

## **Chapter 2 Diversification of types of employment and background**

### **Section 1 Social and economic changes**

A breakdown of employment trends by industry reveals that forms of employment have grown more diverse in areas of tertiary industry, such as the wholesale and retail trades, eating and drinking places, and services, since the 1980s.

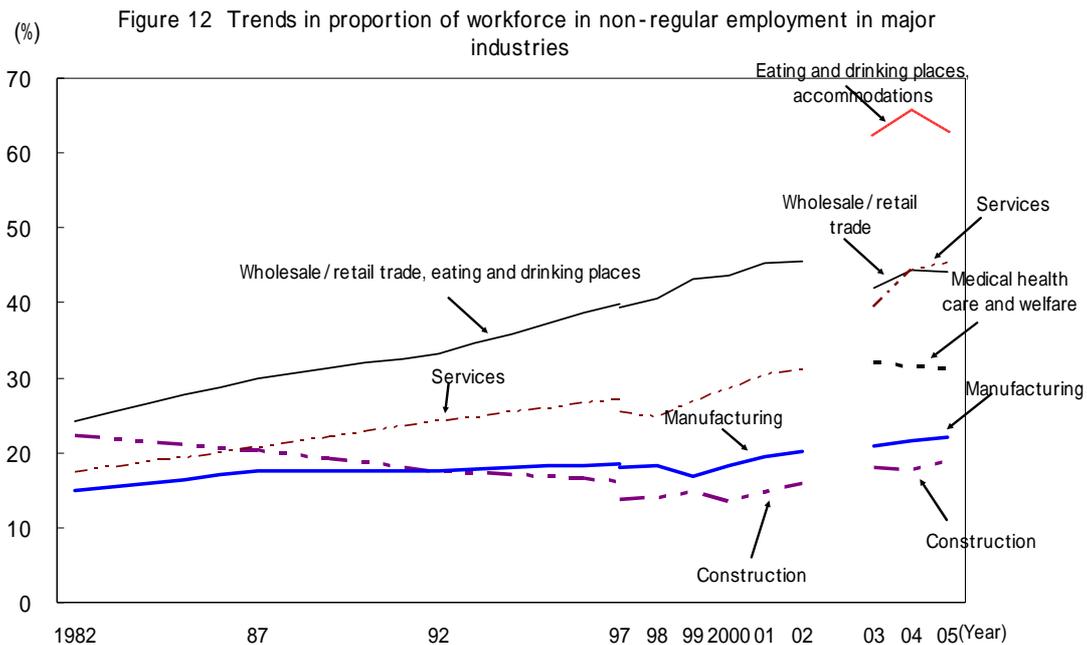
In manufacturing, by contrast, no increase in the proportion of non-regular employment was observed until the 1990s. Since 2000, however, the proportion has been rising. Also rising is employment in production processes of workers employed by contract companies and dispatched workers.

Internationalization economic competition fuelled by globalization is growing at a hitherto unparalleled rate. Japanese manufacturing in the 1990s, however, achieved only small increases in labor productivity compared with other countries, and its capacity to generate jobs dropped considerably. During the present recovery, however, it has been regaining its international competitiveness, with wage costs coming down by international standards and the number of manufacturing employees also beginning to rise from the autumn of 2005. While underlying this resurgence in manufacturing is increased growth in value added productivity generated by technological innovation, a major part also appears to have been played by the use of non-regular employment, cost cuts, and the establishment of flexible production systems.

#### **Use of non-regular employment spreads to manufacturing**

Recent years have witnessed increasing use of non-regular employment, such as part-time workers, dispatched workers, and fixed-term contract workers. A breakdown of trends in the rate of non-regular employment by industry, however, shows that there has been particularly marked growth since the 1980s in areas of tertiary industry such as the wholesale and retail trades, eating and drinking places, and services.

By contrast, non-regular employment fell in manufacturing in the late 1990s before an expansionary trend took root from 2000, and use of non-regular employment, which had until then been expanding primarily in tertiary industry, has begun to spread in recent years to manufacturing (Figure 12).



Sources: "Employment Status Survey"; "Special Survey of the Labor Force Survey"; "Labor Force Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

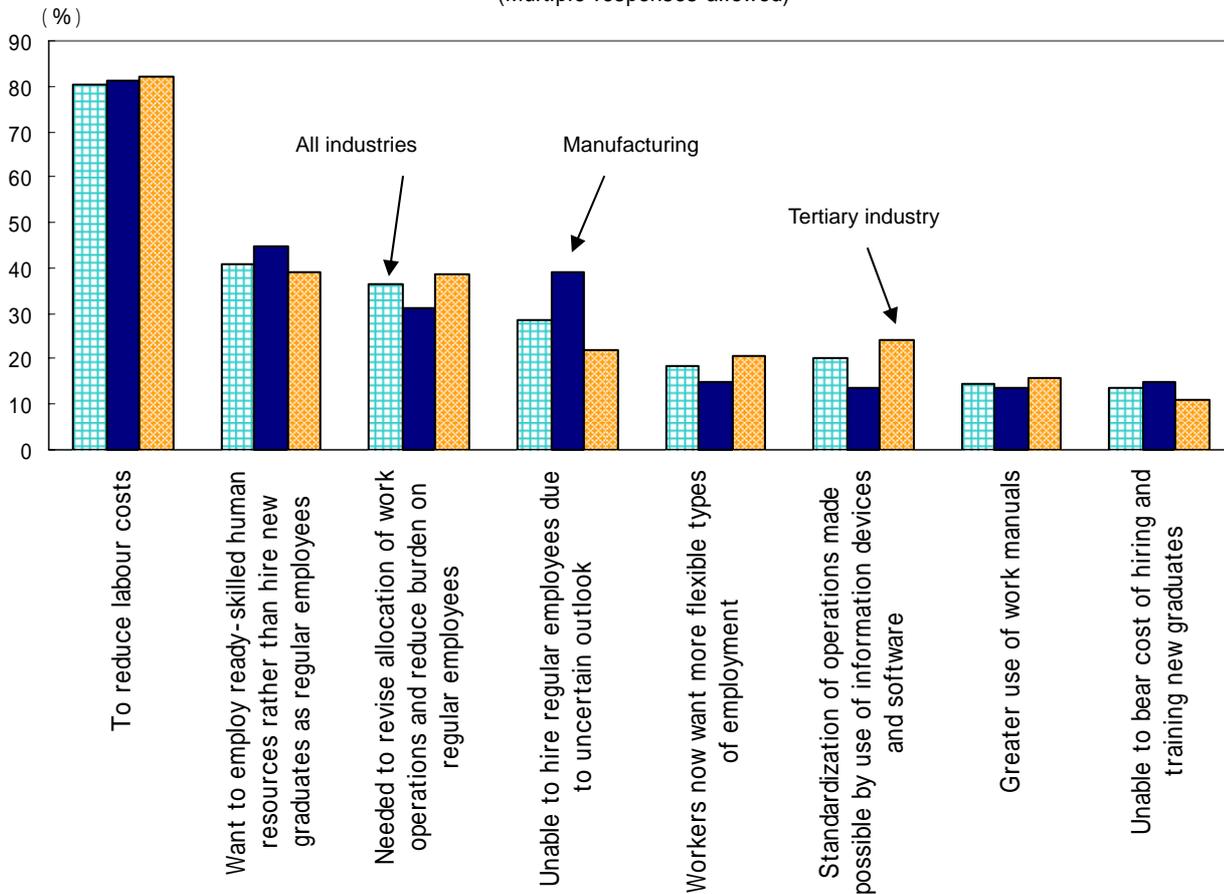
- Notes:
1. Data for 1982-1997 are from *Employment Status Survey*, data for 1997-2001 are from *Special Survey of the Labor Force Survey (February Survey)*, and data for 2002-2005 are from *Labor Force Survey (Detailed Tabulation)*.
  2. Data for 2002-2005 are for January-March.
  3. As the *Employment Status Survey* is conducted once every five years, data for intervening years were concatenated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare.
  4. Due to revision of the Japan Standard Industrial Classification, different industries were surveyed from 2003, and so the data for industry groups such as services are not continuous.

