

Article

The Future of the Japanese-style Employment System: Continued Long-term Employment and the Challenges It Faces

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I. Background and outline of the research

JILPT has just published a book titled *The Future of the Japanese-style Employment System** as an output of a cross organizational research project. This article introduces the background to this research and its content.

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Setting detailed names and definitions aside, the system of employment and labor in Japanese companies, oriented toward the long term and generally known as the “Japanese-style employment system,” certainly used to attract the attention of researchers and policymakers alike. Looking back very briefly, the existence of this Japanese-style employment system was highlighted in the writings of James C. Abegglen, OECD reports and others, and consequently became known to the Japanese people as well. Subsequently, the system was explained in detail by researchers such as Ronald P. Dore and Masahiko Aoki, and the concept became crystalized. The Japanese-style employment system has often been linked with theories on Japanese society and the Japanese people. At least until about twenty years ago, the Japanese-style employment system was one of the most important research themes for Japanese labor researchers, as well as overseas researchers with an interest in Japan.

Somewhere along the line, however, research focusing on specific targets and individual topics such as “young people,” “non-regular employment,” “female employment” and “working hours” became the mainstream. This process of specialization and segmentation was also a sign that labor research had matured in response to the diversification of working

styles and workers’ rights and interests. The fact that attaining individual policy targets has been prioritized in labor policy could also be mentioned as a background factor.



In spite of that, however, JILPT conducted research between FY2014 and FY2016 to consider the future prospects of the Japanese-style employment system. There were three main reasons for this.

The first was that it would facilitate the formation of policy based on the big picture. Since the Japanese-style employment system is at the center of the country’s “employment society” (a coined term by Kazuo Sugeno to describe the mixed structure of employment practice, labor market, and other institutions related to people’s working-life), predicting its future would lead to an awareness of basic directions of change in that structure and major issues that it could face in future.

The second reason was that such research is inseparably related to important labor legislation. Important parts of Japan’s current labor legislation are formed on the premise of the Japanese-style employment system, and particularly of long-term employment practices; this labor legislation has in some ways promoted the spread of the Japanese-style employment system. And in order to maintain the integrity and consistency of labor legislation and make necessary revisions (or prevent unnecessary revisions), the current status of the Japanese-style employment system must be observed objectively and constantly.

The third reason was that this research would

enable us to gain a comprehensive grasp of systems and practices of human resource management and labor relations. Components of the employment system are mutually complementary; changes in one part would trigger changes in other parts. Conversely, if one part is constant, other parts would be difficult to change. Now that labor research is becoming segmented while the priority is on attaining individual policy targets, a comprehensive grasp of the situation is more important than ever.

Based on such concerns, this book defined the Japanese-style employment system as “a system of employment and labor aiming for long-term livelihood security and skills development of its members (almost synonymous with regular employees in this article), as typically seen in large corporations and / or manufacturing companies since the era of high economic growth (from 1960s to the early 1970s),” and attempted to predict how it would change in the future. Specifically, as basic groundwork, government statistics were first collated and analyzed to trace a number of factors over the last 20 years or so. These were (a) long-term employment, (b) seniority-based pay and promotions, (c) cooperative, harmonious industrial relations, (d) wide-ranging education and training centered on OJT, (e) the existence of a certain number of non-member workers as an employment buffer, and (f) norms shared by employers and employees, public support for long-term employment and seniority-based hierarchies, and so on. Next, findings on changes in the Japanese-style employment system were derived from the researches on different targets, such as young people, women and the elderly, and from those of different sectors of human resource management, namely employment portfolios, wage systems, skill development, career management, and in-house career counseling. Having done so, these findings were integrated to discuss which parts of the Japanese-style employment system have been retained and which changed, and what sort of new issues it is facing.

II. Changes in the environment surrounding Japan's employment society

To start with, let us confirm what sort of environmental changes have affected Japan's

employment society over the last 20 years or so. The first point to be made is that the Japanese economy has been hit by a prolonged and serious recession coupled with deflation. Specifically, as well as experiencing the collapse of the economic bubble at the beginning of the 1990s, the economy was also subjected to a series of hardships in the form of the Asian financial crisis of 1997-98, the burst of dot-com bubble at the beginning of the 2000s, and the global economic crisis that began in the autumn of 2008.

The second point is that, quite apart from recessions and deflation, the shift toward service industries continued to progress (Figure 1), while professional and engineering workers and service workers accounted for an increasing percentage of the workforce. Although systems of employment and labor aiming for long-term livelihood security and skills development of regular employees had until then been seen typically in large corporations and / or manufacturing companies, their share has decreased as a whole.

The third point is that workers have progressively aged, irrespective of industry or corporate scale; in macro terms, the workforce has started to shrink. According to the *Labor Force Survey* of the Ministry of Internal Affairs and Communications, persons in employment in Japan peaked at 65.6 million in 1997 and the working-age population at 67.9 million in 1998, since when both have been on a downward trend over the long term.

In the following section, we will see which parts of the Japanese-style employment system have been retained and which have been changed amid these environmental changes.

