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**EDITORIAL OFFICE**

The Japan Institute for Labour Policy and Training

International Affairs Department

8-23, Kamishakujii 4-chome, Nerima-ku, Tokyo 177-8502 Japan

TEL: +81-3-5903-6315 FAX: +81-3-3594-1113

Email: [jlrr@jil.go.jp](mailto:jlrr@jil.go.jp)

Homepage: <http://www.jil.go.jp/english/index.html>

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# Japan Labor Review

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NEXT ISSUE (Summer 2005)

The Summer 2005 issue of the Review will be a special edition devoted to **The Transition from School to Working Life: Changes is the Nature and Response to them.**

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## INTRODUCTION

### **Diversification of Employment and Human Resource and Personnel Management Issues**

The number of atypical workers — part-timer workers, temporary workers and fixed-term contract workers — has been increasing in Japan in recent years.

Part-time workers work fewer hours than regular employees and for statistical purposes are usually defined as “working less than 35 hours per week,” based on the definition used in the *Labour Force Survey* by the Ministry of Public Management, Home Affairs, Posts and Telecommunications.

Fixed-term contract workers are distinguished from regular workers because their employment is limited to a fixed period of time.

Employment provisions for temporary workers are regulated by the Temporary Workers Law. Employment contracts are drawn up between the worker and the temp agency and the worker works at the discretion of the company to which he/she has been sent by the temp agency.

According to the Ministry of Health, Labour and Welfare’s *General Survey of the Diversification of Employment Forms* (2003), around one-fourth of Japan’s workforce is composed of atypical workers, with the bulk being part-time workers. According to the *Labour Force Survey* (2003), there were 12.6 million part-timers and 2.13 million temp workers in 2002. The numbers for both types of workers have been rising in recent years. Furthermore, in a reflection of the diversification of personnel needs, regular employment is also becoming polarized with the appearance of two categories within this division of the work force. One category consists of workers in career-track jobs who engage in core tasks and who can be transferred. The other category is made up of workers assigned to non-career track jobs during which they engage in support tasks and are not transferred.

This issue of *Japan Labor Review* surveys academic papers that have investigated various personnel management issues that have developed from this polarization of employment forms.

The paper by Kazuya Ogura compares atypical employment

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internationally, noting the conceptual differences behind atypical employment in Japan, Europe and the United States. The problem that arises when comparing employment forms internationally is that different countries define the concepts differently. The term “atypical employment,” for example, has recently been used in European countries and in Japan, but not in the United States, where the terms “contingent” or “non-traditional” are generally used. Thus, the concept of atypical employment differs from country to country, making comparisons difficult. The key point is that in every country, while there are “conventional forms of typical employment” (in other words, full-time employment of regular employees without fixed-term contracts) and “conventional forms of atypical employment” (employment of part-timers and contract workers with fewer working hours), there are also “unconventional forms of atypical employment” and “unconventional forms of typical employment.” Japan has its own peculiar form of “unconventional atypical employment” that could be called “quasi part-time employment,” in which management treats workers as part-timers even though they work as many hours as full-time, regular employees and do not have fixed-term contracts.

Matching compensation to the type of work done by all these various sub-categories within the typical and atypical forms of employment becomes a problem for personnel managers. Using data from questionnaires and analysis of sample companies, Hiroki Sato and Yoshihide Sano show that the issues facing personnel managers in the future will be 1) appropriately combining diverse human resource measures that fit the company’s human resource program and the characteristics of its different job titles, and 2) providing fair and balanced compensation for workers who have different employment categories.

The existence of “unconventional atypical employment” results in part-time employees who reject differences in compensation between themselves and regular employees. Mamiko Ishihara and Takehisa Shinozaki’s statistical analysis of data from personal surveys notes that part-timers are less likely to accept the legitimacy of a wage gap with regular workers when their on-the-job responsibility is equivalent to that of regular workers despite their lower wages.

Meanwhile, companies using temp workers have increased in number

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following revisions to the Temporary Workers Law and the lifting of the ban on using temporary workers in the manufacturing sector. Motohiro Morishima and Tomoyuki Shimanuki note that what characterizes temp workers compared to regular employees and directly hired atypical employees is the structural framework that surrounds them. The structural framework for temporary workers is characterized by their working under two different managements — the temp agency and the company they are sent to work for — and that they have a short career perspective. According to Morishima and Shimanuki, the question for management is how to resolve the mismatches in human resource management that arise from this structural framework.

The manufacturing sector has traditionally used independent contractors, but now that the ban on temp workers in manufacturing workplaces has been lifted, independent contractors are being asked to increase the level of the services they provide or upgrade their management of those services. Makoto Fujimoto and Takuma Kimura have shown that independent contractors with stable and strong business results have established workplace management systems and personnel management systems for the utilization, evaluation and education of workers, but most independent contractors have yet to establish these systems.

Greater diversification of employment and human resources can be expected in the future. An eye should be kept on how Japanese companies resolve these personnel management issues surrounding atypical employment.

**Atsushi Sato**  
**Professor, Doshisha University**

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# **International Comparison of Atypical Employment: Differing Concepts and Realities in Industrialized Countries**

*Kazuya Ogura, Ph.D.*

*Vice Senior Researcher, The Japan Institute for Labour Policy and Training*

## **1. Objective and Scope of This Essay**

This essay seeks to compare and contrast atypical employment in Japan, the United States and countries in Europe; it does not intend to be an examination of a specific country or specific form of employment. The structure of the labor market and the broader environment determine how typical/atypical employment is conceptualized, and therefore its definition can differ depending on the country, region and approach of the person who is defining it. For the purpose of international comparisons, however, it is not necessary to be overly preoccupied with the definition of “atypical employment” at the onset. Given that “atypical employment” is conceptualized differently in different countries and regions, it is perhaps more productive to approach the question from a reasonably broad angle. The primary subject of this essay therefore is employment forms that are “atypical” (or “non-regular”) in relation to what is generally considered “typical” (or “regular”). Typical (or regular) employment is generally defined as “full-time employment in which the contract term is not limited,” and forms of employment not meeting this criterion are considered part of atypical or non-regular employment.

Diversification of the labor market has affected not only “employment” but also the borderline between “employed” and “self-employed.” Employment forms that contain characteristics of being self-employed — such as home-based and freelance work — should not be excluded from investigation simply because they do not neatly fall under the rubric of “employment,” and ideally this type of work should be covered in this essay as well. Such in-between forms of employment are increasing, and if their growth becomes a labor problem they should be treated as an independent research theme. However, the goal of this essay is to convey the main problems surrounding diversification of employment, focusing

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mainly on forms of atypical employment that are most prevalent.

In general, atypical employment can be classified into part-time work, agency work, fixed-term employment (temporary employment, daily employment and contract employment) and others (on-call work, telework, etc.). Of these, cross-country comparisons can only really be made for part-time employment, fixed-term employment and agency work as data about these work types exists. Therefore, only these three are fit for international comparison,<sup>1</sup> and focusing on them is perhaps the only viable way to internationally compare the conditions surrounding atypical employment.

Examining the differing concepts of atypical employment and discussing how it is used today in quantitative terms are the primary goals of this essay. There are commonalities and differences among Japan, the United States and European nations concerning the concept of atypical employment, and the first part of this essay takes up an exploration of these commonalities as well as differences. The second goal is an international comparison of the reality and trends in quantitative terms. This essay focuses on part-time employment, agency work and fixed-term employment, regarded as the most standard units for international comparison. The conclusion sums up issues for future investigation.

## **2. Concept of Atypical Employment**

### **2.1 Beginning of Atypical Employment and Development of the Debate**

The first thing to do is to briefly review the evolution of “atypical employment” since the establishment of capitalism.

According to Cappelli (1999), in the American industrial sector in the early 20<sup>th</sup> century, most people worked for businesses that contracted out instead of being directly employed by companies, and the job mobility rate among these workers was high. Corporate organization became more complex and sophisticated in the defense industry during World War I, and the need arose for personnel with in-house training. This led

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<sup>1</sup> See Suzuki (1998).

companies to gradually adopt the practice of direct employment on a long-term basis.<sup>2</sup> In other words, the present practice of typical employment, that is full-time employment without a fixed contract term, has been in existence only for less than a century.

Gaudu (1999) discusses the history of atypical employment in France. Fixed-term employment was actually a more stable form of employment in France in the early the 20<sup>th</sup> century. Upper-level workers in the private-sector were referred to as “clerks (white collar workers),” and companies hired them under fixed-term contracts to prevent them from switching jobs. In contrast, the majority of blue collar workers did not have a fixed contact term and therefore could be fired at anytime. Between 1928 and 1935, legislation and judicial precedent were enacted making it more difficult for companies to fire workers without prior notice, undermining the advantage of non-fixed-term contract for companies. Through labor-management agreements, companies paying dismissal allowances became established practice between 1945 and 1973, the amount of which was determined in proportion to the length of service, and employment stability therefore increased with the length of service. Consequently, employment with a non-fixed-term contract came to be seen as a more stable form of employment around the mid-1960s.<sup>3</sup>

The situation in Japan was similar to that in France prior to World War I. Sumiya (1964) has described the development of “temporary workers” as follows:

“There were two different categories among those who were employed under a fixed-term contract. Different from the “fixed-term workers” and “temporary workers” during the Showa period (1926-1989), there were “fixed-term workers” and “long-term workers.” The contrast was due to the fundamentally different conditions in the labor market during the two periods. As explained in the book *Shokko Jijo*, labor mobility was very high during the Meiji period (1868-1912). In response, companies improved working conditions

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<sup>2</sup> Cappelli (1999), p.4.

<sup>3</sup> Gaudu (1999), pp.7-8.

and offered fixed-term contracts to workers to secure skilled workers for a certain period of time. However, labor market conditions changed after WWI. Labor mobility diminished, and the main issue became dismissals. Under these circumstances, the meaning of a fixed-term worker became its opposite. Fixed-term workers gradually began to be referred to as temporary workers to better reflect their actual situation.”<sup>4</sup>

Sumiya’s discussion shows that the distinction between fixed-term and non-fixed-term employment existed prior to WWI, but the relationship between the two was the exact opposite of what is became during the Showa period and after, and fixed-term employment was a more stable form of employment.

Temporary workers momentarily disappeared in Japan due to labor shortages caused by the shift to war production, but direct employment of temporary workers by companies increased after World War II because of the 1948 Employment Security Law ban on labor brokering businesses. The special procurement boom during the Korean War led to a further increase in temporary workers. It was around this time that Umemura (1957) devised the term “peripheral workers” to describe those workers who responded to business cycles by exiting the labor market during recession and entering it during boom.

The debate on the internal labor market emerged in the United States in the 1960s, and a distinction was drawn between the internal (i.e. inside large corporations) labor market characterized by long-term full-time employment and the external labor market which was subjected to the market principle.<sup>5</sup> Around the same time, defining long-term stable employment as “core” employment and part-time and temporary employment as “peripheral” employment came into being.<sup>6</sup>

According to the international comparison of atypical employment

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<sup>4</sup> Sumiya (1964), p.89.

<sup>5</sup> See Doeringer and Piore (1971). Doeringer and Piore (1971), however, employ the primary-secondary labor market concept in addition to the internal-external labor market concept. It is used to describe the division in the labor market between white collar (primary labor market) and non-white collar (secondary labor market) workers.

<sup>6</sup> Morse (1969).

provided by Mangan (2000), the number of part-time workers mushroomed in the 1970s internationally when companies began downsizing, and agency workers and fixed-term workers increased after the 1980s.<sup>7</sup>

Historically speaking, “typical employment” (i.e. long-term stable employment) — the opposite of what is known as “atypical employment” today — is a relatively new concept. It seemed to have been treated distinctively in Japan and France in the early 20<sup>th</sup> century under fundamentally different situations. Internationally, long-term stable employment forms began to take root amidst the economic activities and business fluctuations after WWII, and such employment forms as fixed-term employment, part-time employment and agency work emerged accordingly.

## **2.2 Typical Employment in Japan, the United States and Europe**

It is necessary to discuss how the concept of typical employment differs in Japan, the United States and in different countries in Europe before examining the overall concept of typical employment. Suzuki (1999), a leading expert on the subject, has developed a comparative diagram (See Table 1). The diagram shows that the specifics of atypical employment in Europe, the United States and Japan differ, even though “long-term full-time employment” is one of the main features of typical employment for all countries.<sup>8</sup>

In the Anglo-Saxon model, the employment contract is based on the principle of voluntary contract (employment-at-will). The level of employment protection is low, and therefore the work force is fairly mobile. Typical employment entails such benefits as health insurance, pension and paid leave. Since employment contracts are individually concluded, typical employment is never guaranteed by collective bargaining.

The European model has strong employment protection supported by legislation and collective labor agreements, and labor mobility is generally low. Health insurance and pension are part of public social security in some parts of Europe and therefore cannot be discussed as common

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<sup>7</sup> Mangan (2000), p.2.

<sup>8</sup> See Suzuki (1999).

features of typical employment. Moreover, the working conditions of typical employees (wages, working hours, employment security, etc.) are determined through collective bargaining.

**Table 1. Comparison of Typical Employment in Industrialized Countries**

	Anglo-saxon model U.K., U.S.A.	European model France	Japanese model Japan
Main features	<ul style="list-style-type: none"> <li>-Long-term employment</li> <li>-Full-time work</li> <li>-Individual employment contract with the employer (employment at-will)</li> <li>-Mutuality of obligations</li> <li>-Little employment protection</li> <li>-High mobility of workers</li> </ul>	<ul style="list-style-type: none"> <li>-Long-term employment</li> <li>-Full-time work</li> <li>-Strong employment protection (collective agreement, legislation)</li> <li>-Emphasis on collective rights (subordination)</li> <li>-Limited mobility of workers</li> </ul>	<ul style="list-style-type: none"> <li>-Long-term employment</li> <li>-Full-time work</li> <li>-Employment protection via social norms (custom and jurisprudence)</li> <li>-Internalized career system</li> <li>-Limited mobility of workers</li> </ul>
Basis for employment protection	-Custom	<ul style="list-style-type: none"> <li>-Legislation</li> <li>-Collective agreement</li> </ul>	-Custom and jurisprudence
Main benefits	-Fringe benefits (health/pension/leave)	-Employment security	<ul style="list-style-type: none"> <li>-Career system</li> <li>-Fringe benefits (bonus, housing, etc.)</li> </ul>
Industrial relations	-Not related	-Related	-Related in large firms
Exclusions	<ul style="list-style-type: none"> <li>-Minorities</li> <li>-Youth</li> </ul>	-Youth	<ul style="list-style-type: none"> <li>-Women</li> <li>-Aged workers</li> </ul>
Problem areas	-Growth of low-paid jobs?	-Unemployment? (demand for deregulation)	-Changing social norms? (major restructuring in large firms)

Source: Suzuki (1999).

In Japan, strong employment protection is supported by jurisprudence and established as a social norm. For this reason, typical employment is secured largely through collective bargaining, especially at large, unionized corporations. The most distinctive feature of Japanese typical employment is its internal career development system in which regular employees develop their careers through OJT after being recruited directly from school.

As noted above, typical employment is not uniform in Japan, Europe and the United States in terms of employment protection, mobility of workers, fringe benefits and the role of collective bargaining. Therefore it

can be assumed that the term atypical employment will also embody a considerable range of differences. The following sections will examine the representative conceptual categories of atypical employment in Japan, European countries and the United States, and discuss their similarities and differences.

### **2.3 Concept of Atypical Employment in the United States**

In the United States, the term “atypical,” which is used mainly in Europe, is rarely used. Instead, “contingent” has been used since the 1980s, and “non-standard,” a more all-embracing term, has been used more widely in recent years. It is said that the term “contingent” came into usage first in 1985 when the labor economist Audrey Freedman used it in Congress (the Employment and Housing Subcommittee). Freedman defined “contingent work” as “conditional and transitory employment arrangements as initiated by a need for labor — usually because a company has an increased demand for a particular service or product or technology, at a particular place, at a specific time.”<sup>9</sup>

Polivka, Cohany and Hipple (2000) of the U.S. Bureau of Labor Statistics have classified non-standard work in the United States into several conceptual categories.<sup>10</sup> Their schematization is more all-embracing than the concept of contingent workers and consists of the following eight categories:

- 1) Agency temporary workers
- 2) On-call workers
- 3) Contract company workers
- 4) Direct-hire temporary workers
- 5) Independent contractors
- 6) Regular self-employed (excluding independent contractors)
- 7) Regular part-time workers
- 8) Regular full-time workers

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<sup>9</sup> Hipple (2001), p.3.

<sup>10</sup> See Polivka, Cohany and Hipple (2000).

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The first six categories include both full-time and part-time workers. The first category includes workers employed by worker-dispatching agencies; the second category concerns workers employed directly by companies who work only when they are “called up,” for example, construction workers and substitute teachers. The third category contains workers employed by companies contracted for certain tasks by other companies (advertising agencies, law firms, etc.). The fourth is temporary workers hired directly by companies, while the fifth includes freelancers and consultants. The sixth is very similar to the fifth, but this group is self-employed in the more traditional sense, possessing the characteristics of a business owner. The seventh includes those who do not fall into any of the other categories and work less than 35 hours per week. The eighth category is “standard,” or “typical” workers.

Such schematization is helpful in grasping the present breakdown of atypical employment in the United States. The categories, however, have been created in a mutually exclusive fashion for the purpose of statistical analysis, and the distinction between the fifth and the sixth is rather tenuous. Moreover, home-based workers and multiple jobholders remain unclear in this categorization scheme even though these employment forms exist in the United States as well as in Japan and Europe.

## **2.4 Concept of Atypical Employment in Europe**

In contrast to the term “contingent” in the United State, there is no definitive theory on the origin of the term “atypical” which is regularly used in Japan and Europe. According to Shimada (1991), the Code du travail, the French labor law, stipulates that a “labor contract without fixed contract term is considered typical” (Article L121-5),<sup>11</sup> and it is thought that the phrase “atypical labor contract” was first used to refer to fixed-term labor contracts and agency work after the 1980s. (Discussion about these types of workers already existed in the 1970s.) One possibility is that “atypiques,” from the French “Contrats de travail atypiques (atypical labor contract),” was rendered into English as “atypical” and its usage has spread in Europe as well as Japan.

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<sup>11</sup> Shimada (1991), pp.4-5.

It is difficult to discuss atypical employment in Europe as a whole. To start with, Europe includes many nations. Moreover, labor-management relations play a central role in Britain and Northern Europe whereas legal regulations play the dominant role in shaping employment in countries such as Germany and France, and this creates different aspects of atypical employment within Europe. The scope of this essay is too limited to discuss features of atypical employment in each European nation. This essay therefore will focus on presenting the big picture of conceptual categories of atypical employment in Europe (mostly EU member nations before its enlargement in May 2004) by drawing upon major works on the subject.<sup>12</sup>

### **1) Part-time Employment**

There are essentially two definitions for full-time/part-time employment. One is an institutional definition deriving from laws and labor agreements, and the other is a definition used for statistical purposes. Moreover, not all countries have an institutional definition, and among those countries with such a definition, there may be differences concerning the statistical definition. According to the institutional definition in Austria, France, Germany, Greece, Italy, Luxemburg and Spain, workers who work fewer hours than regular (full-time) workers are considered part-time workers. In France, part-time workers were once considered those whose working hours were “less than four-fifths of a full-time worker,” but, with the introduction of the second Aubry Law in January 2000, the European Commission’s definition stipulated in December 1997 has been adopted (“workers whose working hours are shorter than regular workers”). Accordingly, an increasing number of countries have been adopting the 1997 European Commission directive. Holland also has a collective labor agreement which defines workers with working hours of less than 12 hours per week as “small part-time workers” and those who work more than 12 hours but less than 35 as “large part-time workers.”

There are four main statistical definitions of part-time workers: “workers with weekly working hours of less than 35 hours,” “workers

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<sup>12</sup> For example, Meulders, Plasman and Plasman (1994) and Suzuki (1998).

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with weekly working hours of less than 30 hours,” “workers who report themselves as such,” and “workers whose working hours are less than regular workers.” Because the OECD changed its definition in 1997 to “workers with weekly working hours of less than 30 hours” from “workers with weekly working hours of less than 35 hours,” it is likely that some countries will change their statistical definitions in accordance with the OECD definition.

## **2) Fixed-term Employment**

Fixed-term employment is literally employment in which the contract term is fixed. Some countries have different regulations concerning fixed-term employment, which can be divided as follows: the nature of fixed-term work must be temporary (Germany, France, Italy, Luxemburg and Spain); there is an ceiling on how long the contract can be (Germany, France, Belgium, Italy, Luxemburg, Portugal and Spain); and there is an ceiling on the length or frequency of contract renewal (Germany, France, Belgium, Italy, Greece, Luxemburg, Portugal and Spain).

## **3) Agency Work**

Agency work refers to employment involving the worker, the dispatching agency which employs the worker, and the client company to which the worker is dispatched.

