A Study on Employment Portfolios
-- Cases for IT Solution and Research Divisions at Manufacturers and a Department Store –
Summary

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2. Research Period

FY 2009-2011

3. Research Objective

The objective of this report is to analyze employment portfolios at two electrical machinery manufacturers (information technology solution divisions), a steelmaker (a central laboratory) and a department store.

Major workplace changes since the 1990s include expansion of non-regular employment. Amid the phenomenon called the non-regularization of employment, an increasing number of workers have been working in various employment formats. This means that the growing non-regular employment coincides with the diversification of employment formats.

However, as decisions on how to use any specific employment format are up to companies, these phenomena mentioned above may represent the results of companies' efforts to develop better employment portfolios (combining multiple employment formats). In considering responses to problems emerging from these phenomena, it is insufficient to see the background thereof only from the supply-side viewpoint.

Therefore, the Japan Institute for Labour Policy and Training conducted a "Survey on the Current Status of the Employment Portfolio System in Japanese Companies" as the sub-theme of

"Comprehensive Research for Building Stable Labor and Management Relations in Individualized Labor Relations." This report compiles analyses from FY 2009 to 2011.

In this report we made analysis based on the following two hypotheses we formulated in our 2011 report:

(1) Total labor cost management (including non-regular employees, same hereafter) has an influence on employment portfolio development, and

(2) As a consequence, skills and roles required for non-regular employees are determined after employment portfolios are developed, which consequently regulates personnel treatment for employees.

Further, our interview survey has brought about the following four policy implications:

First, existing employment portfolio theories explain only limited parts of portfolio development. For example, human resources portfolio theories categorize employment formats on the basis of skills and other human resources. Our past survey results indicate that the skills, occupational fields and job levels required for non-regular employees result from the development of employment portfolios at workplaces. This fact reverses the abovementioned theories. If policy responses are made in line with theoretical hypotheses represented by the past human resources portfolio theories, it may be difficult to achieve any policy effects due to the theories' steep deviation from facts. In order to avoid such results, we should face facts straightforwardly instead of applying theories to facts. This means that we should finely survey the demand side (companies) that determines employment portfolios and reconstruct a theory based on the facts found.

Second, employment portfolio development principles are various as far as facts are concerned. If factors that define employment portfolio development are portfolio development principles, they may differ from sector to sector, or from company to company. This has been indicated by earlier studies on employee management and meets our survey results. Main factors behind companies' use of non-regular employment include cost management and employment risk hedging. In a sector-by-sector or company-by-company survey based on the two factors, a key point is what elements[1] are taken into account in the development of employment portfolios. Given that these elements lead to the diversity of employment portfolios, policy responses should be considered not only by employment format but also by sector or company.

Third, role sharing by employment format is becoming cloudy. Personnel management is based on the premise of utilizing non-regular employment in all of the cases, indicating that companies may maintain or increase percentage shares for non-regular employees into the future. While the non-regularization of employees and the diversification of employment formats will make progress,

[1] For example, the IT solution divisions of the electrical machinery manufacturers give priority to elements such as business characteristics and education of regular employees. The steelmaker's central laboratory takes into account compliance and job quality (whether jobs can be subjected to subcontracting) in developing an employment portfolio.

the percentage share for regular employees will decline persistently, with non-regular jobs growing similar to regular jobs. Then, the problem will be the borderline between regular and non-regular jobs. Our survey indicates that jobs

that regular employees should take may include head office planning, workplace management and those for which advanced knowledge and skills are required. However, there are cases where these jobs are partially taken by non-regular employees, and it is difficult to explain all cases only with such a vague borderline. Furthermore, the move toward non-regularization will continue due to the need for cost reduction, in the absence of any mechanism to hold down the non-regularization.

Fourth, there is a problem of equal treatment. Roles, skills and occupational fields are determined after employment portfolios are developed at workplaces. If the number of regular employees is limited, however, amid the resulting expansion of non-regular employment, non-regular employees may be required to undertake higher-level jobs and roles. Then, the problem will be disparity in treatment between regular and non-regular employees or between non-regular employees. If the problem is left unsolved, non-regular employees' jobs will deviate from their treatment, leading to a rise in turnover rates for these employees. In order to prevent such situation, companies will have to balance non-regular employees' jobs with their treatment in a manner to satisfy these employees. To this end, companies will have to pay attention to the actual working conditions of non-regular employees and regularly review their treatment according to changes in the roles, skills and occupational fields required for them.