III. Continuity of long-term employment, and strong support for it

Although employment is said to have become more fluid since the collapse of the economic bubble (i.e. since the 1990s), how has this affected the employment of regular employees, viewed chronologically over the long term? Figure 2 shows the job entry ratio and job resignation ratio by gender for ordinary workers (defined as “workers other than part-time workers,” considered here as a statistical category close to regular employees) in companies

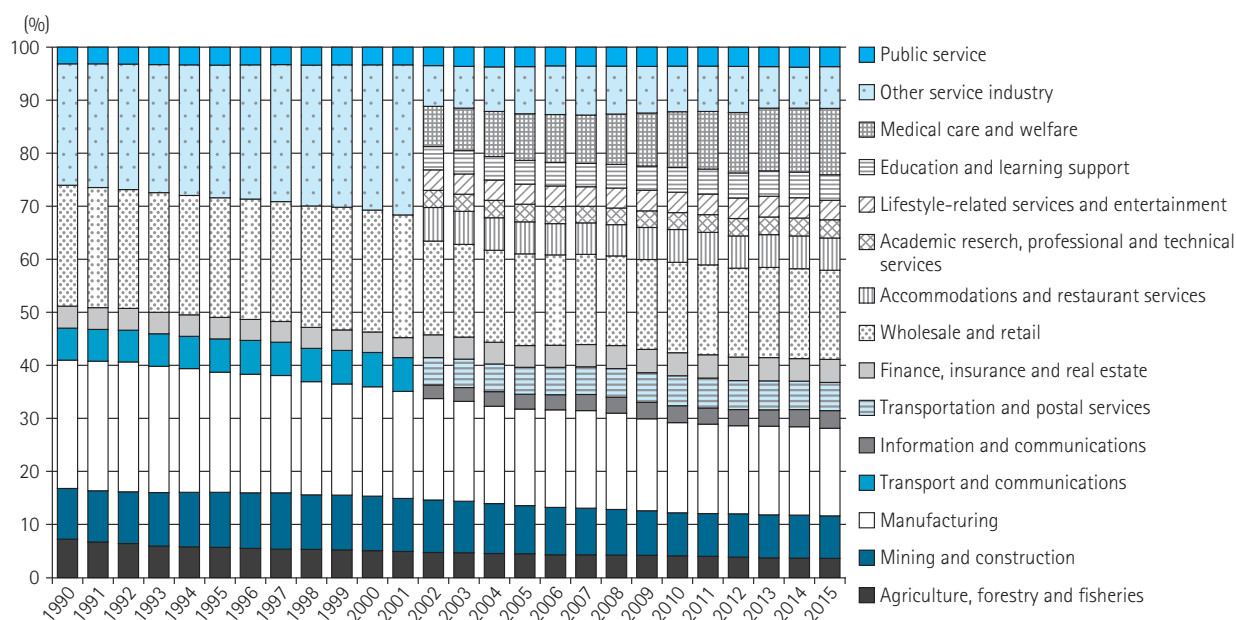
with 1,000 or more employees (hereinafter “large corporations”). The job entry ratio for both men and women is strongly correlated with the state of the economy, peaking as the economic bubble came to an end in 1991, bottoming out in the mid-1990s, then rising during the economic expansion phase in the mid-2000s, only to fall again during the recession following the global economic collapse of 2008. Meanwhile, the job resignation ratio has decreased among women over the long term. Among men, the ratio was higher in the 2000s than in the 1990s, but it peaked in 2002 (10.4%) after the burst of dot-com bubble, and has not exceeded that level since then. In terms of the occurrence of “voluntary retirement and dismissal” in large manufacturing corporations as shown in the *Survey on Labour Economy Trends* by the Ministry of Health, Labour and Welfare (MHLW), here again the peak was in around 2000 (Figure 3). In other words, for regular employees (“ordinary workers” in the MHLW survey), there has been no consistent trend of a rise in the ratio of flow to stock.

How do things look if we focus on mid-career hiring only? Figure 4 shows the mid-career hiring ratio, by gender, of ordinary workers in large

corporations. From this, we can see that for both men and women, mid-career hiring has become more common over a relatively long term from the middle of the 1990s until today. In other words, while the job entry ratio has been trending cyclically in line with the economy, mid-career hiring has been increasing. This is thought to reflect a decrease in the youth population and increasing difficulty in hiring new graduates.

In what sectors are large corporations increasing mid-career hiring? This is clarified in Figure 5, which shows the change in industries among male mid-career job entrants (by manufacturing vs. non-manufacturing industries and company size). The data suggest that from 2000 to today, the ratio of mid-career entrants has risen in large non-manufacturing corporations, while it has not risen much among large manufacturing-industry corporations. Mid-career hiring is taking place especially actively at large non-manufacturing corporations that have been expanding over the last 20 years or so, boosting the mid-career hiring ratio of the entire large corporate sector.