### Use of non-regular employees by establishments to reduce labor costs

The commonest reason given for this increase in the proportion of use of non-regular employees by enterprises is "to reduce labor costs." Looking at other reasons according to industry, a larger proportion of establishments in manufacturing than in tertiary industry cite wanting "to employ ready-skilled human resources rather than hire new graduates as regular employees" and "unable to hire regular employees due to uncertain outlook," while comparatively more establishments in tertiary industry cite the need to "revise allocation of work operations and reduce burden on full-time employees" (Figure 13).

The principal reason for the rise in the rate of non-regular employment in the workplace is thus growing cost awareness among enterprises.

Figure 13 Reasons for increase in proportion of non-regular employees  
(Multiple responses allowed)



Source: "A Survey of Personnel Strategies and Worker Opinion Amid Diversifying Forms of Employment (Establishment Survey)" (2005) by the Japan Institute for Labour Policy and Training.

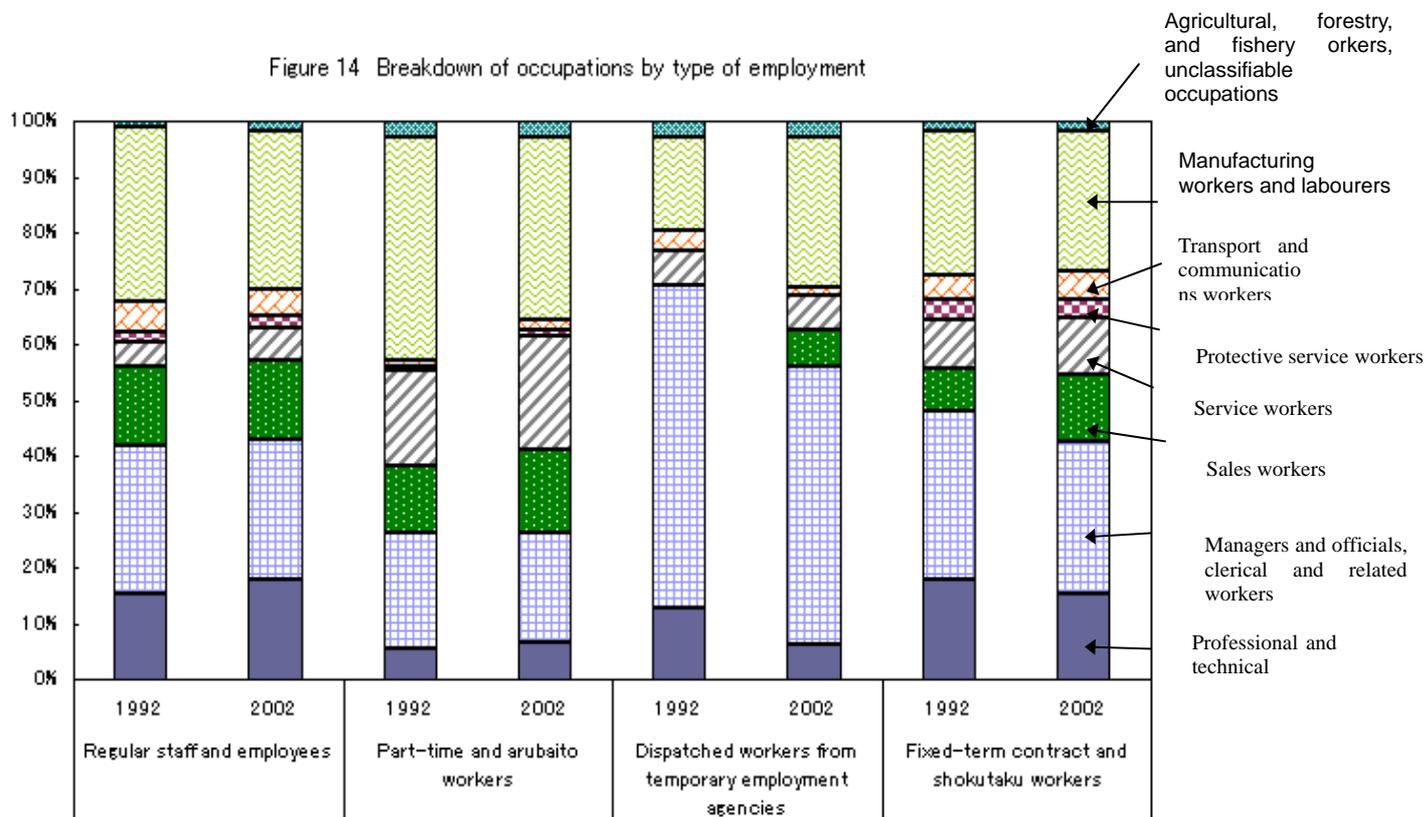
Note: Respondents were allowed to choose up to three responses. "Others" and non-responses are excluded.

### Increased employment of professional and technical workers on a regular basis

A breakdown of employed persons by occupation shows that while the proportion of managers and officials is falling, the proportion of professional and technical workers is increasing further. On the supply side, this change in hiring behaviour by enterprises appears to have been underpinned by a rapid rise in workers' educational level.

If we look at which occupations are growing according to type of employment, we discover that regular employees are characterized by a higher proportion of professional and technical workers and managers and officials than other types of employee. This suggests that as types of employment have diversified, demand for regular employees who are more highly educated and have the skills to match is growing ever greater (Figure 14).

Figure 14 Breakdown of occupations by type of employment



Source: "Employment Status Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: In the 1992 survey, "dispatched workers from temporary employment agencies" were classified as "dispatched workers from human resource dispatch enterprises," and "fixed-term contract and *shokutaku* workers" were classified as "*shokutaku*, etc."

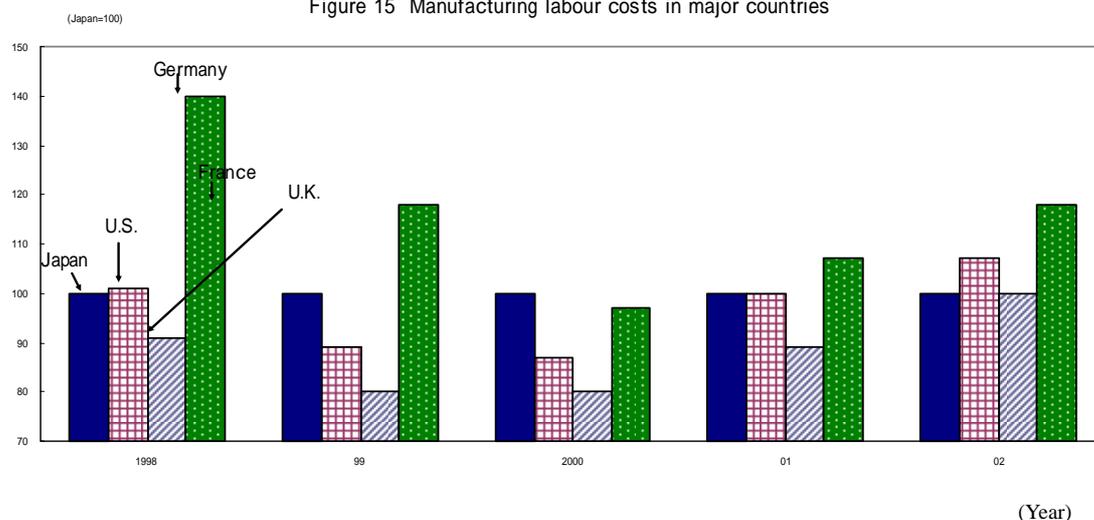
### Manufacturing growing more competitive even by international standards

Looking at the international competitiveness of labor productivity in manufacturing, real labor productivity per hour in Japanese manufacturing (in terms of purchasing power parity in 1990) was lower than in the United States, Germany, and France in 1980. In 2000, however, while still lower than in the U.S. and France, it was higher than in the United Kingdom, Germany, and South Korea. The rate of growth in labor productivity, too, which slumped in the early 1990s, picked up in the first half of the decade.

