

## Human Resource Development and Competence Development in Smaller Service Industries Summary

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## 1. Awareness of the Issues and Method of Research

### (1) Awareness of the Issues

At small and medium-sized companies (SMEs), which generally lack sufficient capital or equipment that large corporations have, the skills and knowhow of individual employees, including people in top management, carry far greater weight in adapting them to various changes in the business environment and in maintaining and developing their operations. In reality, however, human resource development and competence development at SMEs tend to be inadequate due to time and resource constraints or insufficient knowhow, thus requiring policy support in accordance with the actual condition of SMEs and the direction of their future operations.

The research project, “Human Resource Development at Small and Medium-Sized Enterprises (hereinafter referred to as “the Project”)” was set up within the Japan Institute for Labour Policy and Training, chaired by Professor Atsushi Sato, Faculty of Life-long Learning and Career Studies, Hosei University, in an attempt to capture (i) the current status of companies’ efforts concerning human resource development and career development, including the securing of human resources, evaluation and treatment, and education and training, and (ii) how employees recognize and evaluate competence development by their companies and what needs they have in developing their own competence, through a questionnaire survey on companies and their employees in key industry sectors falling in the category of smaller service industries. Based on an analysis of questionnaire data, we attempted to shed light on various aspects of human resource development and competence development in smaller service industries, and consider policy support in accordance with the current status of companies and their employees and the future direction of their operations.

### (2) Subject of survey

In this research, we considered the scope of industries to be studied on the basis of

the classification in the 11th revision (in 2002) of the Japan Standard Industrial Classification. In the 11th revision, several large classifications were newly created from the sector of “Services” under the 10th revision (in 1993), and with large classifications for “Services” comprising “P. Compound Services” and “Q. Services, N.E.C. (not elsewhere classified).” We had the option to cover only these two sectors, but we thought in the Project that if the scope of our research were limited to these two sectors, such sectors as information service and welfare service would be excluded and it would be inadequate for capturing the actual conditions and problems of human resource development and competence development in service industries in Japan. Therefore, we set the scope of research as sectors which were classified as “L. Services” in the 10th revision in 1993 and were newly classified in the revision in 2001 as “N. Medical, Health Care and Welfare,” “O. Education, Learning Support,” “Q. Services, N.E.C.,” and “Information Services,” “Internet Based Services” and “Video Picture, Sound Information, Character Information Production and Distribution” in “H. Information and Communications.”

However, the scope covered by the Project includes many more industry sectors than those mentioned above, and it is difficult to cover all of them. Thus, we then focused on small categories, and selected (i) small categories for which a relatively large number of employed workers were tallied in the Establishment and Enterprise Census FY 2006 by the Ministry of Internal Affairs and Communications, and (ii) small categories that registered relatively large increases in the number of employed workers when the Establishment and Enterprise Census FY 2006 and the same survey for FY 2001 are compared.

In addition, in selecting the industry sectors for research, we also took into account differences in career development and competence development. Prior to the questionnaire survey on the smaller service industries, in the Project, we clarified the patterns of characteristics of competence development and career development by industry sector on the basis of trends of the turnover rate and companies’ educational and training activities other than on-the-job training (OJT) and extracted four types of competence development and career development: (i) a type utilizing opportunities of Off-JT, etc. and continued service, (ii) a type not utilizing opportunities of Off-JT, etc. and continued service, (iii) a type utilizing opportunities of Off-JT, etc. and cross-companies, and (iv) a type not utilizing opportunities of Off-JT, etc. and cross-companies. More specifically, relying on existing research and statistics, we figured out the turnover rate and the level of education and training of regular employees in various jobs in service industries and selected key small categories that

correspond to the four types described above.

As a result of the above procedures, we selected the following eight industry sectors for the questionnaire survey: (i) Building maintenance services, (ii) Supplementary tutorial schools, (iii) Hair-dressing and beauty salon, (iv) Information services, (v) Funeral services, (vi) Automobile maintenance services, (vii) Welfare services for the aged and care services, and (viii) Engineering and architectural services.

