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Human Resources Management

“Temp-to-Perm” Services Deregulated

On December 1, 2000 the government lifted the ban on “temp-to-perm” services. The deregulation will mean that firms dispatching temporary workers may add employment placement to the service they provide. In other words, they will now be able to send registered temporary workers to client firms for a certain period, then let the workers stay on as permanent employees of the client firm if that firm and the worker agree to enter an employment relationship on their own. The deregulation had been scheduled since December 1999 when the revised Worker Dispatching Law came into effect. The temp-to-perm arrangement will result in dispatched temporary workers being employed on a “trial basis” during their temporary contract period (which is limited to one year under the provisions of the revised Worker Dispatching Law).

With the chronic mismatch between the supply and the demand for labor, the arrangements are seen as a means of reducing mismatch. The assumption is that firms and workers can correctly judge for themselves each other's professional requirements and what they have to offer, thereby increasing the likelihood that the parties themselves can do a better job of bridging the gap caused by the mismatching of supply and demand on the ground.

Several conditions are required for temp-to-perm services to be established. First, the initial registration of the employee and the resulting contract between the employee and the firm must be based on the worker's own application and consent. Second, when the temporary contract comes to an end, both the firm and the employee must confirm their intention to proceed to a permanent contract, and the terms and conditions of the permanent employment must be clearly stipulated. In this regard, firms are also required to give their reasons for not converting the position of a temporary worker to a permanent position to the relevant employee upon the termination of his or her temporary contract. Third, at each stage in this employment process the temp-to-perm manpower suppliers and job placement businesses must safeguard personal information concerning dispatched workers. In anticipation of the deregulation, nearly all temporary worker dispatching companies had already registered as job placement businesses before the change came into effect. In order to arrange for a permanent job contract between a firm and an employee, once there is mutual agreement the placement businesses must obtain permission to provide the job placement service.

One major manpower supply company predicted that there would be a demand for

temp-to-perm services among (1) new graduates and young people, (2) middle-aged and older workers who have at least five or more years to work as a regular employee before retirement, and (3) workers currently employed in sales activities. There seems to be a general awareness of the benefits of “trial dispatching” for these types of people. However, quite a few informed commentators have taken a pessimistic view of this move to deregulate the labor market. They note that there is still a strong preference among new graduates and young people to be employed by a large prestigious firm in a *sōgōshoku* (career track) position although there is little willingness among such firms to hire large numbers along those lines. The more sanguine also note that there will be little demand for such a service among middle-aged and elderly white-collar workers who will prefer that their employer arrange for them to be transferred to a smaller company affiliated with their current employer so that there will be less likelihood of having a large cut in income when they assume their new position. Third, it is asserted that the demand for labor in the sales sector will be met largely through rapidly expanding arrangements for out-sourcing. Finally, observers point out that as long as the economic recovery is not in full swing, firms will continue to be reluctant to employ additional staff on a regular basis.

Labor-Management Relations

Unionization Rate Drops to 21.5 Percent — Results of the *Basic Survey on Trade Unions* in 2000

The results of the Basic Survey on Trade Unions in 2000 were released by the Ministry of Labour (now the Ministry of Health, Labour and Welfare) on December 19, 2000. The survey showed that the number of union members dropped by 286,000 from the previous year to 11.539 million in 2000. During the same period the number of employed workers increased by 580,000 to 53.790 million, reflecting a moderate improvement in the labor market. These two changes resulted in the estimated unionization rate (the proportion of union members to employed workers as a whole) dropping 0.7 percentage points to 21.5 percent, the sixth successive year in which a decline had been recorded. The rate was the lowest since the survey was first carried out in 1947, and has been steadily declining since 1982. Moreover, the drop in the number of union members has become larger in each successive year. In terms of major organizational affiliation, 7.314 million union members were affiliated with Rengo (Japanese Trade Union Confederation), 1.036 million with Zenroren (National Confederation of Trade Unions), and 261,000 with Zenrokyo (National Trade Union Council). Union membership declined by 85,000 (0.7%) in 1995; 162,000 (1.3%) in 1996; 166,000 (1.3%) in 1997; 192,000 (1.6%) in 1998; 268,000 (2.2%) in 1999; and 286,000 (2.4%) in 2000.

In terms of industry, the unionization rate was over 50 percent in the public service (61.7%) and in electricity, gas, thermal supply, and water (56.1%). It did not reach 50 percent in other sectors. For financial services, insurance and real estate the figure stood at 41.1 percent; in transportation and communication, 37.3 percent; in manufacturing, 28.0 percent; in mining, 26.8 percent; in construction, 19.8 percent; and in services, 12.6 percent. Membership totalled 3.403 million in manufacturing, which was the industrial sector with the largest number of unionists, accounting for 29.8 percent of union membership as a whole. Services had 1.878 million members, followed by transportation and telecommunication (1.475 million), and the public service (1.284 million).

The estimated unionization rate among part-time workers remained at an extremely low level, 2.6 percent.

Rebate of Strike Reserve Fund

A labor union in a major electricity company is returning to union members its special reserve fund which was established to cover the wage losses its members might suffer in the case of there being a strike. Behind the decision lies the present overall stability of labor-management relations at that firm and the union's judgment that in the near future it would have no reason to conduct a strike.

According to the Ministry of Labour's *Survey on Labour Dispute Statistics*, the number of disputes has been decreasing over the last 20 years, after peaking at 7,660 in 1981. The figure was 2,002 in 1986, and had fallen to 1,102 in the latest survey in 1999. The trend gives the impression that labor-management relations have become increasingly stabilized over the long run. The findings of another survey by the Ministry of Labour, the 1997 *Survey on Collective Bargaining and Labour Disputes*, also show that in response to questions (with multiple answers) concerning the reasons for the absence of strikes over the previous three years, 61.1 percent of the unions surveyed said strikes had been avoided because they expected to settle disputes with management as a result of self-initiated negotiations, and 53.1 percent pointed to the fact that labor and management were committed to making every effort to solve disputes in an amicable manner. This points to a tendency among Japanese labor unions to settle labor-management disputes in a peaceful fashion.