Regarding the cost of labor in manufacturing, Japan came out highest among major countries in 2000, but in 2002 was approximately level with the U.K. and France, and lower than the U.S. and Germany (Figure 15).

The above indicates that Japanese manufacturing is recovering its international competitiveness.

Figure 15 Manufacturing labour costs in major countries



Sources:

Estimated from "Labor Force Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications; "General Survey on Working Conditions, Monthly Labour Survey" by the Ministry of Health, Labour and Welfare; Bureau of Labour Statistics "Employer Costs for Employee Compensation", "Hourly Compensation in Manufacturing, National Currency Basis, 1950-1955; Eurostat, Labour Costs (Eurostat Databases); OECD, National Accounts 2004, Labour Force Statistics.

Notes:

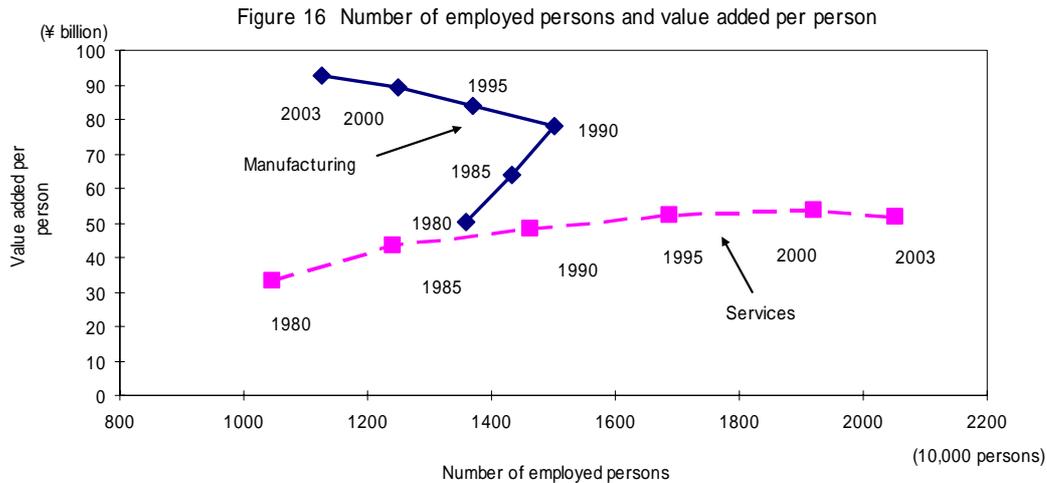
1. Data for the U.S. in 2002 are for the first quarter.
2. All establishments in the U.S., establishments with 10 or more workers in the EU, and establishments with five or more workers in Japan (estimated).
3. Estimates for each country were calculated as follows.
  - Japan: Estimated by extended in proportion to nominal employee compensation per real working hour in manufacturing based on the labour cost per real working hour in manufacturing according to *the General Survey on Working Conditions*.
  - U.S.: Labour cost per real working hour of all manufacturing workers according to *Employer Costs for Employee Compensation*.
  - EU countries: Estimated by extending in proportion to nominal employee compensation per real working hour in manufacturing based on labour cost per real working hour in manufacturing according to Labour Costs. Nominal employee compensation was converted to per hour values using estimates of real working hour for manufacturing production workers.

## Manufacturing productivity rises as number of employed persons is cut

An examination of the correlation between productivity and the number of employed persons in manufacturing shows that productivity has increased while the number of employed persons has been cut since 1990s. Productivity in services, on the other hand, has stagnated, and in fact has fallen since the beginning of the present decade, although the number of employed persons continues to climb (Figure 16).

In manufacturing, growing international competition fanned by increasing globalization rendered rises in productivity insufficient in the 1990s, and job creation capacity weakened. Now, however, employment in manufacturing has begun to rise, and as manufacturing steadily recovers its international competitiveness, the evidence points to a recovery at last in its ability to create jobs.

In services, on the other hand, competition is mild compared with in manufacturing, and employment is increasing even in the absence of improvements in productivity.



Source: "National Accounts Statistics" by Cabinet Office.

### Foundation of highly skilled human resources needed to support shift to more advanced industrial structure

The expansion in recent years of non-regular employment is in part an outcome of efforts by enterprises to increase the flexibility of employment in order to respond rationally to changes in the industrial structure and globalization. Looking at the supply side, strains are apparent in the form of a rise in the unemployment rate (particularly among young people) and growth in the number of freeters. As the population declines, the shift to a more advanced industrial structure makes it increasingly important to raise the productivity of each individual worker and to maintain the human resource base that underpins the industrial structure. To this end, enterprises, workers, and administrative agencies must strive to ensure the sustainability of growth during the present recovery, and to secure the high-quality job opportunities and opportunities to develop workers' vocational skills required to underpin this growth.

## **Section 2 Changes in worker attitudes and styles of work**

Major elements of the diversification of types of employment are changing worker attitudes and the spread of more flexible modes of supplying labor. The elderly, who exhibit considerable individual differences in physical fitness and motivation to work, and women, who face difficulties such as balancing work and home, often choose non-regular employment as a way of working that suits their individual circumstances.

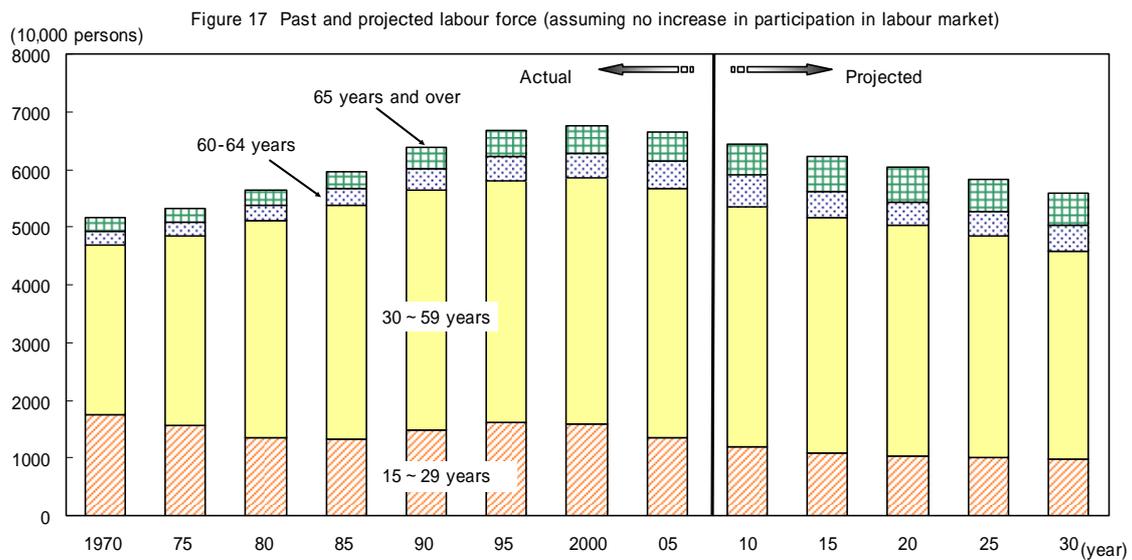
As the supply of labor in Japan is limited, it is essential that the employment rate be raised by creating diverse and flexible employment opportunities to meet the employment wishes of the elderly and women. And in order to achieve this, it is important that people in all kinds of employment be motivated about their work, no matter what style of work they choose, by ensuring parity of treatment between different types of work. As steps are taken to develop the labor environment to ensure fair treatment and allow everyone to work free from anxiety, types of employment are likely to diversify further in the future.

