

## **Study on the Current Status of the Employment Portfolio System: From the Perspectives of Manpower Management and Total Labor Cost Management**

### **Summary**

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#### **2. Period of research**

Fiscal 2009-2010

#### **3. Objectives of research**

This report aims to clarify the structures that promote the utilization of non-regular employment, based on a research of three retail companies and one local government. We conducted the research because it is thought that such structures regulate the combination (portfolio) of employment formats and the proportion of non-regular employees in companies.

Increase in non-regular employment, and the diversification in employment formats, mean that more and more non-regular employment is being used. It is hard to say, however, that the reasons behind this situation have been clearly understood, due to the fact that the structures that promote the use of non-regular employment are not clarified either. For this reason, the Institute is engaged in a research project entitled “Survey on the Current Status of the Employment Portfolio System in Japanese Companies,” as a sub-theme of our

“Comprehensive Research for Building Stable Labor and Management Relations in Individualized Labor Relations” research project. This report is a summary of the research results from fiscal 2009-2010.

This report has clarified the following four implications, based on the results of interview survey.

The first one involves future trends in the rate of non-regular employment. Companies prioritize financial indicators when deciding on number of staff needed (not including the number of regular employees hired; this definition applies hereinafter, too) and total labor costs (including costs of non-regular employment; this definition applies hereinafter, too), and stricter cost management will be required within this process. For this reason, while the number of regular employees is restricted (or even reduced), non-regular employment unavoidably increases in the workplace. Based on this structure, it is anticipated that rates of non-regular employment will continue to rise in the future.

The second implication is the two strategies that control non-regular employment rates at a certain level. The first of these is to compartmentalize division of jobs by employment format. If roles and job descriptions are clarified based on employment formats, and their operation is regulated, this equates to regulation of the use of non-regular employment. The second is the proactive appointment of non-regular employees and their transition into regular position. Within the process whereby non-regular employment becomes more significant, companies invest in education and training for these non-regular employees, while at the same time attempting to keep them within the organization, since acquiring similar human resources externally becomes difficult. This leads to the possibility that the transition of these employees into regular employees may increase, thereby regulating the utilization of non-regular employment at a fixed level.

The third implication relates to the working conditions of non-regular employees. As non-regular employment becomes qualitative utilization and employed as the core labor force, human resources systems are coordinated and working conditions will improve. However, even if non-regular employment becomes qualitatively significant as the core labor force, this will not necessarily lead to an immediate improvement in working conditions. This is shown in our research by the fact that in many cases, working conditions for non-regular employees improved based on requests from within the workplace. For this reason, there is a need to ensure that non-regular employees have the opportunity to express their opinions, and that management listens to these opinions, and continually review the working conditions of non-regular employees in the light of the work they are actually doing.

The fourth implication is to do with the increasing disparity within non-regular

employees. Among non-regular employees there are some who have good working conditions, and some who do not. The latter are very unlikely to have their hopes fulfilled even if they enter employment with the intention of being promoted to higher levels or appointed as regular employees. As the utilization of non-regular employment progresses, there is the potential for non-regular employees to become polarized. For this reason, the outstanding issue is how working conditions can be improved for the latter group.

The analysis results that provided these findings are explained below.

#### 4. Summary of research results

This report aims at clarifying structures that promote the utilization of non-regular employment, which allows the following four points to be summarized.

The first is the structure that regulates portfolios and rates of non-regular employment. The important thing in this issue is the responsibility center. The responsibility center expresses the characteristics of the indexes used by an organization to execute financial control. The types of responsibility center shown in Table 1 define the financial indicators used by organizations to provide objectives, and staff numbers and total labor costs are decided in order to achieve these objectives. Since, however, these numbers are not based on the volume of work to be done, adjustments are required, and any gap is made up by the utilization of non-regular employment. This structure therefore regulates a company's portfolio, as well as rates of non-regular employment.

The second is the trend in non-regular employment rates. As stated above, deciding on staff numbers and total labor costs based on financial indicators promotes the further utilization of non-regular employment, and is therefore expected to increase rates of non-regular employment in the future.

Table 1. Types of responsibility center

| Type                 | Content  | Financial indicator (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                         |
| Profit center             | Has responsibility for profits remaining after costs have been deducted from income measured in monetary terms | Profit value                       | Company A<br>Company B<br>Company C |
| Investment center         | Has responsibility for profit obtained by fixed investment   | Rate of return on investment       | -                                   |

The third is the background to the expansion of the area of work covered by non-regular employment and its qualitative utilization. The factor of needing to control (or even reduce) labor costs for relatively expensive regular employees lies in the background to the increasing use of non-regular employment, and has led to non-regular employees being increasingly required to play more important roles. These factors have led to the expansion of the area of work covered by non-regular employment and its qualitative utilization.