Because strikes are now rare and most disputes are settled without a strike, funds set aside for the strike contingency go on accumulating indefinitely. According to a survey by the Institute for Social Affairs in Asia in fiscal 1997, 76.3 percent of enterprise labor unions had

their own funds for this purpose, with an average monthly contribution of ¥819 per member. The total amount of funds averaged ¥830.87 million per union (enough to cover 21 lost working days), the largest amount in a union being ¥53,411.34 million. Moreover, 82.7 percent of the enterprise unions surveyed set no upper limit for the amount of their reserves, and 62.0 percent said that such funds were not used for other purposes. On the other hand, 35.5 percent of enterprise unions said that they might spend part of their funds for other purposes.

The stable labor-management situations and the “over-accumulation” of funds have led to the rebate of funds to union members. The union at Matsushita Electric Works Ltd. (15,000 membership) was rebating its special funds of ¥4.1 billion to its members. So far, members have had their contributions back when they withdrew from union membership due, for example, to retirement or to their being promoted to a managerial post. However, the refund this time is of a completely different nature, and reflects a certain confidence that the strike funds will not be needed in the future because there has been no labor strike since the union was organized in 1946. At the same time, the union is planning to ask such members each to give the union ¥1,000 of the rebate so that it can purchase shares in the company and have a voice in company management. The union also has a separate fund of about ¥2.5 billion for the cost of striking, which will be left untouched and can be used for a possible 11-day wage loss should a strike occur.

International Relations

Non-Japanese Employees in Japan: Report of the Ministry of Labour

The Public Employment Security Offices recently surveyed firms, mainly those with 50 or more employees, about hiring non-Japanese workers. They had received replies from 19,794 establishments as of June 1999 (1.6% more firms than in 1998). The replies as a whole covered 207,093 non-Japanese workers (an increase of 8.2%).

Among the firms replying, 17,571 (an increase of 1.2%) directly employed 120,484 foreign workers (an increase of 4.7%). By industry, foreign workers were employed most widely in manufacturing (52.2% of all foreign workers), followed by the service sector (24.3% of the total) and then by wholesaling, retailing, and food and drink establishments (12.7%). These three industries accounted for nearly 90 percent of all foreign workers in Japan. More than 60 percent of foreign workers were male. By occupation, “line workers” accounted for the largest proportion (61.1%), while professional and technical workers and those in managerial posts

accounted for 18.6 percent. Establishments with 100 to 299 employees had the largest share in terms both of the number of establishments with foreign workers and of the number of foreign workers being employed.

In terms of nationality, people from Central and South America, though declining in number, accounted for 48.1 percent, followed by people from East Asia (27.4%) and from Southeast Asia (10.9%). Of those from Central and South America 88.7 percent were of Japanese ancestry. By residence status, some 60 percent of foreign workers stayed and worked in Japan as spouses of Japanese, permanent residents, or long-term residents. Another 25 percent had a residence status which permitted them to work in certain specified fields.

One special feature was that in the larger establishments there were less line workers and trainees but more professional and technical workers and those in managerial posts, as well as more workers from North America and Europe.

In general, in the manufacturing sector there was a large proportion of employees who were spouses of Japanese, permanent residents, or long-term residents, people from Central and South America, and line workers. On the other hand, in the service sectors there were larger proportions of residents allowed to engage in specified fields such as research, education, investment, management, legal services, and accounting. There were a large number of people from East Asia and many who were engaged in professional and technical work and in managerial posts.

Public Policy

Debate on the Job Search Website to Link Government and the Private Sector

In summer 2000, the Ministry of Labour announced its plan to launch a job-search website which is to be jointly managed by the government and the private sector. The website is seen as one means of implementing its policy to promote cooperation between the public employment service and private employment agencies. The goal is to better align the supply and demand of labor. The move is in line with ILO Convention No. 181. Later in the year a council was established to oversee the management of the new jointly-run employment information system. In December 2000, the council members agreed to launch such a website and to set up a conference of practitioners involved in job placement to work out the details for the new website.

The plan of the Ministry of Health, Labour and Welfare (MHLW) calls for an information system whereby information on job openings gathered by (a) Public Employment Security Offices in major cities across the country, (b) private job advertising magazines, and (c) fee-charging job placement service agencies will be posted on the website. Job-seekers will then be able to access the information free of charge through the Internet. The information on the website will include (a) the nature of the firms with job openings, (b) the content of the duties, (c) the nature of the work and employment patterns for that type of job, (d) the location of the work, (e) salaries, and (f) working hours. Users specify the desired openings for a search, note the list of matched job openings appearing on the screen, and then obtain further details of the openings at a local Public Employment Security Office or via the homepage or counselling desk of a private job placement agency. The MHLW sees the service as an efficient way for job seekers to locate new employment opportunities. The website enables the existing services offered by public offices and private agencies independently to be unified onto a single location. The database of job openings in this new service will be based on information from the Public Employment Security Offices, reinforced by private agencies' information. In the end the system could work in either of two ways. One would be for the data from all parties to be available for job seekers on a single database. The other is for each party to maintain its own database but for the separate databases to be linked to the home page of the other parties.

The Council will hold regular meetings to discuss how best to manage revisions to the database. It is still debating whether the names of firms with job openings should be provided on the website. If the names of firms are available at the stage of job searching on the Internet, many users will contact them without purchasing job information magazines or consulting at offices or agencies, resulting in a decline in the quantity of the services offered by both the public and private job placement agencies. Although some observers have suggested that company names should be disclosed for the benefit of users, some of the private agencies still have reservations on the grounds that the proposed disclosure is an obvious ploy to put the private agencies out of business. They argue that such an outcome goes against the stated aims of reforms which are to integrate the private sector into the overall system. They have also argued that the value of the information they supply on job openings derives its quality from their thoroughness in investigating each piece of information at every stage. If the private agencies were confronted with the prospect of receiving a lower fee for the information they sell through their magazines and other services which put the job seeker in direct contact with firms, they argue, it is likely that they could not afford to provide the high standard of information which is available at the present time.