Among the young, on the other hand, severe curbs on new hiring led to a rapid rise in the proportion of non-regular employment from the mid-1990s, forcing many people to take non-regular employment unwillingly. There also appear to have been problems with young people's approach to finding employment, however, and broader and more active support is needed to encourage young people to stand on their feet occupationally.

### **Characteristics of labor supply in recent years**

As the population declines and the birth rate falls, the labor force, too, is aging, and it is projected that if the labor force rate remains at the present level, the rate of decline in the labor force will gradually increase, as a consequence of which it is estimated that the population aged 15-29 will fall below the size of the population aged 60 and over in 2030 (Figure 17). The female labor force population, on the other hand, is following an upward trend, causing the gap with the male labor force to shrink.

In the future, it is important that arrangements be developed to encourage greater independence among young people, such as the ever high numbers of young non-employed persons and freeters, and to encourage the elderly and women, who face various problems despite strongly desiring to work, to find employment in order to halt the accelerating decline in the labor force.



Sources: "Labor Force Survey" by the Statistics Bureau of the Ministry of Internal Affairs and Communications up to 2005, and estimates by the Employment Security Bureau of the Ministry of Health, Labour and Welfare from 2010 onward (July 2005).

Note: The sex and age profiles of the labour force were assumed to remain at the same level as in 2004.

### Attitudes toward work and choice of style of work among the young

The rate of non-regular employment has risen sharply among the young in recent years. While this is due in large part to people choosing non-regular types of employment unwillingly, it is also thought that some people choose to become non-permanent employees voluntarily (Figure 18). The addition of non-regular types of employment to the range of employment options as a result of the diversification of types of employment has increased the importance of deciding for oneself how one wants to work when choosing a job.

While increasing numbers of young people are placing greater stress on their own abilities and values when choosing and finding employment (Figure 19), a gap is opening up between what young people want, and the human resources that society needs and enterprises want. One reason for this is that young people are unable to engage in a wide range of job-hunting activities suited to prospective employers' needs due to a poor understanding of what one needs to focus on in making one's career choices and requirements in the real world, leading to a bias toward certain popular companies and occupations. Moreover, an examination of young people's attitudes toward finding employment reveals that more than one in two only want to work if they can find the job that they want, in addition to which more than a few do not have a positive approach to working.

From the above, it may be concluded that there is a growing need for careers education in order to help young people become more occupationally independent by filling in the gaps in their

knowledge and giving them a proper attitude to work. It is therefore important that government, business, and communities work together to cultivate young people's attitudes to work from an earlier stage and convert this into stable employment for the young.

Figure 18 Reasons for choice of type of employment by young people

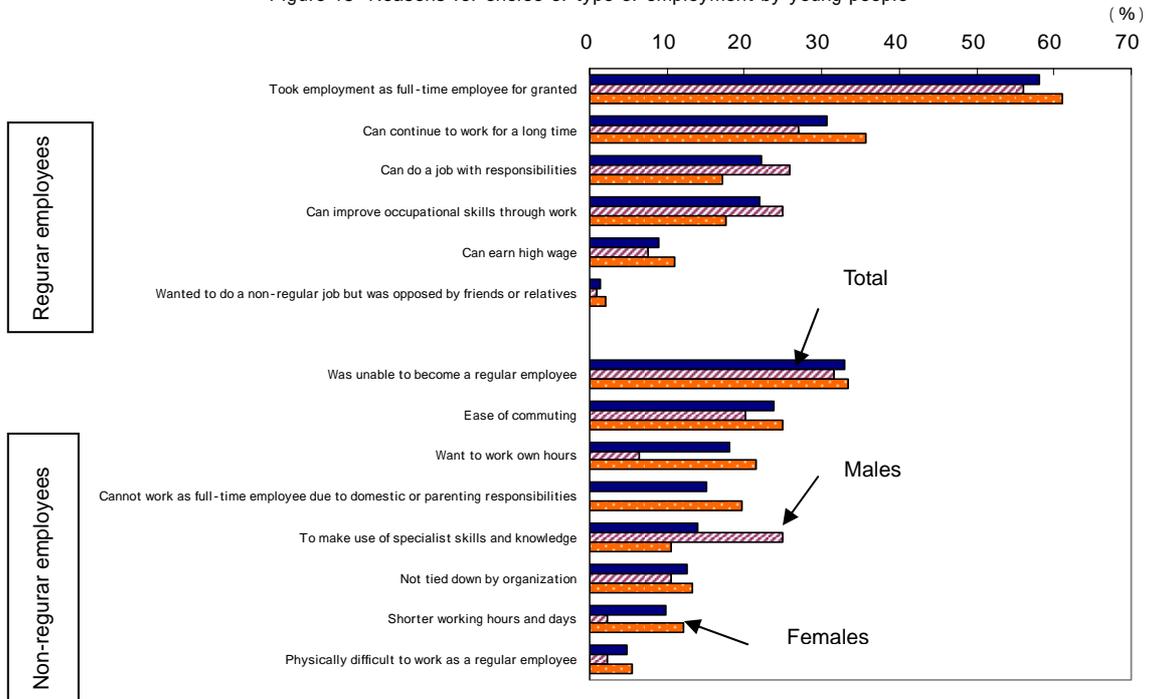
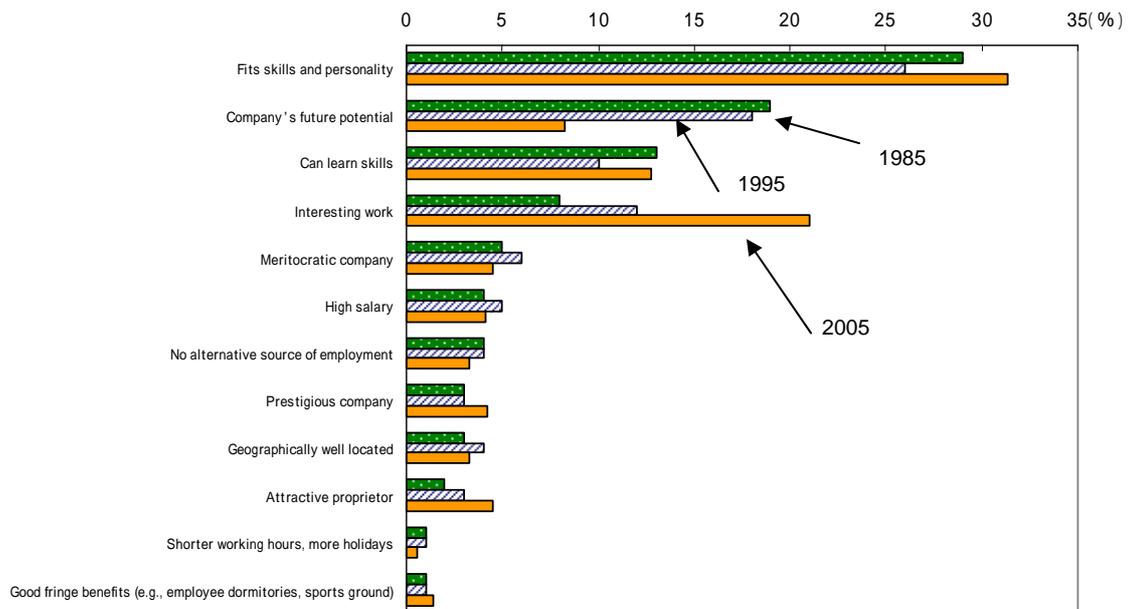


Figure 19 Reasons for choice of company as new employee



Source: "Survey of Views on Work" by Japan Productivity Center for Socio-Economic Development.

