are more likely to fit into the corporate culture.

Only large and mid-tier corporations seem attractive to new graduates, who seek the favorable working conditions and wages, stable management, and financial stability such entities are able to offer. One unfortunate consequence of this is that small and medium-sized companies have difficulty recruiting new graduates and so are increasingly looking to workers in mid-career.

### Human Resource Development through Broad Rotation

New college graduates are typically trained by doing different types of work in several departments within a company or corporate group. Most high-school graduates are posted to factories or similar workplaces where they gain experience in a variety of jobs and acquire several skills. University graduates may be transferred within a corporate group. By moving them from position to position, companies can evaluate employees' performance, determine the type of work for which they are best suited, and make decisions about promotions.

New graduates are categorized by their academic backgrounds and the year in which they were hired. In terms of promotions, no significant difference among employees who have worked for a company for five years exists. It is only after 10 years that differences among employees with the same career length begin to emerge, but employees are rarely promoted ahead of colleagues who have greater seniority. Management-level positions, e.g., section chief, generally are given to university-educated employees between the ages of 35 and 45. Recently, however, more managers are basing

promotions on merit, rather than years of service.

### Seniority-based Promotion System

The traditional promotion system is known as the seniority-based promotion system. It is not as mechanical as it seems since it allows for careful evaluation over time of an employee's abilities and performance and encourages competition among employees. However, the recent trend toward earlier promotions is prompting an increasing number of companies to adopt a more rapid advancement system.

More companies are now giving serious consideration to employees' wishes when assigning them to new positions. For instance, an additional track for specialists is being added to the traditional management track to encourage employees to acquire specialized skills. This system offers employees promotion opportunities once they have completed in-house, specialized training, and thus enables companies to develop the personnel they need for business expansion and new ventures.

### Assignment, Transfer, and Employee Motivation

This new method of assigning employees differs from the existing system in its consideration of employees' ambitions, rather than solely on company needs. It has both made it easier for companies to recruit new employees and to motivate current employees.

An increasing number of companies using the Internet and information technology to implement in-house recruitment systems emphasizing employee initiative is bringing about a concomitant increase in the number of recruitment opportunities and transfers. The number of companies introducing in-house venture capital systems that provide opportunities for establishing new businesses based on plans proposed by their employees is also rising. In addition to traditional company-initiated career development, independent career development attentive to employees' wishes is also becoming firmly established.



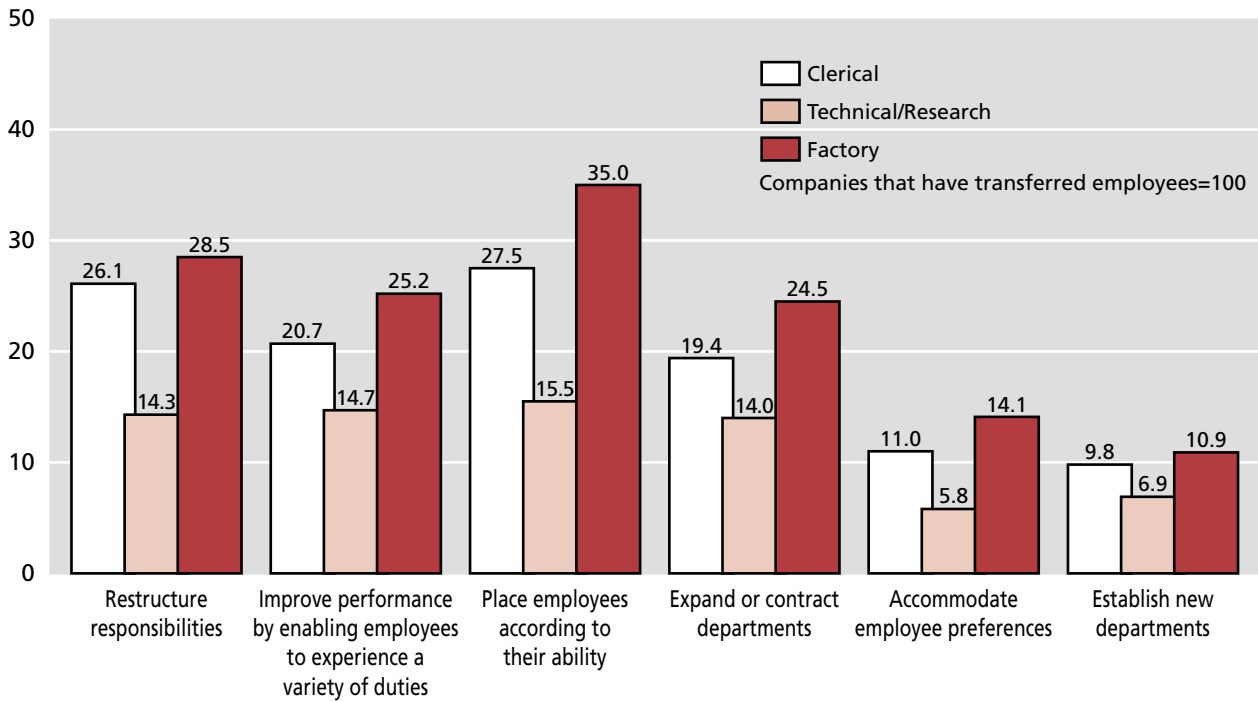
### III-10 Hiring Trends (Recent graduates and experienced workers)

(%)

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300–999 employees	21.9	42.3	48.3	23.8	21.9	52.7	28.1
100–299 employees	11.0	28.8	18.4	11.9	17.7	41.5	21.1
30–99 employees	4.7	10.7	4.4	2.9	10.0	26.2	15.7

Source: Survey of Employment Management, Ministry of Labour, 1998

### III-11 Reasons for Transferring Employees



Source: Survey of Employment Management, Ministry of Labour, 1996

Note: Respondents were permitted to provide up to three answers

## 4 Wage System

### Seniority-based Wage System

Wage systems that base remuneration on age or years of service are not unique to Japan. The Japanese wage system is indeed based on seniority, but even within that system, salary increases are not awarded with total disregard of performance or ability. A merit rating is used to evaluate employees resulting in wage levels that does reflect differences in performance, even among employees with the same seniority.

The seniority-based wage system first appeared in Japan in the 1920s. Although considerable debate abounds for the reasons for its establishment, it was obviously a strategic move. At that time, company owners wanted to attract and retain employees. By staying at one firm for a long period of time, workers became experts in their employers' proprietary technology. Employers, in turn, used promotions to reward such workers for their expertise. Additionally, the tendency of the cost of living to increase as employees aged further justified linking wages to seniority. Both promotions and wage increases came to hinge on years of service, resulting in a seniority-based wage system.

### Increasing Wage Equality between Blue- and White-Collar Workers

One means of charting the status of seniority-based wages is through plotting wage curves for different age groups (years of service) (III-12). One characteristic of the Japanese wage profile is that the wage levels of male blue-collar workers are approaching those of male white-collar workers. In Japan, the age curve for white-collar workers' wages rises as seniority accrues, just as in other countries. However, the case of blue-collar workers is completely different. In other nations, the wages of blue-collar workers rise as seniority accrues but not as sharply as white-collar workers' salaries, and the increases taper off after age 30. In Japan, the wage curve for blue-collar workers does not rise as sharply as that of white-collar workers, but the two curves are similarly shaped, indicating that wages increase as workers age.