Special Topic

Contingent Workers in Japan: New Developments and Unexpected Consequences

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The typical and stylized model of the Japanese employment relationship is characterized by three factors: long-term employment, internal development of work-related skills, and evaluation and reward based on the degree to which employees develop these skills (Morishima, 1995). The logic behind this combination is two-fold: firstly, that with the relatively long-term attachment of employees to firms, firms can safely invest in human capital formation; and secondly, that with a system where evaluation and reward are based on skill and competence development, employees are motivated to learn and upgrade their skills. The contribution of this human resource strategy — often called “internalization of human resources” — to the strength of large Japanese manufacturing firms has been extensively documented in previous studies (e.g., Koike, 1994).

In reality, however, the “internalization” policy has not been available to the entire Japanese workforce, and within most organizations it has in fact been restricted to the core or “regular-status” (*seiki koyō jūgyōin*) employee groups. Alongside these regular-status employees, a significant number of workers classified as “non-regular” or “contingent” workers have always existed in the Japanese labor market. These workers are hired not for regular long-term employment but for non-regular employment that is often characterized by such conditions as shorter working time, fixed term or temporary contracts, or an employment relationship with a third party.

During the past decade, employers in Japan have increasingly been using contingent workers. The contingent share of the labor force has increased by a ratio of 1.6 in the period from 1988 to 1998 as firms have experimented with alternative types of employment (and non-employment) to cope with a severe economic recession and a concomitant surplus of core employees (Sato, 1998). Based on the Ministry of Labour statistics, Sato estimates that the

proportion of contingent workers in the total labor force was about 24 percent in 1998. The rate of growth of contingent employment was faster than that for total employment during the 1980s and 1990s. Such a trend is sometimes called “externalization of employment” in Japan, in contrast to the internalization employment policy mentioned earlier.

Going beyond the simple observation that the proportion of contingent employment has increased in Japan, this note examines three issues that are related to the externalization of employment in this country. The first issue is the variety that is emerging in types of contingent employment in Japan, with the recent pattern of contingent work being examined on the basis of data from a Japan Institute of Labour (JIL) survey conducted in 1999. The second issue pertains to the question of which factors are related to this emerging pattern and the reasons for employers choosing between contingent and regular-status workers. The third and final issue concerns the consequences of replacing regular-status workers with contingent workers in the workplace. A popular view is that when contingent workers have increased at the expense of regular-status workers, regular-status workers feel threatened and workplace morale deteriorates. This hypothesis is tested using data from a 1998 Japan Productivity Center survey.

1.0 Emerging Variety in Contingent Work

In Japan, the term “contingent worker” goes far beyond “part-time” workers whose category is defined by shorter working hours (35 hours or fewer according to the definition of “part-time” in Japan; Kezuka, 2000, has an update on part-time worker issues). All non-regular workers whose jobs do not provide full-time, indefinite duration (long-term) employment with the same employer are categorized as contingent. Some of these workers are not even directly employed by the organizations that provide their jobs. They are, in fact, employed by temporary agencies or firms that have business contracts with those organizations. In the literature, contingent employment (to use the most widely accepted label) is a loosely defined category that includes a wide variety of workers:

- temporary workers hired directly by the employer
- contract company (subcontractor) workers
- workers hired through a temporary-help agency (and who, legally, are not employees of the employer at whose location they work, but of the agency), and
- a large and diverse category of self-employed individuals (such as solo consultants, independent contractors).

More specifically, a JIL survey conducted in 1999 used the following framework to

categorize contingent or “externalized” workers (JIL, 2000). In their definition, workers may be classified as: 1) regular-status employees, 2) *shukko* employees (employees transferred to firms within corporate groups or to related firms), 3) part-time employees, 4) limited-term contract employees, 5) “dispatch” workers hired through temporary agency firms, and 6) internal contract workers (workers who are employees of firms that have business relationships to the firms where they work). Workers in Categories 5 and 6 are not employees of the firms where they conduct their work. *Shukko* employees are usually regular-status workers, but have their formal employment relationship with the firms that have sent them to their current place of work.

The survey was conducted in June 1999, with a random sample of 6,813 establishments that employed 30 or more regular-status workers. A total of 1,079 establishments returned usable responses, yielding a response rate of 20.2 percent. A full report of the survey can be found in the research report by JIL (2000).

Table 1. Firm-level Workforce Composition and Its Changes (N=1,323)

	Percentage of establishments that have employees in each category	Average workforce composition: All firms	Changes in the number of workers in each category: Percentage of establishments that experienced or expect the change			
			Change during the last three years		Expected change over the next three years	
			Increased by 3% or more	Decreased by 3% or more	Increase	Decrease
Total Employment	---	(100.0%)	27.8%	29.9%	21.4%	22.6%
Regular-Status Employees	98.8%	74.8%	27.6%	32.1%	20.5%	24.3%
<i>Shukko</i> Employees	25.7%	2.8%	6.0%	5.7%	2.4%	5.5%
Part-Time Employees	56.1%	16.9%	18.0%	9.7%	17.3%	7.0%
Limited-Term Contract Employees	27.2%	3.3%	8.6%	4.1%	9.0%	4.6%
Other Non-Regular Employees	13.4%	2.0%	2.1%	1.9%	2.3%	3.3%
Dispatch/Temporary Workers	18.1%	1.4%	5.9%	3.5%	4.1%	4.1%
Internal Contact Employees	17.2%	2.2%	6.4%	3.9%	5.9%	4.6%

As shown in Table 1, regular-status employees existed in almost all establishments (98.8%), and 25.7 percent of establishments had *shukko* employees. With regard to non-regular workers, 56.1 percent and 27.2 percent had part-time and limited-contract employees, respectively. Some firms (13.4%) described themselves as having other types of non-regular workers with whom they had some form of employment relationship. In addition, 18.1 percent of the establishments stated that they had dispatch workers hired through temporary help agencies. Another 17.2 percent of the firms used internal contract workers. Thus, more than half of the employers used part-time employees and approximately 20 to 30 percent of the employers used limited-term contract employees and dispatch workers.

