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## What is Japanese Long-Term Employment System? Has it Vanished?

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### I. Employee tenure in Japan

Table 1 shows ratios of workers by length of employee tenure in Japan, United States, Europe, and other countries. In the ratio of workers continuously employed for less than five years, Japan is in the 30% range (34.6%) along with Germany, France, Italy, the Netherlands and Belgium, and this is lower than in the other countries. Conversely, the ratio of workers continuously employed for 10 years or more in Japan is relatively high at 44.5%. By international standards, employee tenure tends to be longer in Japan.

According to the Ministry of Health, Labour and Welfare (MHLW), “Basic Survey on Wage Structure 2016,” the average employee tenure of Japanese workers as a whole is 11.9 years. Of course, this depends on the attributes of workers and the corporate organizations to which they belong. Comparing male and female workers, average tenure tends to be longer for males, and to be longer if their company is larger in scale (Table 2). In other words, the characteristic of Japanese workers in global terms appears particularly pronounced among male workers employed by large corporations.

Table 1. Ratios of Workers by Years of Employee Tenure (%)

	< 1 (year)	1 to < 3	3 to < 5	5 to < 10	10 to < 15	15 to < 20	20+
Japan	8.0	15.3	11.3	20.9	13.5	8.9	22.1
United States	21.3	11.7	16.5	21.5	12.0	6.5	10.6
	< 1 (month)	1 to < 6	6 to < 12	1 to < 3 (year)	3 to < 5	5 to < 10	10+
Canada	–	11.1	9.1	20.1	11.9	18.7	29.1
United Kingdom	2.6	5.5	7.1	15.1	10.6	25.2	33.3
Germany	2.8	5.1	6.1	14.5	9.1	17.8	42.2
France	3.1	4.4	5.1	11.3	7.7	19.8	46.7
Italy	2.4	3.7	3.7	9.7	8.3	22.3	50.0
Netherlands	2.9	5.5	6.5	13.7	9.6	22.1	38.6
Belgium	2.6	4.0	4.8	13.4	9.4	21.4	44.3
Denmark	4.7	8.4	8.8	16.8	9.9	22.4	28.6
Sweden	7.0	6.2	6.7	14.6	9.1	19.8	35.9
Finland	5.5	7.2	7.0	14.9	8.5	19.7	37.1
Norway	3.0	5.5	7.0	16.4	11.0	22.6	33.7
Austria	3.4	5.7	6.9	14.9	10.3	20.1	38.6
South Korea	7.0	15.1	10.7	21.7	11.3	14.5	19.7
Australia	4.0	8.3	9.9	23.2	15.1	18.3	21.2

Sources: Data from Ministry of Health, Labour and Welfare, “Basic Survey on Wage Structure,” 2016; U.S. Department of Labor, “Employee Tenure in 2014”; OECD Database, “Employment by job tenure intervals,” 2013.

**Table 2. Average Years of Employee Tenure (by gender and corporate scale)**

	All workers	Male workers	Female workers
All companies	11.9	13.3	9.3
Over 1000 employees	13.6	15.4	10.0
100-999 employees	11.4	12.7	9.0
10-99 employees	10.4	11.2	8.8

Source: Ministry of Health, Labour and Welfare, "Basic Survey on Wage Structure," 2016.

## II. The background to long tenure: Long-term employment system

So why do Japanese workers tend to work longer for the same employer? It could be because of the long-term employment system established by Japanese companies. This system in Japanese companies has the primary aims of (i) guaranteeing the long-term livelihoods of employees (regular employees), and (ii) developing employees' skills over the long term (Inagami 1999). Guarantees of long-term livelihoods are achieved by practicing stable long-term employment with normative frameworks (i.e. new graduate recruits and young mid-career recruits have to be employed continuously until mandatory retirement age). They also depend on seniority-based pay structures that provide standard living expenses commensurate with workers' life events (a system in which wages rise with increasing age and increasing years of continuous employment).