### Bonus System

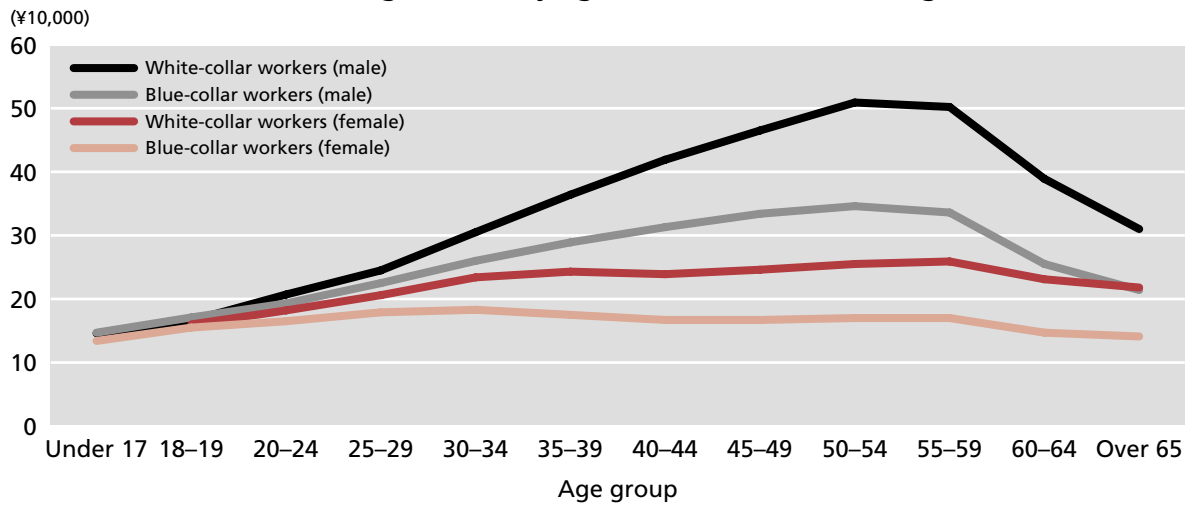
Another distinctive aspect of the Japanese wage system is the bonus system. Japan is certainly not the only nation in which bonuses are common, but their size is unique. Companies pay biannual bonuses equivalent to several months' salary in summer and winter. They are not legally required to do so, but the practice took root after World War II at most companies.

Some companies have introduced a wage system that links bonuses to overall corporate performance, in the hope of reducing wage costs. Among them are Fujitsu, Toshiba, NEC, and Fujitsu General, and we anticipate that they will soon be joined by others. Fujitsu pays fixed bonuses amounting to four months' salary. The company also pays additional bonuses (up to two months' salary), which are contingent on a specific amount of operating profit, which in turn is based on business performance in the previous fiscal year.

### Introduction of Performance-related Salaries

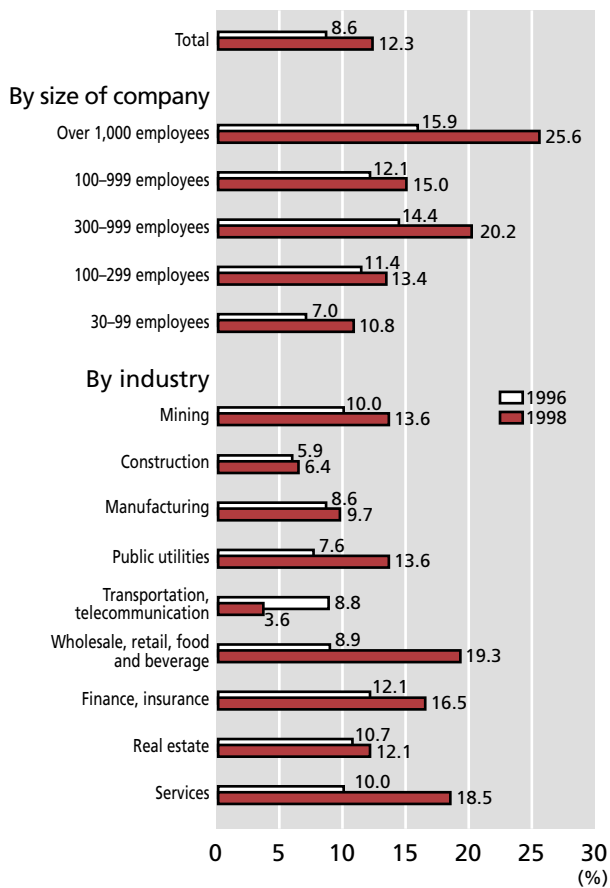
Another aspect of the wage system that has come to the fore recently is the introduction of a salary scale linked to performance. With the heightening of competition due to globalization and the aging of Japanese society, companies have become concerned about the burden imposed by the high salaries paid to the growing ranks of middle-aged and older employees. To create a better balance between those employees' salaries and their productivity, and to further motivate workers, an increasing number of companies, mainly large corporations, are adopting a wage system based on annual performance for managers (III-13, III-14). Unfortunately, it is not easy to evaluate performance, and it is not clear whether this system will gain momentum. Companies will need to set fair evaluation standards before performance-based wage systems can successfully improve efficiency.

### III-12 Wage Profile by Age and Sex (Manufacturing)



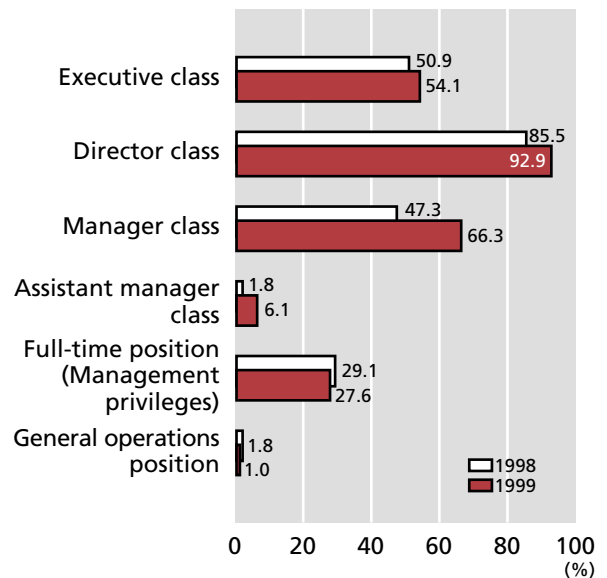
Source: *Statistical Survey Report on the Wage Structure*, Ministry of Labour, 1999  
 Note: Figures are based on fixed monthly wage payments.

### III-13 Companies Using an Annual Wage System



Source: *Survey of Wages and Working Hours*, Ministry of Labour, 1996

### III-14 Class-Specific Adapted Annual Salary System (Multiple answers)



Source: *White Paper on Labour*, Ministry of Labour, 2000

## 5 Payment System

### Factors Comprising a Worker's Salary

The payment system is a unique element in Japan's wage plan. The payment system refers to a series of wage factors that adds to the total amount of salary. Normally, the payment system consists of a basic wage (basic compensation for labor) plus various additional allowances, including family allowance, commuting allowance, and housing allowance. The term "payment system" became popular after its coining under the Wage Control Ordinance during World War II. The Japan Electrical Industrial Labor Association opposed the wage pattern based on the prewar in-house class-based wage system and acquired an "electrical industrial type of payment system" in 1946. The Association forced management to adopt a unified pay scale for factory laborers and craftsmen. The type of payment system used in the electric industry is a well-known payment system based on workers' living conditions, such as age, years of continuous employment, family structure and commuting distance. This original payment system became the prototype for the future payment system.