### **(3) Method of survey**

The questionnaire survey was conducted on managers of companies in industry sectors selected through the above-described procedures and two employees working at each company. We asked each company to choose two employees from among “employees who play central roles in the provision of services offered by each company and who are engaged in jobs with the largest number of employees (in the survey, this job is defined as “core job”).

Since the questionnaire survey used fairly thick question sheets for both companies and employees, we narrowed down survey areas to urban areas where companies in service industries are concentrated in order to avoid a considerable drop in the response rate and adopted the visit and placement survey method. Specifically, we visited companies with a workforce of at least five employees in the eight industry sectors mentioned above, which have head offices in prefectural capitals (Tokyo, Yokohama, Chiba, Saitama, Mito, Maebashi and Utsunomiya) in the Kanto region, and asked them to reply to the questionnaire survey and also distribute survey sheets to selected employees.

The survey was conducted between January 16 and March 6, 2009. Survey sheets for companies were distributed to a total of 3,482 companies, and replies were collected from 897 (with a valid response rate of 25.8%). The number of survey sheets for employees collected was 1,317 and the response rate was 18.9%, based on the number of distributed sheets of 6,964 (the number of companies X 2).

## **2. Basic Framework of Analysis in the Report**

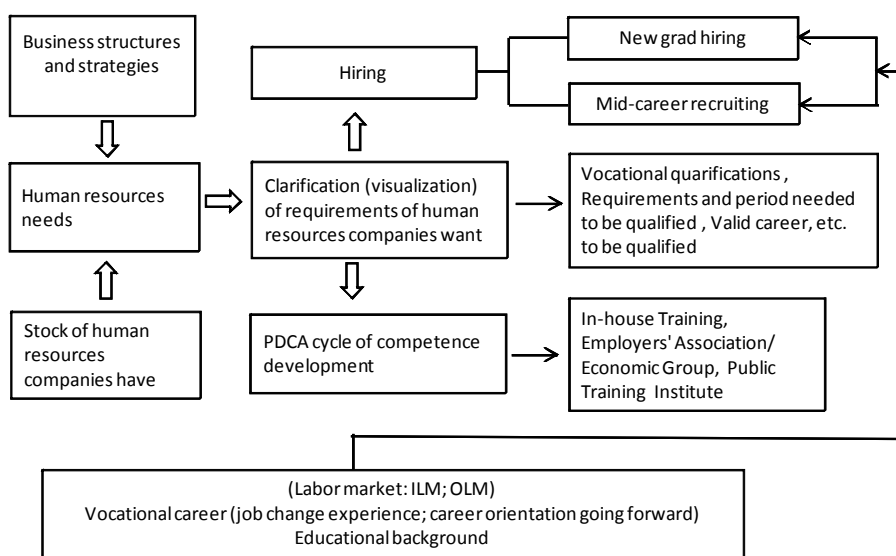
### **(1) Basic Framework of Analysis**

**Figure 1** shows a framework of analysis in the Project. Companies develop strategies consistent with the characteristics of their business structures and are engaged in a variety of administrative activities (administration of management resources such as human resources, goods and money) in order to implement such strategies. Of them, what we are interested in are human resources and their development. Companies can

seek to realize their strategies by making use of human resources they already have. In reality, however, there often arises some gap between human resources necessary for realizing strategies and existing human resources companies already have, making it necessary to fill the gap. When the need for human resources arises, companies first of all find it necessary to clarify requirements of human resources they want (in this research, we call this practice “visualization of vocational competence”). Then, there are broadly two ways to fill the gap. The first is to fill the gap by hiring necessary human resources from outside, and this hiring can also take two forms: recruitment of new graduates and mid-career recruiting. The second is the approach to fill the gap by enhancing the competence of existing employees within their organizations. This approach involves three different ways of training: a) the method of career development based on daily OJT and an accumulation of work experiences over a long period of time, b) the method of the PDCA competence development cycle for the plan, do, check and action of a competence development program on an Off-JT basis, and c) the self-development method.