On the other hand, seniority-based wage systems also reflect employees' long-term skill development, achieved as a result of OJT (on-the-job training) during day-to-day work and the motivating function of a competitive relationship among employees. Many Japanese companies recruit new employees from young people who have just graduated from school (new school graduates). This tendency is prominent among large corporations. Until they are hired, these graduates have no experience of regular employment in a company, and so it is not known what sort of job skills they might have. When hiring new recruits, therefore, companies are primarily interested in their trainability after hiring, on the assumption that job skills will improve as they accumulate experience of working inside the company. Based on this assumption, many companies form their pay structures with wages gradually increasing as continuous employment is

accumulated.

Companies need to recoup the investment made in hiring new school graduates and giving them various education and training opportunities designed to boost job skills after hiring them. To achieve this, employees who have acquired a certain level of job skills should ideally work for as long as possible, and also the period during which their productivity is greater than the wages they receive should also be as long as possible. Therefore, companies try to raise workers' motivation to establish themselves in the workplace by increasing wages in line with continuous employment. For the employees, meanwhile, if the company adopts a wage structure that places emphasis on long-term continuous employment, the longer they work continuously for the same company, the higher the wage they can expect to receive.

Employees' motivation to remain in long-term continuous employment is further boosted by the fact that many Japanese companies adopt a structure in which employee incentives other than regular wages, such as retirement benefit, become more advantageous as continuous employment lengthens. The aim of this is to encourage employee loyalty. The long-term employment system of Japanese companies and long tenures of Japanese employees seem to have arisen from these expectations on the part of both management and labor.

## III. Changes in long-term employment system

Will the long-term employment system adopted by many Japanese companies continue to be maintained in future as it has been so far? Company surveys conducted in recent years reveal that many leading and middle-ranking Japanese corporations (around 80%) want to maintain long-term stable employment for as many employees as possible in future.

However, the seniority-based wage system practiced by many Japanese companies in tandem with long-term employment of their employees – an important element in achieving long-term livelihood guarantees for those employees – has the inherent risk that companies pay wages exceeding the productivity of workers whose job skill development has reached its limit.

This kind of risk did not surface during the 1950s

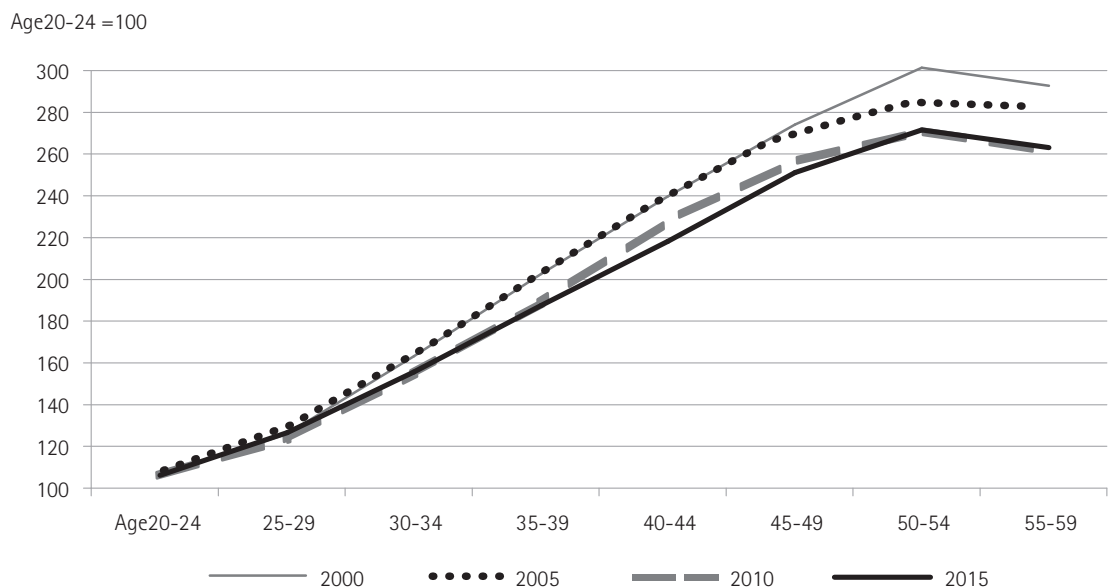
to 1970s, when Japanese companies were enjoying rapid growth. But from the second half of the 1970s, when the Japanese economy stopped growing as robustly as before, companies increasingly saw the high cost of middle-aged and older workers' wages as problematic. Particularly among large corporations, this triggered the spread of *Shukko*, or temporary transfer to another company while maintaining employment relationship with the original company, and *Tenseki*, or moving out to another company without maintaining employment relationship with the original company, known as personnel management practices whereby companies transferred or relocated their own middle-aged and older workers to business partners or subsidiaries.