### Allowance Types and Amounts

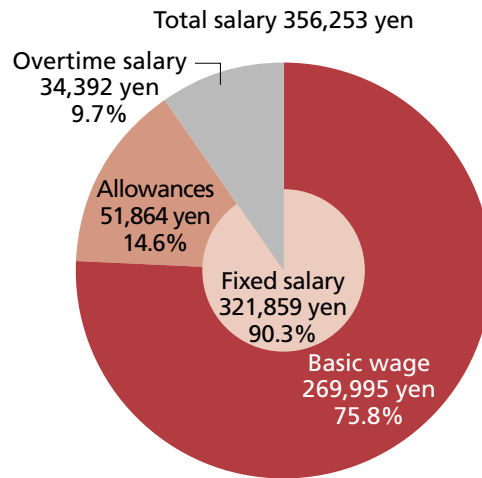
According to the "General Survey on Wage and Working Hours System 1999," the total amount of wage consisted of: basic wage (75.8%), various allowances (14.6%), and overtime salary (9.7%) (III-15). There are wide differences among companies regarding their allowances for employees. Examples of allowances include the following, arranged according to the percentage of firms that offer the allowances: commuting allowance (86.6%), executive allowance (85.2%) and family support allowance (77.3%). The commuting allowance refers to fees for all or part of employees' necessary expenses for commuting, such as providing commuter tickets or coupon tickets. The executive allowance refers to payment for those who are in responsible positions such as managers or superintendents. The family support allowance refers to payment provided to employees according to the number of dependent family members (III-16).

### Retirement Benefit System

The retirement benefit system provides a payment of a lump sum or pension at the time of an employee's retirement. This benefit system is a main pillar of the welfare plan of each company. The amount of retirement benefit differs in proportion to the length of continuous employment in a specific company, but reasons for retirement also make a difference in the total amount of retirement benefit. A company pays less benefit to those employees retiring for personal reason while it pays more benefit to those who have reached a company-imposed mandatory retirement age after long-term continuous employment and to those who are forced to retire because of downsizing. Consequently, the retirement benefit has encouraged Japanese employees to work for the same company for a long time (III-17).

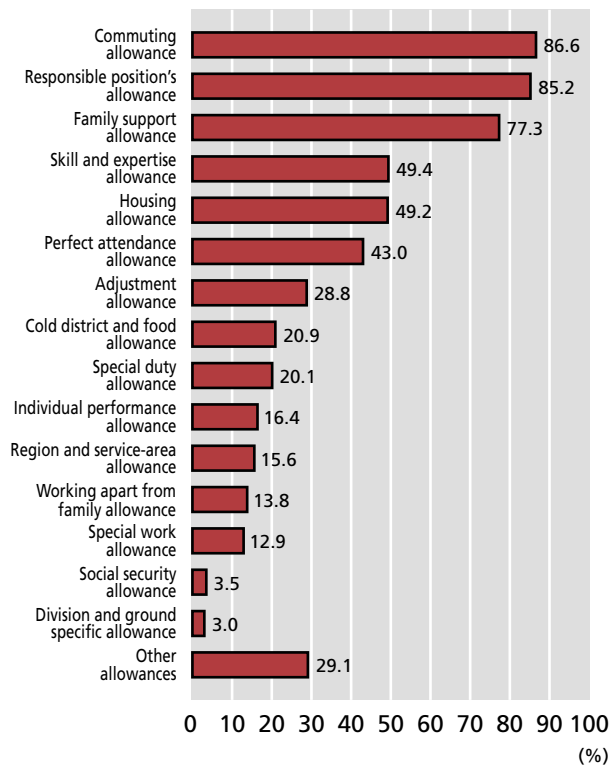
The lump sum retirement benefit was more widely utilized by companies than the annual pension. Those who reached a company-imposed mandatory retirement age received a large sum of money at the time of retirement. Recently, however, an increasing number of companies have utilized annual retirement pensions. Many factors contribute to this change. Because of the aging of employees, retirement allowance expenditures have increased, which greatly increases the company's burden. Furthermore, companies may get tax breaks by paying retirement pensions rather than lump sums (III-18). Because of the increasing size of retirement benefits and the flexibility of the labor market, some companies have begun to reform their retirement benefit system. In Matsushita Electric Industrial Co., Ltd., newly recruited employees have a choice between a traditional retirement benefit collected upon retirement or an immediate collection method that is calculated by estimating their expected retirement benefit and adding the appropriate portion to their monthly salary.

### III-15 Breakdown of Total Salary



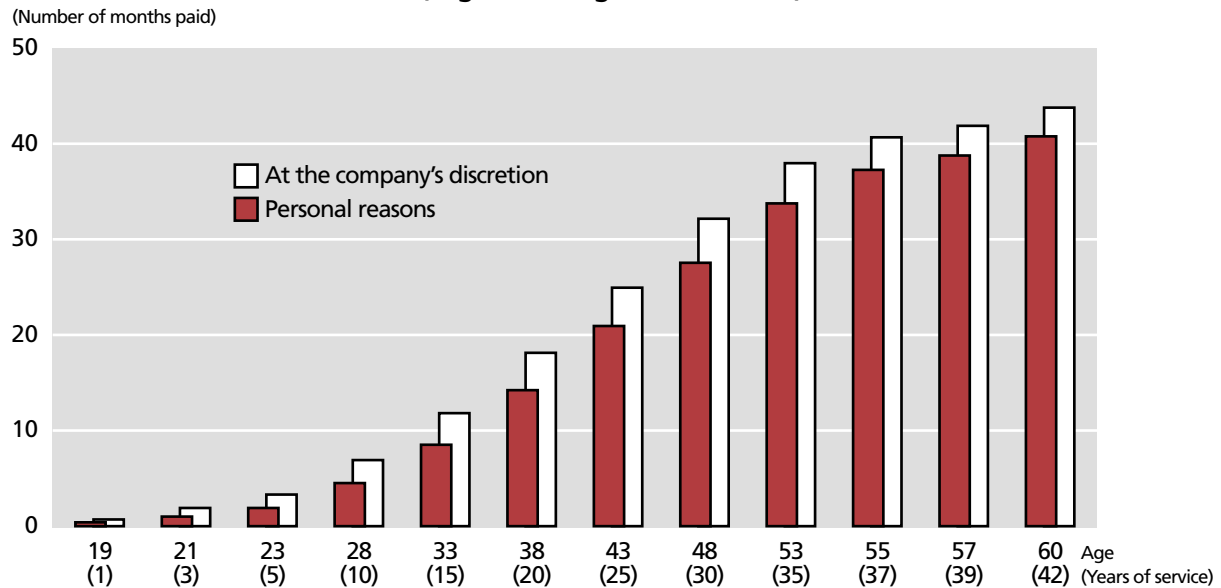
Source: *General Survey on Wage and Working Hours System*, Policy Planning and Research Department Secretariat, Ministry of Labour, 1999

### III-16 Percentage of Companies that Make Payments Observed by Respective Allowance



Source: *General Survey on Wage and Working Hours System*, Policy Planning and Research Department Secretariat, Ministry of Labour, 1999