Although there are differences among the countries concerning agency work regulations, they can be divided into the following three groups according to recent studies on agency work in Europe: countries with no special legislation (Denmark, Finland, Ireland and Britain); countries with basic legislation (Austria, Germany, Luxemburg, Holland, Norway, Spain and Sweden): and countries with basic legislation as well as regulations on the status of agency workers (Belgium, France, Italy and Portugal).<sup>13</sup>

## **4) Shift Work, Night Work and Holiday Work**

Working hours that fall outside the “regular” Monday through Friday, 9:00 a.m. to 5:00 p.m. framework are sometimes considered “atypical

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<sup>13</sup> See EIRO (1999).

work” in Europe. This is due to the idea that shift work, night work and holiday work should be considered “unsocial forms of employment.” The *Labour Force Survey* by Eurostat contains data on such work broken down by country.

### **5) On-call Work**

Italy and Holland, like the United States, have on-call work, an employment form in which workers are registered with companies and only work when they are “called up.”

### **6) Vocational Trainees and Employment Created by Employment Policy**

Those who work at corporations in exchange for being trained and who receive very low pay while receiving vocational as well as regular education in school are considered “atypical workers” as well. This mainly applies to young people. Germany’s Dual System is the most widely known example of such a work-education system, and a relatively large number of countries in Europe have introduced such a system in response to growing numbers of unemployed youth since the 1970s. Moreover, European countries with relatively high unemployment rates, such as France, Belgium, Germany, Ireland, Luxemburg and Holland, have a category of workers that has been created by employment policy and who are treated differently in the wage, tax and social security systems than regular workers. French employment statistics separate those in “subsidized employment in the public sector” and “subsidized employment in the private sector” from regular employees.

### **7) Home-based Work**

Home-based work involves processing orders from specific companies but not directly selling products in the market, and it is therefore treated as “atypical work.” At-home piecework, which has been traditionally done in Japan, telework and SOHO also fall under this category. It is difficult, however, to distinguish these workers from, for example, the self-employed.

## 8) Self-employed and Family Workers

In Eurostats' *Labour Force Survey*, employers are divided into two groups: those with one or more employees (employers), and those with no employees (the self-employed). The latter are sometimes lumped together with "atypical employment." As in Japan and the United States, family members working for self-employed people are also referred to as family workers in Europe.

### 2.5 Concept of Atypical Employment in Japan

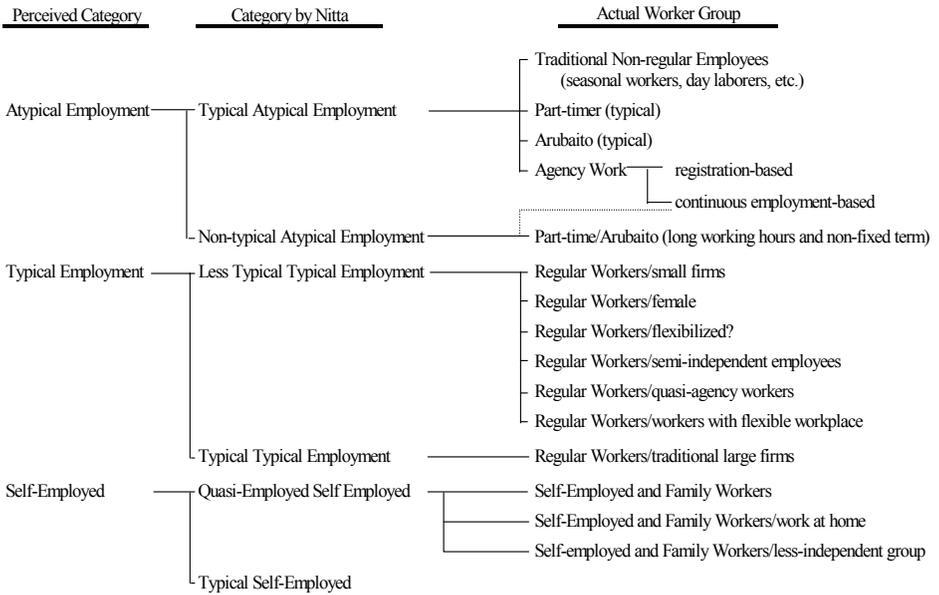
Nitta (1999) discusses the distinction between typical and atypical employment in Japan<sup>14</sup> As seen in Figure 1., he posits that regular workers at small firms, who are less likely to resort to litigation when dismissed (and therefore have little employment protection); female regular workers, whose length of service is in general expected to be shorter than those of their male counterparts due to de facto differences in treatment (for example, promotion); and regular workers whose place of work changes frequently (construction workers, etc.) should be considered "less typical, typical workers" even when accepting the general definition of typical employment, that is, "full-time employment without fixed contract term." Furthermore, he places part-time and casual (*arubaito*) workers whose working hours are long and contract terms are not fixed into the subcategory "non-typical, atypical workers."

In addition, his schematization has such unique categories as "quasi-self-employed" and "quasi-employed self-employed." The former includes workers such as sales agents for insurance companies who do not work in the office, and the latter includes "family workers," owners of very small construction firms, and long-haul truck drivers. In analyzing these two categories, it is necessary to approach the question from the perspective of the "work" rather than "employment," while at the same time considering employment, economic and industrial policies.

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<sup>14</sup> See Nitta (1999).

**Figure 1. Atypical and Typical Employment in Japan**



Source: Nitta (1999).

## 2.6 Concept of Atypical Employment in Japan, the United States and Europe: Similarities and Differences [See Figure-2]

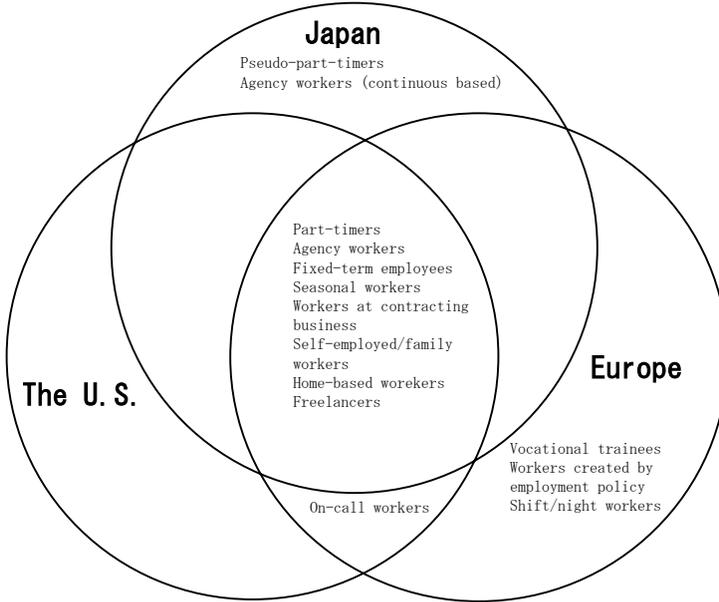
What are the similarities and differences among atypical employment in Japan, the United States and Europe? Based on the various aspects discussed so far, there is one major difference between Europe and the United States. In the United States, there is virtually no legal regulation regarding employment forms and working conditions, and different employment forms emerge out of given labor market environments and become de facto standards. In Europe, in contrast, legal regulations play a dominant role. There are of course variations among the European nations, but many of them place legal regulations on atypical employment forms. Moreover, Europe has categories of atypical employment which do not exist in the United States and Japan, such as vocational trainees and employment created by employment policy. Relatively speaking, institutions and policy greatly influence the shape of atypical employment

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in Europe. Europe also has a very distinctive idea about atypical employment as seen by the phrase “unsocial forms of employment.” In the United States and Japan, night work and shift work are regarded as typical employment because they are full-time and long-term. As noted often, there is a form of atypical employment in Japan that can be confusing to European and American observers (pseudo-part-time workers). Even though this type of work is generally referred to as “part-time/causal work,” the number of hours involved are the same as “full-time” work. Moreover, the Japanese category of agency work contains subcategories known as “continuous employment-based” and “registration-based”, with the former being extremely similar to typical employment (agency work generally refers to short-term employment for a period not exceeding a few months in the United States and Europe).

If legal issues and regulations are put aside, employment forms such as part-time employment, agency work, fixed-term employment, contract company work and self-employment are similar in all three regions. These employment forms are by and large products of changes in the labor market environment, and in this respect, there is perhaps more convergence than divergence. Excluding pseudo-part-time workers in Japan, part-time workers are defined as those whose working hours are shorter than typical workers. Japan, the United States and European countries share the definition of agency work as employment arising from the tripartite relationship — worker, dispatching agency and client company. They all define contract company workers as those who do not have employment relations with their actual workplaces. Fixed-term employment is referred to differently, but its main characteristic is the same: employment in which the contract term is limited. Moreover, the categories “self-employed,” “freelancer” (including multiple jobholders) and “home-based worker” exist in all three regions. “On-call workers,” as seen in Europe and the United States, are not common in Japan, but their characteristics seem very similar to the “registration-based” type agency workers in Japan.

**Figure 2. The Concept of Atypical Employment: Similarities and Differences**



### **3. Atypical Employment: Current Situation and Trends**

Of the different categories that make up atypical employment, this section focuses on part-time employment, agency work and fixed-term employment and evaluates the current situation and trends concerning each. These three are the only categories that can facilitate mutual comparisons taking into consideration the availability of data.

#### **3.1 Part-time Employment**

The OECD's *Labour Force Statistics* makes it possible to compare the ratio of part-time workers among member nations. Table 2 shows how the ratio has changed between 1983 and 2002. The Japanese *Labour Force Survey* defines Japanese part-timers as those who work less than 35 hours per week and are for workers in other countries as those who work less than 30 hours per week. Looking at the data over the past 20 years,

**Table 2. Ratio of Part-time Workers to Total Number of Employed (Male and Female, %)**

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Holland	18.5		19.5	19.5	26.4	26.9	27.7	28.2	28.6	27.3	27.9	28.9	29.4	29.3	29.1	30.0	30.4	32.0	33.0	33.9
Japan	16.1	16.4	16.6	16.8	16.6	16.9	17.6	19.2	20.0	20.4	21.1	20.4	20.1	21.8	23.3	23.6	24.1	22.6	24.9	25.1
Britain		19.6	19.7	20.2	20.8	20.5	20.2	20.1	20.7	21.5	22.1	22.4	22.3	22.9	22.9	23.0	22.9	23.0	22.7	23.0
Belgium	9.8	10.8	11.5	11.7	12.5	12.7	13.0	13.5	14.6	14.3	14.7	14.6	14.6	14.8	15.0	15.6	19.9	19.0	17.0	17.2
Ireland	8.0	7.9	8.1	8.3	9.0	9.6	9.4	10.0	10.4	11.3	13.1	13.5	14.3	14.1	15.0	17.6	17.9	18.1	17.9	18.1
Canada	16.9	16.8	17.2	17.0	16.8	17.0	16.8	17.1	18.3	18.7	19.3	19.0	18.9	19.2	19.1	18.9	18.5	18.1	18.1	18.7
Germany	13.4	11.0	11.0	11.2	11.0	11.4	11.6	13.4	11.8	12.3	12.8	13.5	14.2	14.9	15.8	16.6	17.1	17.6	18.3	18.8
Denmark	20.6	21.2	20.3	19.6	19.9	19.0	18.9	19.2	18.7	18.9	19.0	17.3	16.9	16.6	17.2	17.1	15.3	16.1	14.7	16.2
France	10.3	11.2	11.7	12.6	12.5	12.6	12.1	12.2	12.0	12.6	13.2	13.8	14.2	14.0	14.8	14.7	14.6	14.2	13.8	13.7
Sweden				16.8	16.0	15.2	14.5	14.6	15.0	15.4	15.8	15.1	14.8	14.2	13.5	14.5	14.0	13.9	13.8	
The U.S.	15.4	14.6	14.4	14.6	14.4	14.2	14.1	13.8	14.4	14.4	14.4	14.3	14.1	14.0	13.6	13.4	13.3	12.9	13.1	13.4
Italy	8.0	7.8	7.9	8.1	8.5	8.6	9.0	8.9	9.0	10.0	10.0	10.0	10.5	10.5	11.3	11.2	11.8	12.2	12.2	11.9
Finland	8.3	8.4	8.3	8.1	8.1	7.4	7.7	7.6	7.9	8.1	8.9	8.9	8.7	8.5	9.3	9.7	9.9	10.4	10.5	11.0
Spain				5.0	5.0	5.0	4.5	4.6	4.4	5.3	6.0	6.4	7.0	7.5	7.9	7.7	7.8	7.7	7.8	7.6
South Korea				5.2	4.5	4.5	4.5	4.5	4.5	4.8	4.5	4.5	4.3	4.3	5.0	6.7	7.7	7.0	7.3	7.6

Notes: 1. Part-time workers are defined as employees whose working hours are less than 30 hours per week (35 hours for Japan).

2. The figures for Germany up to 1991 concern only the former West Germany; figures from 1991 are for a unified Germany.

Source: OECD, *Labour Force Statistics 1982-2002* (2003).

differences among the countries can be observed: the ratio of part-time workers is increasing (Holland, Japan, Belgium and Ireland); the ratio is increasing in a relatively modest fashion (Britain, Canada, Germany, France, Italy, Finland, Spain and South Korea); there is a downward trend in the ratio of part-time workers (Denmark, Sweden and the United States). The proportion of female workers to all part-time workers is 83.7 percent in Germany, 79.5 percent in France, 78.8 percent in Britain, 68.2 percent in the United States, 67.0 percent in Japan, and 58.3 percent in South Korea respectively.

### 3.2 Agency Work

Originating in the United States in the 1920s, legislation regulating agency work was implemented in Germany and France in 1972 and in 1986 in Japan, and the laws regarding this type of work have undergone substantial changes.<sup>15</sup> It is very difficult to make a rigorous cross-national comparison on agency work because, as mentioned above, some countries have legal regulations while others do not. The comparison presented in this section therefore should be viewed as a compilation of various statistical figures based on the different definitions adopted in respective countries.

Table 3 shows the percentage of agency workers as they are defined in each country. Although it is difficult to directly compare these national figures with each other, the ratio of agency workers to the total number of employed is more or less around 1.0 percent, not too high. What is significant though is that the ratio is showing an upward trend in every country and is expected to continue to increase. The figure for Japan is from *The Special Survey of the Labour Force Survey* issued in February 2000, but the same survey from August 2001 shows 0.9 percent, indicating an upward trend in Japan as well.<sup>16</sup>

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<sup>15</sup> On agency work, see Fujikawa (1998), Japan Institute of Labour (1997), and EIRO (1999).

<sup>16</sup> *The Special Survey on the Labour Force Survey* defines them as “dispatched workers from temporary labor agencies.”

**Table 3. Ratio of Agency Workers to Total Number of Employed in 1999 (Male and Female)**

	Ratio of Agency Workers to Number of Employed (%)	Pattern of Growth
Austria	1.0	++(since 1993)
Belgium	1.4	++
Denmark	0.2	+
Finland	0.4	++ (15% annual growth rate)
France	1.9*	++ (35.7% in 1997-98)
Germany	0.6	+
Italy	No Data	++ (since 1998)
Holland	2.5	++ (20% average annual growth rate in 1993-97)
Norway	0.5	+
Portugal	0.5	+
Spain	0.6	++ (since 1999)
Sweden	0.4	++ (50% annual growth rate)
Britain	1.0	++
The U.S.	2.4**	++ (rapid increase since the 1980s)
Japan	0.7***	++

**Notes:** \*The French ratio is based on figures that have been recalculated into full-time figures.

\*\*The figure for the United States is for 1998.

\*\*\*The figure for Japan is for 2000 (0.67% to be exact).

**Sources:** For Europe, EIRO (1999).

For the United States, Fujikawa (1998).

For Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, *The Special Survey of the Labour Force Survey of Japan*, February 2000.

### 3.3 Fixed-term Employment

It is also difficult to conduct a cross-national comparison on fixed-term employment in a strict sense. In particular, the United States presents a challenge as its definition of fixed-term employment is different than that used in Europe and Japan. However, with respect to the ratio of contingent workers (shown in Table 4), which is a more narrowly-defined category than fixed-term workers, the ratio really did not change between 1997 and 1999. In Europe, the percent of this type of worker increased only in Holland, with the ratio decreasing in all the other countries in 2002. The ratio was below 10 percent in Belgium, Denmark, Italy and Britain and over 10 percent in the other European countries. In Japan, the ratio is

**Table 4. Ratio of Fixed-term Employees to Total Number of Employed (Male and Female)**

(Unit: 1,000 people; %)

	1992			1997			2000			2002		
	Number of Fixed-term Employees	Number of Employed	Percentage	Number of Fixed-term Employees	Number of Employed	Percentage	Number of Fixed-term Employees	Number of Employed	Percentage	Number of Fixed-term Employees	Number of Employed	Percentage
Belgium	153	3,097	4.9	199	3,177	6.3	311	3,459	9.0	261	3,427	7.6
Denmark	259	2,353	11.0	269	2,423	11.1	251	2,468	10.2	222	2,497	8.9
Germany	3,401	32,863	10.3	3,652	31,448	11.6	4,088	32,375	12.6	3,854	32,252	11.9
Spain	3,063	9,144	33.5	3,239	9,630	33.6	3,691	11,487	32.1	4,080	13,095	31.2
France	1,941	18,709	10.4	2,518	19,296	13.0	3,002	20,724	14.5	2,994	21,312	14.0
Italy	1,132	14,907	7.6	1,173	14,316	8.2	1,523	15,033	10.1	1,559	15,785	9.9
Holland	570	5,861	9.7	717	6,296	11.4	960	6,959	13.8	1,030	7,220	14.3
Britain	1,194	22,109	5.4	1,683	23,101	7.3	1,629	24,427	6.7	1,508	24,978	6.0
The U.S.	—	—	—	2,385	120,247	2.0	2,444	124,444	2.0	—	—	—
Japan (based on <i>The Employment Status Survey</i> )	5,890	48,605	12.1	6,486	51,147	12.7	—	—	—	7,856	50,836	15.5
Japan (based on <i>The Special Survey on the Labour Force Survey</i> )	5,250	46,640	11.3	5,940	49,630	12.0	6,470	49,030	13.1	—	—	—

**Notes:** 1. The figures for European countries are those for “temporary employment or employment for a fixed period” including seasonal workers, dispatched workers and contract workers.

2. The figures for the United States are based on the narrowest of the three definitions of fixed-term employment and calculated by excluding the self-employed and individual contractors from workers who both meet the definition of contingent workers (workers “without contract either explicitly or implicitly promising continuous employment”) and “have been in the present position for less than a year and whose employment contract is expected to continue for no more than one year.” The figures are for 1997 and 1998.

3. The figures for Japan are the sum of those working on a “temporary employment” basis (employment period of more than one month but not exceeding one year) and “daily employment” (employment period of less than one month) irrespective of what they are called. Therefore, the figures include those who are called regular employees, part-time workers and agency workers. The number of employed does not include corporate executives.

**Sources:** For European countries, EUROSTAT, *Labour Force Survey*.

For fixed-term employees in the United States, Hipple, Steven (2001). For the total number of employed, figures for December of each year taken from the Bureau of Labor Statistics website.

For Japan, Statistics Bureau, Ministry of Internal Affairs and Communications, *The Employment Status Survey and the Special Survey of the Labour Force Survey of Japan*.

showing a slight increase. The ratio of agency workers (using the Japanese definition) was a little over 15 percent in 2002, showing an increase.

#### 4. Conclusion and Issues for the Future

This essay has compared, albeit somewhat casually, the concept behind and internationally comparable categories of atypical employment in Japan, the United States and Europe. When looked at individually and rigorously, there are certain differences among nations and regions, but the overall long-term trend seems to be that atypical employment will continue to increase. I would like to conclude by touching upon issues and studies that have not been discussed in this essay.

First, data and studies are available for a more detailed examination of the specific situation in each country and region. For example, in the United States there are surveys on contingent workers, and detailed data about them exists.<sup>17</sup> Moreover, there are studies on the reasons behind the increase in contingent and part-time workers.<sup>18</sup> In Europe, *The Labour Force Survey* by EUROSTAT is extremely important. In the 2002 edition, the latest edition available at the time of this writing, data on fixed-term and part-time workers are compiled and sorted by age group, educational background, industry, occupation and individual reason, along with information on side jobs, holiday work, night work and shift work. Information concerning fixed-term employment and agency work in individual European countries also exists.<sup>19</sup> In Japan, the Ministry of Health, Labour and Welfare compiled *The General Survey on Diversified Types of Employment* for 1987, 1994, 1999 and 2003. By using these surveys together with the Ministry of Public Management, Home Affairs and Telecommunications survey used in this essay, one can draw a more detailed picture of the actual situation surrounding atypical employment.<sup>20</sup> Furthermore, the study by Furugori (1997) is very insightful on atypical employment in Japan.