Fourthly, as a result of the third point above, various human resources systems are being organized to manage non-regular employment. As non-regular employment becomes more significant, companies are reorganizing their human resources systems to improve working conditions and allow such employees to be retained over the long term within the organization.

## 5. Results of analysis

### (1) Supermarket Company A

Chapter 2 gives examples from Supermarket Company A, which provided the following four findings.

The first is the factor regulating Company A's portfolio and rate of non-regular employment. Since the stores' management policy has changed from income center to profit center, Company A decides its number of staff needed and total labor costs in order to achieve its objectives (operating profit value). Since these numbers are not based on volume of work, however, there is a need to adjust for volume of work by utilizing non-regular employees to fill the gap. This structure defines Company A's portfolio and its rate of non-regular employment.

Secondly, it is possible to estimate that the rate of non-regular employment in Company A will rise. Based on the structure outlined above, in order for Company A to ensure profitability, it will begin to place more emphasis on training for part-timers. This will mean that part-timers take on even further significance, and it is assumed that the rate of

non-regular employment will rise, coupled with the reduction in labor cost.

The third point is the structure that promotes the expansion of the area of work covered by non-regular employment and its qualitative utilization. The structures indicated in the first point above not only promote the utilization of non-regular employment by Company A, but they are also reducing the number of regular employees. Since the volume of work in itself does not decrease, however, the roles required of non-regular employees expand, and there is a natural expansion of the area of work required in the workplace. This means that in addition to the policy to improve the strengths of part-timers at Company A, their qualitative utilization is increasing.

Fourthly, as a result of the third point above, human resources systems are being organized to manage non-regular employment. At Company A, part-timers have been undertaking a broader range of work in the workplace, but since the existing qualifications system for part-timers was not sufficient to train staff for the jobs they were required to do, human resources department began to hear complaints about the system from employees. It is likely that the qualifications system for Company A's part-timers was adjusted out of need to deal with this.

## (2) Supermarket Company B

Chapter 3 deals with Company B with an awareness of analysis based on a comparison with Company A. The three main analysis results are noted below.

Firstly, both Company B and Company A have similar structures that define their portfolios and rates of non-regular employment. Company B's number of staff needed and total labor costs are determined according to profit target, and are distributed among each of their stores. In order to meet its target, each store is required to increase its sales, and utilize area employees (part-timers within Company B). These aspects make up the portfolio and rate of non-regular employment.

The second is the factors behind the expansion of the area of work covered by non-regular employment and its qualitative utilization. In Company B, too, both the expansion of area of work covered by area employees and its qualitative utilization in significance are in progress, and this is because profits are prioritized (profit center) also in Company B stores. In other words, Company B has reduced the number of its regular employees and raised the rate of non-regular employment, while at the same time improving operations and handing on a certain amount of work that was previously done by regular employees to non-regular employees. This has expanded the area of work covered by non-regular employment and increased its qualitative utilization. It is not clear, however, whether this happened as a result of changes in the workplace, as is the case with Company A.

The third point is the human resources management of non-regular employees. The appointment practice in Company B, which has operated in response to requests from management in the workplace and has effectively appointed non-regular employees as regular or contract employees on an ad-hoc basis, was developed as a system. In other words, Company B had organized its human resources systems within the process of expanding the area of work covered by non-regular employment and increasing its qualitative utilization. This result is in line not only with the examples seen in Company B but also with those gathered by many preceding research projects.

### (3) Department Store Company C

The example of Department Store Company C, in Chapter 4, demonstrated the following three points. First is the structure that promotes the utilization of non-regular employment. Company C uses the labor cost/sales ratio as one of its objectives, and is therefore constantly under pressure to cut its budget for labor costs. As a result, this has promoted the utilization of non-regular employment, and it also regulates Company C's portfolio and its rate of non-regular employment. In other words, tightening labor costs as a result of demands to reduce costs has not only promoted the utilization of non-regular employment in the labor force, it has also promoted diversity of employment formats (regular employees, fixed-term contract employees, employees working shorter hours (Company C's part-timers), and agency staff).