### III-17 Number of Months in Retirement Allowance Payments (High school graduate, male)



Source: *Survey Results on Retirement Allowance and Pensions, as of September 1998*, Secretariat of the Tokyo Employers' Association, Japan Federation of Employers' Association

### III-18 Percentage of Retirement Pension Entitlement Method (More than 20 years service or over 45 years of age)

(%)

Size of corporation	Percentage of companies that have retirement pension systems compared with those that have retirement allowance systems	Number of qualified recipients of retirement pensions			
		Total	Receive everything as pension	Receive everything as lump sum payment	Receive one part as pension and one part as lump sum payment
Total size of the corporation	52.5	100.0	31.2	58.6	10.2
Over 1,000 employees	90.4	100.0	42.3	43.0	14.7
100-999 employees	69.0	100.0	18.9	76.4	4.8
300-999 employees	82.4	100.0	19.9	74.8	5.3
100-299 employees	64.8	100.0	17.3	78.6	4.1
30-99 employees	43.9	100.0	10.4	87.2	2.4

Source: *Survey on Retirement Allowance Systems and Payment*, Ministry of Labour, 1997

## 6 Company Benefits

### Wages Account for 81.6% of Total Labor Cost

A look at the composition of Japanese labor costs in III-19 reveals that wages account for 81.6% of total labor cost whereas “other labor costs” represent 18.4%, thus demonstrating that in Japan the ratio of wages to total labor cost is high. Furthermore, according to III-20, compulsory benefits account for approximately half of “other labor costs” in Japan, the highest after France and Germany. This demonstrates that management discretion regarding fringe benefits is relatively low.

### Compulsory Benefits Represent Half of Other Labor Costs

A look at “other labor costs” in III-20 shows that compulsory benefits account for 50% of the figure and retirement allowance benefits for approximately 30%.

### Welfare Insurance Premiums and National Health Insurance Premiums Constitute 85% of Compulsory Benefits

III-20 shows the average monthly cost of compulsory

benefits per full-time employee. National health insurance premiums account for 32.1% of these benefits, and national pension-plan premiums for another 52.7%, for a total of 85%. The remaining 14.2% is used to pay for labor insurance (7.0% for employment insurance and 7.2% for workers’ compensation).

### Housing Expenses Account for Half of Non-compulsory Benefit Costs

Furthermore, it was discovered that housing costs run to nearly half the expenses for compulsory benefits and that housing measures play an extremely significant part in fringe benefits in Japan.

### Shift to Defined Contribution Pensions

The shift to so-called defined contribution pensions known as the Japanese version of 401k is proceeding, albeit gradually. This can be traced to the fact that conventional company pensions (employee pension funds and qualified retirement annuity) constituted defined benefit-type pensions that determined future

### III-19 Comparison of Labor Cost Structures in the Main Countries (Manufacturing)

(%)

Division	Japan (1998)	U.S. (1998)	U.K. (1992)	Former West Germany (1992)	France (1992)
Total labor costs	100.0	100.0	100.0	100.0	100.0
Total wages	81.6	75.8	80.7	76.0	66.8
Wages and salary therein		(68.3)	(72.5)	(64.8)	(58.2)
Unemployment benefits		(7.5)	(8.2)	(11.1)	(8.6)
Other total labor costs	18.4	24.2	19.3	24.0	33.2
Compulsory benefit costs therein	(9.3)	(7.6)	(7.5)	(13.9)	(21.8)
Non-compulsory benefit costs	(2.7)	(16.6)	(4.7)	(7.0)	(7.0)
Retirement allowances, etc.	(5.4)		(2.4)	(1.2)	(1.1)
Cash earnings	(0.3)		(2.0)	(0.1)	(0.1)
Job training expenses	(0.3)		(1.4)	(1.3)	(1.6)
Others	(0.4)		(1.4)	(0.6)	(1.5)

Sources: *General Survey of Wages and Working Hours System*, Ministry of Labour  
*Employer Costs for Employee Compensation*, Bureau of Labour Statistics  
*Labour Costs 1992*, Eurostat

*Labour Statistics International Labour Comparisons*, Japan Institute of Labour

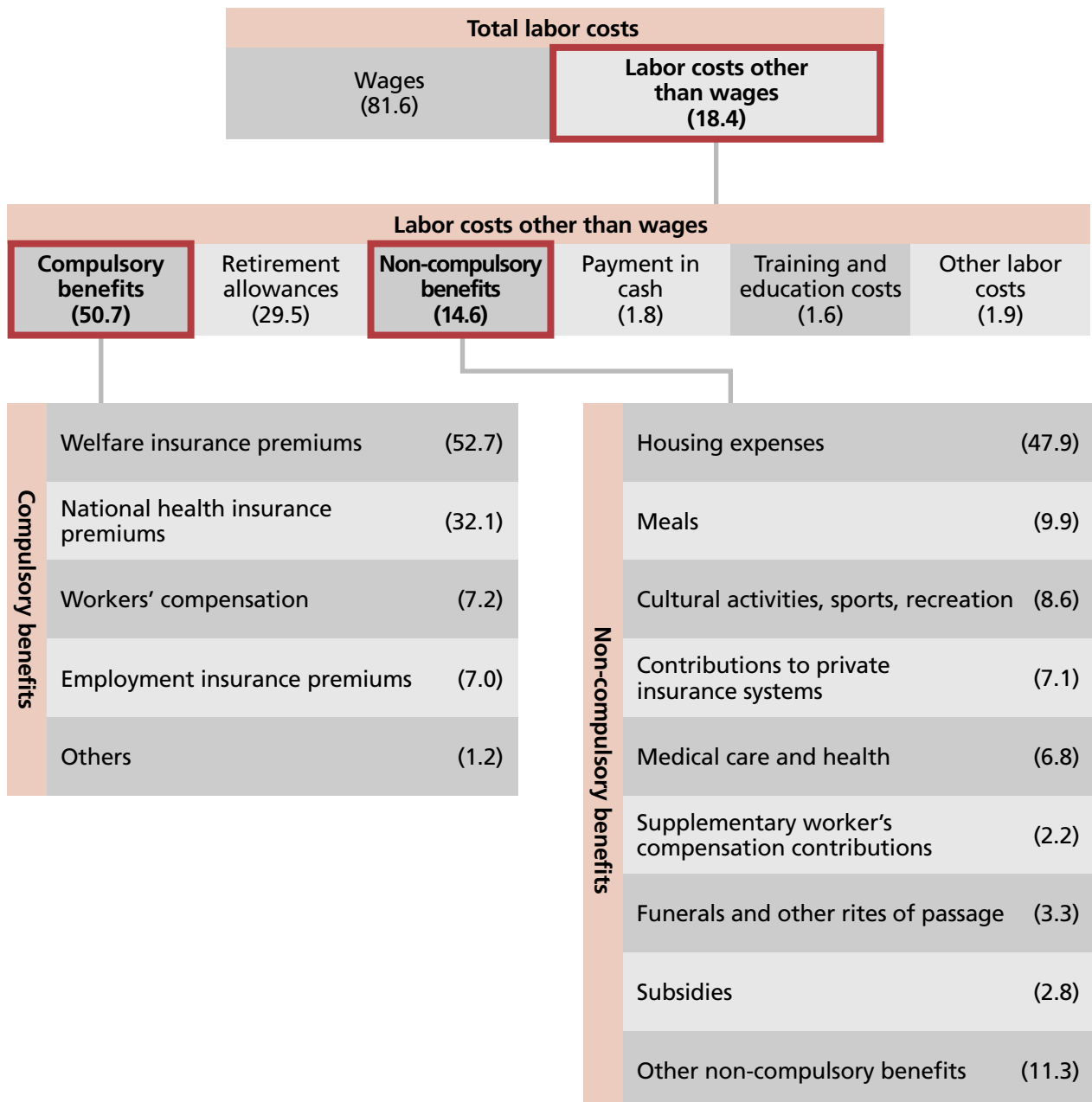
Notes: 1) Total workers at companies employing more than 30 people in Japan, more than 1 person in the U.S. and more than 10 people in the EC.  
 2) Brackets contain breakdown of figures.