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<sup>17</sup> For example, Baker and Christensen ed. (1998), Hipple (2001), Carré, Ferber, Golden and Herzenberg ed. (2000), and Nakakubo and Ikezoe (2001).

<sup>18</sup> For example, Houseman (2001) and Tilly (1991).

<sup>19</sup> Industrial Relations Services (1997b) and (1997c), and EIRO (1999).

<sup>20</sup> Sato (1998) and Ogura (1999) are based on recalculations of statistical data in this survey.

Some studies have attempted to do an international comparison of atypical employment forms. For instance, the 1996 edition of *The Employment Outlook* by the OECD contains a comparison of temporary jobs, and a comparison of part-time and full-time employment can be found in the 1999 edition. There is also a comparative study on German and French laws with specific reference to part-time labor regulations.<sup>21</sup>

Mangan (2000) analyzes atypical employment in Europe, Japan, the United States and Australia. The series of works by Suzuki (see Reference) are important. They approach the subject from the same angle as this present essay and offer certain perspectives on the increase of atypical employment and its effects from an international viewpoint. In addition, there is the study by Auer and Cazes ed. (2003), which compares employment flexibility in Japan, the United States and Europe.

In Japan, equal treatment for part-time workers, utilization of regular employees with shorter working hours, and work-sharing schemes to facilitate diverse work styles will be increasingly important policy issues in the future. For this reason, additional research on atypical employment should be conducted. The OECD (1996) compares typical employment and atypical employment in terms of their contribution to employment growth rate.<sup>22</sup> It will become important to produce accurate and rigorous international comparisons on issues, including the one addressed by the OECD study. To facilitate such efforts, it is crucial to improve statistical data in addition to comparative studies of legal institutions (labor law, social security system, tax systems, etc.) and labor-management relations concerning atypical employment. It is still difficult to regard statistical data from Japan, Europe and the United State as mutually compatible and comparable (except for among EU member states). International compatibility and accessibility of labor statistics is an acute problem.

This essay is merely one step toward the goal of being able to carry out international comparisons of atypical employment. But, if it contributes to further research on this subject, I would feel very fortunate.

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<sup>21</sup> Mizumachi (1997) is a detailed analysis of French and German part-time labor laws.

<sup>22</sup> See OECD (1996). It however limits itself to comparisons within Europe.

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# Employment Category Diversification and Personnel Management Problems

*Hiroki Sato*

*Professor, Institute of Social Science, The University of Tokyo*

*Yoshihide Sano*

*Associate Professor, Institute of Social Science, The University of Tokyo*

## Summary

Many Japanese firms classify their employees into various categories as a way of making effective use of personnel and these do not consist simply of regular and non-regular employees, but of a number of categories within these two employment classes. This diversification of employment categories requires new human resource management to deal with new problems. The first question is how to integrate different personnel management measures and the nature of duties assigned to individual employment categories within general personnel management policy. The second is how to maintain a balance of wages and other rewards among different employment categories. This article, based on interviews and questionnaires addressed to human resource managers at Japanese firms, aims to shed light on the current diversification of employment categories and consider the tasks of personnel management in light of the current situation.

## Contents

- I. Introduction
- II. Employment Category Diversification as Seen in Corporate Case Studies
- III. Employment Category Diversification as Seen in Questionnaires
- IV. Conclusions

## I. Introduction

Japanese firms commonly classify their employees into various categories and apply different ways of use, career management policies,

employment conditions, and wage and other remuneration systems to individual categories. The categories do not consist simply of regular employees, regarded as core members of the firms, and the rest, that is, non-regular employees. A number of employment sub-categories, where different employment conditions and wages and other types of remuneration are used for workers with different careers, are also implemented for these two main types. The specific names given these employment categories vary depending on individual firms: in general, *sogo shoku* (employees on the career track) and *ippan shoku* (employees on the clerical track) apply to regular employment, whereas *keiyaku shain* (contracted employees), *paato shain* (part-time employees), and *arubaito shain* (young part-time employees) are placed in the non-regular employment category. Firms' objectives for using a mix of multiple types of human resources include improved responses to uncertainty in the market, transforming labor costs into variable costs, cost reduction, and efficiency in training costs.

Incidentally, the diversification of the employment categories utilized requires human resource management to deal with new problems (Chapters 2 and 14, Imano and Sato, 2002, Chapter 2, Nakajima, 2003, and so on). The first is how to combine personnel management policies, the nature of the duties assigned, and wage and other remuneration systems in each employment category – in short, sensible formulation of employment categories.

The second task is to keep a balance of wages and other rewards among different employment categories. The balance between the treatment of full-time regular employees and part-time workers has been discussed frequently as a question for human resource management.<sup>(1)</sup> However, individual firms' employment categories are not necessarily set solely in accordance with the difference between full-time regular employees and part-time employees. It can thus be another important task to balance rewards among workers in various employment categories, not just between the regular full-time and part-time employee categories.

This article, based on interviews and questionnaires addressed to human resource managers at private firms, aims to shed light on the current diversification of employment categories in firms. The two

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surveys were conducted by a committee for surveys and research into current employment management conditions and possibilities for new work styles.<sup>(2)</sup>

In the interviews and questionnaires, we generally define employment categories as consisting of “employees on the career track,” “employees on the clerical track,” “contracted employees,” and “part-time employees,” all unique types. In addition, some workers classifiable as “regular employees” are labeled with different names: those paid in accordance with different wage tables or wage determination methods, those treated differently due to workplace location and the presence or other wise of restrictions on work assignments, or those under different management with regard to recruitment and promotion. In such cases, they are considered to belong to different employment categories and treated accordingly.<sup>(3)</sup>

## **II. Employment Category Diversification as Seen in Corporate Case Studies**

To facilitate understanding of the specific conditions affecting diversification of employment categories, this section features two examples of firms with various employment categories, selected from among the firms that participated in the interview survey. Needless to say, each firm has its own unique combination of employment categories and the examples provided below are just two among many. The criteria for determining the number and types of employment categories and a general picture of employment conditions and remuneration in the categories “regular employees” and “non-regular employees” will be given in a subsequent section, Section III. Here though, first of all, are two instances of diversification of employment categories in individual firms.

### **1. Company A, manufacturing industry**

#### **(i) Corporate profile and employment categories**

Manufacturer A is in the semiconductor business and was once a department of a large company, but was spun off in November 2002 and is currently independent.

It divides its main body of employees, regular employees, into four categories – managerial class, job type A, job type B, and job type C employees – and employs different types of job, career formation schemes and wage determination systems. As of March 10, 2003, managerial class employees totaled approximately 1,380, job type A employees approximately 2,450, job type B employees approximately 990, and job type C employees approximately 710.<sup>(4)</sup> In the previous three years, the numbers of managerial class employees and job type A employees have increased, while the numbers of job types B and C employees have decreased.

**(ii) Nature of jobs and careers**

Jobs are managed so as to be systematically allocated to different job categories. Thus, managerial class employees are assigned managerial or highly specialized tasks, job type A employees are assigned non-routine tasks allowing individual discretion, job type B employees engage in routine clerical or engineering tasks, and job type C employees engage in work requiring skills at production sites (proto-type product development and manufacturing plants).

Various qualification grades are set for each category of job type A, B and C employee and employees are assigned more advanced tasks as they are promoted to higher grades. The highest grade in each category is “leader.” Promotions allow employees in these categories to shift to “managerial class employees” and they are thus given opportunities to expand their careers. “Division director” is the highest managerial class employee position. Managerial class employees are also able to rise to another employment category position with a different remuneration system – board member, which also denotes corporate officers and directors (president and vice presidents). Apart from these methods of career formation through promotion to higher positions, any corporate measure to downsize a production department accelerates the shift of job type C employees to job type B employees. Other types of transfer are possible in theory, but rare in reality.

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### **(iii) Employment conditions**

Employment terms common to all categories include indefinite labor contracts, the likelihood of a transfer to any workplace location, and so on.

### **(iv) Wage systems**

Different wage systems apply in different employment categories. Potential managerial class employees, for example, receive a basic annual salary, determined by grades (responsibilities), whereas job types A, B, and C employees are paid monthly, based on their qualification grades. Different wage tables are also used for different types of regular employees.

## **2. Company B, distribution industry**

### **(i) Corporate profile and employment categories**

Company B is in the distribution industry, running department stores with 10 branches nationwide. The firm uses four major employment categories: A, B (full-time workers), B (part-time workers), and B (workers paid commissions) employees. The firm regards “A” employees as regular employees and “B” employees in all three categories as non-regular employees. As of November 2002, A employees numbered approximately 970, B full-time workers approximately 700, B part-time workers approximately 130, and B commission-basis workers approximately 80.<sup>(5)</sup> In the past three years, the number of A employees has decreased, while B full-time workers have increased. The numbers of the other types of workers have remained more or less the same.

### **(ii) Nature of jobs and career**

A employees are subject to a corporate long-term training policy. Joining the company immediately after completing scholastic education, they are generally assigned to sales departments and involved in duties on sales floors. Some stay in sections related to sales, but are still expected to engage in higher managerial tasks related to sales after spending two to three years learning the basics of sales-related tasks. Apart from this, not a

few A employees spend a couple years in sales departments and then are transferred to departments dealing with major corporate customers from the third year on. Of these, some are transferred again to departments in charge of office work or transferred back to sales departments. As a matter of policy, the personnel department designs the rotation so that each employee can experience tasks in one particular department for at least two to three years once assigned to that department.

A qualification scheme is applied to A employees. The qualifications range from grade 1 at the bottom to grade 6 at the top. Employees in grades 1 – 3 are ordinary employees and those in grades 4 – 6 employees with titles. First-year employees who have joined the company immediately after graduating school are not given any qualification grade and at the end of the first year are placed in grades 1 – 3 according to their performance that first year. Normally, they are ranked in grade 1. The qualification scheme is designed so that a standard employee will be promoted to grade 2 in the third year, grade 3 in the seventh year, and grade 4 in the eleventh year.

Qualification grades and official positions correspond to each other to a certain extent. In sales departments, for example, section leaders responsible for individual sales sections are chosen from among A employees in grades 4 and 5. On the other hand, many A employees in grade 3 are assigned to “informal” posts responsible for sales sections.

A employees are eligible for a type of child and family care scheme under which their existing full-time work status is temporarily altered to B part-time work and they work shorter hours. At the moment, 67 employees are taking advantage of the scheme to allow them to care for their children. While working shorter hours under this scheme, A employees are paid hourly wages, determined in proportion to the monthly payments they received while they were not in the program.

B full-time workers' job classifications are sales and office work. All office work is handled by female workers, about 100 in all. Around 500 workers, including 21 males, are assigned to sales sections. The scope of their duties is limited to tasks normally handled by A employees who have worked for the firm for up to four years and have no title, that is, who mainly serve customers and place orders with sales sections.

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It apparently takes a year or so for inexperienced workers to learn the full range of these duties. Unlike A employees, B full-time workers do not engage in managerial tasks such as an acting manager, budget compilation, or management of figures. Moreover, unlike B commission workers, they are not assigned as managers of shops installed on sales floors. They may in theory be transferred to another workplace according to employment regulations, but this seldom happens in practice. There is no scheme for transferring to different employment categories.

B part-time workers handle the same kinds of jobs as B full-time workers. Unlike the latter, however, they do not place orders. The number of B part-time workers rose in the early 1990s due to increased demand for cashiers when self-service was introduced in perishable food sections and also in the latter half of the 1990s due to the establishment of shops operated under low cost management. B part-time workers are still mainly placed in these sections and shops, but since the size of the sections and shops has remained the same over the years, their number has not changed and is not scheduled to be increased. Except for perishable food sections and shops operated at low cost, not many B part-time workers are employed in departments and shops where staff members are frequently required to have direct contact with customers, because full-time workers who can provide consistent services to customers without passing on information concerning those customers to others are more advantageous in such services. B part-time workers are not subject to any scheme for transfer to different employment categories.

The B commission worker employment category was introduced in fiscal 1996 with better rewards, when the firm wished to re-employ former A employees with high sales abilities but left the company because of childcare or other reasons and to hold on loan shop assistants dispatched by business partners to branches with high sales ability who might have otherwise moved to other rival companies. In practice, the former type of workers, ex-employees, accounts for the majority of these commission-based workers. All workers in this category are in sales. When the category was first introduced, they were assigned to various sales sections, but currently just above 70 percent are allocated to the cosmetics floor and slightly less than 30 percent to shops selling

private-brand women's and men's apparel. Few are allocated to other sales floors where it is difficult to ascertain individual sales performance. Some work as ordinary sales people and others serve as managers of shops installed on sales floors. Shop managers serve VIPs, as well as placing orders for shops in their charge and supervising sales staff. Even so, decisions regarding work schedules, performance assessment, and other duties involving personnel management are all tasks for A employees and B commissioned workers are given no responsibility for them. They are allowed to shift their status to B full-time workers or B part-time workers, but none so far has taken advantage of the scheme.

### **(iii) Employment conditions**

Employment conditions in various employment categories differ in several ways. First, working hour schedules are different. A employees have a total of 1,978 scheduled full-time hours per year. These workers are asked to do overtime and also to work shifts. B full-time workers and B commission workers have 1,958 scheduled annual full-time hours (7.5 hours per day). They also do overtime and work shifts. On the other hand, B part-time workers work shorter hours - 28 hours or less of contracted weekly hours. There is no official lower limit on working hours, but 20 hours per week is the minimum in practice. Most workers in this category are housewives who adjust their working hours to avoid earning more than 103 million yen in annual income. Their contracts allow them to do overtime, but few do so in practice.

Second, while A employees sign indefinite employment contracts, B full-time, part-time, and commission workers conclude one year fixed-term contract. However, their contracts generally continue to be renewed annually.

Third, while the scope of duties undertaken by A employees is not limited by their labor contracts, B full-time and part-time workers are restricted when they sign labor contracts either to office work or sales. The scope of duties of B commission workers is also limited by contract to over-the-counter sales.

Fourth, regarding work locations, labor contracts stipulate that A

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employees may be transferred anywhere and, in fact, they are often transferred to business establishments that require them to relocate. On the other hand, labor contracts for B employees place restrictions on work locations, though B commissioned workers may be required to move to different business establishments that do not require a change of residence.

**(iv) Wage systems**

A employees receive merit-based pay according to their qualification grades, together with status-linked wages according to their positions. A single rate per grade applies in the former wage category, while the latter varies according to the weight of responsibilities in each position. The latter consist of six ranks - which are, in order: shop manager, shop sub-manager, team leader (floor manager), section leader (sales section manager), expert, and member – and a specific wage range applies within each rank. In order to treat competitive sales staff members who are not entitled to become line managers generously, experts' and section leaders' wage ranges partially overlap.

Apart from monthly wages, employees are given bonus payments. Bonuses consist of a fixed portion determined according to the amount of basic pay and a portion that varies according to the performance of the sales section the workers belong to, as well as individual performance. The variable portion of the bonus is first allotted as a lump sum to individual sales sections according to their performance, then distributed to individual workers at the discretion of team leaders according to individual performance. Only A employees are paid bonuses.

B full-time and part-time workers receive basic hourly wages. Hourly rates are determined by job type and split into 20 grades, with a difference of about 10 yen between grades. Individual hourly rates reflect the regional rate for the job type in question and accord with performance assessments made every six months. Apart from basic pay, B full-time workers are paid additional hourly wages of 60, 110, 160, 210, or 260 yen, determined according to assessments of individual ability. Salary, consisting of hourly wages and additional hourly wages, is paid monthly. B part-time workers are not eligible for additional hourly wages.

B commission workers receive monthly pay. The portion that varies according to individual performance accounts for a larger part and is a special feature of their salary. The monthly wage consists of a basic payment - in effect, a minimum guaranteed salary, fixed at 150,000 yen - and commission payments. A 30,000 yen commission is paid in the first term, followed by an amount calculated by multiplying 30,000 yen by achievement percentages linked to individual objectives for the first half of the fiscal year. Individual workers' goals are determined through consultations with section leaders, who are also responsible for individual performance assessments. In the case of ordinary sales staff members, individual sales amounts are set as objectives, but for shop managers, whose sales activities are conducted through supervision of their subordinates, appropriately proportioned sales targets comprising section sales and the managers' own results are determined through consultations with section leaders. A majority earns around 230,000 yen per month in basic pay and commissions, and the highest monthly wage is at most 350,000 yen.

In the preceding two cases, the firms in question classify their employees into various employment categories under different titles and assign different job content, career track opportunities, employment conditions, and wage systems to each. However, the two companies' classification methods differ: while company A divides regular employees into various categories, company B divides its "non-regular employees" into various categories. Also, in cases such as company B, where there are two or more categories within non-regular employment, the question of what kind of career formation opportunities, employment conditions, and wage systems will apply to which employment categories depends on individual cases. In other words, firms have various choices at hand in classifying their employees.

### **III. Employment Category Diversification As Seen in Questionnaires**

How common is it for large Japanese firms to have the various

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employment categories seen in the preceding examples? What kinds of features do the number of employment categories entail? Why do they classify their employees into various groups? And what kinds of differences can be noted in job content, employment conditions, and rewards among regular and non-regular employment categories? Questionnaire data is used in this section in an attempt to clarify the factors determining the number and nature of employment categories and give a general picture of regular and non-regular employment categories.

### **1. Number of employment categories<sup>(6)</sup>**

The questionnaire results show that, of the 547 firms responding to the survey, almost all of the firms surveyed – 538, or 98.4 percent – hire non-regular employees, showing how common the use of such employees has become. At the same time, quite a few firms surveyed not only make use of non-regular employees, but also divide regular and non-regular employees into various separate categories.

Regarding the number of employment categories for regular employees, the largest proportion of firms, 43.7 percent, adopt a single category. Even here, though, the number of such firms is not in the majority: firms with two categories account for 25.8 percent, those with three categories 16.8 percent, and those with four categories 6.0 percent. Thus, those with two or more categories accounted for 56.3 percent (2.2 categories on the average). In other words, a majority of firms have more than one employment category for regular employees and quite a few have two or three categories.

Of the 538 firms maintaining non-regular employees, 14.9 percent of them treat their non-regular employees as a single group, whereas 31.0 percent classify theirs into two categories, 28.1 percent into three categories, 14.3 percent into four categories, and 10.8 percent into five or more categories. The number of non-regular employment categories is greater than that of regular employment categories (2.9 categories on average, with 0.9 percent not responding).

As for regular and non-regular employee employment category combinations, combination patterns are quite diversified, with no particular combination favored by the firms surveyed. Of the 538 firms

with non-regular employees out of the total of 547 firms surveyed, the combination of “one category for regular employees and three for non-regular employees” is the most favored, but is still adopted by a mere 13.2 percent of the firms. This is followed by “one category for regular employees and two for non-regular employees” (12.3 percent), “one category for regular employees and four or more for non-regular employees” (11.2 percent), and others (less than 10 percent). At the same time, firms with a larger number of employment categories, that is, “three or more categories for regular employees and three or more for non-regular employees” account for as much as 14.5 percent.

Dividing the firms surveyed into groups with diversification or otherwise in regular and non-regular employment categories, (i) firms with a single category for both types of employees and thus no diversification in either category account for 7.4 percent; (ii) firms with diversification in non-regular employment categories which have a single category for regular employees and two or more for non-regular ones accounted for 36.7 percent; (iii) firms with diversification in regular employment categories which have two or more categories for regular employees and a single category for non-regular ones accounted for 7.4 percent; (iv) firms with diversification in both regular and non-regular employment categories which have two or more categories, respectively, for regular and non-regular employees accounted for 48.4 percent. At the moment, types (iv) and (ii) are most common, accounting for 85 percent of the total.