These are the methods to fill the gap between human resources companies need for realizing their business strategies and existing human resources they have. It can be construed that companies actually try to fill the gap through an appropriate combination of these methods by taking into consideration their business strategies, the conditions of core jobs and the labor market in their industries, and the eagerness and competence of existing employees.

**Figure 1 Framework of Analysis of Human Resource Development**



What is discussed above is the logic of the need for human resource development and competence development from the perspective of companies (variables written in the upper half of **Figure 1**). In figuring out the current status and problems of human resource development and competence development needs, it is also necessary to explicitly incorporate variables concerning employees into the framework of analysis (variables related to the labor market in the lower half of **Figure 1**).

We analyze variables related to the labor market because the procurement of human resources from the labor market, or recruitment activities, is positioned as one of the important administrative activities along with the enhancement of competence of existing employees, though this is inherently derived from the logic of the necessity of competence development on the part of companies, and the matching between the recruitment and the conditions of the labor market, and above all, attributes, vocational competence levels and needs to work on the part of workers is required. Another reason for the analysis of variables related to the labor market is that it is necessary to identify conditions for ensuring the matching of labor supply and demand through an analysis of the current conditions of vocational careers from the perspective of workers, and if the matching is not realized, to consider policy support necessary to develop the environment for realizing the matching by finding out factors behind the lack of it.

## **(2) Framework of Analysis and Agenda Based on Characteristics of Smaller Service Industries**

What was discussed in (1) is the framework to explain human resource development used irrespective of company size or industry characteristics. Thus, we use this framework for carrying out this research. On the other hand, however, the object of our research is smaller service industries, which includes industry sectors with diverse business structures and strategies. At the same time, the labor market involves a grab bag of job types in terms of the existence or nonexistence of vocational qualifications, and the retention, mobility and cross-company nature of labor. In addition, in the case of SMEs that have low retention rates and face many constraints on in-house education and training, it is necessary to consider the clarification of cross-company vocational competence requirements (including making them vocational qualifications), and the necessity for the development of social infrastructure that support them, as the policy direction for the elimination of the mismatching of labor supply and demand.

Given the above-mentioned basic framework of analysis and characteristics that emerge in association with the objects of research, we have set the awareness of the issues and problems to be clarified as follows:

First, we shed light on the differences and problems in the weight and positioning of human resource issues, ways of hiring human resources and ways of human resource development among individual companies and respective industries brought about by the diversity of business structures and strategies of smaller services industries.

Second, we look into the current status of human resource recruitment in smaller service industries. There are numerous issues to be studied, including what sort of companies adopt what sort of hiring methods in their efforts to satisfy human resource needs, whether their human resource needs are satisfied, what sort of relationship exists between recruiting efforts and competence development efforts.

Third, we attempt to capture the labor market of smaller service industries that comprise a variety of industry sectors and job types. In addition to the aspects of the closed off Internal Labor Market (hereinafter abbreviated as “ILM”) that has developed, centering on large corporations, the aspects of the occupation-based Occupational Labor Market (hereinafter abbreviated as “OLM”) have been often noted. The ILM is a labor market typical of large corporations, where new graduates are hired by specified companies upon graduation and subsequently, on the premise of long-term employment, follow the path of an intra-organizational career (as a chain of OJT) plus the in-house education and training system (Off-JT). By contrast, the OLM is a labor market where skill development is carried out in line with job-specific training programs outside companies, job-specific skills are defined outside employing companies, and cross-job-type occupational careers often develop (or conditions for them are in place). In order to study the labor market for service industries that include many small and medium-sized companies, the subject of our research, it is necessary to bring the OLM into view in addition to the ILM and consider the degree of its maturity and conditions for its development.