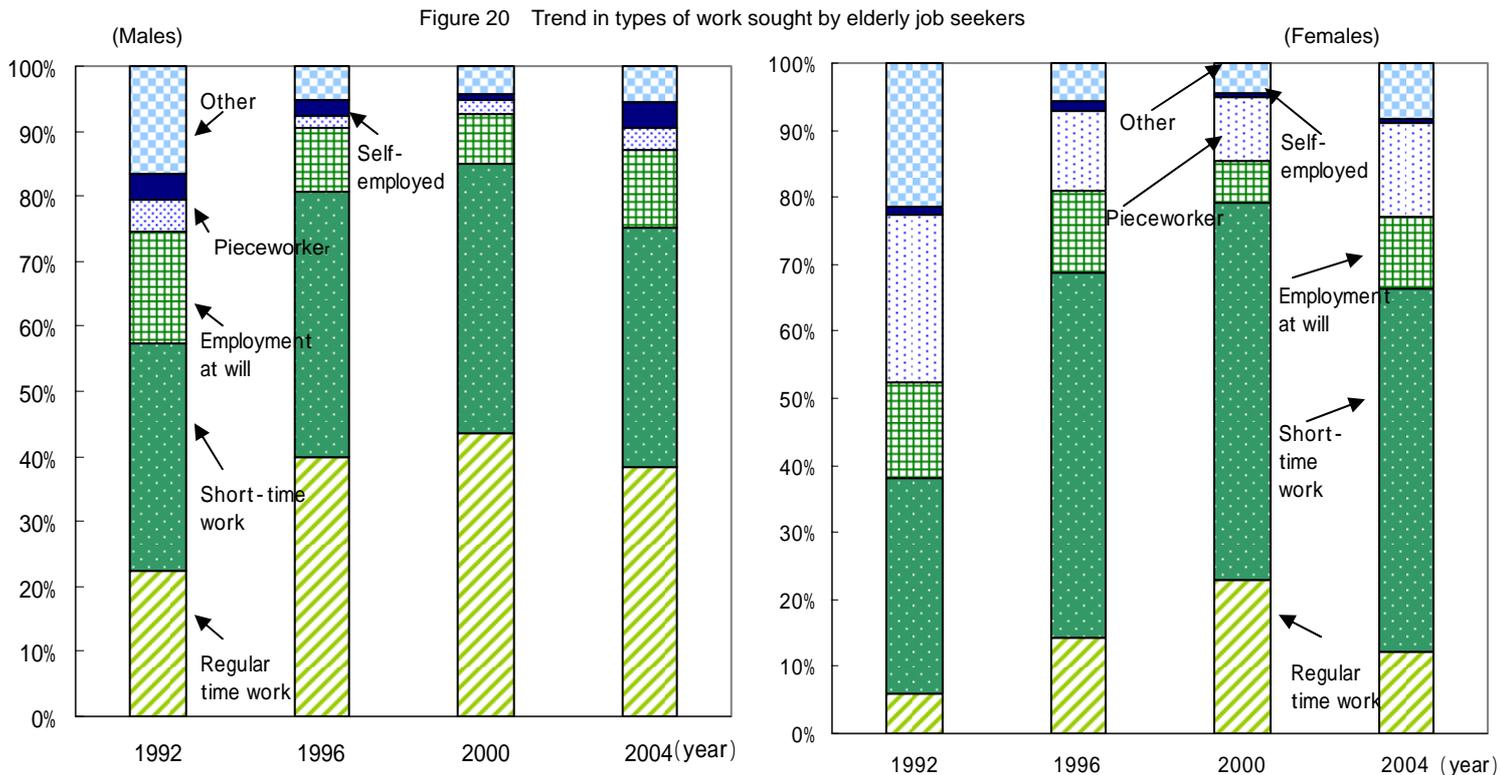
Notes: 1. Multiple responses allowed.

2. Other responses included "many predecessors from own school or college" and "other." However, as fewer than 1% of respondents chose the former and the latter was excluded from among the options for the 2005 survey, they were excluded from the above graph.

### Strong desire to work among the elderly and diversifying ways of working

One common reason for older people's desire to work is financial need. However, the number of people who work for other reasons, such as in order to maintain their health or make their lives more meaningful, despite already enjoying a reasonably comfortable standard of living, has increased.

Looking at the types of employment sought by the elderly, there has been an increase in the proportion of people putting their individual independence first and desiring "employment at will" or "self-employment" (Figure 20). The proportion of people wanting to work short-time also rises rapidly as age increases, indicating that non-regular forms of employment such as short-time employment offer important employment opportunities to the elderly. In order for older people, who vary considerably in physical fitness, employment motivation, and so on, to exercise their abilities, employment opportunities suited to their diversity need to be secured.



Source: "Survey of Employment of Older People" by the Ministry of Health, Labour and Welfare.

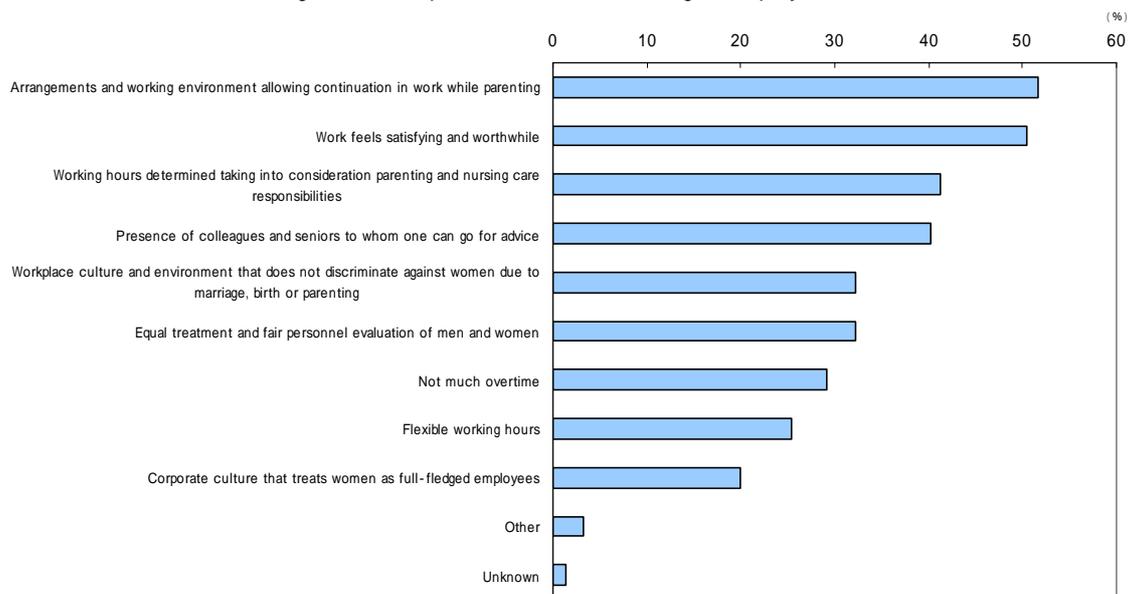
Note: "Employment at will" here means work undertaken voluntarily at the request of neighbours and companies, etc.

## Women’s attitudes to employment and desired types of employment

Due among other things to the rise in number of women continuing to work after marriage, the female labor force is trending upward. However, women’s attitudes to employment are also changing, and an increasing proportion want to remain in employment even after having a child.