## **2. Reasons for classifying employees into more than one category**

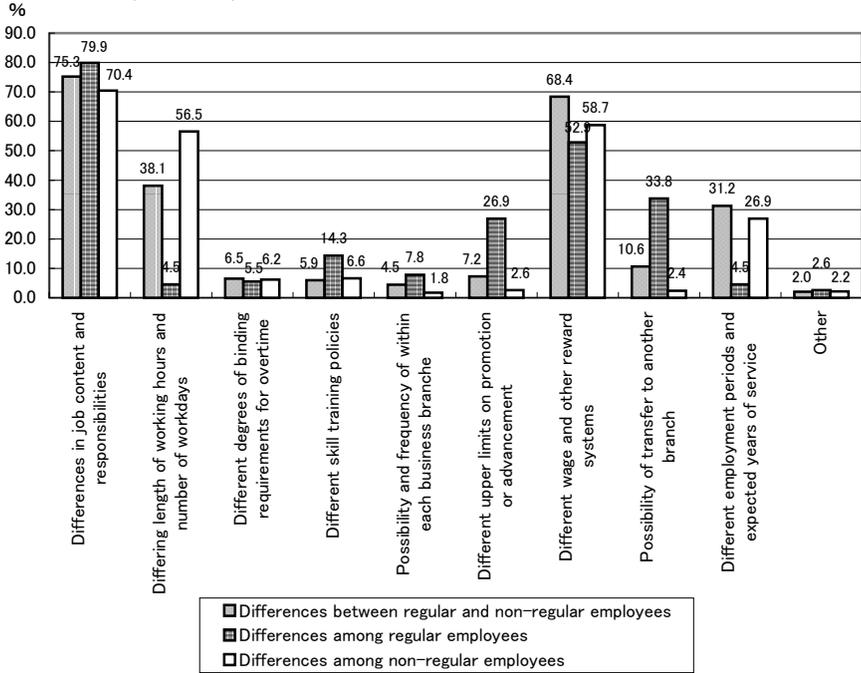
What kinds of criteria do firms use in establishing various employment categories? This section analyzes this question. Figure 1 shows the results of a questionnaire asking firms to give up to three reasons for classifying their workers into regular and non-regular employees and up to three reasons for dividing each type of employee into various employment categories. According to Figure 2, quite a few firms chose either “differences of job nature and responsibilities” or “differences of wage and other reward systems” as a reason. As for reasons for dividing regular employees into various categories, “the

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possibility of transfer to different branches” and “differences in upper limits on promotion and upgrading” were cited separately from the two reasons given above. Major reasons for establishing various employment categories within non-regular employment (firms being required to choose up to three reasons) include “differing length of working hours and number of workdays” and “term of employment and length of service that firms expect.” These reasons were also selected as reasons for classifying employees into regular and non-regular employees. On the other hand, “different degrees of binding requirements for overtime,” “different policies for skill training,” and “possibility and frequency of rotation among business branches” do not rank high among the reasons for firms to classify their employees into regular and non-regular employees or to divide each type of employee into various employment categories.

Incidentally, “differing length of working hours and number of workdays” was chosen as a reason for classifying employees into regular and non-regular and for having various employment categories among non-regular employees, but not as a reason for having various employment categories among regular employees. This suggests that, even if firms establish more than one employment category for their regular employees, they assume that they will work full time regardless of the category and do not assume that any regular employees will work shorter hours.

**Figure 1. Reasons for regular and non-regular employee classifications and for assigning each type of employee to various employment categories (maximum of 3 choices) (unit: %)**



### 3. Comparisons of Treatment of Regular and Non-Regular Employees

(1) Special features of regular and non-regular employee employment categories

The questionnaire asked firms about employment contracts and labor conditions in the individual employment categories they maintain. Let us first look at individual features of employment categories for regular and non-regular employees, respectively. Table 1 provides a list of choices frequently cited as special labor condition, job content, career, and wage system features for regular and non-regular employees and the proportions of firms that chose those items. (For questions allowing multiple answers, choices more frequently selected are listed). The table presents the following picture of employment categories for regular and non-regular

employees.

**Table 1. Special Features of Employment Categories – Regular and Non-Regular Employees (%)**

	<b>Regular employees</b>	<b>Non-regular employees</b>
<Employment conditions>		
Contract terms	Indefinite term (92.8 %)	Fixed-term (normally renewed regularly) (80.2%)
Scope of jobs	Unlimited (63.3%)	Limited by contract (62.2%)
Workplace location	Unlimited (63.1%)	Limited by contract (63.9%)
Length of working hours, compared to regular employees	—	Same : shorter = 1 : 1
(Most common) working hour scheme	Irregular working hour system (39.8%)	Irregular working hour system (22.4%)
<Job content and career formation>		
Main job categories (multiple answers)	“Office work,” “sales,” “specialized / engineering work,” “management,” “service”	“Office work,” “sales,” “specialized / engineering work,” “production / skilled work,” “service”
Average length of service	10 years or longer (69.9%)	Less than 5 years (67.7%)
Upper limit on promotion	Position responsible for personnel assessment at the second stage, or higher (54.8%)	Not eligible for managerial posts (78.9%)
Skill training policies (multiple answers) ((i) in 1st place, and (ii) in 2nd)	(i) Employees are expected to systematically acquire a wide range of skills from a long-term viewpoint. (53.0%) (ii) Employees are expected to systematically acquire specific skills from a long-term viewpoint. (43.2%)	(i) Employees are expected to acquire skills sufficient to complete routines work. (38.6%) (ii) Employees are expected to acquire necessary skills on a case-by-case basis. (30.6%)
<Wage systems>		
Basic pay payment method	Monthly (84.8%)	Hourly (35.0%)
Criteria for determining basic pay (1 or 2 choices) ((i) in 1st place, and (ii) in 2nd)	(i) Skills and task-execution ability (61.2%) (ii) Results and job performance (42.3)	(i) Commonly accepted market wage rate (50.7%) (ii) Skills and task-execution ability (42.0)

Special features of regular employee categories are (i) indefinite contract length, (ii) job scope and workplace location are not restricted, (iii) a supervisory role is counted as a major task and affords eligibility for promotion to a post with responsibility for assessment of workers at a later stage, (iv) wages are paid monthly, with basic pay levels determined mainly in accordance with skills and task-execution ability. On the other hand, special features of non-regular employee categories are (i) fixed-term employment contract, normally regularly renewed, (ii) scope of work and workplace locations constrained by contract or in practice, (iii) no assignment to managerial posts, (iv) a requirement to acquire skills

sufficient to complete routine work, and (v) hourly wages are paid, with basic pay levels determined mainly according to commonly accepted market rates.

Now let us delineate the various patterns of regular and non-regular employee categories and look at the numbers of categories and workers in each pattern. Employment categories can be divided into four patterns in terms of the presence or otherwise of job scope limits and workplace locations: (a) no limitation on job scope or workplace location, (b) no limitation on job scope, but limits on workplace location, (c) limits on job scope, but no limitation on workplace location, and (d) limits on both job scope and workplace location. (See Table 2.)

Looking first at the proportion of regular employees types, pattern (a) accounted for slightly more than half, 52.6 percent, followed by pattern (d), 22.2 percent, and patterns (b) and (c), 12.6 percent each (Table 3). As for the number of employees falling within each pattern, pattern (a) accounts for 69.0 percent, pattern (b) 10.9 percent, pattern (c) 10.4 percent, and pattern (d) 9.6 percent. Workers classifiable into pattern (a), corresponding to traditional employees on the career track, account for slightly more than 50 percent of the number of employment categories and 70 percent of the number of workers as a whole, suggesting that the proportion of employment categories other than traditional employees on the career track has been substantially increasing.

Data cannot be provided here for lack of space, but the findings of the questionnaire enables one to detect certain tendencies in each category concerning opportunities for career formation. Thus (i) even regular employees are less likely to be promoted to posts responsible for personnel assessment at the second stage if the limitations on the scope of their job and workplace location are too strict. In particular, employees in patterns (b) and (d) face restrictions on promotion to higher positions. (ii) Where skill training policies (multiple choices) are concerned, policies call for workers in patterns (a) and (c), in which workplace locations are not restricted, to systematically acquire a wide range of skills from a long-term viewpoint in a large proportion of the employment categories. On the other hand, for those in patterns (b) and (d), major skill training policies include “calling for systematic acquisition of specific skills from

a long-term viewpoint” and “calling for acquisition of the necessary skills on an ad-hoc basis.”

**Table 2. Summary: Regular Employment Category Classifications**

	Number of employment categories	Number of employees	Proportion of total number of employees
Total	873 (100.0%)	1,304,721 (842)	100.0%
a) No restrictions on job scope or workplace location	459 (52.6%)	900,354 (442)	69.0%
b) No restrictions on job scope, but on workplace location	110 (12.6%)	142,524 (107)	10.9%
c) Restrictions on job scope, but not on workplace location	110 (12.6%)	136,063 (103)	10.4%
d) Restrictions on both job scope and workplace location	194 (22.2%)	125,780 (190)	9.6%

Notes:

- (1) The population is set at 873 firms, out of a total of 895 firms that hire regular employees on an indefinite contract term basis, that gave answers in the survey concerning the presence or otherwise of limits on job scope and workplace location for workers categorized as regular employees.
- (2) Figures in parentheses in the “number of employees” column indicate the number of employees that the firms surveyed denoted workers classified in the relevant category.
- (3) “No restriction on the scope of work”: no limitations on the scope of work, either by contract or in practice.  
 “Restrictions on the scope of work”: limitations on the scope of work in practice, including cases in which there are no contractual limitations are stipulated.  
 “No limitation on workplace locations”: no limitation on workplace location, either by contract or in practice.  
 “Restrictions on locations to work”: limitations on workplace location in practice, including cases in which no contractual limitations are stipulated.

Next, if the non-regular employment categories are classified into four patterns in the same fashion as the preceding regular employment categories, pattern (d) accounts for a substantial majority both in terms of the number of employment categories and the number of workers affected, 81.2 percent and 74.9 percent, respectively (Table 3). The other three patterns account for somewhat smaller proportions both in terms of the number of employment categories and the number of workers concerned. In particular, pattern (a), the most common pattern for regular employees, accounts for 5.4 percent in terms of the number of employment categories, but only 1.5 percent in terms of the number of workers.

Tendencies in each non-regular employee category pertaining to employment conditions and career formation opportunities exhibit the following special features: (i) a majority of workers in all categories work

under contracts for definite periods and have them regularly renewed under normal circumstances. At the same time, some non-regular employees with no restrictions on the scope of their work account for large proportions in patterns (a) and (b): 19.0 percent and 12.6 percent, respectively, of non-regular employees are under indefinite labor contracts. In pattern (a), in particular, the pattern for traditional regular employees, the proportion is almost as much as 20 percent, as indicated. (ii) Non-regular employment categories that do not include the item “managerial posts” in career formation account for a substantial proportion, 70 – 80 percent. However, in categories where there is no restriction on the scope of work, the ceiling on opportunities for career formation is quite high, so that non-regular employees here may be able to shift to a different one and improve their careers. However, non-regular employees with no restrictions on workplace location have more advantages as far as chances to shift to a regular employment category are concerned. (iii) Where policies of skill training (multiple choices) are concerned, there is not much difference among employment categories: in all categories, a low proportion of policies call for “systematic acquisition of a wide range of skills from a long-term viewpoint” or “systematic acquisition of specific skills from a long-term viewpoint” are low.

**Table 3. Summary: Non-Regular Employment Category Classifications**

	Number of employment categories	Number of employees	Proportion of total number of employees
Total	1168 (100.0%)	550,829 (1092)	100.0%
a) No restrictions on job scope or workplace location	63 (5.4%)	8,113 (61)	1.5%
b) No restrictions on job scope, but on workplace location	87 (7.4%)	79,730 (85)	14.5%
c) Restrictions on job scope, but no restrictions on workplace location	70 (6.0%)	50,158 (62)	9.1%
d) Restrictions on both job scope and workplace location	948 (81.2%)	412,828 (884)	74.9%

Note: The population consists of 1,168 samples out of those in non-regular employment categories who gave answers concerning the presence or otherwise of limitations on job scope or work location. The rest are the same as in Table 3.

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As seen above, the regular and non-regular employee categories differ from each other in the existence or otherwise of limitations on the scope of work or workplace location, opportunities for ability development and career formation, and factors determining wages. However, an attempt at classifying regular and non-regular employment categories into four patterns in terms of restrictions on the scope of work and workplace location revealed that some categories of regular and non-regular employees can be sorted into identical patterns. For example, the employment category in which there are limitations on both the scope of work and workplace location – the category comprised by the majority of non-regular employees – is found among regular employees, too. In the same fashion, the category in which there are no limitations on either the scope of work or workplace location – the category into which a majority of regular employees fall – can be noted, if not often, among non-regular employees, too. The labor contract periods of non-regular employees, unlike those of regular ones, are fixed, but are regularly renewed in most cases. At the same time, where the presence or otherwise of limitations on the scope of job and workplace location are concerned, both the regular and non-regular categories include identical patterns. Put differently, one might say that those should be applied the identical employment conditions, regardless of whether the workers in question are regular or non-regular employees. This suggests a need to reorganize employment categories.

## **V. Conclusions**

This section takes into account the facts found in the analysis and aims to suggest tasks for personnel management that uses diversified employment categories.

(i) The case studies and the results of the questionnaires have shown that the categories of regular and non-regular employees have now become diversified, so that it is quite impossible to understand the corporate use of personnel in practice simply by observing the simple dichotomy between regular and non-regular employees. Careful observation of the reasons for dividing employees into various categories

and the categories as divided in practice has shown that there are no clear criteria for such classifications, and that firms are still groping their way.

Behind all this lies the fact that, above all, individual employment categories are designed on the premise that employees are divided into regular and non-regular ones from the beginning. But the validity of labor contracts for non-regular employees is usually defined. In fact, they can be seen, due to repeated renewal as virtually permanent. Provided that those non-regular employees can be seen in a sense as regular ones, it is necessary to get rid of the regular/non-regular structure and reorganize categories in conformance with actual job content and careers. This will make it possible to create employment categories that go beyond the boundaries of regular and non-regular, which create artificial discontinuities. The formulation of employment categories that genuinely accord with actual job content and careers will provide workers with more varied choices in their working life and approaches to work that coincide with their career expectations.

(ii) Sensible personnel management with diversified employment categories essentially requires a balance between remuneration in the various categories. As the case studies and the questionnaire findings have clearly shown, firms apply different wage systems to different employment categories, with the result that wage levels of workers in those categories vary frequently. Where such is the case, workers in categories with low wage levels in particular are likely to be dissatisfied with their rewards. This may well dampen their will to work, increase resignation rates, and lower the productivity or quality of labor services. Thus, if firms are to avoid this and make effective use of work forces in various employment categories, providing rewards balanced among employment categories, in line with job content and careers, would be effective. And this will make it important to reconcile workers with the difference in their rewards and those of workers in other categories.

However, the questionnaire findings show that although some firms hire regular employees and part-time workers – a substantial component of non-regular employees – and assign them identical jobs and responsibilities, not many firms pay attention to the balance between the labor conditions of the two parties (7). As explained above, this probably

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results from the assumption that regular and non-regular employees should first be separated, despite the identical natures of some categories in both employment patterns, when establishing employment categories. This matter will certainly require a revision of the categories in question. One suggestion is, for example, that if a firm has full-time regular employees and part-time workers engaged in identical jobs, the balance between their rewards could be attained if the company put both of them in a single employment category and applied an identical wage determination method (The Equal Employment, Children and Families Bureau, Ministry of Health, Labour and Welfare, ed., 2002).

In Japanese labor legislation, the part-time labor law stipulates that firms are required to make efforts to achieve a balance between rewards to full-time workers (regular workers under the law) and part-time workers who work shorter weekly scheduled hours (Araki, 2002). Here the full-time workers are deemed “regular employees.”<sup>(8)</sup> In short, the law refers to the balance between rewards to full-time regular employees and part-time workers.

However, individual firms` employment categories are not necessarily set solely in accordance with the difference between regular employees and part-time workers, as the case studies show. Moreover, as with company B, not a few firms classify workers engaged in identical jobs as part-time workers in a non-regular, rather than regular, employment category. It will thus be another important task to achieve a balance between rewards to workers within each category, not just between the regular and non-regular employment categories.

This article is based on a paper by Sato Hiroki, Sano Yoshihide, and Hara Hitomi, “Koyo Kubun no Tagenka to Jinji Kanri no Kadai: Koyo Kubunkan no Kinto Shogu (Employment Category Diversification and Personnel Management Tasks: Balanced Treatment among Employment Categories) Nihon Rodo Kenkyu Zasshi, No. 518, September, 2003.

## Footnotes:

- (1) For the balance between rewards to regular employees and part-timers, see the Ministry of Health, Labor and Welfare, the Equal Employment, Children and Families Bureau, ed. (2002), "Part-Time Workers' Guidelines," revised and published on August 25, 2003 (effective October 1). These urge firms to consider the balance between regular workers and short-time workers who engage in the same jobs as the latter type of workers and do not practically differ from them in terms of personnel use and operational mechanisms.
- (2) Detailed findings of the survey are presented in "Committee for Surveys and Research into Current Employment Management Conditions and Possibilities for New Work Styles (2003)." The case studies were conducted between July 2002 and January 2003 at 20 firms, and the survey was conducted between October and November 2002, when questionnaires were mailed to personnel and labor affairs managers at 2,925 firms. Firms returning valid replies totaled 547, an effective reply rate of 18.7 percent. By industry, firms in the manufacturing sector accounted for the largest proportion of respondents as a whole, 30.7 percent, followed by retail (18.3 percent), services (14.6 percent), transportation (10.6 percent), and others (each accounting for less than 10 percent). By company size, large firms with 1,000 or more regular employees accounted for slightly less than 40 percent.
- (3) However, where managerial posts are concerned, even workers promoted to managerial posts whose wage determination method changes accordingly are included among employees on the career track so long as they are employees on the career track and their promotions are the result of continuous career formation. As is clear in this definition of employment categories, the analysis of the categories shown below does not include external labor, confining the scope of workers to those who have employment relationships with the firms responding to the survey.
- (4) Apart from these, a dozen or so workers fall within the "contract employment" category and are personnel used for new business

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start-ups and other definite-term projects or are foreign nationals (personnel with highly advanced ability or from overseas affiliates). Other external labor, including approximately 15 seconded workers and approximately 480 contract workers, engage in reception, design and drawing, programming, machine operation, evaluation and analysis, inspection and repairs, technical tests for mass production, and so on.

- (5) Apart from these, this firm has a “C employee” category that includes workers who had left the company due to the mandatory retirement age and have been re-hired, as well as those who engage in special assignments. As of November 2002, C employees totaled approximately 150. As for external labor, a total of approximately 2,300 loan shop assistants dispatched by business partners to branches, and approximately 60 workers dispatched by temporary help agency .
- (6) The scopes of employment categories referred to in sections 1 and 3 of Part III are different from each other. The former covers all categories, whereas the latter excludes (i), a category used to hire workers under an employment extension scheme applied to retired persons, (ii), a category for doctors, nurses, chauffeurs and others engaged in special assignments, (iii), a category for executive board members, and (iv), a category for several workers who belong to the firm due to special circumstances – thus the category will be abolished when they have left the firm. Judging from the design of the question concerning the number of employment categories referred to in section 1, the category for executive board members seems to be excluded. Also, it seems that the analysis in section 3 covers three major categories each for regular and non-regular employees apart from the preceding four categories and that the three employment categories covered account for 80.4 percent of the regular employment category and 77.4 percent of the non-regular employment one, respectively, of the total in section 1.
- (7) More than half (55.6%) firms say that there are part-time employees whose jobs are identical to those of regular employees. But less than half (43.6%) of such firms have done something to achieve the balance between rewards to full-time regular employees and part-time

workers. In the same way, 27.0% firms say that there are part-time employees more than 80% of whose jobs are identical to those of regular employees. But just 34.6% of such firms have done something to achieve the balance between rewards to full-time regular employees and part-time workers.

- (8) Concerning regular workers to whom the balance of rewards between short-time workers pertains, “the Ministry of Labour, Women’s Bureau ed. (2000)” explains that “regular workers” are defined as workers employed under a seniority wage system premised on life-long employment, that is, the premise that they will continue to work over the long term. (p. 180.)

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### **About the Authors:**

Sato, Hiroki: Professor, Institute of Social Science, University of Tokyo. Major publications he has co-authored include “Jinji Kanri Nyumon (Introduction to Personnel Management),” *Nihon Keizai Shimbun-sha*, 2002, and “Seicho to Jinzai: Nobiru Kigyo no Jinzai Senryaku (Growth and Human Resources – Growing Companies’ Personnel Strategies),” *Keizo Shobo*, 2003. His academic field is personnel management and industrial sociology.

Sano, Yoshihide: Associate Professor, Institute of Social Science, University of Tokyo. His major publications include “Paato Rodo no Shokuiki to Roshi Kankei: Hyakkaten no Jirei (Job-sphere of part-time work and Industrial Relations: A Case Study of Japanese Department Store),” in Nitta Michio (ed.), “Roshi Kankei no Shin Seiki (A New Century for Industrial Relations),” *Japan Institute of Labor*, 2002, and “Paato Rodo no Shokuiki to Yoin wo Meguru Roshi Kosho (Work place Industrial Relations concerning the Number of Part-time Workers and their Job Assignments: A Case Study of Japanese Hotels ),” in *Journal of the Ohara Institute for Social Research*, No. 521, 2002. His academic field is industrial sociology.

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# Why Part-time Workers Do Not Accept a Wage Gap with Regular Workers

*Mamiko Ishihara*

*Lecturer, Faculty of Economics, Josai University*

*Takehisa Shinozaki*

*Lecturer, Faculty of Science and Engineering, Waseda University*

## 1. Introduction

The aim of this paper is to explain why some part-time workers do not accept a wage gap between them and regular full-time workers when they are aware of it.<sup>1</sup>

As the proportion of part-time workers increases, various issues related to their treatment are being identified and debated.<sup>2</sup> One issue is the difference in wages between part-time and regular full-time workers. Recent research into the disparity in income in Japan reveals that since the 1980s there has been a widening of the wage gap between part-time and regular workers.<sup>3</sup> The wage gap in Japan is on a par with that in Britain or the United States.<sup>4</sup>

Some people think that a wage gap between part-timers and regular full-time workers is unreasonable when part-timers and regular workers generally engage in the same work. Others, on the other hand, feel that part-time workers have fewer restrictions on their working hours and bear less on-the-job responsibility. Thus, even if it may appear they are doing the same work as regular workers, their work is qualitatively different and consequently a difference in wages is natural.