In addition, the second column of Table 1 shows the composition of these regular and non-regular workers within the workforce of these establishments. Here, 100 percent

corresponds to the total number of “employees” (that is, workers with whom firms have a direct employment relationship). Thus, the percentages associated with dispatch and internal contract workers are proportions of these workers relative to the total number of employed persons. As indicated by the data, within the workforce of these establishments, 74.8 percent of the employees were regular-status workers. In contrast to this, 17 percent of the employees had part-time contracts, and limited-term employees comprised about three percent of the workforce. Finally, approximately another four percent of the workforce in the surveyed firms worked as dispatch or internal contract workers in these establishments. Thus, in total, about one-quarter of the total establishment employment was non-regular (where this included shukk-o and other non-regular categories of employees).

The third to the sixth columns of Table 1 show patterns of change associated with these worker categories. The third and fourth columns show the percentage of establishments that have, respectively, increased or decreased the proportion of these workers by three percent or more over the last three years. In other words, the first entry in the second column (27.8%) is the percentage of establishments that increased the proportion of regular-status employees by more than three percent during the last three years. Similarly, the fourth and fifth columns of Table 1 show employers' future expectations for the next three years.

The results indicate that, over the last three years, while approximately 28 percent of the establishments increased their percentage of regular-status workers by more than three percent, approximately one-third of the establishments had decreased them by more than three percent. In contrast, the proportion of establishments that reported that they had increased part-time employment was almost double the proportion of establishments that reported a decreasing number of part-time employees. Similarly, more establishments increased their use of limited-term employees and dispatch workers than decreased the use of these types of workers. The plans reported for the future suggest that this trend may continue.

At the same time, however, it is important to note that approximately 28 percent of the establishments had increased their proportion of regular-status employees, and about 20 percent stated that they intend do so over the next three years. Combined with the expected increase in part-time employees and limited-contract employees, this suggests that the trend may be more complex than a simple situation of “labor market externalization.”

Table 2. Estimated Contribution of Changes in Each Worker Category to the Overall Changes in Employment (N=1,323)

	All establishments	Over the last three years, establishment performance has:				
		Substantially improved	Improved	No change	Deteriorated	Substantially deteriorated
Total Employment	-0.5%	8.5%	6.5%	3.8%	-1.7%	-10.8%
Total employment change is decomposed as:						
Regular-Status Employees	-2.2%	4.1%	5.2%	2.1%	-3.1%	-11.9%
<i>Shukkō</i> Employees	0.0%	0.0%	-0.5%	0.1%	-0.1%	-0.2%
Part-Time Employees	1.5%	3.5%	1.4%	1.6%	1.4%	1.1%
Limited-Term Contract Employees	0.2%	0.3%	0.4%	1.2%	0.0%	0.1%
Other Non-Regular Employees	0.0%	0.6%	0.0%	0.0%	-0.1%	0.0%
Dispatch/Temporary Workers	0.1%	0.7%	-0.4%	0.1%	0.0%	0.0%
Internal Contact Employees	0.2%	0.2%	0.5%	0.2%	0.1%	0.0%

An important question, therefore, is what types of establishments show an increase in their numbers of regular-status and non-regular employees. The results in Table 2 provide an answer to this. In this table, establishments are classified according to their economic performance over the last three years, on the basis of their own responses (in the categories of “substantially improving,” “improving,” “no change,” “deteriorating,” and “substantially deteriorating”). The figures indicate the rates of change of workforce composition in the surveyed establishments during the last three years. Thus, the first result, -0.5 percent, indicates that in the sample establishments, the total employment was reduced by 0.5 percent, and the decomposition of this change is shown below this figure. The reduction of regular-status employees by 2.2 percent was the largest contributor to the overall reduction. Data for non-employed persons (that is, dispatch and internal contract employees) are calculated in a similar way to the results in Table 1. (JIL, 2000, provides details of how these results were calculated.)

The results in Table 2 show an interesting pattern. Here, it can be seen that those establishments whose economic performance had improved (about 14.0% of the total establishments) had increased their numbers of both regular-status and non-regular workers. Not only had regular-status worker numbers increased by 4.1 percent, but the overall total of “non-regulars” had also increased by 4.4 percent in establishments whose performance had improved substantially. Similar results were produced by establishments that reported virtually no change in their economic performance (19.9% of the total sample). In contrast, those establishments with an economic performance that was reported as deteriorating (41.2% of the total sample) or substantially deteriorating (16.9% of the total sample) had decreased their number of regular-status employees by 3.1 percent and 11.9 percent, respectively. They had, however, slightly increased their number of non-regular employees. With regard to dispatch and contract workers, there were no discernable changes.

Thus, the picture that emerges out of these results is that establishments that are doing relatively well tend to increase both regular-status and non-regular employees. Establishments that are performing poorly tend to decrease the number of regular-status employees and slightly increase non-regular employees. The reduction in regular-status employment is occurring in poorly performing establishments, whereas non-regular employees are increasing across the board. The increase of non-employed workers (that is, dispatch and internal contract workers) is occurring in establishments that are doing relatively well. Japanese employers' reliance on long-term, internalized employment, therefore, still appears strong, but when difficulties arise, they reduce the number of regular-status employees. This is contrary to expectations based on past experience, that non-regular employees are "buffers" for long-term employees. In those poorly performing establishments, non-regular or contingent workers may be replacing regular-status workers. But in establishments that are doing well, non-regular or contingent employees have increased despite good economic performance, indicating a change in Japanese employment structures. A question, therefore, is why employers prefer to use "contingents" to regular-status workers.

2.0 Why Are Employers Increasing Their Use of Contingent Workers?

As noted earlier, one important difference between regular and non-regular or contingent workers is the degree to which their employment is flexible. With regard to regular-status employees, employment status is strongly protected, both by a legal framework that provides employment contracts of unlimited duration and by employer practices that are sometimes labeled as "life-time employment." In contrast, such strong protection is never extended to non-regular or contingent employees. Due to the legal framework that sharply separates regular-status workers from the rest of the workers, the demarcation between the two is much clearer in Japanese labor markets than those in other countries. The likelihood that these contingent workers provide firms with higher staffing flexibility and reduction in labor cost is, therefore, particularly strong in Japan, and possibly considerably stronger than in some other countries.