Among the reasons given by women aged 35 to 54 for choosing to become non-full-time employees are their domestic and parenting situations and shorter working hours, indicating that they choose non-full-time employment as a way of balancing work with their family lives. From the fact that the top reasons given for finding it difficult to continue in employment were “parenting,” “housework,” and “care of relatives,” it is evident that difficulty balancing work and home is one factor driving the popularity of non-regular modes of work among women. In order to continue working, attention needs to be paid to the conditions within the firm (Figure 21), and provision such as childcare facilities needs to be expanded in order for women to rejoin the workforce. In order for women to be able to balance work and parenting in the future, therefore, it is important that steps be taken to expand childcare provision and to provide flexible support in the workplace for balancing work and home.

Figure 21 Requirements for continuing in employment



Source: "Survey of Treatment of Female Workers" (2005) by Japan Institute of Workers' Evolution.

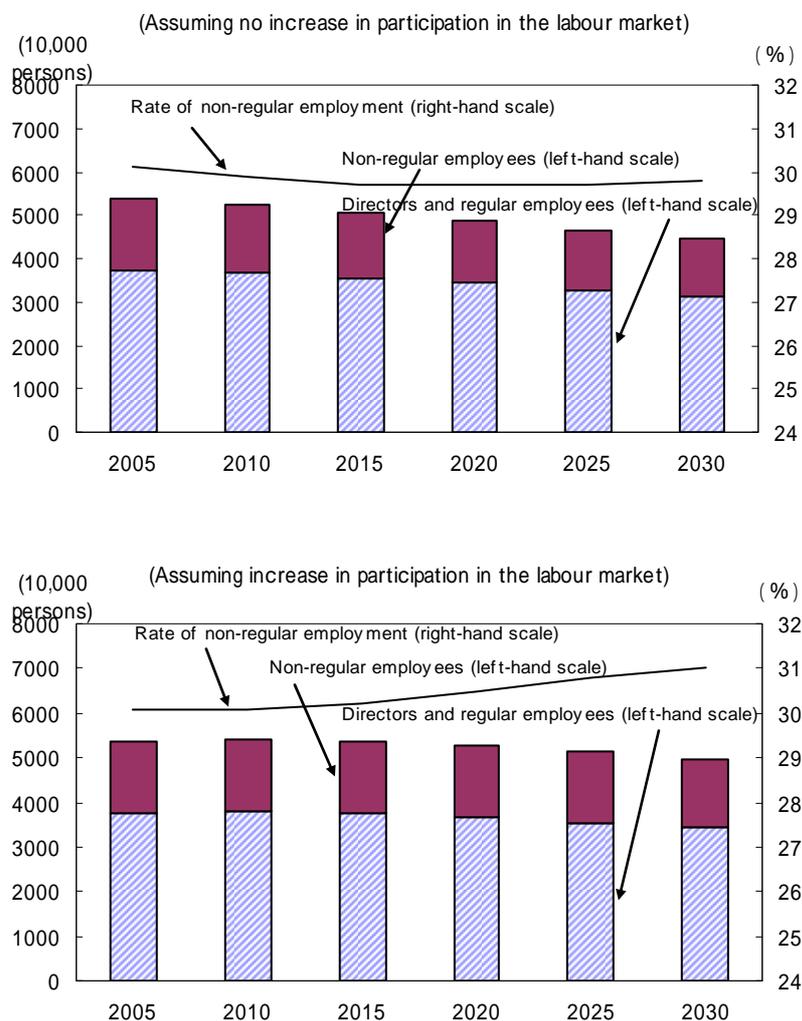
Note: Multiple responses allowed.

## Satisfaction with work and outlook

Given the constraints on the supply of labor faced by Japanese society, it will become increasingly critical that each individual’s abilities be effectively utilized. The young, elderly, and women want to work in a variety of ways, and the elderly and women in particular commonly seek to work on a non-regular basis due to various circumstances, and derive a certain amount of satisfaction

regardless of their type of employment. If such people are encouraged to become employed, it is anticipated that as the labor force rate of the elderly and women rises, the rate of non-employment, too, will increase (Figure 22). Among the young, on the other hand, the proportion of male freeters who want to become full-time employees increases with age. Action therefore needs to be taken to encourage young people to make realistic occupational choices, accurately ascertain diversifying workers' needs, and develop the social environment in order to respond to them.

Figure 22 Outlook regarding number of employees



Sources: Estimated by the Office of Counselor for Labour Policy, the Ministry of Health, Labour and Welfare, based on "Projected Supply and Demand for Labor" (2005) by the Japan Institute for Labour Policy and Training and "Labor Force Survey (Detailed Tabulation)" by the Statistics Bureau of the Ministry of Internal Affairs and Communications.

Note: The number of non-regular employees and the rate of non-regular employment among all employees were calculated according to the rates of non-regular employment by sex and age group (proportion of non-regular staff and employees among all employees) based on *the 2004 Labor Force Survey (Detailed Tabulation)* assuming that the number of employees would change by the same proportion as the change in employed persons by sex and age group according to *the Projected Supply and Demand for Labor*.

### **Section 3 Changes in corporate behaviour and types of employment**

Enterprises are actively incorporating a greater variety of employment types into their business strategies, and are boosting their human resource management not only to cut costs, but also to make their production systems more flexible, increase their responsiveness, and achieve risk management and other business objectives. Underlying the recovery in Japanese manufacturing's international competitiveness in recent years appears to be the use of non-regular employment based on such human resource management.

Non-regular employment in manufacturing in recent years has been characterized by the use of subcontract workers and dispatched workers in production processes, and in particular by the extensive use of such workers in machinery-related areas of manufacturing. As product lifecycles shorten and it becomes increasingly difficult to foresee fluctuations in production, moves are growing to leave certain parts of the production process to subcontractors and similar businesses in order to reduce risk. However, such risk averse behaviour should not be allowed to simply transfer risk onto the shoulders of subcontract workers. Many of the subcontract workers working on production operations are young, but as the situation stands at present, their wages will hardly rise with age even if they stay with the same employer. One problem is that workers themselves are insufficiently aware of the importance of developing their careers.

#### **Increase in speed of technological innovation and growth in future uncertainty**

The business environment facing Japanese enterprises is changing dramatically, and the growth in international economic competition with globalization is accelerating the pace of technological innovation and product development and intensifying competition in both domestic and foreign markets, especially in manufacturing. Even large enterprises, which appear to be at an advantage when it comes to business stability, recognize the uncertainty surrounding their businesses in the future. In order to cope with these changes in the business environment, enterprises are adopting a strategy of "select and focus" regarding the content of their business operations and inputs of human and other resources, with large enterprises leading the way. From the perspective of human resource management, there is an emphasis on both periodic hiring of new graduates and the use of non-full-time employees and external human resources. Thus while enterprises are sticking to hiring new graduates as full-time employees, growing use is also being made of non-regular employment.

#### **Use of contract company labor growing in manufacturing**

Use of contract company labor by large manufacturers is growing. According to the *General Survey on the Diversification of Forms of Employment* (1999) produced by the Ministry of Health, Labour and Welfare (MHLW), around 20% of manufacturers with 1,000 or more employees said that the proportion of subcontract workers among workers other than full-time employees (non-regular workers) had grown compared with to date. Looking at enterprises that expect the proportion to increase, the figure rises to approximately 30% of manufacturers with 1,000 or more employees,

which is higher than in any other category of site or industry. According to *A Survey on Temporary Employment* (2004) produced by the Ministry of Health, Labour and Welfare, the proportion of establishments employing subcontract workers is high in information and telecommunications, and machinery-related manufacturing. If we focus on the proportion of establishments with subcontract workers engaged in physical production, we observe high proportions in machinery-related and materials-related manufacturing. The number of subcontract workers engaged in physical production in manufacturing is estimated to be approximately 865,600 (599,900 men and 265,700 women). Broken down by industry, there are 514,000 in machinery-related manufacturing, 106,400 in consumption-related manufacturing, and 245,200 in materials-related manufacturing (Figure 23). If we look at the state of use of such labor according to the Japanese Electrical Electronic and Information Union Research Center's *Survey on the State of Use of Subcontracting in the Electrical Machinery Industry* (2003), we find that use of contract company labor is greater at establishments whose products have particularly short lifecycles and that find it particularly difficult to foresee fluctuations in production (Figures 24, 25).