During the long recession in the 1990s, moreover, a succession of companies experienced serious business downturns. Many of these started practicing "voluntary early retirement plan," whereby employees over a certain age (usually those in their late 40s to 50s) were offered to retire voluntarily in exchange for add-ons to their retirement pay, or other rewards. As personnel measures designed to force middle-aged and older workers away

from companies (whether by *shukko*, *tenseki* or solicitation for voluntary early retirement) become established, it is possible that the tendency toward long tenures seen in Japanese workers will gradually weaken. In fact, the average tenures of university or postgraduate degree-holding male employees in their early 50s tend to be shortened in large corporations, albeit gradually.

Again, given increasingly fierce global competition coupled with aging and declining population in Japan, companies find it harder to make projections of growth. This is making it harder for them to maintain an organizational structure whereby many employees can be guaranteed a career rising to a certain managerial level (such as section manager). Of employees with university or postgraduate degrees, the proportion of those serving as section managers in their early 40s fell from 32.3% in 1990 to 16.9% in 2014.

Although the aforementioned systems of seniority-based wages are still being maintained by Japanese companies, moves to change these systems have become conspicuous since 2005 (Figure 1). The "General Survey on Working Conditions,"



Source: Ministry of Health, Labour and Welfare, "Basic Survey on Wage Structure," 2016.

Note: Males working for private companies with 1,000 or more employees, university or postgraduate degree holders, monthly salary (scheduled cash earnings).

Figure 1. Situation of Wages by Age Group of University Graduates Working for Large Corporations

published by MHLW in 2014, reveals that 28.6% of companies had revised their wage systems over the previous three years. The content of revisions was “to expand the wage portion corresponding to job content such as work duties or job type,” “to expand the wage portion corresponding to ability to perform work duties,” or “to expand the wage portion corresponding to performance and results,” among others. In other words, the aim is often to reflect the job performance or job content more closely in the wage, irrespective of age or years of continuous employment.

Thus, as levels of livelihood and career guarantees under long-term employment gradually diminish, employees who want to become established in their current place of work and commit to it are gradually turning into a minority, even in large corporations (Sato 2011).

#### IV. Long-term employment system in a society of birthrate decline and population aging

Apart from the intentions and actions of employers and employees discussed above, longer-term employment and continuous employment are now being demanded by labor policy with the background of declining birthrate and population aging in Japanese society. The starting age for public pension payments has been raised in stages from 60 of age since 2001, and the government has been urging companies to continue employing workers past 60, the general age of mandatory retirement. An amendment to the Act Concerning Stabilization of Employment of Older Persons made it compulsory for companies to secure employment opportunities for workers after the age of 60, up to the starting age for public pension payments, with effect from April 2006. Until March 2013, employers were allowed to restrict re-employed persons to those meeting certain requirements established by the labor-management agreements. Since April 2013, however, companies have been obliged to employ all workers who wish to remain in employment, up to age 65.

As a result of the amended act above, the majority of workers now continue to work for the same employer beyond the mandatory retirement age of 60.

Between June 2015 and May 2016, 82.9% of some 350,000 people who reached the age of 60 continued to work for their previous employer. When continuing to work for the previous employer after 60 in this way, wages are normally around 50-70% of the level when the retirees reached the retirement age, and those retirees are normally employed on fixed-term contracts (JILPT 2016).

Policies promoting the employment of older persons almost over the last ten years have led to the development of systems that enable employees in a company to remain employed longer. It is less likely, however, that workers continue to build their careers in a single company with high motivation. How to resolve problems in terms of personnel labor management or of building workers' careers while responding to social demands for longer-term employment is a major challenge for Japan's long-term employment system.

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