There are also two opposing opinions on the value of part-time work in general. The negative view is that part-time labor is not a good employment opportunity because it lacks stability and the working conditions, including wages, are poor. Furthermore, part-time workers cannot have opportunities to acquire high skill, because part-time jobs do not require highly skilled workers.<sup>5</sup> This position is supported by many studies which point out that workers are forced to work part-time because they have no other option. These studies indicate that many part-time workers are both willing and able to work as regular workers, but are

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unable to find such employment due to the employment system. They are then left with no choice but to work part-time. The studies say this trend is lowering the efficiency of resource allocation.

The positive view is that part-time work expands the range of employment opportunities and provides employment that is more flexible than traditional employment. According to Sato (1998), few part-time workers took part-time work because they could not find regular employment. The majority are happy with the freedom they have in setting work hours, which many part-timers stress when evaluating employment choices. In this view, the increase in part-time employment is the result of a voluntary choice on the side of job-seekers, and doesn't generate inefficiencies in resource allocation.<sup>6</sup>

As part of an investigation into the wage disparity between part-time and regular workers, this paper focuses on the issue of voluntary choice of work and acceptance of a wage gap after being hired. According to the theory of compensating wage differentials (or the theory of equalizing differences), a jobseeker compares the utility of regular, full-time work with that of part-time work before he/she is hired. Jobseekers do not merely compare wages, but instead look at the total picture by comparing the utility of wages with the disutility of on-the-job restrictions.<sup>7</sup> The jobseeker then decides whether to choose regular employment with its high wages and many restrictions or part-time employment with low wages and few restrictions.<sup>8</sup> If the overall utility of part-time employment is greater, then the worker will voluntarily choose part-time employment. In this case, even if there is a wage gap between regular and part-time employment, all part-time workers would accept the disparity since they voluntarily chose that type of employment.

However, some part-time workers do not think the wage gap is legitimate. The details will follow, but based on the data used in this paper, approximately one-third of the part-time workers who voluntarily chose this kind of job are discontented with a wage gap with regular workers. On the other hand, one-third of those who took part-time work involuntarily do accept the wage gap. This suggests that the perceived utility of part-time and regular employment is not necessarily the same

before and after being hired.

Therefore, it is important to consider part-timers' acceptance of a wage disparity based on post-hiring perceived utility. In short, whereas the question of voluntary choice of work is based on the worker's evaluation of expected utility before accepting the job, that of acceptance of wage disparity is based on his/her evaluation of the utility after actually starting work. Part-timers who highly evaluate the utility of their current work after having spent some time on the job and comparing themselves to regular workers in the same workplace should agree with the legitimacy of the wage disparity.

In this paper, econometric analysis will be used to clearly elucidate the reasons why some part-time workers do not accept as legitimate a wage gap between themselves and their regular worker counterparts.

The main conclusion is that the part-time workers who feel they are just as responsible, if not more so, than regular workers, are overwhelmingly discontented with the lower wages.

The rest of the paper is organized as follows: a simple model on part-timers' acceptance of a wage gap is considered in Section 2, data and empirical methods used in the analysis are explained in Section 3, the empirical results are presented in detail in Section 4, and conclusions in Section 5.

## **2. The Model**

### **2.1. Definition of Acceptance of Wage Differentials**

First, we must examine the concept of acceptance of a wage gap from the perspective of the theory of compensating wage differentials. The function of the worker can be defined as  $U(w, e, j; i)$  when "w" stands for wages, "e" for non-monetary factors related to work, "j" for the type of company and job, and "i" for characteristics of the individual worker. After beginning work, we assume that part-timers have a grasp of their own wages and non-monetary factors  $(w, e)$  and the wages and non-monetary factors of regular workers in their workplace  $(w', e')$  and can, therefore, plug these factors into their own utility function  $U$  to

compare the results. We assume that regular workers receive higher wages than part-time workers ( $w' > w$ ).

Under these conditions, if the combination of wages and non-monetary factors gives the part-time worker a utility that is higher than the utility derived from regular workers' wages and non-monetary factors, it is to be expected that the part-time worker will accept a gap in wages. Even if a part-timer's wages are lower than those of regular workers, the part-time worker may accept the current situation as long as he/she is highly satisfied with the non-monetary factors. On the other hand, when the utility of part-time workers for their current work — as represented by the combination of wages and non-monetary factors — is considerably lower than the utility derived from regular workers' wages and non-monetary factors, part-timers feel they cannot accept the disparity in wages.

In concrete terms, workers currently involved in part-time work feel they can accept a wage gap when:

$$U(w, e, j; i) > U(w', e', j; i) \tag{1}$$

but cannot accept it when:

$$U(w, e, j; i) < U(w', e', j; i) \tag{2}$$

If we convert this to the equation

$$V_i = U(w', e', j; i) - U(w, e, j; i),$$

part-timers will accept a wage disparity when  $V_i < 0$ , but will not when  $V_i > 0$ .

Pre-hiring conditions must be taken into consideration to understand the relationship between acceptance of a wage gap and voluntary choice of work. The jobseeker anticipates his/her total utility from wages and non-monetary factors based on the information that is available before choosing a job. Then he/she chooses the type of work with the greatest expected utility. Therefore, a worker who chooses part-time work because he/she believes the utility is greater than regular employment based on prior information is considered to have chosen this work voluntarily. In other words, denote the utility expected by these workers before starting work is  $EU(w, e, j; i)$  and if their estimate of the expected utility for regular workers is  $EU(w', e', j; i)$ , then:

$$EU(w, e, j; i) > EU(w', e', j; i) \quad (3)$$

Conversely, people who expected to reap a greater utility if they had found regular employment are considered to have started part-time work involuntarily. Their expected utility, therefore, would be:

$$EU(w, e, j; i) < EU(w', e', j; i). \quad (4)$$

Thus, whether or not a worker voluntarily takes part-time work depends on their expectations regarding the wage gap and the difference in non-monetary factors between regular and part-time workers.

What happens in a case where expectations before starting work coincide exactly with the reality experienced once work has begun? Individual  $i$ 's expectations  $E(w, e)$  before starting work at job  $j$  are exactly the same as the actual conditions of the work  $(w, e)$  and  $E(w', e')$  is also the same as  $(w', e')$ . In this case, based on equations (1) and (3), a part-time worker who voluntarily sought part-time work will necessarily accept a wage gap even after starting work since he/she chose this type of work and it provides the greatest utility.

On the other hand, based on equations (2) and (4), it is possible that some part-time workers who involuntarily took part-time employment will accept the wage gap after beginning work and others will not. Involuntary part-time workers may have had low expectations of the utility involved if they compared themselves to regular workers in other workplace, but after comparing themselves to regular workers in the same workplace they may find that their utility is greater (the difference between  $j$  and  $j'$ ). Or the part-time worker may feel that although the utility from wages and non-monetary factors is higher for regular workers, the difference falls within an acceptable range.

## 2.2. Reasons Why Part-time Workers Do Not Accept a Wage Gap

When are part-time workers discontented with a wage gap? The following are possible explanations.

The first explanation is when a wage gap that cannot be explained by the theory of compensating wage differentials arises after the part-timer has begun work. For example, when first hired, the wages may have been appropriate when compared to the restrictions placed on the worker, but as

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time passes, the part-timer's job gradually becomes more complex and job responsibility grows. In other words, wages do not keep pace with the changing job responsibilities.

The second case is when the restrictions cannot be accurately evaluated. The theory of compensating wage differentials is based on the assumption that workers can infer their overall utility based on an accurate evaluation of wages and restrictions.<sup>9</sup> However, if the range of the work, employee accountability and on-the-job responsibility are not clearly prescribed for part-time workers, or between part-time and regular workers, it is difficult for them to accurately evaluate the utility from the combination of wages and restrictions even after beginning work.

The third case is when the information acquired before being hired concerning wages and non-monetary factors is inadequate and differs from reality. In this situation, a worker would voluntarily choose part-time work based on pre-hiring information only to find that the actual situation doesn't provide a higher utility than regular employment.

The fourth explanation is when some constraints prevent workers from making employment choices freely and jobseekers are unable to maximize their utility when seeking jobs. These constraints can be divided into two: those that come from an individual characteristics and those that don't. An example of the former could be the need to take care of the home or care for children. Under these kinds of constraints, a worker cannot choose regular employment with a higher utility even if he/she wants to and is stuck with part-time work (although it is unclear whether this should be regarded as a voluntary decision or not).<sup>10</sup> An example of the latter is the tightening of the regular employment market during a recession. In this case, not all workers who want to work as a regular worker are able to do so. Those excluded from the regular employment market are forced to work part-time even though they know that regular employment provides them with more utility. This is an example of an involuntary part-time worker as described in the foregoing section.

Under the case 1 through 3, the worker would be expected to quit at the point when the utility from the combination of wages and non-monetary factors diverges from the worker's expectations before

being hired. However, there are costs involved in changing employment, such as expenses incurred when searching for a new job and the possibility of ending up with a job with even lower wages. If the part-time worker estimates that these costs will be large, he/she will not willingly leave his/her present place of employment.

### **3. Data and Analysis Methods**

#### **3.1. Data**

The following analysis is based on data from the “Survey of Diverse Forms of Employment in the Workplace” conducted by the Japan Institute of Labour in January 1999. The purpose of the survey was to get a better picture of the workplace in light of the increased use of part-time workers, contract workers and other non-traditional employment models. The data include many questions that are useful in understanding the conditions in which non-regular workers are placed and their attitudes toward their work.

Data from the report was collected from both individual workers and the companies which they are working for. This analysis mainly uses data from the individual workers.

We first explain the variable which expresses part-time workers’ nonacceptance of the wage gap with regular workers. The questionnaire asked, “How do your wages compare to hourly wages of regular workers?” Those who answered, “I think mine are lower” were then asked, “How do you feel about that difference?”<sup>11</sup> The respondents could choose, “I accept,” “I do not accept,” or “I do not know.” We use this question as the variable for nonacceptance, with the answer “I do not accept” having the value of 1 and “I accept” and “I don’t know” the value 0.<sup>12</sup>

Next, let’s look at the variable for the size of the wage gap. We have the annual salary of the part-time workers from the Data, whereas we cannot obtain the wages of regular workers which part-time workers compare their own wage with. The wage of regular workers we have in the data is the starting salary for high school graduates. Therefore, we create the variable for the wage of regular workers at each company by using the starting salary for high school graduates in the data and the

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average annual incomes of regular workers by sex, corporate scale, educational background, age and length of work experience, obtained from Table 2 of the *1998 Basic Survey on Wage Structure* Volume 1.<sup>13</sup> The wage gap is converted into logarithm.

One problem remained in defining the wage gap variable in this manner. Although in this paper we have computed the wages of regular workers based on the characteristics of the part-timers and the workplace, the data doesn't show what the part-time worker is using for comparison purposes to decide the adequacy or inadequacy of his/her own pay. For example, the part-time worker may be comparing himself/herself to full-time workers in the same company with the same individual characteristics. Or he/she could be comparing himself/herself to a regular worker involved in the same kind of work but having none of the same individual characteristics. Consequently, the regular worker used by the part-time worker for comparison purposes is not necessarily the same as the regular worker we use in the analysis.

This discrepancy generates observational errors. When the wages of regular workers used for comparison are higher (or lower) than the average wages we create from "Wage Structure Survey," there may be a lower (higher) bias to the coefficient of the wage gap variable.<sup>14</sup>

The variables expressing the gap in non-monetary factors between part-time and regular workers are as follows. Part-time workers are asked to compare their work conditions with those of regular workers regarding: 1) length of weekly fixed working hours, 2) overtime hours, 3) on-the-job responsibility, 4) freedom to set working hours, 5) flexibility to take time off work, 6) job security, 7) job satisfaction, 8) whether the regular workers are often engaged in the same work as themselves and 9) the level of required skill.

The individual characteristics considered are age, educational background, marital status, children living at home, work experience and whether to limit working hours due to avoiding tax payment. The voluntary engagement in part-time work is added to explanatory variables as discussed in Section 2. Also, estimates are controlled with dummies for type of work, corporate scale and industry.

The sample is restricted to females younger than 60 years old. Temporary workers are also excluded, since their wages are paid differently. Other non-traditional workers such as short-term workers and contract workers are included. Since only part-timers who thought their wages were lower than full-timers were asked about the acceptance of wage gap, we restrict the sample to those part-timers who think their wages are lower than the average regular worker. Such workers account for more than three-quarters of the total sample of part-time workers.<sup>15</sup>

Table 1 shows the average characteristics of the data used. Part-time workers who don't accept the wage differential have higher annual salaries than the part-timers who accept the difference, have more work experience, longer work hours per week and their job requires more skill. Part-time workers who accept the wage gap tend to be married, tend to limit working hours due to avoiding tax payment and voluntarily decided on part-time work.

**Table 1. Average Characteristics of Sample Used in Analysis**

	Do not accept	Accept or don't know
Annual salary (¥1,000)	1650	1270
Fixed weekly hours	33.1	28.6
Percentage whose work is similar to regular workers	63.7	45.0
Percentage with more than 5 years experience	51.0	19.6
Number of years at company	6.5	4.5
Percentage who limit working hours due to avoiding tax payments	22.7	40.8
Percentage who voluntarily work part-time	61.1	32.5
Age (years)	42.0	41.0
Percentage who have a spouse	64.5	72.2
Sample size	876	674

**Source:** *Survey of Diverse forms of Workers in the Workplace*, Japan Institute of Labour, 1999.

Table 2 shows the relationship between voluntary choice of part-time work and acceptance of wage gap. Approximately one-third of those who have chosen part-time employment voluntarily do not accept the wage gap. One-third of those who have chosen part-time work involuntarily accept the wage gap.

**Table 2. Voluntary Choice of part-time work and Acceptance of Wage Gap**

		Acceptance of Wage Gap				
		Do not Accept		Accept		Total
Voluntary Choice of Part-time Work	Involuntary part-timer	No. of people (%)	624 66.60	313 33.40	937	100.00
	Voluntary or don't care	No. of people (%)	398 35.47	724 64.53	1122	100.00
	Total	No. of people (%)	1022 49.64	1037 50.36	2059	100.00

**Source:** *Survey of Diverse forms of Workers in the Workplace*, Japan Institute of Labour, 1999.

### 3.2. Analysis Method

Based on the equation (1) and (2) in Section 2, we can write,

$$V_i = \alpha + \beta (w^* - w)_i + \gamma (e^* - e)_i + \delta j_i + \phi i_i + \varepsilon_i \quad (5)$$

where  $\varepsilon_i$  is the error term. If the situation in which part-timers do not accept a wage gap is represented by  $y_i = 1$  and that where a wage gap is accepted is represented as  $y_i = 0$ , then:

$$y_i = 1 \quad \text{iff } V_i > 0$$

$$y_i = 0 \quad \text{otherwise}$$

As this equations show, the probability that the part-time workers will not accept the wage gap is determined by the wage difference between them and regular workers in the same workplace ( $w^* - w$ ), the difference in non-monetary factors ( $e^* - e$ ), type of job ( $j$ ) and the individual characteristics ( $i$ ).

We use the probit analysis with the nonacceptance of wage gap as the dependent variable in order to estimate the model.<sup>16</sup> The differences in non-monetary factors were considered by generating two types of dummy variables: a dummy variable which expresses more work burden and another dummy variable which expresses less work burden. Using the example of overtime, for the dummy variable on more overtime, more overtime than regular workers is assigned 1 and equal or less overtime is assigned 0. For the less overtime dummy, less overtime than regular workers is assigned 1 and equal or more overtime is assigned 0. The definitions of dependent and independent variables are laid out in Table 3.

**Table 3. Variables Used in Probit Analysis**

Dependent variable	
Nonacceptance of wage gap with regular workers	
1 = do not accept	
0 = accept or don't know	
Explanatory variable	
Wage Gap	In (average annual salary of regular worker with the same individual characteristics in the same company/part-timer's total wages of the previous year)
	fixed weekly working hours
	fixed weekly working hours x working hours dummy-more fixed weekly working hours x 0 = less or same: x 1 = more
	fixed weekly working hours x working hours dummy-less fixed weekly working hours x 0 = more or same: x 1 = less
	overtime hours dummy-more 0 = less or same: 1 = more
	overtime hours dummy-less 0 = more or same: 1 = less
	on-the-job responsibility dummy-more 0 = less or same: 1 = more
	on-the-job responsibility dummy-less 0 = more or same: 1 = less
Gaps in Non-monetary factors related to work	freedom to set working hours dummy-more 0 = less or same: 1 = more
	freedom to set working hours dummy-less 0 = more or same: 1 = less
	freedom to take time off work dummy-more 0 = less or same: 1 = more
	freedom to take time off work dummy-less 0 = more or same: 1 = less
	job security dummy-more 0 = less or same: 1 = more
	job security dummy-less 0 = more or same: 1 = less
	job satisfaction dummy-more 0 = less or same: 1 = more
	job satisfaction dummy-less 0 = more or same: 1 = less
Gaps in Non-monetary factors related to work	whether to be engaged in the same work as regular workers 0 = sometimes or seldom or never do same work as regular workers 1 = often do same work as regular worker
	level of required skills 0 = same level as 1 <sup>st</sup> -4 <sup>th</sup> year of regular workers 1 = same level as 5 <sup>th</sup> year or more regular workers or group leader or higher

Work conditions	number of years at company whether to limit working hours due to avoiding tax payments 0 = no; 1 = yes voluntary choice of part-time work 0 = involuntary part-timer 1 = voluntary part-timer or don't care
Individual characteristics	age, age squared spouse 0 = no; 1 = yes children living at home 0 = no; 1 = yes
Dummies	educational background reference: high school graduate junior high school graduate, junior college/vocational school graduate, university/graduate school graduate work type reference: service work office work, specialized/technical work, sales/business work, technician/factory work, transport/labor, other work corporate scale reference: 1,000 employees or more 500-999 employees, 300-499 employees, 100-299 employees, 30-99 employees, less than 30 employees industry reference: service industry manufacturing industry, electric/gas heat/water industries, transportation/communication industry, wholesale/retail/food service industry, finances/insurance industry, real estate industry

Based on equation (5), one would expect the broadening of the wage gap to have a positive influence on the probability of nonacceptance (i.e., the larger the wage gap the less acceptance by part-time workers). Regarding the variables of non-monetary factors, it can be predicted that the dummy variables of more work burden would have a positive influence on nonacceptance while the dummy variables of less work burden would have a negative influence.

## 4. Empirical Results

### 4.1. From Overall Sample

The left column of table 4 shows the results of probit estimation for whole sample.

Although the table shows that the effect of a wage gap is positive, this is not statistically significant. In other words, the size of a wage gap in

itself does not influence the probability of nonacceptance. However, these results must be interpreted with care, since they may be influenced by the biases mentioned in the previous section.

The significant variables are more on-the-job responsibility, less job satisfaction, the same work which regular workers are often engaged in and the level of required skills. These variables increase the probability that part-time workers will not accept the wage gap. On the other hand, as expected in the previous section, variables such as less overtime, less job responsibility, more freedom to set working hours and less working hours reduces the probability of nonacceptance. The variables of on-the-job responsibility have significant effects, with both more and less dummies having a large marginal effect. Thus, we can see that on-the-job responsibility strongly influence the probability of nonacceptance.

Voluntary choice of part-time employment strongly influences the probability of part-time workers' nonacceptance of a wage gap with regular workers once they have begun work. The right column of the table 4 shows the results of estimation in case that voluntary choice of part-time work is excluded from the explanatory variables. The absence of the voluntary choice of part-time work bring about large differences in the coefficients of less overtime and more freedom to set working hours, which shows these variables closely relate to voluntary entry into part-time employment.

Table 4 confirms that, regardless of the effect of voluntary choice of part-time work, non-monetary factors such as part-timers' on-the-job responsibility and the same work which regular workers are often engaged in greatly influence the probability that part-time workers will not accept a wage gap with regular workers. This shows that the absence of a clear distinction between part-time and regular workers in terms of on-the-job responsibility and job description generates part-time workers' nonacceptance of wage gap with regular workers.