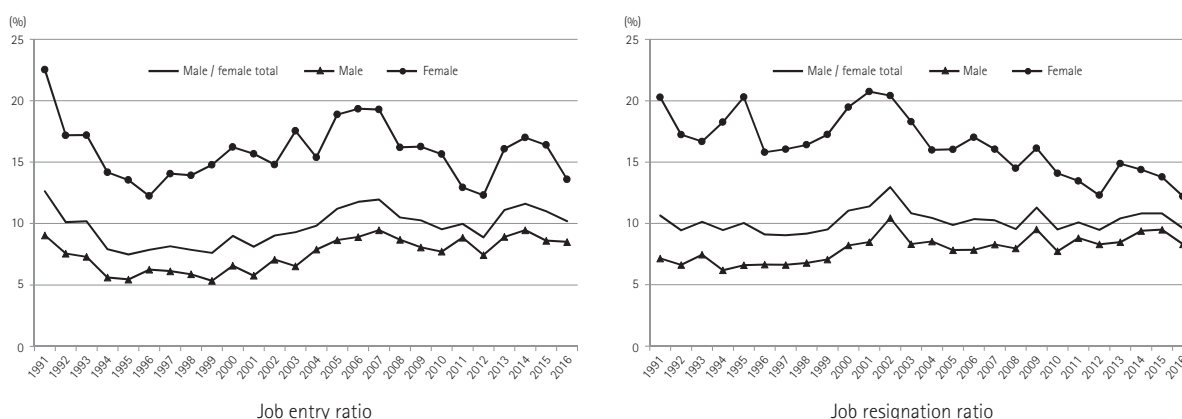
Thus, long-term employment of regular employees appears to be largely sustained at large



Source: Ministry of Internal Affairs and Communications, *Labor Force Survey*.

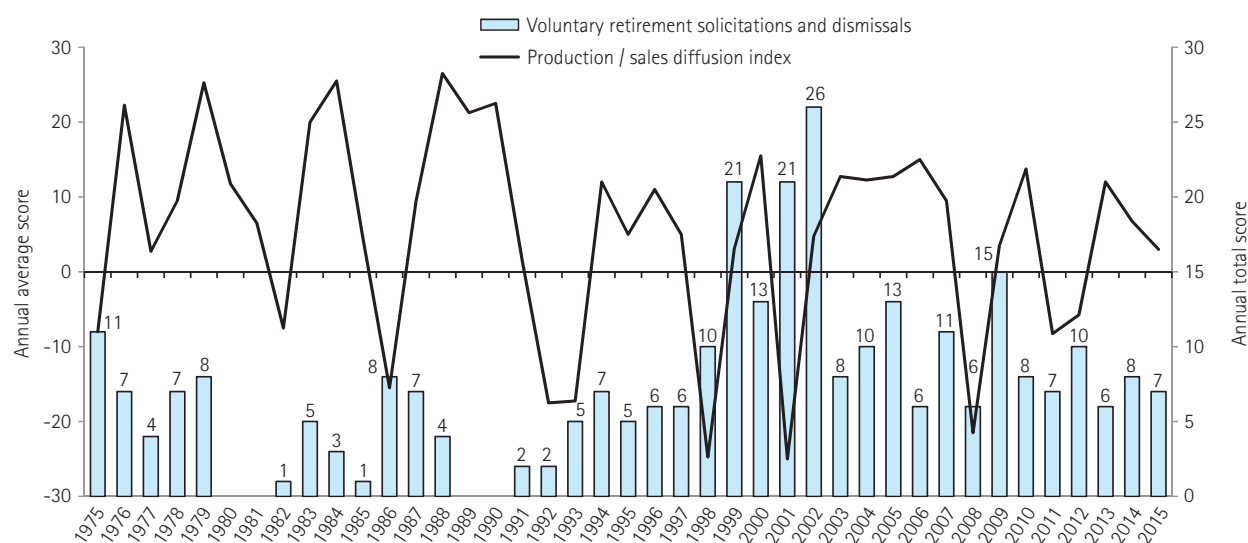
Note: "Wholesale and retail" up to 2001 includes "eating and drinking" establishments, and "finance, insurance and real estate" from 2002 onward includes the merchandise rental business.

Figure 1. Change in share of industries (by number of employed persons)



Sources: Ministry of Health, Labour and Welfare, *Survey on Employment Trends*. Figures for 2016 are preliminary (August 23, 2017).
 Notes: 1. This survey covers businesses with 5 or more employees.
 2. The job entry ratio and job resignation ratio are the number of employees entering and the number leaving jobs, respectively, divided by the number of regular or full workers.
 3. Since the scope of the surveyed industries was expanded in 2004, it should be noted that the data cannot be connected precisely from data for 2003 and earlier.