Figure 23 Number of subcontract workers engaged in physical production in manufacturing (by size of establishment)

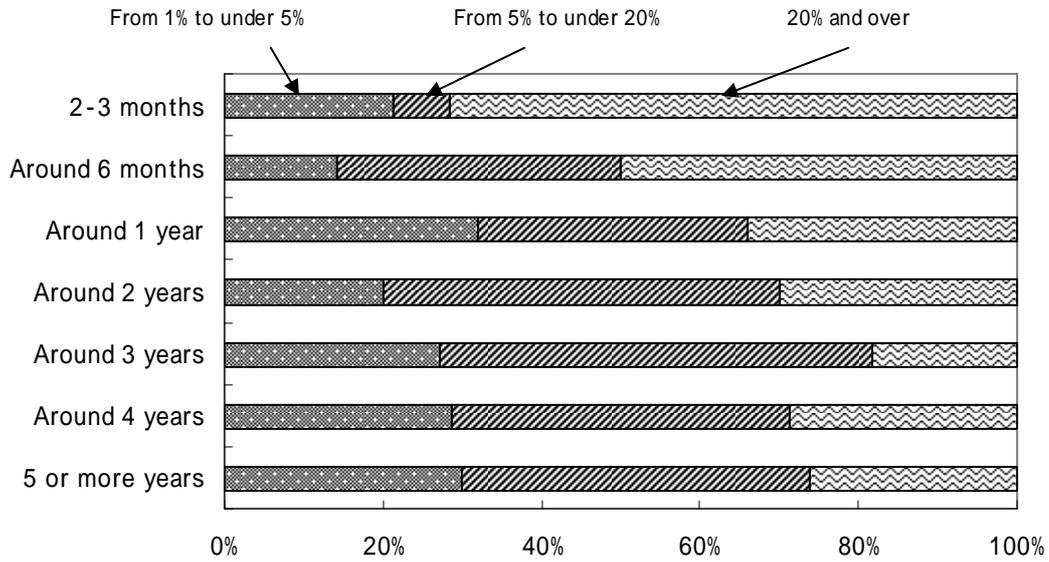
(Unit: 10,000 persons)

Industry (manufacturing) and size of establishment	Total number of subcontract workers engaged in physical production	Males	Females
Manufacturing	86.56	59.99	26.57
500 and over	28.36	22.26	6.10
100-499	43.89	28.00	15.89
30-99	14.31	9.70	4.61
Consumption-related manufacturing	10.64	5.29	5.35
500 and over	0.65	0.38	0.27
100-499	7.96	4.07	3.89
30-99	2.03	0.84	1.19
Materials-related manufacturing	24.52	18.12	6.40
500 and over	9.31	7.45	1.86
100-499	10.37	6.65	3.72
30-99	4.84	4.02	0.82
Machinery-related manufacturing	51.40	36.55	14.85
500 and over	18.39	14.44	3.95
100-499	25.56	17.28	8.28
30-99	7.44	4.84	2.60

Source: "A Survey of Dispatched Workers" (2004) by the Ministry of Health, Labour and Welfare.

Note: "Subcontract workers" are here defined as workers who are employed by and subject to orders and supervision by a contractor, but who are not subject to orders and supervision by the client. The contractor and client enter into a subcontracting agreement.

Figure 24 Proportion of subcontract workers by product lifecycle



Source: "Survey on the State of Use of Subcontracting in the Electrical Machinery Industry" (2003) by Japanese Electrical Electronic and Information Union, Research Center.

Figure 25 Proportion of subcontract workers by foreseeability of production fluctuations

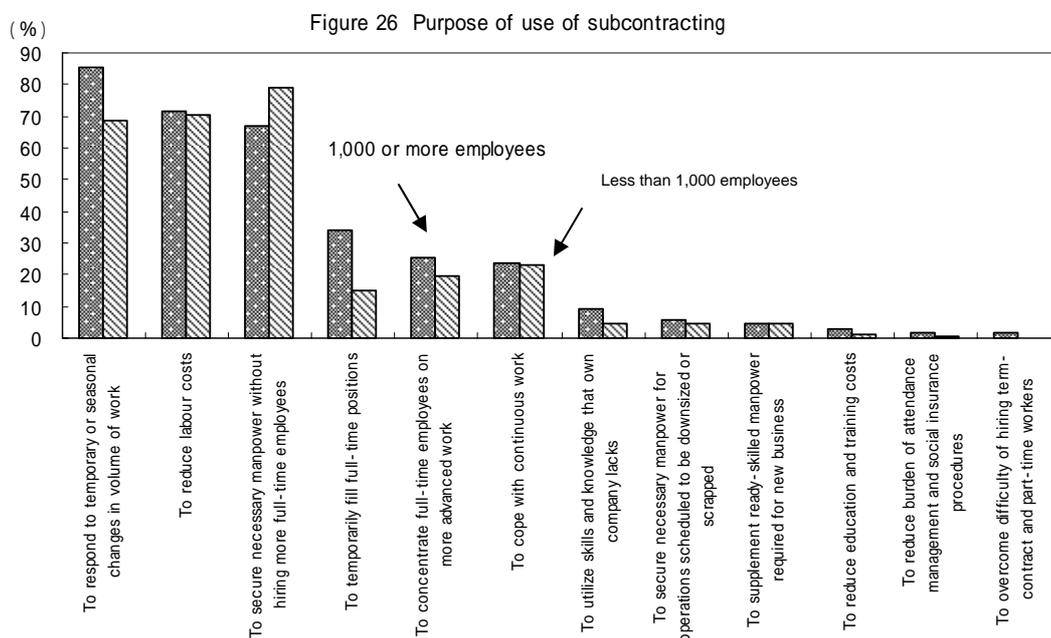


Source: "Survey on the State of Use of Subcontracting in the Electrical Machinery Industry" (2003) by Japanese Electrical Electronic and Information Union, Research Center.

Note: "Almost entirely unforeseeable" includes "foreseeable up to 1 week ahead."

## Wage/skill levels and retention rates are criteria for choosing subcontractors

The commonest principal reasons for using contract company labor are “to respond to temporary or seasonal changes in volume of work,” “to reduce labor costs,” and “to secure necessary manpower without hiring more permanent employees” (Figure 26). Looking at the criteria emphasized by users of subcontracting when choosing subcontractors, the commonest are “amount of subcontracting fee,” “skill level of subcontract workers,” and “retention rate of subcontract workers.” Broken down by size, large enterprises with workforces of at least 1,000 tend to place a greater emphasis on criteria such as “health and safety training and management” and “ability to provide services in compliance with the law.” Irrespective of size, few enterprises place an emphasis on “enrolment of subcontract workers in social insurance.”



Source: "Survey on the State of Use of Subcontracting in the Electrical Machinery Industry" (2003) by Japanese Electrical Electronic and Information Union, Research Center.