4. Summary of Research Results

Analyses of the cases found three points in common among them. They are given as conclusions below:

The first point is related to facts regarding employment portfolio development. In each case, the number of regular employees (regular staff) is determined based on in-house rules. Pressures have been exerted more or less every year on the number of regular employees to be reduced, and each workplace has chosen to utilize non-regular employees to make up for regular employee shortages. Employment portfolios are developed through such choice. Total labor cost management is one of the major factors prompting each workplace to develop an efficient employment portfolio. Basically, a workplace utilizes non-regular employment within its budget, and thus Hypothesis 1 has been verified. However, basic employment portfolio development mechanisms, including how the presence or absence of standards for setting staff sizes, decisions on staff sizes and total labor cost management exert downward pressures on costs, differ from sector to sector or from category to category, and differences are also found when looking into the details of real mechanisms.

Second, human resources-based models fall short of explaining the reality of employment portfolio development. Occupational fields, roles and skills may be specified for each employment format in advance, but they may change depending on workplace conditions and role sharing between regular and non-regular employees, as indicated by analyses of the supermarket and department store cases. This means that the occupational fields, roles and skills for each employment format may be decided on only after the distribution of all employment formats is fixed. Given the fact that jobs are allocated on an ex-post facto basis, the advanced categorization of employment formats using indicators based on human resources will cause some deviation between these patterns and realities, failing to sufficiently explain employment portfolio development realities.

The third point involves treatment for non-regular employees. Non-regular employees' undertaking of regular employees' jobs (qualitative utilization) and the expansion of occupational fields for non-regular employees have led to improved treatment for non-regular employees according to their real working conditions. This means that job allocation rules define wage allocation rules, and, as a result, the second hypothesis has also been verified. As noted in regard to the second point, jobs are actually allocated on an ex-post facto basis, and companies must always coordinate between the job allocation (real working conditions) and wages. Here, we can find the possibility of equal treatment being achieved between regular and non-regular employees or between non-regular employees.

Table 1 Types of Responsibility Center

Type	Content	Financial indicators (example)	Applicable example
Revenue center	Has responsibility for output measured in monetary terms	Sales	Company C store
Designed cost center	Has responsibility for rationally calculated costs used on labor, materials, electricity, etc., required to generate a fixed level of output	Costs	-
Discretionary cost center	Required costs cannot be rationally calculated, and are decided based on the judgment of management	Costs are not financial indicators	City Hall D Company H's central laboratory
Profit center	Has responsibility for profits remaining after costs have been deducted from income measured in monetary terms	Profit value	・Whole and branches of Company A ・Whole and branches of Company B ・Whole of Company C ・Whole of Company E ・Whole of Company H ・Whole and divisions of Company F ・Whole and divisions of Company G
Investment center	Has responsibility for profit obtained by fixed investment	Rate of return on investment	-

Source: Nakamura (2006) p.196 (revised partially)

5. Analysis Results

(1) Electrical Machinery Manufacturer G

We analyzed facts regarding employment portfolio development at the IT solution division of Company G. Analysis results are summarized into the following three points:

First, the division's employment portfolio is not developed solely depending on total labor cost management. As the division, as well as the others, is responsible for producing profit, while giving priority to cost reduction, it sometimes employs additional personnel if project progress is unsatisfactory. Furthermore, newcomers who won't be helpful for the immediate future are deployed at the division, forcing it to implement their education and training while managing projects. As a result, the division's employment portfolio development is not based only on total labor cost management.

The second point involves the characteristic structure of the division's employment portfolio. Each division is given a certain number of regular employees (and a certain level of personnel outlays), while salespeople try to win as many business orders as possible to achieve the division's profit target. As the number of regular employees is not linked to business operation volume (orders), the division may thus have a business operation volume that cannot be covered by regular employees alone. This is the reason for the division using non-regular employees, who come from subcontractors. At present, how they decide on any compartmentalization between regular Company G employees as the division's mainstay workers and those from subcontractors is still hypothetical. However, considering that project management is a role exclusive to regular Company G employees, an employment portfolio can be developed by project category under the following hypothesis:

Projects are divided into four categories – (1) new projects, (2) developing projects, (3) mature projects and (4) declining projects. In the first and second categories, priority is given to getting projects on track rather than producing profit. Therefore, regular employees who can take risks dominate the employment portfolio. In the third and fourth categories where projects are already on track, priority is given to profitability rather than risk-taking. Therefore, employees from subcontractors dominate the employment portfolio. The division also implements education and training of new regular employees while developing these employment portfolios. The first and fourth categories where the continuation of projects is limited are not suitable for educating new regular employees, while the second and third categories where the probability of projects continuing is rather high are viewed as suitable for education and training. Therefore, new employees are highly likely to be deployed into the second and third categories of projects.