pension payment amounts, but owing to long-term low interest rates and other influences, they have engendered lower than expected yields of investment and a lack of reserve funds. By way of contrast, subscribers to defined contribution pensions are personally accountable for adjusting monetary contributions as a result of which their benefit amounts in later life fluctuate. Companies do not suffer a lack of reserve funds or additional burdens since they do not make prior commitments on future benefit amounts.

### Modalities of Changing Company Benefits

Increases in welfare costs borne by companies, diversification of employees' needs, development of social insurance systems, and other factors have effected a gradual change to company benefits over recent years. Besides adding labor costs, which until now have been designated as welfare costs, to wages paid to individual employees and introducing a retirement allowance advance payment system, in conjunction with the introduction of performance-based wage systems, companies

**III-20 Labor Costs and Their Proportional Composition  
(Based on employees' average monthly wages in 1998)**



Source: General Survey of Wages and Working Hours System, Ministry of Labour, 1998



are also introducing retirement allowance point systems and popularizing a system allowing optional purchase of company equity at a predetermined price (stock option system). According to the Survey of Wages and Working Hours, Ministry of Labour, 1999, 4% of companies with 1,000 or more employees have introduced the stock option system, and introduction of these systems is forecast to advance in the future mainly in large companies. Moreover, in order to reduce the burden of welfare costs and cater to the diversification of employees' needs, various choices of welfare plans are being provided and "cafeteria-style" benefit plans that are used according to the needs of those employees who require them are being introduced, among others. Moreover, those "companies that are nice to families" and embrace personnel management systems showing consideration toward their

workers' family circumstances, including having leave and vacation systems for child-rearing and care as well as establishing day-care centers, have come to be called "family-friendly companies." The Ministry of Labour started to officially recognize this from 1999.

FYI

The "shareholding assistance system" refers to a system where a company allows an employee to acquire shares in the company based on some economic assistance in order to encourage possession of its shares.

The "stock option system" refers to a system giving employees the right to purchase shares in the company at a predetermined price (rights exercise price). (If share prices rise above the rights exercise price, employees will be compensated for the difference. Furthermore, employees are not obligated to exercise their rights if the price falls below this level.)

### III-21 Percentage of Companies Using Shareholding Assistance Systems and Stock Option Systems by Type

(%)

Year, size of company, and industry	Joint-stock companies	Has a shareholding assistance system	Has a stock option system
1996	100.0	12.2	—
1999	100.0	13.1	0.6
Company size in 1999 by type			
Over 1,000 employees	100.0	68.2	4.0
100–999 employees	100.0	21.8	1.5
300–999 employees	100.0	43.8	3.9
100–299 employees	100.0	14.9	0.7
30–99 employees	100.0	7.4	0.1
1999 industry specific			
Mining	100.0	9.2	—
Construction	100.0	12.2	0.1
Manufacturing	100.0	12.8	0.6
Electricity, gas, heating, and waterworks	100.0	23.6	0.6
Transportation, telecommunication	100.0	7.2	0.1
Wholesale, retail, food and beverage	100.0	17.7	0.9
Finance, insurance	100.0	43.3	3.6
Real estate	100.0	21.5	0.9
Services	100.0	10.5	1.0

Source: *General Survey of Wage and Working Hours System*, Ministry of Labour, 1998

## 7 Career Development through In-house Training and Education

### OJT: Practical Training Predicated on Long-term Employment

Predicated on the assumption that employees will stay at one company throughout their careers, in-house development of human resources at Japanese companies takes place over many years. Specifically, in-house training consists primarily of OJT (on-the-job training) which gives employees the opportunity to develop their skills through actual business experience. OJT fulfills an important role in educating both blue- and white-collar workers. In factories, for instance, OJT is used to teach personnel about the production process and solve such problems as repairing malfunctioning machinery. Clerical workers in accounting departments learn how to combat unreliability by performing analyses that separate business results from budgets.

### Two Types of OJT

Since OJT usually places considerable emphasis on the accomplishment of everyday tasks, the concept may seem a bit abstruse. However, there are two types of OJT—formal and informal. Formal OJT involves assigning instructors to train employees and setting evaluation standards.

### Long-term Informal OJT Builds High-level Expertise

The primary distinguishing features of human resource development in Japan are as follows.

- (1) Informal OJT is considerably more important than formal OJT, which is merely basic training given to newly hired workers to improve their skills.
- (2) Japanese companies provide an extensive range of informal training. Long-term OJT is required, however, for employees to acquire high-level skills. Informal OJT usually involves a gradual

progression from simple to more difficult tasks, and a rotation system that enables employees to serve in a variety of positions. OJT gives workers the opportunity to gain a wide range of experience, thus improving their business acumen.

- (3) Informal OJT is used widely at large corporations, but less so at small and medium-sized businesses.
- (4) OJT is interspersed with Off-JT (off-the-job training), e.g., seminars at educational institutions. Off-JT gives added perspective to the experience employees gain through OJT and helps them gain additional knowledge and theoretical skills that they can use to solve the problems that arise in everyday business situations.

### OJT is Founded on Seniority-based Promotion and Promotional Management

OJT generally proceeds smoothly in Japan. Older workers are not reluctant to train their subordinates since they are confident that the latter will not be promoted or given raises ahead of them. OJT actually reinforces company solidarity. This approach to human resource development has proven to be a positive way for employees to refine their skills, and is also an aspect of Japanese corporate culture that makes Japanese companies so competitive.

### Approximately 70% of Companies Implement OFF-JT and Planned OJT

According to the most comprehensive reference on Japanese corporate training, “Survey of Training and Education in the Private Sector” (Ministry of Labour), 69.0% of Japanese companies had training programs in place in 1998. The two types of programs are off-site training and planned OJT.

### III-22 Breakdown of In-house Training and Education

**Informal OJT**

**Assume a pivotal role in educational training.  
This training is conducted in normal business operations**

This method is indispensable to forming high-level expertise and plays an extremely significant role in corporate in-house training. This method is widely used in large corporations.