Secondly, different stores within the company have different portfolios. This chapter includes a comparison of a large-sized model store located in urban area (a) and a small and medium-sized store located in suburban area (b). Store (a) has high sales, due to its superior location and scale, and based on relationships with its suppliers it is able to proactively recruit sales staff<sup>i</sup>(indirect recruitment). This has allowed it to reduce its proportion of direct-hire, non-regular employees. In comparison, store (b) is located in a suburban area, and has more restrictions on its business activities. It also finds it difficult to procure sales staff from customer makers as suppliers due to relationships with its suppliers, and has therefore built a portfolio based on direct-hire part-time staff.

Thirdly, differences in characteristics between stores mean that there are different job descriptions among fixed-term employees (fixed-term contract employees, part-time employees, etc.) At store (a), supplier characteristics (sales floor characteristics categorized according to the relationship with suppliers, such as joint or division of labor, etc.) and sales

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<sup>i</sup> As a feature of securing sales personnel in department stores in Japan, there is a dispatched sales personnel system from customer makers such as companies dealing in merchandise of apparel, cosmetics, accessories, furniture, house hold products and so on.

characteristics (characteristics categorized according to sales methods, such as availability or otherwise of consulting, product display, sales floor development etc.) have been used to adopt a company-wide standardized prototype for each shop floor, based on which the roles of staff in each employment format and the details of work are being allocated on a trial basis. As a result, fixed-term employees at store (a) are allocated tasks based on standardized divisions of labor (work content regulated according to employment format), whereas employees at store (b) have insufficient staff numbers, and therefore the work undertaken by fixed-term employees is more diverse than those at store (a), indicating an expansion of the area of work covered.

#### (4) City Hall D

The example of City Hall D demonstrated the following three points. Firstly, at City Hall D, labor-management relations factors have a significant impact on manpower management. Since there are no financial indicators regulating the total labor costs or number of staff needed within a local government, the management (mayor, etc.) must make decisions regarding these aspects. For this reason, local governments are required to efficiently allocate the human resources and budgets they are given (or limited to) within the organization, and therefore, labor-management consultation must be reflected within the workplace as far as possible when fixing the number of staff needed and total labor costs. The portfolio and rate of non-regular employment are decided based on this process.

Secondly, there is no thorough management of labor costs relating to non-regular employment. At City Hall D, since the appointment of non-regular staff and the management of labor costs budgets are left up to individual departments, there is a high possibility that individual departmental efficiency is prioritized over organizational efficiency as a whole. As a result, even if total labor costs (including costs for non-regular employment) are reduced, this may not ensure the efficiency within the organization.

Thirdly, there is the issue of expanding work areas covered by non-regular employees. Non-regular employees working for City Hall D are, as in previous examples, sometimes required to cover a scope of work in excess of that defined by the organization, resulting, in reality, in an expanded area of work. At City Hall D, however, since the scope of work covered by non-regular employees, and their roles, are allocated according to employment format type, and the operation of this system is regulated by the labor union, even if the area of work expands, it is unlikely that this will result in the increased qualitative utilization of non-regular staff.

## **6. Outline of survey**

The analysis methods used in this research involve case studies. An outline of the surveys is given in Table 2. The surveys were conducted a total of 15 times between fiscal 2009 and 2010, on two supermarkets (Company A and Company B), a department store (Company C) and a local government (City Hall D). The details of the survey included manpower management and total labor costs, covering organizational outline, manpower structures, division of roles by employment format, human resources management by employment format (wages, working hours, promotion, employment management, training and education), and interviews were made for human resources managers and management of specific departments (or offices).



Table 2. Interview List (FY 2009~2010)