A simple conclusion, therefore, is that employers are seeking cost reduction and flexibility by increasing the use of contingent workers. However, as the following analyses indicate, the recent pattern of contingent worker use is the result of employers' attempts to utilize different types of human resources for different purposes. Employers seem to be thinking about much more than simple cost reduction and flexibility when they use contingent workers.

Table 3. Reasons for Contingent Workers: Percentage of Establishments Choosing Each Reason (N=1,323)

	<i>Shukkō</i> Employees	Part-Time Employees	Limited-term Contract Employees	Other Non-regular Employees	Dispatch/ Temporary Workers	Internal Contract Employees
Can be acquired easily	22.5%	35.2%	25.0%	23.8%	46.6%	29.2%
Can be terminated easily	9.3%	34.7%	28.7%	28.8%	44.1%	28.7%
Numerical flexibility in response to busier hours	1.2%	29.4%	4.3%	13.1%	17.2%	12.4%
Numerical flexibility in response to busier seasons	2.5%	28.3%	13.5%	20.6%	34.5%	36.1%
Acquisition of skills not internally available	45.4%	2.1%	23.3%	12.5%	17.2%	30.2%
Low cost	6.5%	60.6%	30.2%	43.1%	19.3%	19.8%

For example, data in Table 3 show that in addition to cost and staffing flexibility reasons, two other reasons were cited for the use of contingent workers. First, limited-term contract employees were often used because they had special skills that were not available within the firms. Similarly, although the dominant reasons for using dispatch or temporary workers were cost reduction and flexibility, 17.2 percent of the establishments reported using them as a way of acquiring skills that were not internally available. Regarding internal contract employees, acquisition of otherwise unavailable skills was the most frequently cited reason for their use. It is, moreover, a Japanese characteristic to also use *shukkō* workers for the purpose of acquiring skills that are not available within establishments. In Japanese firms, *shukkō* is not only used for employment adjustment purposes of the provider firms, but is also often used to disseminate knowledge and skills within corporate groups. Some contingent workers are, therefore, used because firms want to acquire skills that are not internally available.

The second reason cited for the use of contingent workers was the reduction of administrative work, especially when establishments used workers who were not directly employed (that is, dispatch workers and internal contract workers). The next step is likely to be the complete outsourcing of certain segments of firms' work to external service providers.

Table 4, which also provides data on why firms use contingent workers, shows that although part-time employees and dispatch workers were used most frequently for non-core and routine work, limited-term contract employees and internal contract workers were used for non-core but specialized work. In the Japanese context, "specialized work" often refers to the kinds of jobs that require specialized skills but may not be most critical to the attainment of organizational goals. Again, the data indicate that establishments use limited-term contract employees and internal contract employees for the purpose of acquiring skills that are too special and non-central to develop and maintain internally within firms.

Finally, the results in Table 5 provide more insights into the relationship between firms'

business strategies and the use of contingent workers. Here, establishments' business strategies are classified into four categories on the basis of what is being emphasized: "product/service quality," "moderate price of product/service," "low price of product/service" and "undetermined." Proportions of various types of regular and non-regular-status workers were calculated for each strategy category. In the results, there are two patterns that are worth noting. First, there was a higher proportion of part-time employees in establishments that placed their emphasis on price rather than on quality. The difference between the proportions of part-time employees in establishments that emphasized price and those that emphasized quality was almost nine percent. As business strategies shifted to an emphasis on price, the proportion of part-time employees increased. Alternatively, the second pattern is that the proportion of regular-status employees increased as business strategies shifted towards an emphasis on quality. Since the difference between establishments that emphasize price and those that emphasize quality was more than 10 percent in the case of regular-status workers, it is possible that the emphasis on product/service quality is even more strongly related to the use of regular-status employees. Although the data are only suggestive, part-time employment seems to be a preferred employment practice for establishments that emphasize price over quality. In that event, one possible scenario is that the price-conscious business strategy, if adopted, is likely to drive further externalization of employment in Japan. Some consequences of such externalization for human resource effectiveness are examined next.

3.0 What Happens When Contingents Replace Regulars?

The effectiveness of the Japanese human resource management system has relied heavily on workplace morale and the attachment that employees show toward their employing organizations, and this, in turn, has often been attributed to Japanese employment practices such as long-term employment, internal training, and rewards based on skill development. The departure from these practices, with the shift towards the increased use of contingent workers, may send a signal to regular-status employees that their jobs could be converted into contingent positions. Employees may also conclude that their efforts to learn and to upgrade their skills will not be rewarded in the long run, and they may show less willingness to learn firm-specific skills that are valuable only to their current employers. It can therefore be hypothesized that the increased use of contingent employees would cause regular-status employees to decrease their attachment to their workplace, and would have negative consequences on workplace morale.

This hypothesis was examined with the use of a survey conducted by the Joint Labor-Management Commission established at the Japan Productivity Center for

Socio-Economic Development. In 1998, the Commission analyzed the impacts of changing organizational and human resource management practices on labor-management relations. The increasing use of contingent workers by Japanese employers was one aspect of organizational and human resource practice changes that the Commission examined in the survey. A full report of the 1998 Commission study is available from the Japan Productivity Center for Socio-Economic Development (1999).

In this survey, questionnaires were sent to a sample of 2,443 firms (the 1,678 biggest firms listed at the Tokyo Stock Exchange, together with a random sample of 765 unlisted firms). A total of 506 employers returned completed questionnaires. Each respondent firm was then asked to distribute employee questionnaires to 20 workers in a variety of workplaces. By the end of October 1998, 304 firms had provided 2,980 usable employee questionnaires. All respondents were regular-status employees. In the questionnaire, each employee was asked whether their workplace had experienced any changes during the past three years in the number of each of the following categories of employees: 1) part-time employees, 2) limited-term contract employees, and 3) dispatch and temporary employees. Employees indicated whether the proportion of each type had increased, decreased or shown no change. Changes in the number of regular-status employees were similarly rated, using the same three measures.