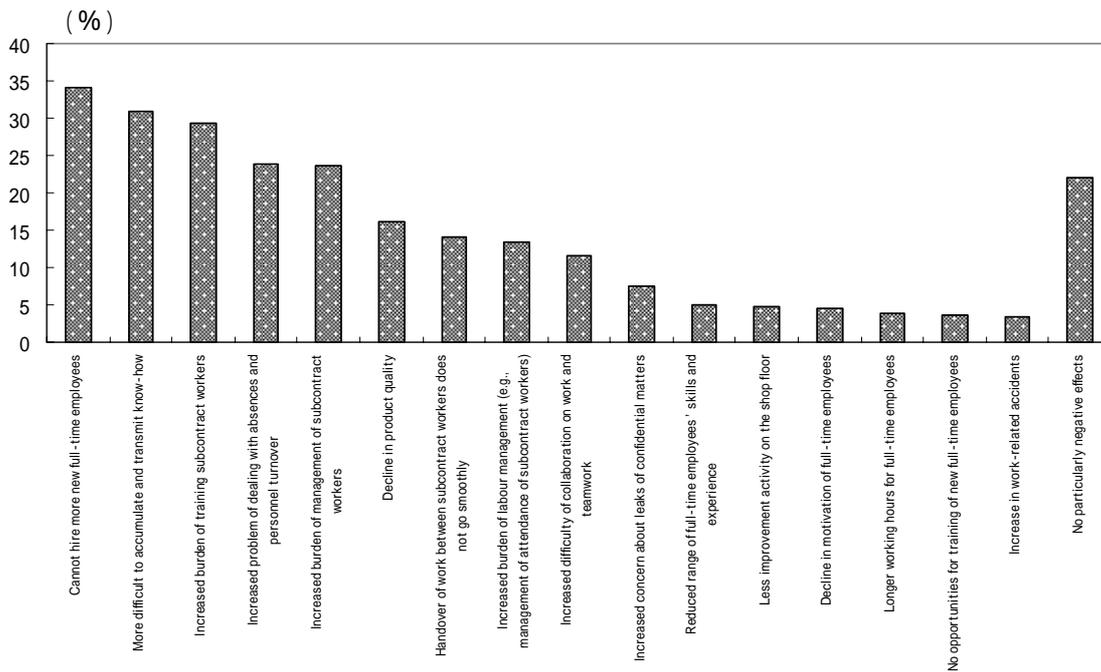
Note: Multiple responses allowed.

## Problem of accumulation and transmission of skills in workplaces that use contract company labor

Looking at the negative effects on workplaces of the use of subcontract workers according to the previously cited *Survey on the State of Use of Subcontracting in the Electrical Machinery Industry* (2003), only around 20% of workplaces report that the use of such workers has not had a particularly negative effect, and among the negative effects arising are “cannot hire more new permanent employees,” “more difficult to accumulate and transmit know-how,” “increased burden of training subcontract workers,” “increased problem of dealing with absences and personnel turnover,” and “increased burden of management of subcontract workers” (Figure 27). Among these negative effects, the greater difficulty of accumulating and transmitting know-how is a serious concern for

Japanese manufacturers seeking to maintain their competitiveness.

Figure 27 Negative effects on workplace of use of subcontract workers



Source: "Survey on the State of Use of Subcontracting in the Electrical Machinery Industry" (2003) by Japanese Electrical Electronic and Information Union, Research Center.

Note: Multiple responses allowed.

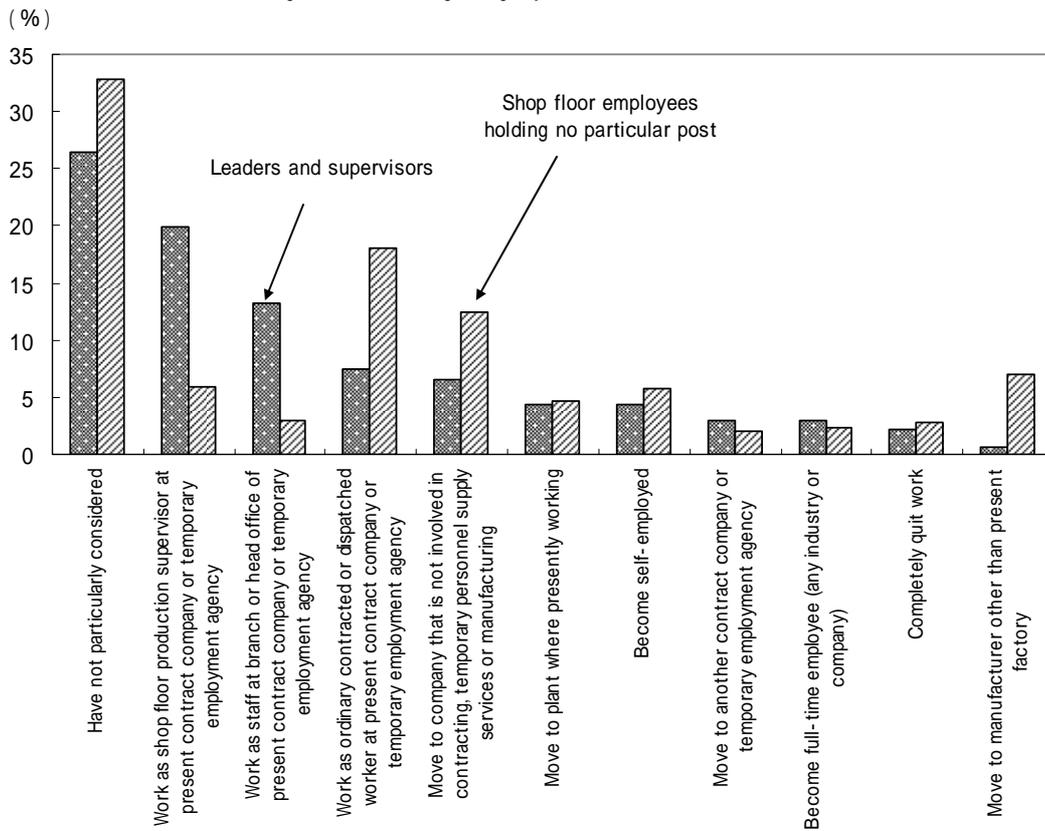
### Young people's poor awareness of career development

Many of the subcontract workers working on production operations are young. As the situation stands at present, however, their wages will hardly rise at all as they get older, even if they remain at the same company, and workers themselves often have a poor awareness of the need to develop their careers. Asked how they planned to work in the future, large proportions of both "leaders and supervisors" and "shop floor employees" say that they have not particularly considered the matter. Leaders and supervisors are more likely than shop floor employees to answer "work as shop floor production supervisor at present contract company or temporary employment agency" or "work as staff at branch or head office of present contract company or temporary employment agency," evidencing an awareness of the importance of developing a career. However, a high proportion of shop floor employees answer "work as ordinary subcontract worker or dispatched worker at present contract company or temporary employment agency" or "move to company that is not involved in contracting, temporary personnel supply services or manufacturing," indicating that they either intend to continue as at present or recognize that their present work is only temporary (Figure 28).

Coupled with the change in workers' attitudes, the use of external human resources contributes to the maintenance and recovery of Japanese enterprises' competitiveness, especially in manufacturing, and as enterprises limit their hiring of full-time employees, this has probably created new job opportunities. However, the present manner of use of external human resources is also giving rise to

concerns regarding the transmission of skills and development of human resources that are the real source of Japan's competitiveness. Furthermore, much outside labor consists of younger workers, whose career development remains problematic. These problems need to be tackled as a matter of social urgency in order to give young people hope in their professional lives and enable them to develop their careers in continuous manner. Issues such as the application of social and labor insurance to contract company labor and the health and safety of workers also need to be tackled by all the parties concerned, including local and central government and the establishments that use subcontract workers as well as the contractors who are their employers, working together to achieve further improvements.

Figure 28 Plans regarding style of work in the future



Source: "Questionnaire Survey of Styles of Work among Temporary and Contracted Workers in Manufacturing" (2005) by University of Tokyo Institute of Social Science Human Resource Business Research Section.