**Formal OJT**

**Also, termed as planned OJT. This training is conducted in normal business operations**

Determine a capacity development plan and implement it in stages and constantly (including education supervisor, educational trainers, period and content)

Post training performance check items are decided

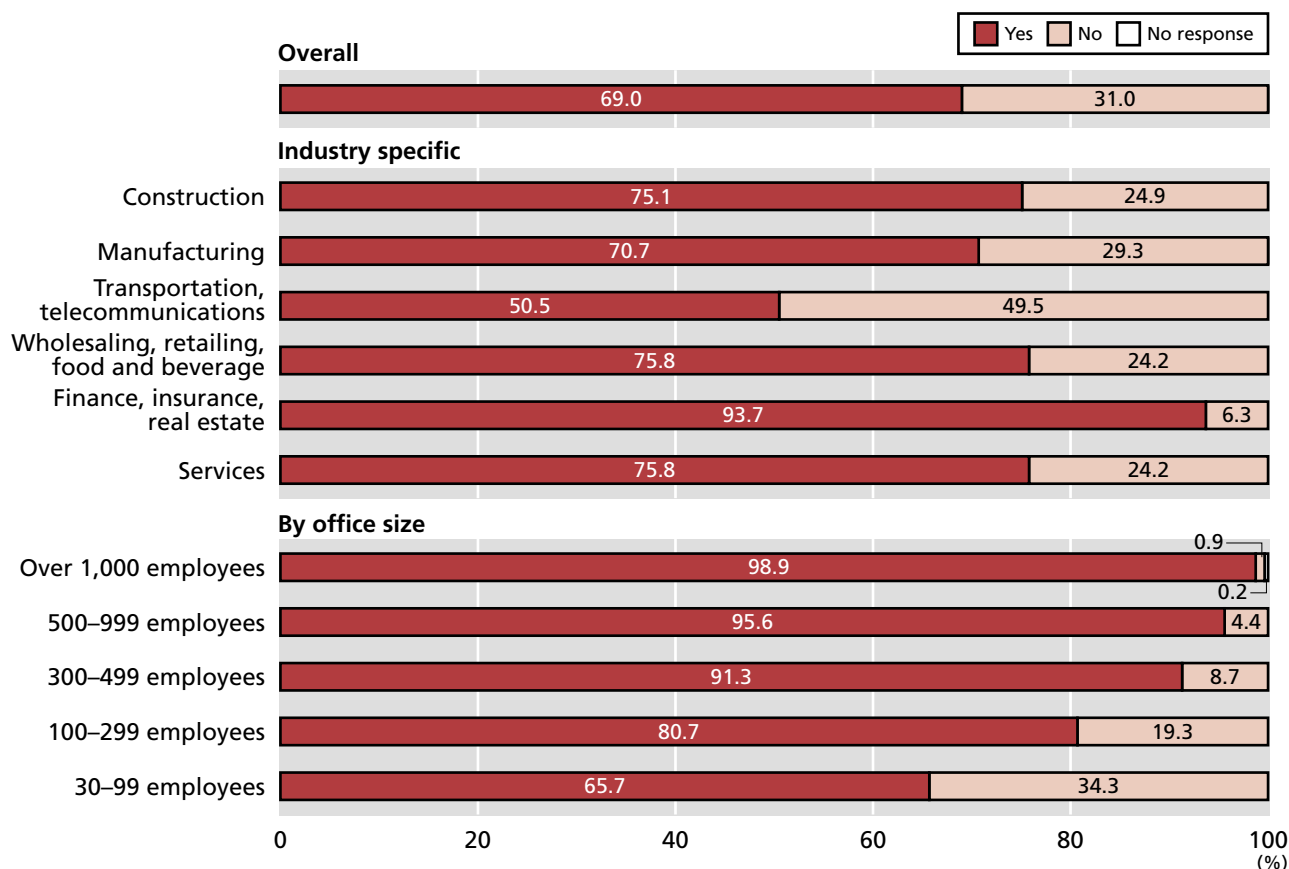
**OFF-JT**

**Training conducted at another location, during a temporary absence from work**

To be implemented so it is worked into the extensive OJT (under titles such as training course).

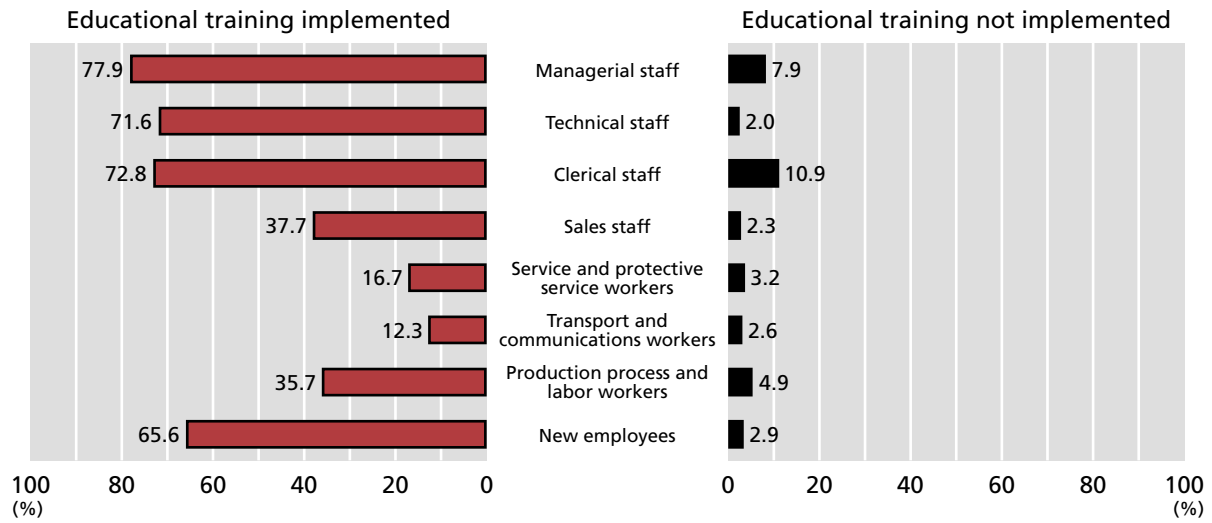
OFF-JT enables workers to work toward organizing and systemizing OJT

### III-23 Implementation Conditions of "OFF-JT" and "Planned OJT" Observed by Industry and by Office Size (1998)



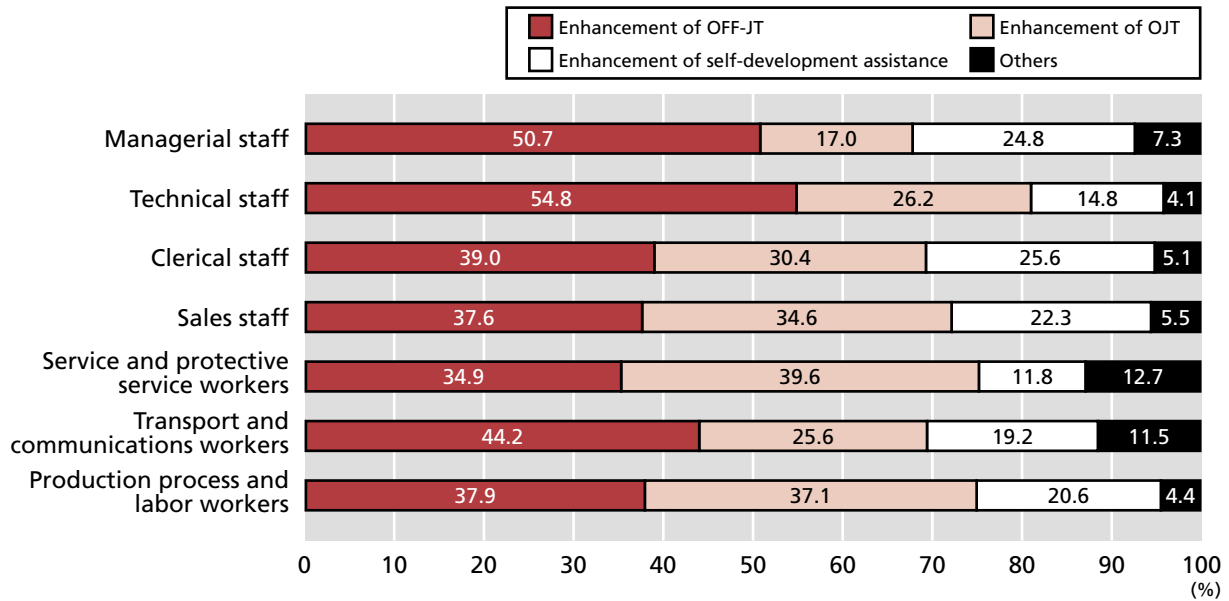
Source: *Survey of Training and Education at Private Enterprises*, Policy Planning and Research Department, Ministry of Labour, 1999  
 Note: Here "training and education" includes both off-site training and planned OJT. Off-site training is conducted away from the workplace. "Planned OJT" refers to the development of occupational skills during the course of daily business activities, which takes place on an ongoing basis, according to a written plan that designates trainees and instructors, as well as the duration and content of the training.