**Table 4. Empirical Results of Probit Analysis for Nonacceptance**

Dependent variable: Nonacceptance of wage gap with regular workers  
 1 = cannot accept  
 0 = accept or don't know

Explanatory variables	Including voluntary choice			Excluding voluntary choice		
	coefficient	t value	marginal effect	coefficient	t value	marginal effect
Wage gap	0.032	0.30	0.012	0.017	0.17	0.007
fixed weekly working hours	0.011	1.81 *	0.004	0.012	2.11 **	0.005
x working hours - more	0.004	0.51	0.002	-0.001	-0.11	0.000
x working hours - less	-0.007	-2.04 **	-0.003	-0.007	-2.22 **	-0.003
overtime hours - more	-0.009	-0.04	-0.004	0.061	0.27	0.024
overtime hours - less	-0.244	-1.87 *	-0.096	-0.339	-2.68 ***	-0.134
on-the-job responsibility - more	0.360	2.14 **	0.143	0.386	2.37 **	0.153
on-the-job responsibility - less	-0.811	-7.52 ***	-0.305	-0.809	-7.67 ***	-0.305
Gap in non-monetary work factors						
freedom to set working hours - more	-0.320	-2.49 **	-0.124	-0.386	-3.06 ***	-0.149
freedom to set working hours - less	-0.149	-1.25	-0.058	-0.193	-1.65 *	-0.075
freedom to take time off work - more	-0.186	-1.59	-0.073	-0.178	-1.55	-0.070
freedom to take time off work - less	-0.030	-0.24	-0.012	0.019	0.15	0.007
job security - more	0.063	0.47	0.025	-0.023	-0.17	-0.009
job security - less	0.177	1.52	0.069	0.214	1.88 *	0.084
job satisfaction - more	-0.089	-0.67	-0.035	-0.064	-0.50	-0.025
job satisfaction - less	0.311	2.87 ***	0.122	0.339	3.19 ***	0.133
whether to be engaged in the same work as regular workers	0.285	3.01 ***	0.111	0.274	2.97 ***	0.107
level of required skills	0.594	5.57 ***	0.232	0.602	5.80 ***	0.236
work experience	0.013	1.11	0.005	0.009	0.82	0.004
Work conditions						
whether to limit working hours due to avoiding tax payments	0.139	1.16	0.055	0.038	0.33	0.015
voluntary choice of part-time work	-0.556	-5.64 ***	-0.216			
Individual attributes						
age	0.004	0.09	0.001	0.005	0.13	0.002
age squared	0.000	-0.13	0.000	0.000	-0.16	0.000
spouse	-0.050	-0.40	-0.020	-0.085	-0.70	-0.034
live-at-home children	-0.025	-0.20	-0.010	-0.005	-0.05	-0.002
Educational background dummies						
junior high school	-0.320	-1.57	-0.120	-0.260	-1.32	-0.099
junior college/vocational school graduate	0.088	0.73	0.035	0.103	0.88	0.041
university/graduate school graduate	0.058	0.29	0.023	0.071	0.37	0.028
Type of work dummies						
office work	0.061	0.40	0.024	0.098	0.66	0.039
specialized/technical work	0.540	2.21 **	0.213	0.593	2.48 **	0.232
sales/business work	-0.312	-1.42	-0.118	-0.271	-1.26	-0.103
technician/factory work	0.031	0.15	0.012	0.050	0.25	0.020
transport/labor	0.275	0.82	0.109	0.311	0.93	0.124
other work	-0.025	-0.12	-0.010	-0.055	-0.27	-0.021
Constant	-0.244	-0.30		-0.484	-0.61	
Goodness of fit (Prob>chi2)			0.000			0.000
Pseudo R squared			0.288			0.275
Log likelihood			-552.053			-579.655
Sample size			1129			1162

Source: Survey of Diverse forms of Workers in the Workplace, Japan Institute of Labour, 1999.

Notes:

1. \*\*\*, \*\* and \* stand for statistical significance of 1%, 5% and 10%, respectively.
2. Refer to Table 2 for definitions of the explanatory variables.
3. Estimates are controlled for the corporate scale dummy and the type of industry dummy. Both dummies had almost no significant variables so they were not included in the table.
4. Marginal probabilities of explanatory variables in the case of dummy variables express the discontinuous change when the concerned variable changes from 0 to 1.

## 4.2. Voluntary Choice of Part-time Work and Probability of Nonacceptance of a Wage Gap

It was shown above that voluntary choice of part-time work strongly impacts the probability of nonacceptance. In light of the discussion in Section 2, a separate analysis of the probability of nonacceptance by workers who involuntarily chose part-time work and those who did so voluntarily should help clarify under what circumstances a part-timer would accept a wage gap and under what circumstances he/she would not.<sup>17</sup> Below we divided the sample into involuntary part-time workers and voluntary part-time workers and analyze each separately using probit analysis.

The left column of Table 5 shows that when voluntary part-time workers have the freedom to choose their own working hours, they are more apt to accept a wage gap, while less job satisfaction makes it less likely they will accept. Although voluntary part-time workers choose part-time work because they wanted to be able to set their working hours, Table 5 suggests that these workers did not have accurate expectations regarding job satisfaction prior to starting work.

As discussed in section 2, one reason why voluntary part-time workers — assumed to have accepted wage gap before job entry — become dissatisfied with the wage gap after starting work is because the information they received about non-monetary factors before they started work is different from reality. For example, voluntary part-time workers enter employment assuming that they will have the freedom to choose their own working hours. Our data, however, shows that when asked about this freedom after starting work, only around 50 percent responded that they have more freedom than regular workers. Twenty-five percent believe they have the same amount of freedom as regular workers and another 25 percent actually feel they have less freedom in deciding their working hours than regular workers. It is possible that these last two categories of workers will not accept a wage gap despite having voluntarily chosen part-time work since work restrictions ended up being greater than they expected before entering the job.

**Table 5. Results of Probit Analysis for Nonacceptance Based on Voluntary or Involuntary Choice of Part-time Work**

		Dependent variable: Nonacceptance of wage gap with regular workers 1 = cannot accept 0 = accept or don't know					
		Voluntary part-timers			Involuntary part-timers		
Explanatory variables		coefficient	asymptotic t value	marginal effect	coefficient	asymptotic t value	marginal effect
Wage gap	wage gap	0.165	0.98	0.052	-0.083	-0.58	-0.031
	fixed weekly working hours	0.010	1.10	0.003	0.010	1.21	0.004
	x working hours - more	0.008	0.66	0.003	0.002	0.18	0.001
	x working hours - less	-0.004	-0.78	-0.001	-0.009	-1.85 *	-0.003
	overtime hours - more	-0.276	-0.68	-0.079	0.276	0.86	0.097
	overtime hours - less	-0.311	-1.52	-0.105	-0.156	-0.85	-0.057
	on-the-job responsibility - more	0.304	1.18	0.103	0.364	1.50	0.126
	on-the-job responsibility - less	-0.870	-5.65 ***	-0.268	-0.944	-5.48 ***	-0.355
Gap in non-	freedom to set working hours - more	-0.687	-3.82 ***	-0.215	0.169	0.80	0.061
monetary	freedom to set working hours - less	-0.229	-1.26	-0.069	-0.067	-0.39	-0.025
	freedom to take time off work - more	0.027	0.16	0.008	-0.450	-2.39 **	-0.171
work	freedom to take time off work - less	0.304	1.55	0.102	-0.313	-1.74 *	-0.118
factors	job security - more	0.190	1.02	0.060	-0.130	-0.60	-0.049
	job security - less	0.149	0.86	0.047	0.198	1.16	0.074
	job satisfaction - more	-0.089	-0.47	-0.027	-0.128	-0.65	-0.048
	job satisfaction - less	0.467	3.01 ***	0.152	0.211	1.28	0.077
	whether to be engaged in the same work						
	as regular workers	0.220	1.62	0.069	0.343	2.40 **	0.127
	level of required skills	0.537	3.67 ***	0.179	0.729	4.22 ***	0.257
	work experience	0.022	1.41	0.007	-0.004	-0.24	-0.002
Work	whether to limit working hours due to						
conditions	avoiding tax payments	0.133	0.88	0.042	0.122	0.54	0.044
	age	0.019	0.31	0.006	-0.012	-0.18	-0.004
Individual	age squared	0.000	-0.36	0.000	0.000	0.05	0.000
attributes	spouse	-0.210	-1.10	-0.069	0.133	0.74	0.049
	live-at-home children	0.022	0.13	0.007	-0.021	-0.11	-0.008
Educational	junior high school	-0.355	-1.22	-0.099	-0.303	-0.97	-0.116
background	junior college/vocational school graduate	-0.014	-0.08	-0.004	0.154	0.86	0.056
dummies	university/graduate school graduate	-0.101	-0.33	-0.031	0.080	0.29	0.029
	office work	0.004	0.02	0.001	0.174	0.69	0.064
Type of	specialized/technical work	0.516	1.43	0.185	0.611	1.63	0.195
work	sales/business work	-0.440	-1.41	-0.119	-0.193	-0.55	-0.073
dummies	technician/factory work	-0.117	-0.42	-0.036	0.216	0.66	0.077
	transport/labor	0.401	0.87	0.141	-0.060	-0.11	-0.022
	other work	-0.346	-1.23	-0.098	0.346	1.00	0.119
Constant	constant	-0.823	-0.67		-0.022	-0.02	
	Goodness of fit (Prob>chi2)			0.000			0.000
	Pseudo R squared			0.255			0.272
	Log likelihood			-281.062			-249.278
	Sample size			616			513

Source: Survey of Diverse forms of Workers in the Workplace, Japan Institute of Labour, 1999.

**Notes:**

1. \*\*\*,\*\* and \* stand for statistical significance of 1%, 5% and 10%, respectively.
2. Refer to Table 2 for definitions of the explanatory variables.
3. Estimates are controlled for the corporate scale dummy and the type of industry dummy. Both dummies had almost no significant variables so they were not included in the table.
4. Marginal probabilities of explanatory variables in the case of dummy variables express the discontinuous change when the concerned variable changes from 0 to 1.

Now let's examine involuntary part-time workers. These workers are less likely to accept a wage gap than voluntary part-time workers. The right column of Table 5 shows that the variables of short working hours, and freedom to take time off work have a effect in pushing these workers to accept a wage gap, which was proven statistically significant. On the other hand, the same work which regular workers are often engaged in drives them not to accept a wage gap, and this was also found to be statistically significant.

For both voluntary and involuntary part-time workers, less on-the-job responsibility results in acceptance and a high level of required skills tends toward rejection with statistic significance.

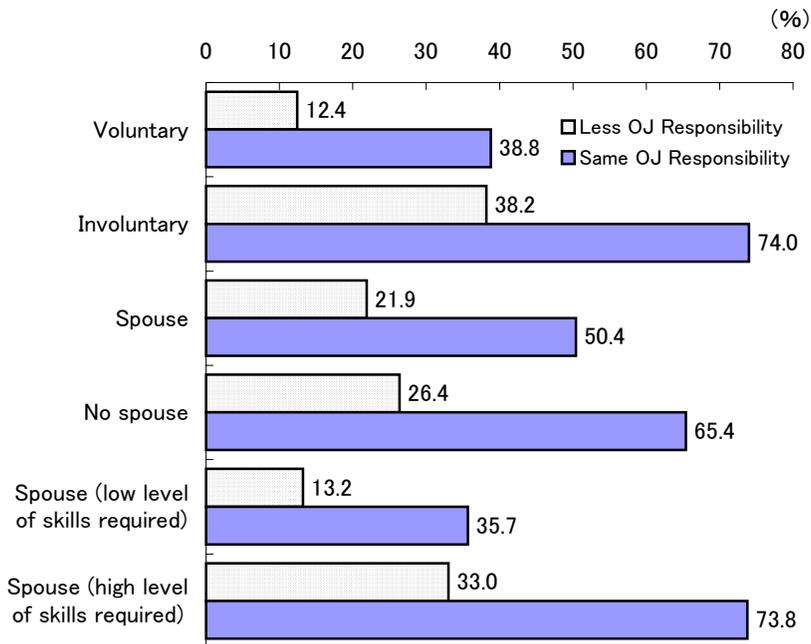
### **4.3. Influence of On-the-Job Responsibility on Nonacceptance of a Wage Gap**

It has become clear from the previous sections that less on-the-job responsibility reduces the probability that the part-time workers will not accept the wage gap with regular workers, through looking at the entire sample and looking at voluntary and involuntary part-timers separately. However, we cannot see how much on-the-job responsibility affects unacceptability.

In this section simulations were conducted to ascertain how much on-the-job responsibility affects nonacceptance of the wage gap. All other explanatory variables were given average values in order to calculate the extent to which the probability of nonacceptance would change depending on whether on-the-job responsibility was less for part-time workers than for regular workers, or if it was the same. The results are shown in Figure 1.

Only 12 percent of voluntary part-time workers who have less on-the-job responsibility find the wage gap unacceptable whereas 40 percent of those who chose part-time work involuntarily do not accept a wage gap even when they have less on-the-job responsibility. When on-the-job responsibility is identical for part-time and regular workers, three out of four involuntary part-timers do not accept the wage gap.

**Figure 1. Changes in Probability of Nonacceptance of Wage Gap**



In addition to simulations relating to voluntary and involuntary workers, Figure 1 also shows the results for married and unmarried part-time workers, and for married part-time workers whose job requires high skills and those whose job does not require any high skill. The influence of on-the-job responsibility on nonacceptance of a wage gap may differ depending on marital status, since they evaluate non-monetary factors, such as working hours, differently. Besides, we saw that part-time workers whose job required more skills were less likely to accept a wage gap in the previous section.

Regarding marital status, the results show that unmarried part-timers were less likely to accept a wage gap. Among married part-timers, however, those whose job required a high level of skill were less likely to accept a wage gap than unmarried workers in both case that their on-the-job responsibility was less than and equal to regular workers. One out of three highly skilled married part-time workers did not accept a

wage gap even if they had less on-the-job responsibility. When their on-the-job responsibility was equivalent to regular workers, over 70 percent were discontented with a wage disparity. Some case studies have indicated that the balance between on-the-job responsibility and compensation is important.<sup>18</sup> According to these calculations on-the-job responsibility greatly influences whether or not a part-timer accept a wage gap regardless of their situation.

## 5. Conclusion

When part-time workers discover that there is a wage disparity between themselves and regular workers, under what conditions will they agree that the wage gap is fair and legitimate? Among the many different types of part-time workers, some regard the wage gap as legitimate while others do not. Why the difference? In this paper, we explained reasons why part-timers do not accept a wage gap with regular workers after starting work using the survey of individual workers.

Whether or not part-time workers accept a wage gap with regular workers depends first of all on whether the particulars of their work and their work conditions are clearly distinguished from those of regular workers. If a part-timer's on-the-job responsibility is equal to that of a regular workers and the part-timer's wages are lower, the probability that the part-timers will not accept the wage gap rises substantially.

Those who voluntarily choose part-time work are more likely than involuntary part-timers to accept a wage gap after being hired. However, even voluntary part-time workers are more likely to be discontented with a wage gap if they discover that their working conditions are no different than regular workers.

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## Footnotes:

- <sup>1</sup> The phrase “part-time worker” originally implies those who worked few hours, but many companies now refer to all workers who are not regular workers as part-timers regardless of how many hours they work. Thus, there are many “part-time” workers who actually work full-time. In this paper, we use the broader definition of “part-time worker” which includes non-regular workers who work as many hours as full-timers. The definition of “regular worker” is also vague, but for the purposes of this paper a regular worker is a full-time worker with all the rights and responsibilities of a formal employee.
- <sup>2</sup> Equal Employment, Children and Families Bureau, Ministry of Health, Labour and Welfare (2002).
- <sup>3</sup> Otake (2000) and Shinozaki (2002).
- <sup>4</sup> Equal Employment, Children and Families Bureau, Ministry of Health, Labour and Welfare (2002).
- <sup>5</sup> Nagase (1995).
- <sup>6</sup> Sato (1998) evaluates non-traditional labor as represented by contract workers, temporary workers and part-time workers.

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- <sup>7</sup> In this paper the term “restrictions” includes non-monetary factors such as restrictions on working hours, on-the-job responsibility and the level of required skill.
- <sup>8</sup> Nakamura and Chuuma (1994) investigated the combination of wages and restrictions of part-time workers and show that this kind of selective behavior occurs.
- <sup>9</sup> See Ehrenberg and Smith (1985, Ch. 8) for details of compensating wage differential theory.
- <sup>10</sup> Wakisaka (1995) indicates that to define part-time workers who can not work in regular employment due to domestic commitments such as chores and childcare as “voluntary part-time workers” poses a problem for the concept of voluntary choice of work.
- <sup>11</sup> The question prior to this is, “Which of the following best describes your skills compared to a general employee? Please check the answer that best applies.” The question asks the part-timer to compare their skills to the skills of a non-managerial regular worker at the same company with a certain number of years experience. The “regular worker” in the text is defined as the “a non-managerial regular worker” in this question.
- <sup>12</sup> In the equations in Section 2 concerning acceptance, the probability that part-time workers accept wage differences is hypothesized to be dependent upon the wage gap and gap in non-monetary factors, the characteristics of the work and the individual workers. The survey asks whether part-time workers can accept a wage difference with regular employees. However, it is difficult to imagine that when part-timers consider whether or not they agree with a wage gap they only think about the wage gap and ignore other factors, such as differences in non-monetary factors as considered in Section 2.
- <sup>13</sup> As for the detail of generating the variable of the wage gap, refer to Shinozaki, Ishihara, Shiokawa and Genda (2003).
- <sup>14</sup> High wage-earning part-time workers with high abilities can be compared to regular workers with wages that are higher than the “Wage Structure Survey” average, so there is a high probability that there will be a downward bias to the estimate values.

- <sup>15</sup> The rest of the breakdown is “I don’t think there is a difference” at nearly 5%, “I think my wages are higher” at 1.5%, “I don’t know” at 15%, and “unknown” (value missing).
- <sup>16</sup> Ordered probit analysis was also considered, but probit analysis of “unacceptability” was decided upon since the reasons that one “cannot accept” were deemed more important than reasons for “accept” or “don’t know.
- <sup>17</sup> ”As put forth in Section 1, quite a lot of research has been done on voluntary participation in part-time employment, but the concept of what is voluntary and what is not is actually an extremely nebulous concept. A well-known example describes a welder fired from his job in Chicago and remains jobless in Chicago even while knowing he could find work as a farm worker in California. Should this man be considered involuntarily or voluntarily unemployed (Stiglitz, 1993)? Another argument says that since the determination of whether part-time work is a voluntary or involuntary choice rests ultimately with the worker himself/herself, it cannot be said to be an objective decision. Will a person with children at home who works part-time because he/she can’t find a suitable day-care facility, for example, say that he/she wanted to work part-time or say that he/she was forced to work part-time?
- <sup>18</sup> For example, Mitsuyama (1991) and Honda (1993).

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# Managing Temporary Workers in Japan

**Motohiro Morishima**

*Professor, Graduate School of Commerce and Management, Hitotsubashi University*

**Tomoyuki Shimanuki**

*Graduate Student, Graduate School of Commerce and Management, Hitotsubashi University*

## Abstract

This article aims to shed lights on dispatched workers, whose number has been conspicuously increasing in the Japanese labor market in recent years, and who have created a new kind of employment relationship with firms; it examines problems arising from the peculiarities of their employment framework and the mechanism of their personnel management. The employment pattern of dispatched workers displays a structural framework different from that of traditional regular employees: in the presence of two actors in the human resource management involved; and in the shortness of career perspectives. The presence of two actors in the management of dispatched workers – firms taking them on and manpower supply agencies – means the division of functions which have been traditionally fulfilled by a single actor, and generates “mismatches in human resource management” in the fields of procurement of personnel, their training, and their evaluation and remuneration. The short-term nature of career perspectives, on the other hand, deprives the actors of the incentive to resolve those mismatches, which seem likely to diminish both the willingness to work and the performance itself of dispatched workers. For effective use of these workers, it is vital to examine, from the viewpoint of the mutually complementary relationship between actors in the human resource management, possible ways of building a management framework for dispatched workers, assistance to them in improving their value as workers, and giving them satisfaction in their work.

## 1. Introduction

The human resource management of temporary workers has come to

the foreground in recent years. Behind this lie the facts that a rapidly increasing number of firms are taking advantage of such workers, and that the nature of the jobs assigned to them is becoming more sophisticated. Together with this, the personnel management of dispatched workers is drawing more attention nowadays in that these workers who, until recently, have been engaged largely in secondary duties and made use of as a device for firms to adjust their workforce in response to fluctuations in demand, are now assigned to positions responsible for core duties at companies and looked on as a kind of manpower in continuous use.

Despite this, only a few studies have so far been made on the human resource management of temporary employment, and even those that exist rarely pay attention to its particularities. This is perhaps because temporary workers have not been subject to “management” in that they played a marginal role and were small in number.

This article first turns the spotlights on the human resource management of temporary workers (i.e., “registered-type” dispatched workers) who have been little discussed so far, and examines problems in the management of temporary human resources arising from the particular nature of temporary employment, together with the mechanism whereby the problems arise. More specifically, it investigates what kind of problems in relation to human resource management are likely to arise with dispatched workers and firms due to the particular nature of temporary employment, and attempts to provide a basic stance for ways to improve the management of temporary personnel for both workers and firms.