Figure 2. Change in job entry ratio and job resignation ratio (ordinary workers) (companies with 1,000 or more employees)

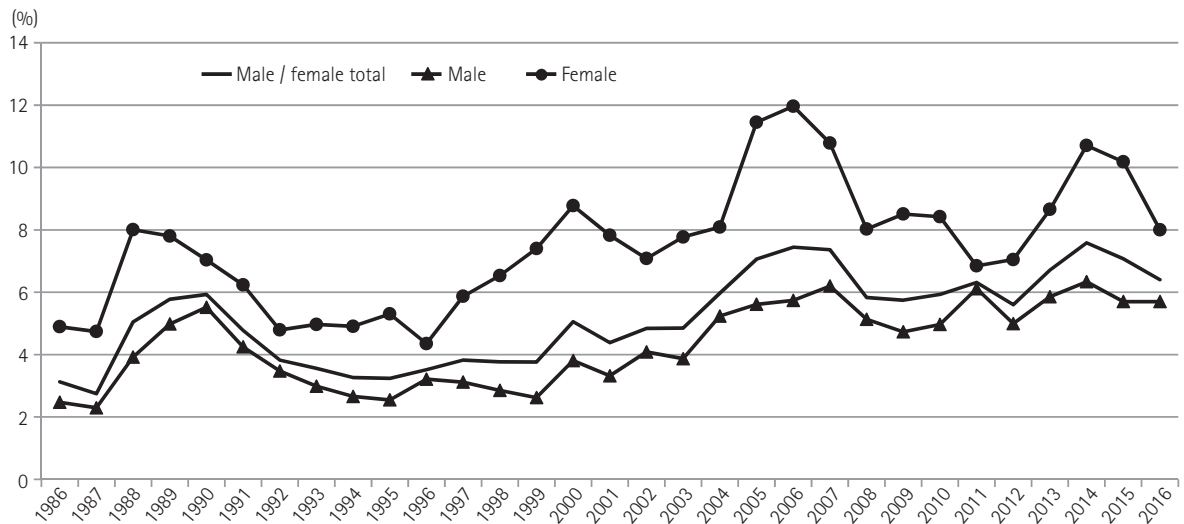


Source: Ministry of Health, Labour and Welfare, *Survey on Labour Economy Trends* (quarterly).
 Note: The production and sales diffusion index for each year is an annual average of production and sales diffusion index for each quarter, voluntary retirement solicitations and dismissals for each year is a simple sum of the percentage of establishments implementing those measures in each quarter.

Figure 3. Change in production / sales diffusion index (left axis: annual average score) and occurrence of "voluntary retirement solicitations and dismissals" (right axis: annual total score) for manufacturing industry (companies with 1,000 or more workers)

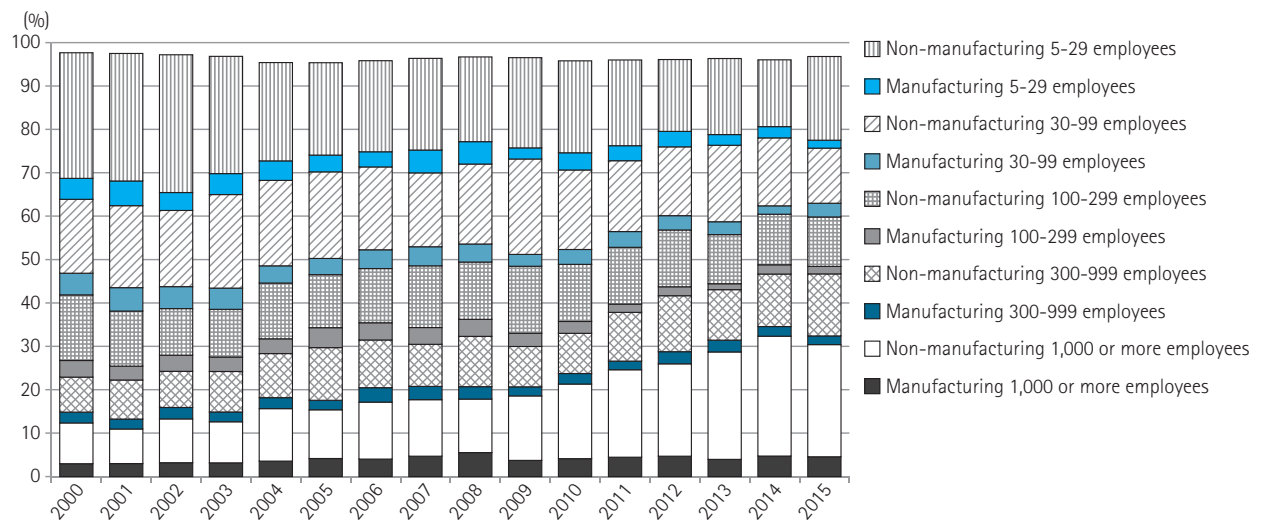
manufacturing-industry corporations, which are the mainstay of the Japanese-style employment system if not the economy as a whole. Even at large non-manufacturing corporations, the mid-career hiring is increasing because the industries themselves are

expanding, but the job resignation ratio itself is not rising (figure omitted). According to the "Survey on the State of Human Resource Management" (JILPT 2014), nearly 90% of companies have a policy of keeping regular employees in long-term



Sources: Ministry of Health, Labour and Welfare, *Survey on Employment Trends*. Figures for 2016 are preliminary (August 23, 2017).
 Notes: 1. This survey covers businesses with 5 or more employees.
 2. The mid-career hiring ratio is the number of mid-career job entrants divided by the number of ordinary workers.