### III-24 Implementation Conditions of "OFF-JT" and "Planned OJT" Observed by Category



Source: *Survey on Vocational Training in Private Enterprises* (May 1999 survey), Human Resources Development Bureau, Ministry of Labour  
 Note: The total does not equal 100 because "no response" and other such answers were left out in creating the graph.

### III-25 Education and Training Methods that Should be Emphasized in the Future



Source: *Survey on Vocational Training in Private Enterprises* (May 1999 survey), Human Resources Development Bureau, Ministry of Labour  
 Note: Figures for the number of offices in which there are workers in the appropriate occupation have been recalculated to 100.

### III-26 Important Points of Education and Training that Should be Emphasized in the Future

(%)

Important points of educational training	Target occupation	Managerial staff	Technical staff	Clerical staff	Sales staff	Service and protective service workers	Transport and communication workers	Production process and labor workers
Total number of offices for the appropriate workers		100.0	100.0	100.0	100.0	100.0	100.0	100.0
Important points of educational training	Allocation of basic knowledge and skill	4.0	9.7	42.8	28.5	29.1	36.2	42.0
	Deepening specific disciplines	12.6	60.1	31.6	26.5	30.0	22.2	26.5
	Improvement of interpersonal skills, management capabilities, overall judgment and creativity, etc.	70.6	5.9	14.9	30.6	21.1	13.0	5.1
	Response to aging	3.8	0.9	1.3	3.8	7.7	8.2	9.3
	Response to technological innovation	4.5	19.0	2.5	0.9	1.6	6.8	10.4
	Response to internationalization	0.4	1.5	0.3	5.4	0.8	1.0	0.0
	On account of changes in occupation	1.8	0.4	2.7	0.2	0.4	4.3	2.9
	Others	2.3	26.4	9.3	14.2	30.6	24.0	8.4

Source: *Survey of Training and Education at Private Enterprises*, Human Resources Development Bureau, Ministry of Labour, May 1999

Note: Figures for the number of offices in which there are workers in the appropriate occupation have been recalculated to 100.

## 8 Mandatory Retirement System

### Purposes and Functions of the Mandatory Retirement System

The mandatory retirement system first appeared in Japan in the 1900s. At the beginning, the mandatory retirement system was introduced for white-collar public servants and skilled workers in munitions factories. The purpose was to secure a stable labor force using long-term contracts valid until retirement age. In the 1930s and the 1940s, private corporations, especially large corporations adopted the mandatory retirement system. Their purpose was to eliminate elderly workers who had worked for a long time from their companies in order to deal with the economic depression at that time. Thus, the age limit system has the following purposes: (1) By setting the mandatory retirement age, a company guarantees long-term employment and secures their necessary labor force. (2) In order to deal with business slowdowns, the mandatory retirement system may be used to have older workers retire, to reduce employment costs, and to employ younger workers.

Many companies extended the mandatory retirement age during the 1980s. During the post-World War II era until the 1970s, the retirement age was generally set at 55 years of age. As the average life expectancy increased greatly in the postwar era, people began to live much longer after retirement. Since an increasing number of workers intended to continue working after 55 years of age, the movement to extend the retirement age became popular.

The current goal of the government is to establish a system within the next decade in which those who wish to work and have the ability of working may continue doing so until 65 years of age. They do not necessarily need to be employed by their original employer, but may find a second career in a different firm or industry.

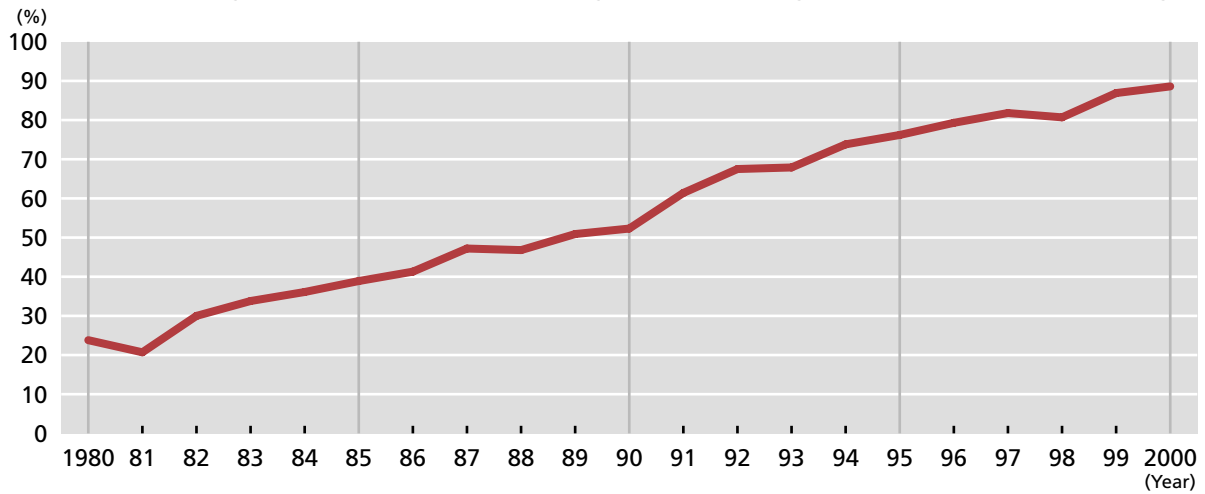
### Popularization of Retirement at Age 60

Due to active efforts by the government, labor and management, the retirement age was extended from 55 to 60 after the 1970s. Consequently, the percentage of companies with a 60-year retirement age steadily increased across industries during the 1980s and the 1990s. Figure III-27 shows that while large corporations took the initiative in extending the retirement age, now even medium-sized companies with from 30 to 99 employees often adopt this system. We may safely say that the retirement age of 60 has been almost universally established in Japan.