Fourth, we analyze the present situation concerning the connection between the clarification (=“visualization”) of requirements of human resources by companies and the Off-JT implementation structure. As shown in **Figure 1**, when human resource needs arise, companies clarify requirements of human resources and make education and training effective by turning the PDCA cycle of training programs fit for those requirements. However, to what extent companies are actually implementing the “visualization” of requirements of human resources, or what sort of relationship exists between “visualization” efforts and the turning of the PDCA cycle for competence development have yet to be fully studied yet.

Fifth, somewhat related to the fourth agenda item, we analyze the relationship between companies’ education and training activities and their strategies to make use of

employer/industry associations. Generally speaking, small and medium-sized companies face many constraints on in-house education and training. Statistically, they have low rates of retention of employees, and in many cases, they have constraints on developing and bearing the costs of education and training menus of their own. Many of the smaller service industries are believed to have growing needs to utilize training programs provided by employer/industry organizations or public occupational training organizations, and it is necessary to examine the actual situation concerning to what extent companies are making clear their competence development policies, including the utilization of outside training programs.

Sixth, we look into the role of school education in competence development in smaller service industries. Human resources needs and vocational competence from the perspective of companies are only vocational competences required by specific industries or companies, and this vocational competence is not something all employees will develop uniformly from a clean slate but is acquired on the basis of school education and training prior to being employed. Considering that the effects of post-employment training hinge largely on individuals' eagerness for competence development and the general capacity that dictates such eagerness for competence development is cultivated through education in school, it is important to study what sort of relationship exists between capacity acquired at schools and post-employment eagerness for vocational competence development as well as the actual level of the performance of competence. It is also necessary to consider the policy issue of how labor policy can get involved in career education support that has the potential to serve as an intermediary between schools and the labor market.

Seventh, we address particular issues on the basis of the framework and awareness of the issues discussed so far. One of them has to do with the consideration of the situation where busy work gives rise to problems in competence development. In previous surveys, companies have often cited "lack of sufficient time for education and training" as one of the problems they face in competence development of their employees. However, if companies want to hire and develop good human resources, it is necessary to improve the environment for education and training, including bringing working hours to reasonable levels. Thus, it would be necessary to make an analysis of the actual conditions of workplaces.

Another is an analysis to find out the actual conditions surrounding competence development of non-regular employees who are engaged in core jobs in smaller service industries and what problems they are confronted with. As several survey results indicate, nonstandard employees often have far less access to competence development



opportunities than regular employees.

Despite this, against the backdrop of an increasingly competitive environment, it is not uncommon for nonstandard employees to be engaged in core business operations. This raises the issue of expanding competence development opportunities for nonstandard employees, and it is of significance to look into how the current conditions actually are.

In line with the awareness of the issues described above, Part II–Analysis consists of the following chapters:

### **Chapter Composition of Part II–Analysis**

Chapter 1	Business Strategies of Service Industries and Human Resource Development and Competence Development of Core Personnel
Chapter 2	Hiring Activities/Education and Training and the Function of Qualifications in Service Industries
Chapter 3	Internal Labor Market (ILM) and Occupational Labor Market (OLM) – An Analysis of Company Survey Data in Service Industries
Chapter 4	Realities Fitting In the ILM and OLM – An Analysis of Employee Survey Data in Service Industries
Chapter 5	“Visualization” of Required Competence and Education and Training/Competence Development
Chapter 6	Companies’ Education and Training Activities and Their Strategies to Make Use of Employer/Industry Organizations
Chapter 7	Consideration of Effects of School Education on Vocational Competence Development of Workers in Smaller Service Industries
Chapter 8	Situation Where Busy Work Generates Problems in Competence Development – Based on An Analysis of Data on Service Industries and Employees
Chapter 9	Actual Conditions and Problems Surrounding Competence Development of Nonstandard Employees Engaged in Core Jobs in Smaller Service Industries

### **3. Summary of Analysis and Policy Implications**

Of the wide-ranging results of the analysis in Part II, the following four points are important policy implications:

(1) The first point is the necessity of policy support for service industries in accordance with the diverseness of their business strategies and human resource development needs. Service industries not only consist of various industry sectors and job types but also have multiple business strategies, and when business strategies are different, companies in service industries have different needs in terms of human resource development. Therefore, policy support for competence development should match diverse human resource needs reflecting different types of these multiple business strategies. According to the results of the analysis of Part II Chapter 1, business strategies can be broken down into four types: (i) “value chain type” (the strategy to maximize the use of companies’ organizational capabilities), (ii) “equipment/location priority type” (the strategy to gain an edge by capital expenditure on machinery and outlets and location of outlets and business offices), (iii) “internal development type” (the strategy to secure core job types through internal development), and (iv) “internal transfer type” (the strategy to secure core job types through internal transfers). Support for human resource development should correspond to these types of strategy. Support for development of human resources who shoulder a variety of in-house support operations other than core business operations should be effective for (i) “value chain type,” while financial support for management should help maintain employment and lead to human resource development for (ii) “equipment/location priority type.” By contrast, guarantees of long-term employment lead to competitive advantages in (iii) “internal development type” and (iv) “internal transfer type.”

At companies in service industries that have multiple business strategies in addition to various industry sectors and job types, human resource needs are not uniform. For companies that place enhancement of organizational capabilities and capital expenditure on outlets at the core of their business strategies, investment in and development of human resources shouldering core business operations carry a relatively small weight. In other words, the results of this analysis suggest the policy implication that human resource development support and competence development policy would not be sufficient if they assume only the type that focuses on internal development of human resources who engage in core types of jobs.

(2) The second point is the importance of efforts for the “visualization” of vocational competence as termed in this report. This includes two points: a) one is the importance of hiring to satisfy human resource needs of companies, as clarified in Part II Chapter 2. This means that improvements to the hiring environment for this purpose (one of them is to bring working hours to reasonable levels to remove a factor hampering education and training) would contribute to improve the matching of labor supply and demand by

clarifying specifications of human resources sought through the “visualization” of vocational competence requirements on the part of employers and by making training to satisfy those specifications easier on the part of job seekers, and b) another, as shown in Part II Chapter 5 and Chapter 6, is the implication that the “visualization” of vocational competence is important to enhance the effects of education and training, as efforts for the “visualization” of vocational competence by individual companies are linked not only to hiring but also in-house Off-JT training as well as the PDCA cycle of utilization of outside training programs, and companies with a higher degree of “visualization” invest more in employee training and produce higher effects.

(3) The third point is the necessity of policy support to compensate for constraints on human resource development efforts by individual companies. As clarified in Part II Chapter 3 and Chapter 4, small and medium-sized companies have a strong need for the OLM to supplement the ILM as the place to nurture human resources. According to replies from corporate managers and employees to the questions asking them about effective ways of human resource development, the answer that the effective way is to “continue to work at a single place of work for a long period of time” (60.1% of managers and 52.1% of employees replied “at one company for a long period of time”), a view consistent with the internal type, naturally accounts for the bulk of replies. But more than a few managers and employees are of the view congenial with the occupational ability type, such as “continue the same job even when an employer company/entity is changed” (18.8% of managers and 23.5% of employees) and “continue to work at the same place of work until becoming a qualified employee and then change employer company/entity to accumulate work experience” (10.5% of managers and 17.1% of employees). The OLM tended to be developed under circumstances where employees do not have the career path that promotes them to managerial/supervisory positions and where core business operations require vocational qualifications.

(4) The analysis results described above point to the necessity of (i) vocational qualifications (which are the exemplar of the “visualization” of vocational competence) as the keyword for the OLM development and (ii) infrastructure development for that purpose, such as the social vocational competence evaluation system that transcends individual companies (motivation for competence enhancement and path-setting for vocational careers including change of jobs). In addition, the importance of securing the relevance of education to work as a prerequisite for smoother transitions from School to Work and fostering the motivation for learning should also be noted in this context.