## **2. Changing Temporary Employment**

An increasing interest in personnel management of dispatched workers has arisen partly from substantial changes in their number and roles in recent years. The first change is an increase in the number of dispatched workers. Conceptually, they are regarded as one type of “contingent workers” (Polivika 1986, for example), and the advantages of making use of such workers can be distilled into two elements: ease of securing labor, and reductions in labor cost, both of which are achievable since manpower

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supply agencies provide the necessary number of workers for a term, and bear costs for recruitment, and educational and training. In other words, there are several advantages in the use of dispatched workers: it encourages the “quantitative flexibility,” cited by Atkinson (1985), enables the outsourcing of the personnel management (recruitment, training, etc.) to manpower supply agencies, and reduces the cost of the management.

The traditional employment system in Japan leans strongly towards employment security for regular employees, and accordingly requires considerable expenses for the recruitment and training of such workers. This tendency has been sensed strongly, in particular, under the economic recession of the last fifteen years, so that temporary employment contracts, because of their function in cutting labor management expenses, have had a great attraction for firms which strive above all for cost reductions.

According to Ministry of Health, Labour and Welfare statistics (2003), the total number of dispatched workers increased sharply from the mid-1990s on, and reached 1.79 million in fiscal 2002, an increase of 27 percent from the previous year. Even though the proportion of business establishments hiring dispatched workers accounted for only 7.6 percent of businesses as a whole, and such workers accounted for a mere 2.0 percent of workers as a whole, the growth rate is remarkable.

A series of deregulatory measures – a liberalization in principle in December, 1999, of occupations in which it is allowed to dispatch workers, and a lifting of the ban on dispatch to manufacturing premises, together with the extension of the upper limit on periods of dispatch in March, 2004 – are likely to stimulate firms further to make use of temporary workers.

The increase in the number of such workers is attributable not just to reasons on the firms’ side, but also to changes in the outlook of workers, that is, an increase in the number of people who voluntarily choose to work under temporary employment contracts (Sato 1998, for example). As a result, the presence of dispatched workers has become too great for them to be regarded any longer a simple short-term workers to be left outside the scope of personnel management.

The second change concerns the quality of temporary workers. Traditionally, firms have regarded dispatched and other non-regular

employees as temporary workers, and have assigned non-core or peripheral tasks to them. At the same time, such workers have been considered to be a buffer against fluctuations of demand. Now, however, an increasing number of firms now proactively value their specialties, and their immediately deployable ability and skills as a substantial element of the workforce, and have them engage in more essential, core duties.

A questionnaire survey by the Japan Institute of Labour (currently, The Japan Institute for Labour Policy and Training) found, for example, that 31.5 percent of approximately 240 business establishments surveyed assigned “core and specialized” duties to their dispatched workers. Also, according to the 2003 Comprehensive Survey on Diversification of Employment Patterns carried out by the Ministry of Health, Labour and Welfare, where firms were asked to choose three reasons for using temporary workers, 39.6 percent of the firms surveyed cited “to secure labor that is competent and can immediately serve as an essential part of the workforce,” and 25.9 percent “to deal with specialized duties.” The figures in the 1999 survey were 31.0 percent and 23.8 percent, respectively, showing an upward trend over the years.

In a Ministry of Health, Labour and Welfare survey of 2001 also, “improved skill levels,” “adaptability in the workplace,” and “commitment to work,” among other things, were referred to as qualities required of dispatched workers by both dispatch agencies and client companies: the survey findings imply that the maintenance of worker commitment to work and improvement of ability and skills are considered critical challenges facing firms when they attempt to make effective use of temporary workers. Now that temporary workers are no longer simple, cheaper substitutes for regular employees but parts of the workforce contributing to success in corporate strategies, they are natural subjects for human resource management which will suit the temporary nature of their employment and other special features, maintaining their eagerness to work, allowing them to demonstrate their ability and skills, and eliciting high performance albeit a certain cost.

It seems that qualitative and quantitative changes in ways of using temporary workers have altered views of such workers among firms, so that the human resource management related to them has come to the

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foreground.

### **3. Prerequisites in considering the Human Resource Management of Temporary Workers**

Before considering the human resource management of temporary workers, let us first examine the differences between temporary employment contracts and the employment framework envisaged by traditional personnel management, namely, the typical employment pattern of regular employment.

The first difference concerns the actors participating in human resource management. Personnel management of regular employees involves only one actor – the firms which hire regular employees and keep them working in the same firms over the years. With dispatched workers, on the other hand, the employers are not those who actually ask the workers to work: the latter conclude employment contracts with manpower supply agencies, while the actual relationship involving work assignments arises with the firms taking on temporary manpower. In other words, there are two actors participating in the human resource management: the client companies and manpower supply agencies.

The second difference is related to “career perspectives.” Regular employees are legally regarded as workers under an unlimited labor contract, and thus, generally speaking, pursue their career development in a long-term perspective via work experience and job training provided within an internal labor market. On the other hand, dispatched workers are under a fixed-term labor contract, and thus the commitment of client companies to the career development of the workers is inevitably based on a shorter perspective. This applies in the same fashion to the commitment of the manpower supply agency to the workers it dispatches, in that direct employment relations are limited to the period of dispatch. In both cases, the career perspectives of dispatched workers are in effect “short term” for the actors in human resource management. Moreover, in the sense that the career development of a dispatched worker is not carried out through transfer, rotation, training and other mechanisms within the firm concerned, his or her shorter-term career perspective implies poor

utilization of the internal labor market in his career development.

In sum, the employment pattern of dispatched workers is different from that of traditional regular employees in the sense of (i) two actors being involved in human resource management and (ii) the short-term nature of career perspectives. In particular, the presence of two actors is a unique framework of employment, not seen hitherto in the employment contracts of regular employees, contracted workers, or part-time workers, nor in the employment contracts of outsourced workers who provide their labor without having any direct employment contract with the firms. Consequently, in considering the human resource management of temporary workers, required is a substantial shift from the paradigm of management based on the traditional regular employees. (Table 1 shows a comparison between the pattern employment of dispatched and regular workers.)

Table 1: Structural Frameworks of Labor Dispatch (Human Resource Management?) – Comparison of Dispatched Workers and Regular Employees

		Dispatched workers	Regular employees
1	Actors participating in HR management	Client firm (entity to supervise and command workers)	Same firm (employee = entity to supervise and command workers)
		Manpower supply agency	
2	Career perspectives	Short term	Long term
		Low utilization of internal labor market	High utilization of internal labor market

#### 4. Tasks and Mechanism of Human Resource Management of Temporary Workers

This section examines the challenges which may turn up in managing dispatched workers under the foregoing employment framework. Discussion here focuses on three functions of human resource management – procurement; training; and evaluation, wages and other rewards of labor – from the stage where client companies take on dispatched workers from manpower supply agencies to the stage where the contract term of dispatch of the workers in question comes to an end. (Note 2)

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## **(1) Procurement of Labor**

The first function of human resource management is to secure manpower. In this “recruitment of workers,” a firm specifies its requirements for future staff (i.e., specifications of manpower), announces job vacancies, and selects applicants.

The specification of requirements is, first of all, the responsibility of firms wishing to hire workers. They are responsible for determining the scope of the duties in which dispatched workers will engage; clarifying the required ability, skills, qualifications, work experience and other conditions; and passing these on to manpower supply agencies.

Manpower supply agencies then post job openings of dispatched workers. In accordance with needs of their clients – firms taking on temporary workers – agencies call for registration of temporary workers via, for example, “open houses,” websites, and so on. These registered temporary workers form a pool of labor from which individuals may be dispatched to client firms. A difference from the ordinary recruitment of regular employees is that the workers recruited by agencies do not necessarily perfectly meet the requirements of individual firms wishing to hire temporary workers, since agencies gather a wider variety of personnel, with more moderate attributes than those set by individual client firms, so as to meet the varying needs of the latter.

Agencies next select candidate workers likely to satisfy the requirements of individual client companies, and offering jobs to the workers. Finally, if the workers find the job description acceptable, labor contracts are concluded. It is this choosing of dispatched workers from the pool of candidate manpower and the placing of them in job that, in short, constitute the selection of human resource. (Note 3)

In this way, the presence of two actors participating in human resource management leads to the division of the function of securing dispatched workers into, on the one hand, the firms taking them into their workplaces, and, on the other, manpower supply agencies. The former, responsible for presenting clear requirements concerning workers, naturally have abundant information on the nature of the jobs and workplaces. But since they do not participate in the recruitment, selection, and dispatching of workers, they cannot see what kind of dispatched workers agencies hold in their

pool; how the agencies select workers to actually dispatch; how they communicate with dispatched workers when offering jobs to them; and so on.

On the other hand, manpower supply agencies, responsible for gathering labor and selecting suitable workers to dispatch, possess detailed information concerning the ability, skills, attitudes to work, sense of values, and so on of dispatched workers. However, since they are not able to pin down requirements for individual jobs, they are short of information concerning, for example, what kind of ability and skills will be required to perform the duties at workplace, and what kind of attitude and sense of values dispatched workers ought to have in order to fit in with the corporate culture and atmosphere of client firms.

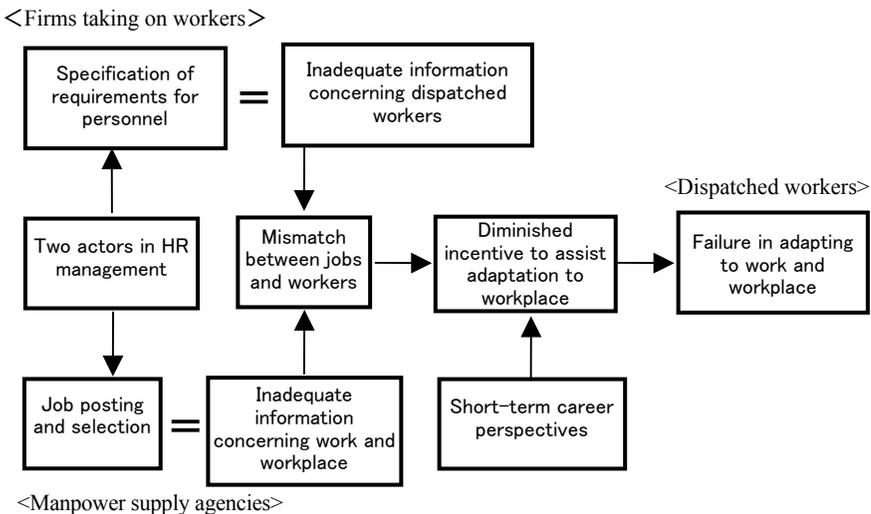
This division of roles in human resource management is highly likely to generate a mismatch between job descriptions and the workers who take them. Firms taking on dispatched workers have little information about the ability, skills, outlook, and so on of the workers, so that they cannot single out a specific manpower supply agency with workers to satisfy their requirements. On the other hand, since agencies have little information concerning the nature of jobs and workplaces, they cannot supply the workers best suited to the requirements of firms wanting temporary workers.

Beside this, the short-term career perspectives make it more difficult for both firms taking on temporary workers and manpower supply agencies to resolve the mismatch of jobs and workers. This is because the short-term relationship between firm and temporary worker deprives both actors of the inducement to help, with a certain expenditure of time and money, the workers to adjust to jobs and organizations: rather, it encourages the actors in human resource management, when there is a mismatch between duties and workers, to replace the latter with others who may be better for the duties, rather than to assist the former to accustom themselves to the duties. In the meantime, manpower supply agencies acquire a tendency not to select dispatched workers who really match the requirements of the client companies, and to provide temporary workers with information calculated to make them accept job offers. Firms taking on temporary workers, on their side, tend to neglect efforts to

make dispatched workers understand the ability, skills, and roles in the workplace expected of them, and to terminate labor contracts without further communication, once they have decided that they are incompatible with the jobs or organization, and to call for replacement with other dispatched workers.

Consequently, mismatches between jobs and personnel arising in the process of labor procurement are highly likely to remain unresolved. Under such circumstances, the dispatched workers involved will discover a gap between their expectations and predictions prior to actual engagement in work on one hand, and the reality after starting to work (the so-called “reality shock”). Demoralized, they fail to demonstrate the expected job performances. (A series of mechanism causing problems in human resource management is shown in Table 2.)

**Table 2: Problems Inherent in the Use of Temporary Workers – (1) Personnel Procurement**



**(2) Training of human resources**

The second function of human resource management is to train human resources. The task-execution ability and skills of personnel are classifiable into firm-specific and general-purpose ability and skills; dispatched and other temporary workers who have a relatively high

mobility in the labor market are, in general, expected to be equipped with general-purpose ability and enough specific skills to be usable across a variety of firms. Where the fostering of human resources in the form of temporary workers and the development of their ability mean the maintenance and improvement of general-purpose ability and skills, the education and training concerning clerical skills, business manner, bookkeeping, English and other skills provided by manpower supply agencies can be regarded as assistance for the workers in acquiring general-purpose skills and knowledge. At the same time, work experience at host companies can be seen as opportunities for temporary workers to apply their acquired ability and skills to practical work environments, and to sustain and improve their quality. If we use the familiar classification of types of human resource development of OJT (on-the-job training) and Off-JT (off-the-job training), the former, for dispatched workers, is actual engagement in duties in host companies, whereas the latter is the education and training provided by their manpower supply agencies.

The division of functions of human resource management is likely to cause a mismatch between content (what kind of ability and skills should be instilled) and method (how they should be instilled). Put differently, there is likely to be a gap between the nature of the ability and skills in temporary workers which client companies expect from manpower supply agencies, and the training method which the agencies apply for their temporary workers.

This is because it is difficult in practice for dispatched workers to carry out duties assigned to them at host companies using only the general-purpose ability and skills acquired through job training at manpower supply agencies. They are, in reality, obliged to adapt them and apply their general-purpose ability and skills according to individual, unique tasks at host companies. Many firms expect temporary workers to have at least a slight amount of firm-specific ability and skills, apart from general-purpose ones. But it can happen that, due to the foregoing division of the functions, neither of the actors in human resource management acts to assist temporary workers to adapt to firm-specific ability and skills.

Firms taking on temporary workers, who are responsible for providing opportunities of work experience, have ample information concerning the

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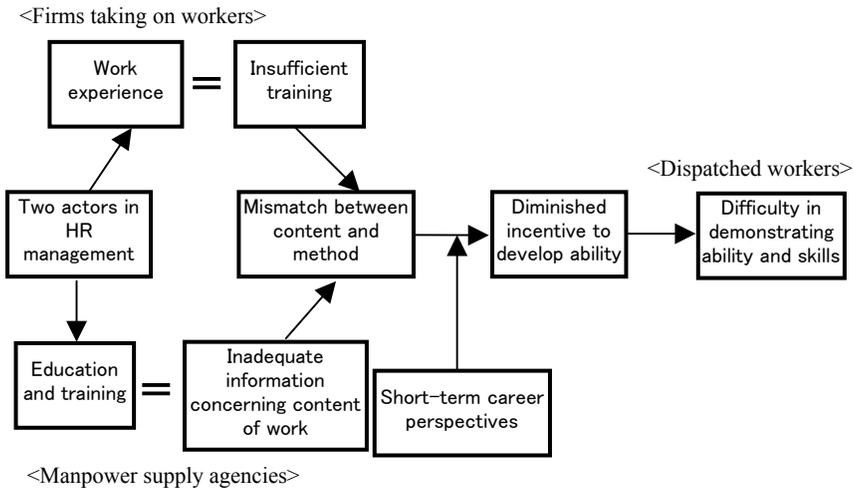
nature of jobs. But since they are not involved in education and training, they expect that the manpower supply agencies will train the workers in respect of not just general ability and skills but also of ability and skills sufficient to carry out specific tasks at the firms.

On the other hand, manpower supply agencies, being responsible for offering education and training, have ample knowledge of the kind of ability, skills and so on which can be acquired through such training. But since they cannot be involved in the nature of specific jobs conducted at their client companies, they do not possess enough knowledge to predict how much ability and skills temporary workers will need to carry out tasks at their client companies, and thus to provide training adequate to meet specific demands from their client companies.

What is more, the short-term nature of career perspectives makes it more difficult for both firms taking on temporary workers and for manpower supply agencies to resolve the mismatch between content and method of training of dispatched workers. The short-term relationship between firm and temporary worker deprives both actors in human resource management of the inducement to devote much time and expense to developing human resources (human capital investment). Rather, the shortness of career perspectives shifts responsibility for ability development from the actors in human resource development to the individual workers themselves. Firms taking on temporary workers do not offer them workers opportunities of ability and career development through work experience, while manpower supply agencies, on the other hand, do nothing to help dispatched workers to upgrade their ability and skills apart from offering training courses with curriculums covering general skills only. This shift of actors in ability development may serve, at the same time, to encourage agencies to produce versatile temporary workers so that they can supply labor to as many firms as possible.

Thus the mismatch between the content and methods of human resource development is likely to remain unresolved. If so, temporary workers will naturally find it difficult to acquire the required ability and skills, and fail to demonstrate expected job performances. (A series of mechanism causing problems in human resource management is shown in Table 3.)

**Table 3: Problems Inherent in the Use of Temporary Workers –  
(2) Personnel Training**



**(3) Evaluation, wages and other rewards for labor**

The third function concerns the evaluation, wages and other rewards for human resource. In line with the mechanism of management by objective (MBO), this can be regarded as the process whereby objectives are set at the beginning of the term; evaluations are made concerning the achievement of the objectives at the end of the term; and the evaluation results are given as feedback to workers, as well as being reflected in wages, promotion, and other rewards for the workers.

Where the roles of the actors in this process of evaluation and reward are concerned, firms taking on temporary workers present the workers they have taken on with the roles they are expected to play. And when the contract is coming to an end, they review and evaluate the attitude and performances throughout the contract term of the workers in question, and report the evaluation to the manpower supply agencies, who will convey it to the workers as feedback. Thus, firms taking on temporary workers are, in principle, responsible for evaluation during contract terms.

The rewards which are reflection of the evaluations consist largely of remuneration (wages) and rewards in the form of the nature of the jobs assigned. The former goes with the job posts, and is determined in

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accordance with the type and nature of the jobs assigned to at companies. Improvements in ability and skills, achievement, and other factors of dispatched workers are not directly reflected in their wages. (Note 4) Rewards in the form of the nature of jobs suggest the provision of employment opportunities; more specifically, they are chances for employees to have the labor contracts renewed and continue working at the current companies, and chances of being assigned to a different host company. (Note 5) These rewards are provided, in principle, by the manpower supply agencies.

As seen above, the responsibility for functions of evaluation and reward is divided between the firms taking on temporary workers and the temporary staffing agencies. The former, responsible for the evaluation of temporary workers, monitor workers' behavior and attitudes towards work and thus have much information concerning the approach to work, achievement, and so on of workers. But since they have no part in the determining of wages and other rewards, nor in drawing up a mechanism of incentives, their evaluation of temporary workers cannot be reflected in wage levels and their changes. On the other hand, the temporary staffing agencies, responsible for determining wages and other rewards of workers, can in theory design a mechanism for giving incentives to workers, but do not have sufficient information concerning how enthusiastically temporary workers actually work, what they achieve, and so on.

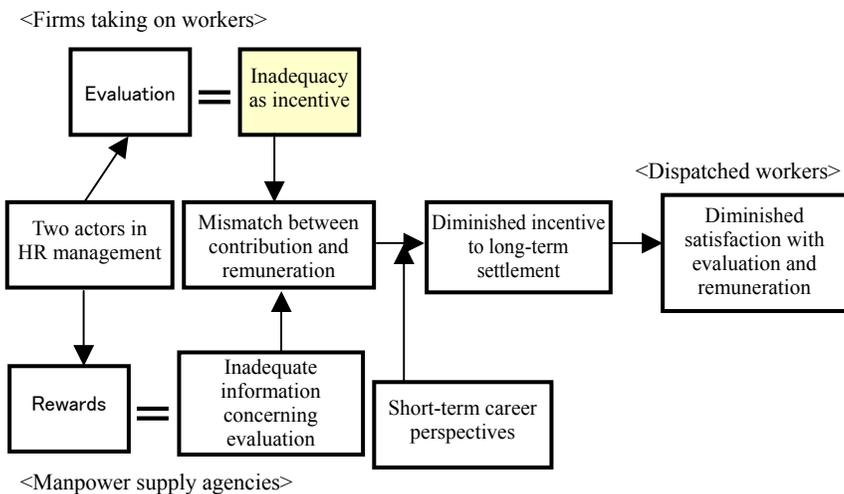
The division between the functions of evaluation and rewards in human resource management is likely to cause a mismatch between the contributions of and remuneration to temporary workers. Firms taking on temporary workers are unable to commit themselves to determining the wages and other treatment of workers, thus being unable to make effective use of information concerning the quality of dispatched workers. On the other hand, manpower supply agencies have little information concerning the performances and achievement of workers, so that they are unable to determine wage levels in such a way as to give incentives to them.