Out of the 2,980 respondents, 16.3 percent (N=485) indicated that the number of part-time workers in their workplaces had increased over the last three years. Corresponding figures for contract workers and dispatch workers were, respectively, 14.5 percent (N=432) and 17.0 percent (N=508). In contrast, 51.0 percent (N=1,521) said that the number of regular-status workers had decreased over the last three years. Thus, one conclusion is that many workplaces are losing regular-status workers, and non-regular workers are now doing some of their work.

Figure 1a. Interaction Between Changes in Two Groups of Workers

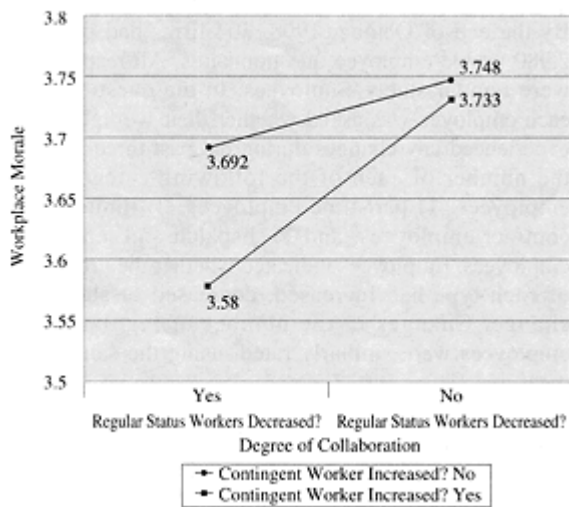
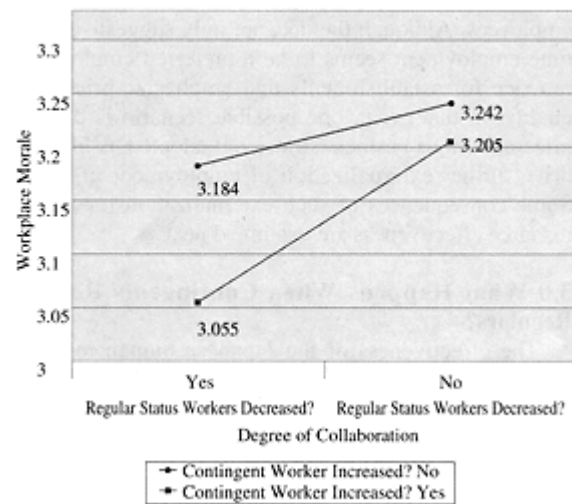


Figure 1b. Interaction Between Changes in Two Groups of Workers



To examine the findings of the JIL survey, correlation coefficients were calculated among the four measures of changes in employment (using Kendall's tau). Results showed that the correlation coefficient between the change in regular-status employees and the use of part-time employees was 0.079. Correlations with changes in limited-contract employees and dispatch workers were 0.043 and 0.042, respectively, showing almost no relationship. These results indicate relative independence between the reduction of regular-status workers and the increased use of contingent workers. However, when the sample was split on the basis of the level of firms' performance, correlation coefficients between the changes in regular-status employees and contingent workers were in the -0.120 to -0.130 range for firms whose performance had declined over the last three years. Consistent with the JIL results, poorly performing firms had decreased regular-status employees and increased contingents.

To examine the impact of contingent worker use on workplace morale, two questionnaire items were used. These asked regular-status workers for their perception of: a) "how motivated are workers in their workplaces to improve their performance and attain goals," and b) "how collaborative are workers in their workplaces." Both items had a five-point rating scale, with "5" indicating the highest level of motivation and of collaboration. For the analysis, respondents were separated into groups on the basis of whether or not they came from workplaces where there was an increase in any type of contingent workers (that is, part-time, limited-contract or dispatch workers) over the last three years. Respondents were similarly grouped on the basis of whether or not there was a decrease in the number of regular-status workers in their workplaces.

The relationship between workplace morale and changes in employment patterns is shown in Figures 1a and 1b. In both figures, workplace morale is shown to have been lower when the numbers of contingent workers increased and when the numbers of regular-status workers decreased in their workplaces. Thus, as hypothesized, it was found that these changes in employment practices were likely to have a negative impact on workplace morale. At the same time, however, it is important to note that when there was no decrease in the number of regular-status workers, average levels of workplace morale (as indicated by motivation and collaboration) were similar regardless of the changes in the number of contingent workers. It was when the number of regular-status workers decreased that the negative impact of the increasing number of contingent workers became pronounced, indicating a combined effect of the two kinds of employment pattern changes. It is, therefore, not simply the increase of contingent workers that has a negative impact on workplace morale. Data in these figures suggest that when contingent workers increase in those workplaces where regular-status workers are losing jobs, the remaining regular-status employees are likely to feel that their employment may not be secure and may, consequently, reduce their commitment to their jobs. Thus, for many workplaces that experience both an increase of contingent workers and a decrease of regular-status workers, these changes are likely to exert a very strong negative influence on workplace morale and, consequently, on workplace effectiveness.

4.0 Future Prospects and Concerns

The use of contingent employees is a human resource practice that is increasing not only in Japan, but also throughout the world. Due to inflexibility and the high costs associated with the internalized mode of employment, many organizations have opted to increase the use of contingent workers. The 160 percent increase of contingent workers in Japanese labor markets over the last ten years is largely attributable to employers' attempts to reduce costs and inject flexibility into their employment systems.

At the same time, however, the data reported in this paper indicate that, in recent years, two trends may be associated with the use of contingent workers by Japanese firms. First, firms have started to use contingent workers strategically; that is, employers now use different kinds of contingent workers for different purposes. Most notably, many limited-term contract workers and internal contract workers are used by employers to obtain skills that are not available within firms. Some dispatch or temporary workers also belong to this group. Most of the skills obtained in this manner are likely to be professional skills that are not directly related to the core business processes of the firms. Thus, employers do not have the incentives to maintain them as part of the internal organizational structure. This type of

“specialized” contingent worker use has been frequently observed in studies conducted outside Japan (e.g., Davis-Blake and Uzzi, 1993).