Figure 4. Change in mid-career hiring ratio (ordinary workers) by gender (companies with 1,000 or more employees)



Source: Ministry of Health, Labour and Welfare, *Survey on Employment Trends*.
 Notes: 1. The tabulated data includes both full-time and part-time mid-career job entrants who were working with an employment contract at a previous position and were at work at the time of the survey.
 2. Totals do not add up to 100% because publicly managed businesses are excluded.

Figure 5. Change in industries among male mid-career job entrants

employment, and this trend is strong in traditional sectors such as manufacturing, finance, and large corporations across the board. Also, annual policy reports from *Keidanren* (Japan Business Federation) and *Rengo* (Japanese Trade Union Confederation) indicate that both labor and management view lifetime employment as desirable, while the “Survey

on Working Life,” JILPT’s repeated survey on attributes to work and life (conducted since 1999) show that the percentage of people viewing it positively has increased since the year 2000. Long-term employment of regular employees at large corporations is being sustained, and it is safe to say there is strong, broad-based support for this.

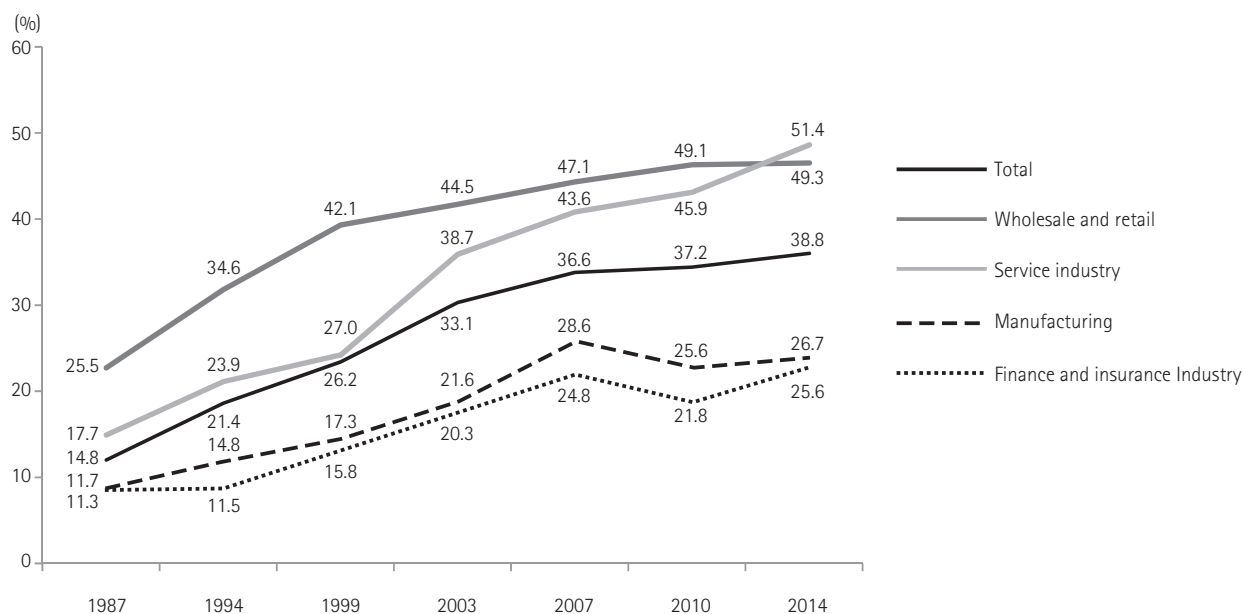
IV. Shrink of the scope of long-term employment and its re-expansion

This article has stated above that long-term employment of regular employees is sustained, but how about the scope of the long-term employment?

Readers already know that non-regular employment has been growing for the past 20 years, and the scope of long-term employment has shrunk. Figure 6 shows the percentages of non-regular employees by industry, and we can see that non-regular employment has advanced across all industries. However, it declined between 2007 and 2010 in “manufacturing” and “finance and insurance.” This is not due to hiring of regular employees or transitioning from non-regular employment to regular employment, but rather because many non-regular employees (most of them are working under fixed-term employment contract) had their employment contract terminated during the recession following the global financial collapse of 2008. Japanese companies utilized non-regular employees intentionally as a buffer to protect the jobs of regular employees at that time. Regarding

this, MHLW’s *White Paper on Labour Economy 2009* sounded an alarm, saying that “employment adjustment accompanied by employee layoffs is being curtailed for regular workers through overtime restriction, reassignment, temporary transfer to another company while maintaining employment relationship with the original company, but it is intensively targeting non-regular workers.” There escalated tensions between regular employees considered “members” and non-regular employees considered “non-members” in the Japanese-style employment system.