The third point involves a role-sharing trend for each employment format. The number and costs of regular employees are given factors for the division but are not linked to actual business operation volume (business orders), which affects the roles of employees by their employment format. While project management is a role exclusive to regular Company G employees, a cap on the number of regular employees can make the roles of dispatched and subcontractor-employed workers closer to those of regular employees. However, the skills and conditions of subcontractors, as well as the need for labor cost cuts, influence employment portfolio development at the division, unlike the case with supermarkets, where only total labor cost management including non-regular employees defines the roles required for these employees[2].

[2] See the Supermarket A case in JILPT (2011) for details.

(2) Electrical Machinery Manufacturer F

We analyzed facts regarding employment portfolio development at the IT solution division of Company F, in the same manner as that for Company G. Analysis results are summarized into the following three points:

First, an employment portfolio is not defined only depending on total labor cost management. Company F's in-house companies and divisions are effectively profit centers, but Company F, though assessing its total labor costs (covering non-regular employees as well, the same hereinafter) from a macro perspective, has not persistently implemented what we call total labor cost management in this study. On a division level close to business fronts, the IT solution division's staff plan is based on product development programs with project profitability taken into account.

The second point involves the IT solution division's employment portfolio development process. Based on business plans (product plans), in-house companies and divisions submit regular employee requests to the corporate staff section in the headquarter. The headquarter checks the adequateness of the business plans and personnel requests, but basically approves the numbers of employees and business outlays as requested. The numbers of employees and outlays thus provided to in-house companies and divisions will be given conditions, with regard to those for regular employees. Then, the IT solution division considers market growth, project sizes and project profitability and deploys more workers (regular employees and workers from subcontractors) for more profitable areas. The process represents the division's selection and concentration.

Third, the division's employment portfolios differ depending on product profitability. If the second point stands, more regular employees and more workers from subcontractors may be deployed for more profitable products, while the division may have no room to deploy many costly regular employees for less profitable products, and workers from subcontractors may be deployed mainly for such products. At the IT solution division, employment portfolios thus differ depending on product profitability.

(3) Steelmaker H

At Steelmaker H, we analyzed facts involving the central laboratory's employment portfolio development. Analysis results are summarized into the following two points:

The first point concerns facts regarding employment portfolio development at the central laboratory. The central laboratory builds on business plans to work out a staff setup for the next fiscal year in a manner to review the present priority order. The annual review results in no major change in the central laboratory's staff setup, with researchers, who are regular employees, as its core and including regularly employed line workers and contract-based line workers. Amid a recession, however, line workers as regular employees are subjected to streamlining, causing labor shortages. If the laboratory gives too much priority to cost control in developing an employment portfolio, research operations may fail to make smooth progress and compliance problems (including deceptive contracting practices) may emerge. Therefore, the central laboratory's employment portfolio may characteristically be defined less by total labor cost control. This is because the central laboratory is a key division that may generate sources for future profit and corporate competitiveness. Through considerations and decisions by the management side, the central laboratory might have maintained the present employment portfolio dominated by regular employees.

Second, the central laboratory's employment portfolio is defined by various factors. Role-sharing between regularly-employed line workers and contract-based line workers indicates that regular employees are clearly separated from contract-based workers in three factors – (1) compliance, (2) business quality and (3) cost factors. In this way, the central laboratory's employment portfolio has been developed through a combination of various factors, and it is difficult to explain the laboratory's employment portfolio only with simple theories focusing on human resources, such as the human resources portfolio theories.

(4) Department Store E

Department Store E was established by merging between the Department Store (a) and (b) several years ago. Our analysis of Department Store E's case found the following three points:

First, the department store chain features the deployment of personnel based on post management. The company first decides on posts required for store management under a business strategy, and then decides how to deploy personnel through an annual review, while taking into account the number of posts, purchasing patterns, earnings and other factors. This means that the deployment of personnel (job allocation) including regular and non-regular employees is decided on through post management in advance. Personnel outlays (including those for non-regular employees) are calculated with average unit costs according to the number of posts and allocated to stores in advance.

Second, employment portfolios differ from store to store. While the Department Store E indicates prototypes based on purchase and sales characteristics, business strategies differ depending on regional characteristics and store histories. Therefore, stores' individual characteristics are reflected in the deployment of personnel. Although stores are under management by a single company, they each have different employment portfolios.