Another development in the strategic use of contingent workers is the “outsourcing” of human resource management responsibility to outside temporary agencies and contractors. Many employers cite “low administrative burdens” as one of the major reasons for using dispatch/temporary and internal contract workers. The use of “non-employed” individuals is likely to reduce administrative costs, but other benefits include reduced responsibility regarding such issues as employment continuity and employee assessment and training. In short, firms can remove themselves from human resource management responsibilities. Many firms obviously consider that this is an attractive benefit.

In this context, however, an issue that needs to be examined when employers advance the strategic use of contingent workers is the impact on the effectiveness of the overall human resource management system. In particular, there has been very little examination of the impact that the use of contingent workers has on the attitudes of the core or regular employees. The effect on the attitudes of regular-status employees is an important consideration since it is they who are still likely to staff key strategic positions in organizations and it is, therefore, their morale and their trust in employers that will at least partially determine the effectiveness of organizational performance.

Two findings can be highlighted from the results reported in this paper. First, the increase of contingent workers does appear to have a negative impact on workplace morale, which is one indicator of organizational effectiveness. Second, the negative impact of contingent worker increase is even more pronounced when employers simultaneously decrease the number of regular-status workers in workplaces. One important implication of these findings is that the impact on workplace effectiveness may be serious if Japanese employers attempt to replace regular-status workers with contingent workers. Remaining regular-status workers may be led to question their commitment to their employers, and workplace morale is likely to suffer. To avoid such negative effects, employers may need to manage two kinds of human resources with separate sets of human resource management practices, and to differentiate the work allocated to them. In these firms, the proportion of contingent employees is large and increasing, but these workers will remain peripheral and/or will be allocated non-core work requiring special skills. What can be labeled a “separation” human resource strategy would therefore appear to be the most preferable strategy when a firm decides to increase the proportion of contingent workers in their workforce.

As indicated earlier, the share of contingent workers in industrialized nations is quickly increasing. In many cases, this shift is for the sake of increased competitiveness and flexibility. Consequently, emerging organizational forms in the 21st century will certainly include a complex mixture of internalized and externalized employment arrangements for the management of human capital. However, since many of the organizational arrangements for managing human resources (such as organizational hierarchies, practices for employee control, deployment rules, and skill acquisition institutions) are based on the model used in workplaces where long-term organizational employment was more common, we have very little idea about how this particular change — employment externalization — may affect organizational effectiveness. The use of contingent workers has existed in Japanese labor markets for many years. However, the increase in the variety and number of contingent workers and the strategic use of these workers in the workforce by individual firms are relatively new phenomena. Japanese employers need to be aware of the unexpected effects, and need to be careful in determining which part of the organization should be externalized and which part kept internalized. Otherwise, emerging “flexible” organizations may have negative impacts both on employees' welfare and on organizational effectiveness.

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JIL News and Information

Workshop on International Migration and Labour Market in Asia

Chairpersons' Summary

Tokyo, Japan, February 1 and 2, 2001

Against the background of increasing international migration in East and South-east Asia, there exists an urgent need to better understand migration trends and their impacts and establish the foundations for orderly migration flows. Since 1995, the Workshop on International Migration and Labour Market in Asia has been organized by the Japan Institute of Labour (JIL) with the support of the Government of Japan, the OECD and the ILO, in order to discuss and exchange views and information on current international labor migration issues. This year, on February 1 and 2, experts and policymakers from 10 countries and one region (Australia; China; Hong Kong, China; Indonesia; Korea; Malaysia; the Philippines; Singapore; Thailand; Vietnam and Japan) as well as delegates and experts from the OECD and the ILO met in Tokyo in order to discuss the current situation regarding international labor migration and the labor market in Asia.

This year, the workshop began with a special session on “New Trends in Economic Development and International Migration.” In this special session we focused on recent developments in international migration and human resource development against the background of the developing “new economy.”

Special Session on “New Trends in Economic Development and International Migration”

Information and communication technologies (ICT) are transforming the advanced economies. The transformations are bringing new business and employment opportunities to the Asian economies. In order to seize these opportunities the acquisition and deployment of new skills are required.

The Asian economies, currently struggling to adjust to the post-financial crisis economic environment can learn lessons from the experiences of other countries. The United States and some European countries recently responded to shortages of ICT personnel in their domestic labor forces by implementing a variety of measures, most notably facilitating the recruitment of highly qualified immigrants. Allowing the possibility of adjusting one's residence status, a characteristic of U.S. employment-based immigration, is becoming more widespread in OECD countries. This is notably the case within the European Union where in a context of free labor mobility, the competition for attracting ICT workers is very high. It was against this background that a number of EU countries recently established special programs designed to facilitate the recruitment of non-EU workers in ICT as well as in such fields as electronics and engineering. Job turn-over of ICT workers is particularly high. Companies are therefore

competing among each other by offering better non-wage incentives, for example, flexible work schedules and health benefits.

Due to the fact that globalization has not yet led to a significant increase in developing countries' share of world trade, emigration pressures can be expected to increase in intensity. Flows of capital to where labor surpluses exist are not taking place to a sufficient extent; this is further widening income differentials between the North and the South. The movement of labor as a means of adjustment to these imbalances is often not a politically feasible solution. States are confronted with the challenge of upholding the basic rights of workers while controlling their borders more effectively.

Whilst the East Asian economies account at present for almost one-half of the world's ICT-related equipment production, some of the countries in the region have not developed clear strategies for how they will influence and respond to this sector's development. Furthermore, insufficient attention has been paid to the issue of how to respond to the growing problem of the digital divide within and between countries.

Korea has responded to the shortage of ICT skilled labor by expanding ICT classes in universities. However, the programs have been found to be less successful than expected due to a mismatch between the education of graduates and the skills that ICT companies require. The great concern for Malaysia is to have its overseas students and skilled workers return to the country.

The development of ICT-related industries and the need for human resources development as well as the potential of international migration needs more investigation. Given that a common IT network infrastructure is in the course of being established, regional co-operation in the development of ICT skills should be increased.