There was a quick labor legislation response to this situation. After discussions in the Labor Policy Council (in its subcommittee on working conditions) and a study group on fixed-term employment contracts, the Labor Contract Act was amended in 2012, introducing a conversion rule to permanent status (enacted in April 2013, to be fully enforced in April 2018). According to this rule, a fixed-term employment contract is converted to an indefinite one when it is repeatedly renewed at the same company for more than 5 years in total and if the employee in question submits an application.



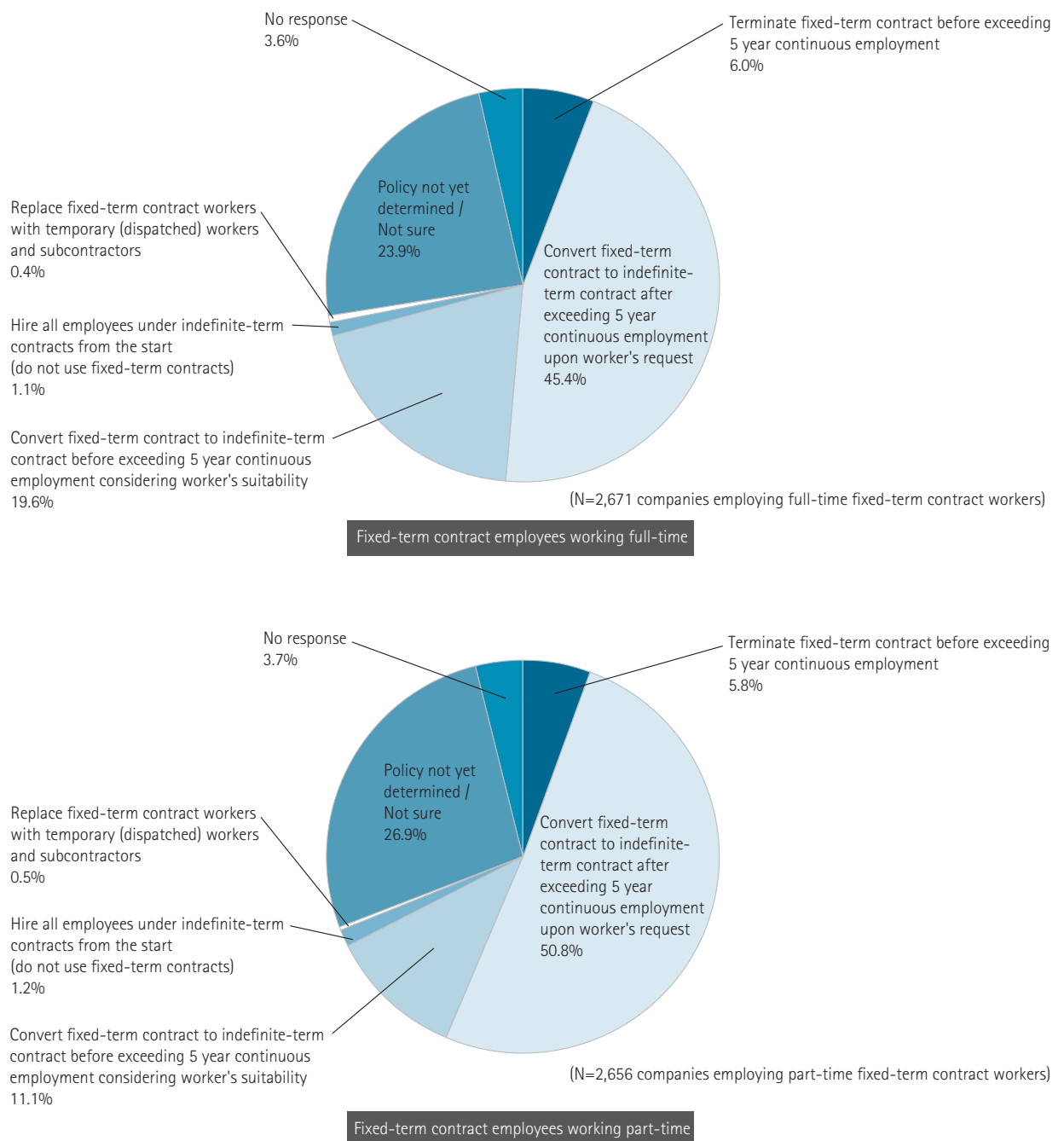
Source: Ministry of Health, Labour and Welfare, General Survey on Diversified Types of Employment.

Notes: 1. Excludes “employees temporarily transferred to another company.”

2. 1987 and 1994 figures are for businesses with 30 or more employees, figures from 1999 onward are for businesses with 5 or more employees.

3. Wholesale and retail” up to 2001 includes eating and drinking establishments.

Figure 6. Change in percentage of non-regular employees by industry



Source: JILPT, "Survey on Response to the Amended Labor Contract Act and Special Cases, and the Utilization of Diverse Regular Employees, 2015.