|                                  | Date/time  | Person interviewed  | Interviewer  | Details of interview   |
|----------------------------------|--|---|--|--|
| Supermarket<br>Company A         | 9 <sup>th</sup> October 2009<br>10.00-12.00<br>Company A Head Office   | Leader H, HR Department<br>Manager A, HR Department                         | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Outline of Company A (manpower structure), overall human resources management (employment, wages, transfers, etc.), store management, etc. |
|                                  | 10 <sup>th</sup> June 2010<br>15.00-17.00<br>Company A Head Office     | Manager A, HR Department  | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Engagement with stores regarding the number of staff needed, structural reforms to Company A, etc.   |
|                                  | 10 <sup>th</sup> June 2010<br>17.00-19.00<br>Company A Head Office     | Manager A, HR Department<br>Leader D, HR Development Dept.                  | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Store management, engagement with the head office regarding the number of staff needed, authority of store managers (discretion), etc.     |
|                                  | 27 <sup>th</sup> August 2010<br>10.00-12.00<br>Company A Head Office   | Manager A, HR Department<br>Leader D, HR Development Dept.                  | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Creation of staff criteria in stores, store objective management, etc.   |
| Supermarket<br>Company B         | 20 <sup>th</sup> October 2010<br>15.00-16.00<br>Company B Head Office  | Director Y<br>Deputy Manager B, HR Department                               | Hodaka MAEURA                                      | Manpower structure at Company B, structures to manage the number of staff needed, overall HR management                                    |
| Department<br>Store<br>Company C | 4 <sup>th</sup> September 2009<br>10.00-12.00<br>Company C Head Office | General Manager K, HR Department<br>Deputy General Manager K, HR Department | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Outline of Company C (outline of business, manpower structure,) HR Management, etc.,   |
|                                  | 8 <sup>th</sup> February 2010<br>10.00-12.00<br>Company C Head Office  | Manager M, HR Strategy, HR Department                                       | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Setting budgets at Company C, management of total labor cost, HR management, etc.  |
|                                  | 10 <sup>th</sup> September 2010<br>14.00-16.00<br>Store (a) Office     | Store Manager T<br>Deputy Store Manager S                                   | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Manpower structure at Store (a), significance of store, etc.   |

| Date/time                        |   | Person interviewed  | Interviewer  | Details of interview  |
|----------------------------------|---|---|--|---|
| Department<br>Store<br>Company C | 26 <sup>th</sup> October 2010<br>10.00-12.00<br>Store (a) office  | Deputy General Manager S, Administrative<br>Department<br>Group Manager S, HR Group,<br>Administrative Department   | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Decision-making methods for staff<br>allocation in store (a)  |
|                                  | 17 <sup>th</sup> November 2010<br>15.00-17.00<br>Store (b) office | Deputy Store Manager and General<br>manager K, Business Promotion<br>Department<br>Section Clerk D, Administrative<br>Department  | Keisuke NAKAMURA<br>Kasumi NOMURA                  | Manpower structure at Store (b), staff plan<br>creation and decision-making in store,<br>shop floor prototypes and manpower<br>structure based on employment format,<br>details of work, etc.                           |
|                                  | 9 <sup>th</sup> February 2011<br>10.30-12.30<br>Store (b) office  | Deputy Store Manager and General<br>Manager K, Administrative Department<br>General Manager O, Second Sales<br>Department<br>Section Clerk D, Business Planning Section   | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Staff allocation and structures on 7 <sup>th</sup> and<br>8 <sup>th</sup> floor and makeup counters in store (b),<br>decision-making regarding roles and<br>remuneration of staff under different<br>employment formats |
| City Hall D                      | 9 <sup>th</sup> September 2009<br>10.00-12.00<br>City Hall D      | Manager O, HR Management,<br>Administrative Department<br>Assistant Section Chief K, HR<br>Management, Administrative Department<br>Senior Manager K, Quantitative<br>Management Department<br>Assistant Section Chief S, Quantitative<br>Management Department | Keisuke NAKAMURA<br>Kasumi NOMURA<br>Hodaka MAEURA | Outline of City Hall D (no. of staff,<br>manpower structure), HR management<br>overall (employment plans, wages, etc.),<br>and public sector reforms, etc.  |
|                                  | 22 <sup>nd</sup> June 2010<br>13.30-15.30<br>City Hall D          | Assistant Section Chief S, Quantitative<br>Management Department<br>Assistant Section Chief K, HR<br>Management, Administrative Department  | Hodaka MAEURA                                      | Specific details relating to “Survey on<br>Expectations Regarding Increasing and<br>Decreasing Numbers of Staff,”<br>management of progress relating to labor<br>costs, etc.  |
|                                  | 23 <sup>rd</sup> August 2010<br>13.00-15.00<br>City Hall D        | Secretary General O, Staff Labor Union  | Hodaka MAEURA                                      | Policies regarding developments in<br>non-regular staff, labor relations<br>negotiations relating to staff, etc.  |
|                                  | 23 <sup>rd</sup> August 2010<br>15.00-17.00<br>City Hall D        | Section Chief A, Quantitative Management<br>Department<br>Assistant Section Chief K, HR<br>Management, Administrative Department  | Hodaka MAEURA                                      | Budget formation (labor costs budget)<br>processes, relationship between staff<br>planning and HR management, etc.  |