### Continuous Employment until 65 Years of Age

As seen in the labor-management negotiations in spring 2000, the focal point in labor-management negotiations now is the issue of continuous employment until 65 years of age. Extension of employment until 65 years of age is a major theme for government, labor and management. The current system of continued employment until 65 years of age in private corporations can be divided into three types (Figure III-28). (1) The retirement age is set at 65 (or older). (2) The retirement age is set at 60; then, there is a system of retirement or the extension of employment until 65 years of age. All of those who wish to take this option may do so. (3) The retirement age is set at 60; then, there is a system of retirement and the extension of employment until 65 years of age. Those who wish to take this option may do so if the company approves them. When types (1) and (2) are combined, the ratio of companies that ensure employment opportunities for all applicants until 65 years of age is only 16.1%. The achievement of continued employment until 65 years of age is an important goal for the future.

### III-27 Percentage of Companies Stipulating Retirement Age to be Over 60 Years of Age

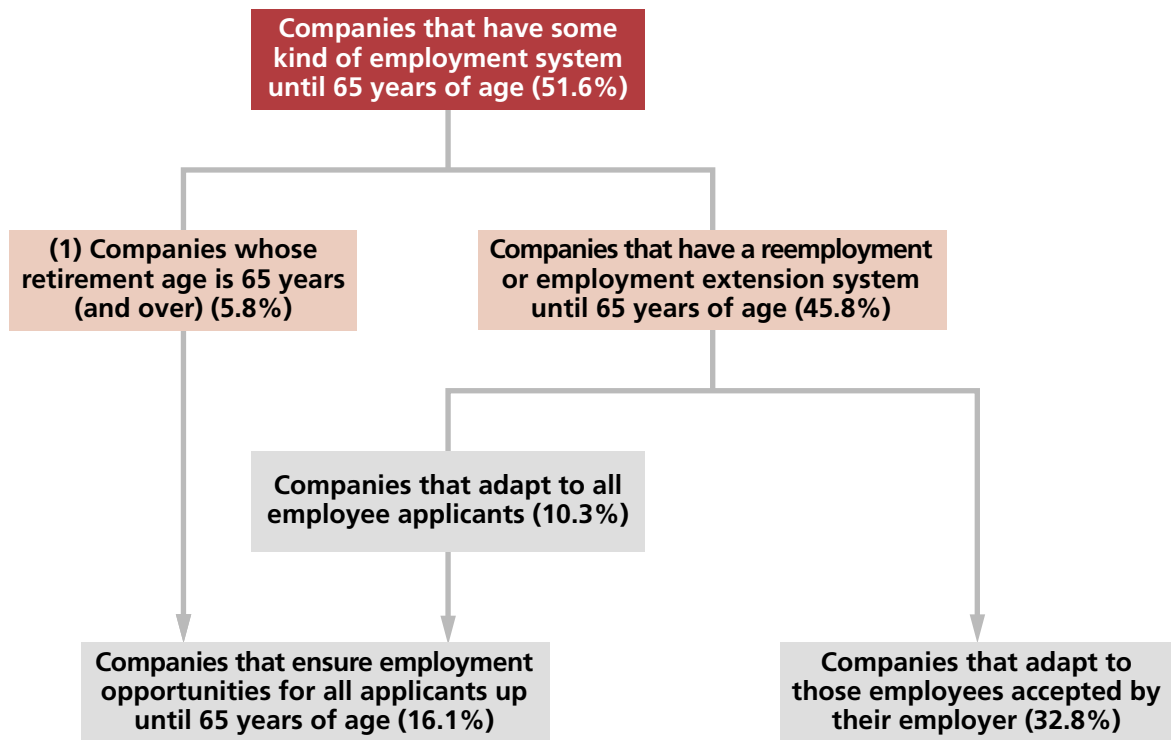


Data: Refer to Appendix 6

Source: *White Paper on Labour*, Ministry of Labour, 2000

Note: Percentage of companies, out of the total number of companies, whose retirement age is uniformly above 60 years of age.

### III-28 Diagram of System of Continued Employment Until 65 Years of Age



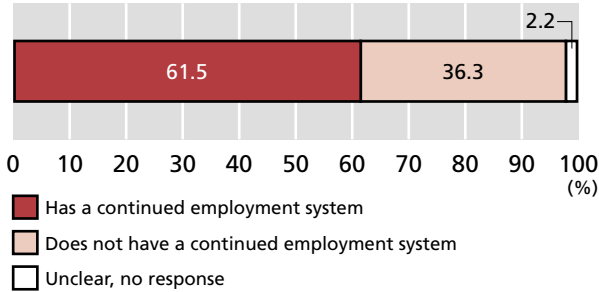
Source: *White Paper on Labour*, Ministry of Labour, 2000

Notes: 1) There are four categories for those eligible at companies that have a reemployment or employment extension system until 65 years: "in principle, all applicants," "to all employees who conform with the standards set by the company," "limited to those employees the company deems as particularly necessary," and "others (including no response)."

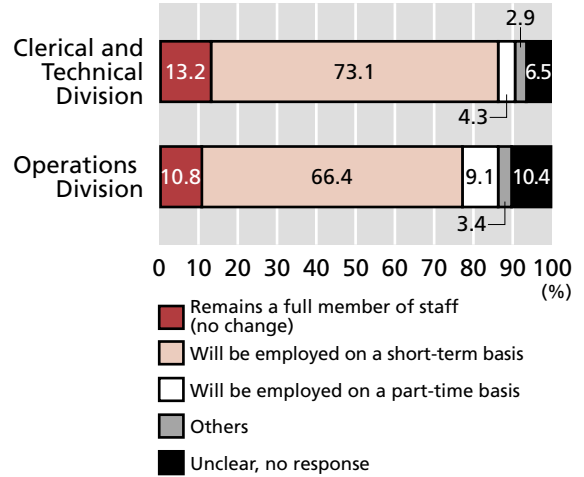
2) Companies that adapt to those employees accepted by their employer represent the total value of "all employees who conform with the standards set by the company" and "those limited to employees the company deems particularly necessary."

### III-29 Changes in Benefits Before and After Retirement Age (Enterprises with retirement age system)

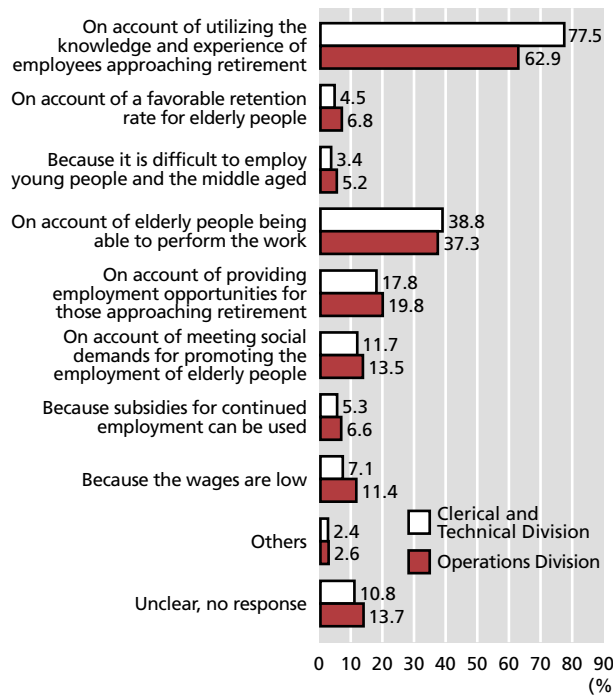
Availability of continued employment systems following retirement age



Changes in the form of employment of those that continue to work (compared to pre-retirement age)



Reason for the continued employment of workers after retirement age (up to two answers)



Source: Survey on the Use of Elderly People in the Workplace, Japan Institute of Labour, 2000