Figure 7. Companies' policies for dealing with the conversion rule from fixed-term employment to indefinite-term employment

As it happens, this legislative reform coincides with the baby-boomer generation reaching the age of 65 and fully retiring, and companies have responded positively to the conversion rule to permanent status. According to the results of a questionnaire survey

conducted by JILPT in 2015, 60% to 70% of firms are, in compliance with the law, planning some form of conversion to permanent status (Figure 7). And the most recent survey (2016) suggests that even large corporations are progressively shifting to a policy of

converting employees to permanent status. It should be noted that those corporations were more likely to respond when they were asked immediately after the amendment, that they would “manage [fixed-term contract employment] in such a way that it did not last more than 5 years.” (It can be interpreted that they terminate fixed-term contract before exceeding 5 year continuous employment.)

Again, what is the scope of long-term employment, and has it been changed?

This book (JILPT 2017) presents case studies of companies where the reorganization of employment categories, such as the shift from fixed-term to indefinite-term employment, conversion of non-regular employees to regular employees, and introduction of restricted (in terms of place of work, job content, etc.) regular employees has progressed, resulting in the ratio of regular employees rising again in the context of a worsening labor shortage and encouraged by amendment of the Labor Contract Act. The *Labor Force Survey* by the Ministry of Internal Affairs and Communications also indicates that since 2013, the number of employees shifting from non-regular to regular employment exceeds the number who conversely shifted from regular to non-regular employment. Looking ahead, at least for the time being, it is possible that the scope of long-term employment will re-expand.

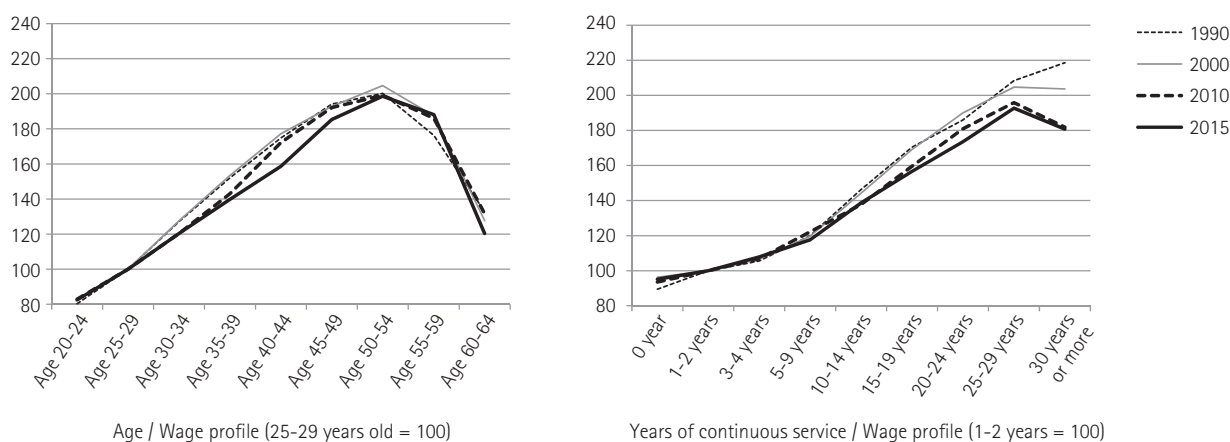
Of course, even if there is a re-expansion of this scope, it will not consist entirely of regular employment in the same sense as before. The

wage levels of restricted regular employees and employees shifted from fixed-term to indefinite-term employment are expected to differ from those of conventional regular employees. What we expect to see is strictly a re-expansion of the scope of long-term employment, and whether the scope of conventional regular employment will increase is unknown.

V. The decline of seniority-based treatment of workers, emergence of selective training, and transformation of the roles of workplace organizations

Meanwhile, some aspects have definitely changed over the past twenty years, one of which is seniority-based treatment of workers. According to the *Basic Survey on Wage Structure* by MHLW, the profiles of wages in relation to age and years of continuous service have both become more gradual (Figure 8). A JILPT questionnaire survey indicates that wage systems have evolved from seniority-based, through a trend of introducing performance-based compensation, to a responsibility or role based wage system that now appears to have stabilized. And if the retirement age is raised further in the future, it is expected that the conventional seniority-based wage profile will be further modified.

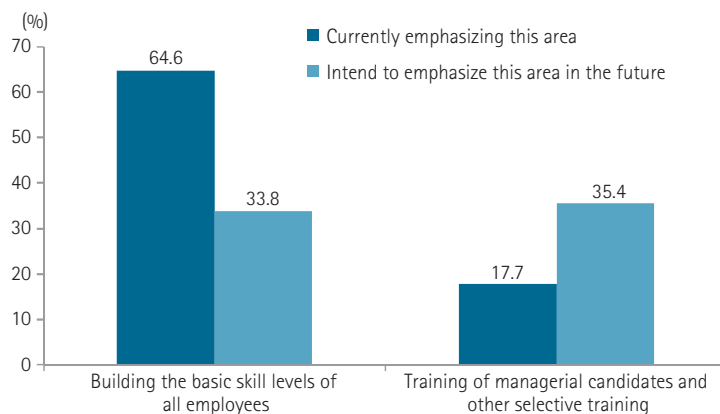
Also, the *Basic Survey on Wage Structure* suggests that there has been a decline in the practice of steady promotion based on age and years of continuous service particularly among



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

Note: Survey and tabulated data covers private-sector businesses with 10 or more employees.