The third point is personnel treatment for fixed-term contract employees and the expansion of their occupational fields. The Department Store E's treatment system has been developed in a manner to take over defunct the Department Store a's system. Employees at defunct the Department Store b have thus shifted to the Department Store a's grade system where treatment is determined according to duties and roles. In the shift process, grades for all employees including regular and fixed-term contract workers were revised according to their respective duties. Fixed-term contract employees for sales from defunct the Department Store b were basically given the first grade, but it was found that some fixed-term contract employees were undertaking multiple and advanced jobs beyond the scopes of occupational fields and duties as indicated by the relevant grades. A company-wide panel considered the finding and decided to adjust the grades to the actual occupational fields and job details. This fact indicates that roles and occupational fields for non-regular employees are based on workplace conditions instead of being fixed in advance. As a result, their treatment is determined according to their roles and occupational fields.

6. Outline of Survey

This study has adopted a case survey. The survey is outlined by Table 2 giving an interview list. The survey comprised a total of 13 interviews at two electrical machinery manufacturers (G and F), a steelmaker (H) and a department store chain (E) from FY 2009 to 2011. In the survey, mainly human resources management experts of the head offices and specified departments were interviewed chiefly about personnel management and total labor cost control, including organization outlines, personnel portfolios, roles by employment format, and personnel management by employment format (including wages, working hours, promotion, labor management and education/training).

Table 2 Interview List (FY 2010～2012)

Date/time		Person interviewed	Interviewer	Details of Interview
Department Store E	24th August 2010 13:00-15:00 Labor union office	Secretary General I, Labor Union	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Conditions of Company E, progress in its non-regularization and the union's countermeasures, etc.
	12th November 2010 15.00-16.30 Head office	Director M, Personnel Division, Head Office Business Department Secretary General I, Labor Union	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Company E's personnel management approach, personnel deployment decision processes, etc.
	2nd November 2011 10.00-12.00 Labor union office	Secretary General I, Labor Union	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Company E's personnel management system, processes for determining treatments for fixed-term contract employees upon two firms' merger, the union's countermeasures, etc.
	22th November 2011 15.30-17.00 Head office	Director M, Personnel Division, Head Office Business Department	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Company E's personnel outlay and business plan preparation, etc.
	13th March 2012 13.00-16.30 Labor union office	Secretary General I, Labor Union	Kasumi NOMURA	Grades and occupational fields for regular and fixed -term contract employees, operation of treatment systems, new organizational and business reform efforts, etc.
Electrical Machinery Manufacturer F	10th September 2010 10.00-12.00 Head office	Acting Chief Y, Personnel/Employment Planning Group, Labor Relations & Personnel Department Acting Chief Y, Treatment Planning Group, Labor Relations & Personnel Department Member S, General Affairs Group, IT Solution Division	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Outline of Company F (organization and employment portfolios), human resource management in general (recruitment, wages, transfers, etc.), employment portfolios at the IT solution division, etc.
	11th January 2012 10.30-12.00 Head office	Acting Chief H, Labor/Employment Planning Group, Labor Department	Hodaka MAEURA	Determining the number of new employees, relations with group companies, etc.

Electrical Machinery Manufacturer G	13th September 2010 10.00-12.00 Head office	Director N, Project Support Department Manager S, Project Support Department	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Outline of Company G (employment portfolios), human resources management in general (recruitment, wages, transfers, etc.) , etc.
	28th October 2010 10.00-11.15 Head office	Manager S, Project Support Department Director T, IT Solution Division Project Department Group Manager F, IT Service Planning Headquarters	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	IT Solution Division personnel management, selection of outsourcing methods (dispatched works, employees from subcontractors) etc.
	September 2011 9.00-10.30 Head office	Director N, Project Support Department Manager S, Project Support Department	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	IT Solution Division conditions, relations with group and affiliate companies, etc.
Steelmaker H	9th October 2011 10.00-12.00 Head office	Chief S, Labor Relations Office, Labor Relations & Personnel Management Department Senior Member N, Research & Planning Department	Keisuke NAKAMURA Kasumi NOMURA Hodaka MAEURA	Outline of Company H, Central Laboratory personnel portfolios, research details, business plan and outlay preparation, etc.
	8th November 2011 16.00-17.00 Head office	Senior Member N, Research & Planning Department	Hodaka MAEURA	Standards for recruitment and deployment of Central Laboratory personnel (researchers, engineers), separation between regularly-employed line workers and contract-based line workers, etc.
	26th December 2011 14:00-15:00 Head office	Chief S, Labor Relations Office, Labor Relations & Personnel Management Department	Hodaka MAEURA	Company H's overall recruitment policy and categorization of employees, grounds for utilizing contract-based workers, etc.