Recent Economic Developments and Trends in Domestic Labor Markets and International Migration

The financial crisis of 1997 seriously affected the East Asian economies. Nevertheless, many of them have experienced remarkable recoveries as a result of expansionary fiscal policies and the increased exports by ICT-related sectors. Against this background the labor market situations have improved in many economies. Due, however, to structural problems in the financial sector, which have had repercussions on the real estate and construction sectors, high growth was not achieved in 2000. Indonesia and the Philippines have been faced with the added problem of political instability. Concerns were expressed regarding the fragility of this export-led recovery and the possible repercussions on migration flows.

Recent improvements in the Asian economies are being accompanied by increased intra-regional labor migration. The reliance on undocumented workers is persisting and is playing a significant role in the on-going adjustment process. In some countries, trainees and

other temporary workers are also playing an important role in helping to alleviate labor shortages in industries and services. The feminization of labor migration flows is continuing, most prominently in domestic services and health-care. Provided that their economies continue to improve, some countries can be expected to institutionalize the recruitment of low-skilled workers.

Illegal Immigration and Employment

The workshop proceeded to consider trends in illegal migration, the overstaying of visas, illegal employment, policy responses and their effectiveness against a background of substantial income differentials between countries and the continued trend of labor market informalization.

It was observed that although for the region as a whole there has been some success in preventing clandestine entries, the problem of people entering with proper documentation but under false pretences is increasing. Notwithstanding the varied success of such an approach in other regions, the authorities in Asia are placing increased emphasis on stiffening the penalties against the employers of undocumented workers.

Unfortunately, efforts to develop more appropriate policy responses are being hindered by the use of labels such as “illegal foreign worker” which associate undocumented immigrants with criminal activities. It would be more accurate to regard them as victims. Concerning the equality of treatment of nationals and non-nationals, it was pointed out that ratification and the full application of ILO Convention 97 are important.

Participants were of the view that unless governments bring their migration policies more closely into line with their economic and demographic situations the problem of undocumented migration and employment will persist. It was suggested that in order to reduce undocumented migration in East Asia greater emphasis should be placed on multi-lateral co-operation.

Formulation of Migration Policy

It has become clear that foreign worker policy in some countries is not working effectively as it might to control the quantity and quality of migrant workers. The policy making process is very complicated and a very delicate issue involving a variety of interest groups. These various interest groups include employers, labor unions, NGOs, local governments, political parties and diverse lobbies. In addition, states and individual workers have their own interests too. Reconciling these differences is an essential element of the policy making process. The varying stages of economic developments and different political systems make it difficult for policy makers to find a common and efficient way of arriving at co-ordinated policies.

Although many receiving countries regard the need for migrant workers as temporary, very often they end up giving them more permanent status. Some countries realize that this policy has failed to manage the problem of illegal migrant workers.

In developing countries, the persistence of unemployment even in the presence of economic growth is giving rise to emigration pressure. By contrast, in many advanced economies labor shortages are rising. In order to secure the orderly movement of migrants and uphold their human rights, co-ordinated migration policies are needed.

During this final session information on the policy making process was shared. The continuous exchange of such valuable information is expected in the future workshops.

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OPINIONS REQUESTED

The editor invites readers to send their views and comments on the contents of JLB via e-mail to akuwa@jil.go.jp or via fax to +81-3-5991-5710.

Statistical Aspects

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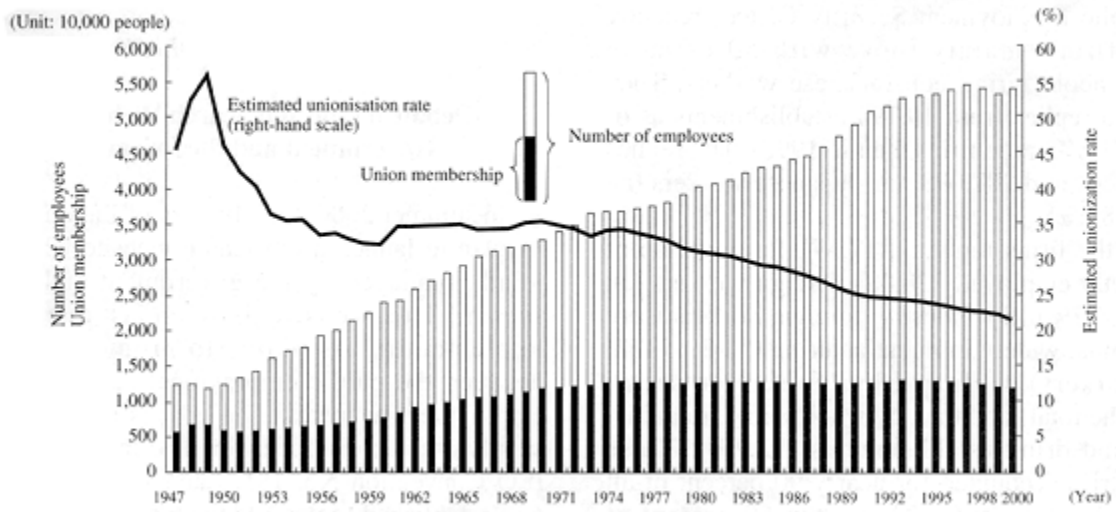
Recent Labor Economy Indices

	January 2001	December 2000	Change from previous year
Labor force	6,677 (10 thousand)	6,738 (10 thousand)	13 (10 thousand)
Employed	6,360	6,440	5
Employees	5,355	5,409	50
Unemployed	317	298	8
Unemployment rate	4.7%	4.4%	0.1
Active opening rate	0.65	0.66	-0.01
Total hours worked	141.7(hours)	156.4 (hours)	0.3
Total wages of regular employees	(¥ thousand) 261.4	(¥ thousand) 263.3	0.03

Note: * Denotes annual percent change.

Source: Management and Coordination Agency, *Rōdōryōku Chōsa* (Labour Force Survey); Ministry of Labour, *Shokugyō Antei Gyōmu Tōkei* (Report on Employment Service), *Maitsumi Kinrō Tōkei* (Monthly Labour Survey).

Trends in the Number of Employees, Union Membership, and the Estimated Unionization Rate



Source: Ministry of Labour, *Rōdō Kumiai Kiso Chōsa* (Basic Survey on Trade Unions).