What is more, the shortness of career perspectives makes it more difficult for both firms taking on temporary workers and manpower supply agencies to resolve the mismatch between the contributions of and remuneration to those workers. This is because the short-term nature of

the relationship between firms and temporary workers deprives both actors in human resource management of the inducement to build a long-term relationship, based on mutual trust, in wage settlements. Rather, the short career perspectives encourage the actors on both sides to look for shortsighted, economically advantageous wage settlements. Firms taking on temporary workers make no attempt to carry out any evaluation process extending from setting objectives to giving feedbacks to workers, and simply expect workers to produce achievements and results. On the other hand, manpower supply agencies tend to rely on wage levels as worker incentives, and, as a result, make no attempt to use long-term career development of workers as their incentives for hard work and commitment.

Consequently, the mismatch involved in evaluation and rewards between the contributions and rewards to temporary workers is likely to remain unresolved. Such being the case, temporary workers will be dissatisfied with the balance between their attitudes and contributions to work on the one hand, and the ensuring rewards on the other, and will be discouraged from working enthusiastically. (A series of mechanism causing problems in human resource management is shown in Table 4.)

**Table 4: Problems Inherent in the Use of Temporary Workers –  
(3) Evaluation and Remuneration**



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As seen above, in every function of the human resource management – procurement; training; and evaluation, wages and other rewards of labor – the employment pattern, i.e., temporary employment, itself serves as the mechanism causing problems in management.

This mechanism, as shown in Table 5, is a result of the presence of two actors in human resource management. The functional division into two actors of management traditionally carried out by a single actor – firms taking on temporary workers and manpower supply agencies – limits the human resource management activities that each party is able to perform, which, in turn, causes problems that may be called as “mismatches in the human resource management” in terms of procurement, training, and evaluation and rewards of manpower.

For example, in the procurement of workers, it is the function of the firms wishing to hire them to specify their requirements, but since they have little information concerning temporary workers actually available, they cannot single out and contact a particular manpower agency with suitable workers. On the other hand, it is the function of the temporary staffing agencies to post job openings and to screen workers, but since they have little information concerning the nature of the jobs and workplaces, they cannot supply temporary workers matching the requirements of the companies which actually want to hire them. This causes the mismatch between the nature of jobs and the personnel.

In the training of human resource, it is the function of the firms wishing to hire temporary workers to provide work opportunities, but since they have no hand in the training itself, they simply expect workers to have been trained and equipped with ability and skills sufficient to carry out their assignments. On the other hand, it is the function of the temporary staffing agencies to train temporary workers, but since they have little information concerning the work experience, they cannot provide appropriate education and training for workers to acquire the ability and skills necessary to implement tasks at the host companies. This causes the mismatch between the content and methods of training.

What is more, in the evaluation of and reward to temporary staff, it is the function of firms wishing to hire them to evaluate the workers, but since they cannot commit themselves to determining wage levels and

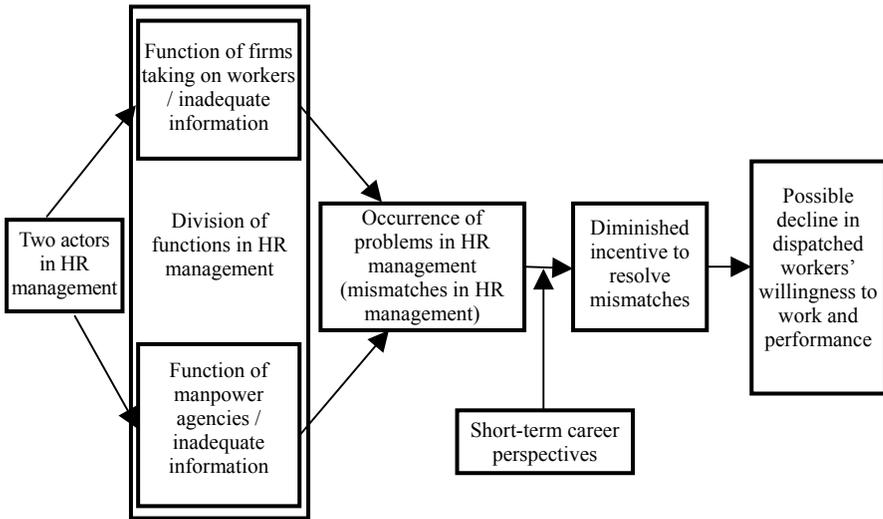
other treatment, they cannot reflect the assessment of workers in the remuneration they offer. On the other hand, it is the function of temporary staffing agencies to determine wage levels and other rewards to workers, but since they have little information concerning their attitudes and achievements at actual workplaces, they cannot give levels of remunerations appropriate as incentives to work. Hence, this causes the mismatch between the evaluation and treatment.

Both firms hiring temporary workers and temporary staff agencies, by their nature, naturally wish to do something about resolving mismatches obstructing proper human resource management. But the short-term career perspectives of dispatched workers tend to deprive host companies and manpower agencies of the incentives to work out those mismatches over the long term, and thus it is expected to be quite difficult to solve the problems.

For example, in securing of human resources, the actors in human resource management, when they find workers to be incompatible with the nature of their jobs, are prone to replace them with more appropriate workers, rather than assisting them to fit in the jobs. As for training, the responsibility for development of the ability required for the execution of tasks at firms taking on temporary workers tends to shift from the firms themselves (one actor in the human resource management) to individual workers. Moreover, where the evaluation of and rewards to temporary workers are concerned, emphasis as worker incentives is placed on short-term, wage rates, as opposed to opportunities for the long-term career development of dispatched workers.

And so long as the mismatches remain, dispatched workers will find it difficult to adapt their jobs and organizations, and will fail to demonstrate their ability and skills. Moreover, they will be dissatisfied with the balance between their attitudes and contributions to the work, and the ensuing rewards. As a result, it is highly possible that such workers will be discouraged and unable to deliver even their average levels of performance. (A series of mechanism causing problems in each function of the human resource management is shown in Table 6.)

**Table 5: Mechanism Causing Problems in Management of Temporary Workers**



**Table 6. Problems and mechanism, by function of human resource management**

Function of HR management	Impact of presence of two actors in HR management		Impact of short-term career perspectives	Impact on dispatched workers
	Division of function (top: host companies / bottom: agency)	Mismatches in HR management		
Procurement	Clarification of requirements for personnel	Mismatch between job descriptions and workers	Diminished incentive to assist adaptation	Failure in adapting work and workplace
	Job posting and selection			
Training	Work experience Education and training	Mismatch between content and method	Diminished incentive to develop ability	Difficulty in demonstrating ability and skills
Evaluation and remuneration	Evaluation (from setting objectives to receiving feedbacks)	Mismatch between contributions and remuneration	Diminished incentive to long-term settlement	Diminished satisfaction with evaluation and remuneration
	Remuneration (rewards in the forms of wages or job nature)			

## 5. Case Studies

This section cites several cases that support our inferences made in the previous sections. The cases described below, based on interviews directly addressed to dispatch workers, noticeably highlight the problems in the human resource management of temporary workers. (Note 6)

The first case concerns Ms. A, 31, a dispatched worker who engages in clerical jobs at a large food manufacturer. Ms. A receives from a manpower supply agency a job offer which is ideal for her in every aspect – type of jobs, working hours, location, and so on. But once she starts working at the host company, her boss asks her not only to draw up documents and do filing, but also frequently to photocopy and serve tea, on top of which he asks her to do overtime almost every day. Finding it difficult to seek advice from persons at the workplace, she consults her agency, but the situation remind as unimproved.

Ms. A expresses dissatisfaction at the difference between her prior expectations and the reality. She was told by the manpower supply agency in advance that she would be able to leave the office normally on schedule, but she does lots of overtime, which is utterly different from what she was told; moreover, she was pleased to accept the job offer because she was told that her tasks would be mainly to draw up documents, and she did not expect at all to be asked to make photocopies and serve tea. At the same time, she expresses concern about the lack of communication at the workplace: there are no explanations from her boss, and little conversation with people at the workplace, so that she has so far failed completely to get used to the workplace. This series of comments obviously shows a situation where a dispatched worker is unable to adapt her job and workplace, because the mismatch between the natures of the job and worker is not resolved by the two parties responsible for human resource management.

The second case is Ms. B, 27, a dispatched worker who engages in clerical jobs at a large steel manufacturer. Ms. B wishes to continue working as an assistant at a clerical section and has attended clerical skill courses held by her manpower supply agency. She has clerical work experience at an insurance company, but has not worked for a steel maker.

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Once she starts working, she finds the work quite different from what she has experienced in the financial sector, and is unable to engage in the expected jobs; her duties are largely processing cash slips and filing, together with drawing up simple documents and materials.

Ms. B stresses the difficulty in carrying out duties at the host company, saying that it is difficult to remember technical terms in the steel industry, and that she was initially confused by the accounting system at the company. At the same time, she expresses dissatisfaction with her current job in that she cannot demonstrate all her skills; she has spent lots of time and money on training in clerical skills, but the level of skills required in the current post is simply too low, and she will not be able to improve her skills with this job. These comments obviously suggest a situation where a dispatched worker faces difficulty in demonstrating her ability and skills because of an unresolved mismatch between the content and the method of training.

The third case is Ms. C, 30, a dispatched worker who engages in clerical work in the sales section of a precision equipment sales company. Ms. C has worked for the current host company for nearly one and a half years, during which she has had her labor contract renewed several times, but her wage remains at the initial level. When her current contract is about to expire, her manpower supply agency tells her arbitrarily that the contract will be terminated. Ms. C asks the agency to offer her another job, but has not been contacted yet. Ms. C expresses dissatisfaction with the system of evaluation and remuneration, saying that she is just told the final decision – whether her contract is renewed or terminated each time the contract term approaches expiration – and has no idea whether or not her attitude to the work is valued highly; that she cannot get along with the idea of the same wage level for all dispatched workers even though different workers make quite different contributions to the host company; and that there is no guarantee of promotion to a regular employee however hard she, as a dispatched worker, works, nor is there any guarantee of the manpower supply agency offering her another, satisfactory job next time.

These comments by Ms. C imply that the mismatch between contributions and remuneration makes it difficult to satisfy dispatched workers' expectations concerning their evaluation and remuneration.

## 6. Necessary Approach to Make Effective Use of Temporary Workers

Finally, in this section, taking all these problems in the management of temporary workers into account, we shall hypothetically present an approach that would make for the effective use of temporary workers.

First, it is vital to recognize that appropriate management of such workers will improve their value as human resource, and enable firms to make more effective use of them as strategic personnel. As stated earlier, there are a number of peculiarities in the structure of the management cycle involving temporary workers – i.e., procurement, training, and evaluation and remuneration – which are prone to hinder the improvement and use of those workers.

For instance, so long as companies taking on temporary workers and manpower agencies treat the matter from a short-term perspective, it will be difficult to make the cycle function properly, in that no human resource management can be economical and produce returns unless conducted from the long-term perspective. At the same time, another factor, the division between the actors in human resource management, hampers the formation of any integrated management, since it is necessary to coordinate two actors, those dispatching workers and those taking on workers, which respectively have different stakes in the process.

However, now that temporary workers have started taking responsibility for more important duties for longer terms, they are beginning to be viewed as a valuable human resource – not just workers employed for the sake of cost reduction – so that it is now necessary to organize the three stages – that is, procurement, training, and evaluation and remuneration – into a single human resource management cycle. The importance of this management cycle has been little discussed so far, unlike the case of regular employees, which utilizes the internal labor market over a long span. However, in the near future, it will certainly become necessary to make management function properly even in cases where the relation of dispatched workers and firms is short-term.

For this purpose, of course, firms should be encouraged to attach more importance to the quality of temporary workers than to short-term cost

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reduction effects, and to pay prices corresponding to the investment of the manpower supply agencies in improving the quality. At the same time, another possibility is that host companies should build a long-term contractual relationship with supply agencies, and view the latter as a stable supplier of highly skilled workers. Either way, it is vital to build a mechanism of integrated human resource management based on the collaboration of firms and manpower supply agencies in improving quality of temporary workers.

What is more, since dispatched workers are not made use of in the internal labor market of a single company, it may also be necessary to consider constructing a partnership or network among the actors in the human resource management at the industry- or sector-level, so that the linkage can be achieved between work experience and training of the workers concerned.

Second, in order to heighten the value of temporary workers, it will be important to assist them within a broader framework. This is because, compared to regular employees, temporary workers can seldom rely on firms for training opportunities, and also because manpower supply agencies at the moment have their own limits on the scope of training temporary workers. Training of temporary workers and ability development on a long-term basis is beneficial to both firms and workers: it will not only lead to the securing of higher quality personnel for the firms, but also contribute to the maintenance and improvement of ability and skills on the workers' side, as well as giving them a more rewarding working life. One problem is, however, the difficulty in constructing such a framework, and it is essential to assist the career development of temporary workers so as to enable them to consistently demonstrate their ability and skills.

More specifically, assuming that host firms have their own limits on the time that can be spent on the career development of their temporary workers, it is the manpower supply agencies that will have to help improve the existing approach of education and training. Temporary workers, moreover, will be required to have their own specialties, and public assistances will also be of importance for workers who contemplate pursuing career development by their own efforts.

The third issue, though it is not in the direct line of the discussion so far, is the fair treatment of dispatched workers, a premise for considering any proactive use and an increase in the number of those workers. Fair treatment in the workplace a fundamental requirement workers to commit themselves to their jobs of their own free will and trust the organization they work for. However, fair treatment here is not simply confined to the satisfaction with job types, working conditions, and other explicit conditions stated in labor contracts. It should also include a “psychological” contract based on expectations towards personnel management as a whole in the organizations for which the workers work: satisfying work, comfortable workplaces, fair assessment and remuneration for commitment to work, opportunities for ability development which improves their value as workers, and so on. (e.g.m Rousseau, 1995, Morishima, 1996)

It is rather difficult to secure satisfaction with their work environments for non-regular employees in general, and not just dispatched workers, for many reasons (Shinozaki, Ishihara, Shiokawa and Genda, 2003, but there are some particular factors, as seen in the case studies above, which hamper this in the case of the latter. Currently, quite a few commentators hold that in the personnel management of part-time and other non-regular employees, satisfactory working lives can be realized by giving them fair treatment and dignity as workers. In line with this, methodologies for securing dispatched workers’ satisfaction with their working lives will be one crucial issue of the human resource management to consider.

## **7. Conclusions**

This article has focused on temporary workers, who fall into a new employment pattern and have been increasing in number in recent years in Japan, and has discussed fundamental issues for the management of those workers.

First, the article pointed out to aspects of the employment pattern of dispatched workers – that is, (i) the presence of two actors in personnel management and (ii) the short-term nature of career perspectives – which are different from the traditionally typical employment pattern of regular

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employees.

Second, the problems which these frameworks of employment cause in the management of temporary workers, and the mechanism whereby those problems arise, were examined from the viewpoint of functions of the management. The presence of two actors in personnel management, firms taking on temporary workers and manpower supply agencies, divides the traditionally single function of management into two elements, causing problems summed up as “mismatches in the human resource management.” The mismatches show themselves in three forms: (i) mismatch between the scope of duties and type of workers at the stage of procurement of the workers; (ii) mismatch between the content and method of training at the stage of personnel training; and (iii) mismatch between individual contributions and remuneration at the stage of evaluation and remuneration of temporary workers. In addition to these, we inferred, with reference to several case studies, that the short-term career perspectives of these workers deprive both the firms hiring them and the manpower supply agencies of the incentive to make effort to resolve the mismatches, and thus that they are likely to find it difficult to dispel the mismatches.

Finally, bearing in mind the problems of human resource management and the mechanism at work, we presented hypothetical frameworks for the human resource management which seem to require investigation as ways of making effective use of temporary workers. In short, they include the formation of integrated management for temporary workers, assistance in the career development of those workers, and giving them a sense of satisfaction with their jobs.

The satisfaction with work and other frameworks suggested in this article are achievable only through interaction among the actors involved in the human resource management. The most essential framework for the effective use of temporary workers is a mutually complementary relationship among firms hiring those workers, the manpower supply agencies, and the government.

\* Professor and Graduate Student, respectively, in the Graduate School of Commerce and Management, Hitotsubashi University. The two authors

have contributed equally to this article, and their names are listed in the order of seniority.

Note 1: Some may argue that evaluation and reward should be treated as separate functions of human resource management, but we regard them as parts of a cycle and thus as one single function of human resource management.

Note 2: According to interviews with dispatched workers, quite a few firms taking on temporary workers seem to request (place an order) for workers with more than one manpower agency, ask them to produce candidates, conduct interviews with the candidates in the guise of preliminary meetings, and then determine who to take on. The fact that firms conduct preliminary meetings suggests that they play a certain role in the selection of personnel, but still manpower supply agencies play a substantially larger part in the selection because they choose candidate workers in advance.

Note 3: Interviews with dispatched workers show that some manpower agencies raise wages (hourly wages in general) to dispatched workers when a dispatched worker has worked for one single host company for a long period or when the fees for dispatch paid by host companies increase. But pay hikes here are a part of providing an incentive for the individual worker, and the mechanism of wage payments to temporary workers does not itself vary fundamentally among manpower agencies. For dispatched workers, bonus payment and benefits are normally not given.

Note 4: Renewal or termination of labor contracts can be considered to be in the hands of the firms taking on temporary workers in the sense that they, in practice, make the decisions. But renewals of contracts with the same host companies and assignment to jobs at different host companies can be regarded as rewards arising from identical work in the sense that both represent the provision of employment opportunities, and thus can be counted as reward by manpower supply agencies. For dispatched workers, promotion, upgrading and similar rewards at host companies or manpower supply agencies are not considered as possibilities.

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Note 5. The three cases presented in this article are part of an interview survey of dispatched workers by the authors. The interviews were conducted between October 2002 and December 2003, with 30 workers who have three major attributes of the registered-type dispatched workers of today – “clerical job” (operation of office apparatus, filing, general clerical work, etc.), “ages in their 20s – 30s”, and “female.” We asked the interviewees about their work experience as dispatched workers; their views concerning workplaces; the differences to human resource management between host companies and manpower supply agencies; and so on. We would like to thank the dispatched workers concerned for their willing to share their views with us.

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

***Makoto Fujimoto***

*Researcher, The Japan Institute for Labour Policy and Training*

***Takuma Kimura***

*Doctoral Candidate, Department of Economics, The University of Tokyo*

## **Summary**

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

## **1. Introduction**

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

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

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

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

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

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

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

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

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

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

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

## **2. Classification of Contract Companies by Business Strategy**

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

### **2.1 Classification by Policy on Operation Types**

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

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

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

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

## 2.2 Classification by Policy on Operation Management

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

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

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

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

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

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

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

**Figure 1: Business Strategy Types of Contract Companies**

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

### 3. Human Resource Management and Business Strategies of Contract Companies

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

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

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

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

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

### **3.1 Management Policy Classified by Business Strategy**

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

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

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

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

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

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

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

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

than seeking high-skill contract operations.

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

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

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

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

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

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

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

### **3.2 Human resource Management Matching the Company’s Business Strategy**

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

All the three case-studied companies have been generating large

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

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

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

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

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

workers will not be quitting their positions after their assignment.

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

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

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

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

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

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

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

their business strategies.

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

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

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

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

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

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

#### 4.1 Pay Raise

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

**Figure 4: Pay Increase for Contract Workers (%)**

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

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

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

#### 4.2 Job Rotation

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

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

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

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

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

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

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

## 5 Conclusion

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

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well are practicing such human resource management.

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

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

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

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

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## **JILPT Research Activities**

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1. On January 20 and 21, the Japan Institute for Labour Policy and Training (JILPT) sponsored the “The Workshop on International Migration and the Labour Market in Asia” in Tokyo in cooperation with the Japanese Ministry of Health, Labour and Welfare (MHLW), the Organization for Economic Co-operation and Development (OECD), and the International Labour Organization (ILO). The workshop is held annually with the aim of exchanging and sharing statistical data concerning international migration in Asia and information on policy responses taken by governments in the region, as well as discussing future policy directions. This year, experts and policymakers from China, Hong Kong, South Korea, Taiwan, the Philippines, Vietnam, Thailand, Malaysia, Singapore, Indonesia, Australia and Japan participated. Reports and data presented at the workshop will be available on JILPT’s website.
2. JILPT hosted the “The Workshop on Local Employment Development” in Tokyo on February 9 and 10, as part of “Research on the Analysis of the Geographical Structure of Unemployment,” one of JILPT’s research projects. Researchers from Britain, Germany, France, Italy, Denmark, Canada, the United States, the OECD and the EU were invited to present papers on current local employment policies in various countries and to assess the policies undertaken by various governments. The papers presented at the workshop will be published as a conference report and made available on JILPT’s website.

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- No.16, *Vocational Training and Qualifications for Vocational Trainers in Britain*, October 2004.
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