Figure 8. Wage profiles of male full-time workers (companies with 1,000 or more employees)



Source: Processed by author from Figures 6-3 and 6-5 in *The Future of the Japanese-style Employment System* (JILPT 2017). Based on JILPT Survey on Companies' In-House Training, Skill Development and Career Management (Corporate Survey, 2016).

Notes: 1. Tabulated data is for companies with 1,000 or more employees (N=130).

2. For both "Currently emphasizing" and "Want to emphasize in the future," the original questions consisted of 16 items with multiple responses, but in this figure only two items were extracted.

Figure 9. Present and future priorities with regard to training / skill development and career management of regular employees (multiple responses)

highly educated male employees (figure omitted). According to the analyses of a questionnaire survey, ("Survey on How Corporate Human Resources are Utilized and the Work Patterns of Male and Female Regular Employees" (JILPT 2016), the more companies phased out seniority-based promotion, the more female employees were promoted to management positions. This suggests that seniority-based promotion will be further modified as women play increasingly active roles in the workplace. The same JILPT questionnaire survey also indicates that large corporations and those active overseas are shifting the focus of human resource development from building the basic skill levels of all employees to training managerial candidates and other selective training (Figure 9).

Thirdly, although this was not originally one of the issues to be examined in our research project, we cannot overlook the transformation of the roles of workplace organizations. One of the original features of the Japanese-style employment system is that workplace organizations play a wide range of roles in company management, such as supervisors and senior employees conducting OJT of their subordinates and juniors, and supervisors counseling their subordinates on careers and human relations. However, the NHK Broadcasting

Culture Research Institute found that people today are leading more individualistic lifestyles, such as limiting social relationships with colleagues rather than leading group-oriented lifestyle embedded in the workplace and company (*Survey of Japanese Value Orientations*). Also, workplace problems, as embodied by bullying and harassment, are becoming increasingly apparent. Under these circumstances, it is becoming more difficult for workplace organizations to play their conventional role.

VI. Future challenges

As described above, long-term employment has been maintained over the past 20 years or so, its scope having shrunk but showing potential for re-expansion in the future. Meanwhile, seniority-based promotion and remuneration is declining, selective training is emerging, and workplace organizations have also evolved. What challenges will the employment system face as this mixture of stability and change progresses?

The first challenge is that while long-term employment is sustaining itself, its performance may be declining. In the Japanese-style employment system, long-term employment, seniority-based wages and promotion, and OJT as well as a wide range of other training have performed strongly

in combination. Taken alone, however, long-term employment may continue as there is no reason to press abolishing it, but the advantages of long-term employment per se will be less significant. From the perspective of workers, even if they work long term they cannot necessarily expect pay raises or promotions. From companies' point of view, even if they guarantee long-term employment, workers' skills and competencies would not necessarily continue to improve. As a result, there are likely to be mismatches between jobs and skills / competencies, and failure to activate the full potential of human resources, within the enterprise and throughout the labor market. This is a problem affecting not only the employment system but also the entire economy. On the premise that long-term employment remains, there is also a need to support mid-career job applicants and the companies that hire them, and enhance mechanisms for skills evaluation commonly accepted in the labor market.

The second challenge is the reduction of buffers to protect the jobs of regular employees. As mentioned earlier, while regular employees' jobs were protected during the recession after the global financial collapse of 2008, many non-regular employees lost their jobs. Partially as a way to compensate for what was later seen as excessive layoffs, the Labor Contract Act was amended in 2012. From April 2018, there is projected to be a shift from fixed-term employment to indefinite-term employment and even to regular employment (including restricted regular employment). In addition, according to the analysis in this book, both labor and management and the general public have strongly held on to the norm that employment of regular employees should be maintained. However, companies will need again in the future to adjust the number of employees if and when a serious recession strikes. Under these circumstances, is it possible to

safeguard regular employees' jobs without relying on layoffs of non-regular employees? Although proposing countermeasures to this problem goes beyond the scope of this study, there seems to be potential needs for examination of laws and judicial precedents governing dismissals and corporate restructuring in the near future.

The third challenge is that with seniority-based treatment of workers in decline and selective training on the rise, there are widening disparities in treatment among regular employees, and their fairness is called into question. Such disparities were considered problematic when performance-based personnel and wage systems were introduced in 1990s. Now that large corporations and those active overseas have been selectively giving training to the next generation of management, disparities in employee treatment are seen as expanding in recent years. In addition, with the introduction of region-restricted regular employees aimed at promoting employees' work-life balance, and introduction of restricted regular employees as a means of converting fixed-term contract employees to indefinite-term contract employees under the amended Labor Contract Act, the employment category of regular employees itself is becoming more diversified and complicated. The issue of disparities in treatment of regular employees is basically to be handled in the context of labor-management relations within companies. In view of the decrease in labor union density, however, the role of various worker organizations, not limited to labor unions, is likely to grow in importance.

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