

Key topic

Challenges Facing Japan: Work Styles and Labor Shortages

MHLW's White Paper on the Labor Economy 2019

The Ministry of Health, Labour and Welfare (MHLW) issued a white paper, *Analysis of the Labour Economy 2019—Challenges Facing Japan: Work Styles and Labor Shortages*, on September 27, 2019. Although Japan's economy and employment situation are improving and the number of active employees is growing, the nation's population is now declining after peaking in 2008, and large-scale decreases in both the working-age population and number of active employees are predicted for the years ahead. Amid such circumstances, there is a growing sense that labor shortages exist and the possibility of negative impacts on the comfortability of working (hereafter, work comfort) and workers' feeling of fulfillment at work or job satisfaction. In order to dispel such concerns, the white paper emphasizes the necessity of promoting "Work Style Reform" so that workers have diverse and flexible ways of working to choose, with the ultimate goal of achieving a society in which all citizens are engaged. In light of the above issues, the white paper analyzes the state of working styles amid labor shortages with respect to work comfort and fulfillment and proposes measures toward alleviating labor shortages.

Trends and features of the labor economy

The white paper's analysis of the Japanese economy in fiscal year 2018 finds that, despite the impacts of repeated natural disasters as well as uncertainties in outlooks for trade and the Chinese economy, a gradual recovery is occurring, as improvements in corporate earnings and the employment/income environment as well as recoveries in capital investment and personal

consumption are apparent. The employment situation is showing continuous and steady improvement. The overall unemployment rate averaged 2.4% in FY2018, the lowest level since 1992, 26 years ago. And the active job openings-to-applicants ratio averaged 1.62 in FY 2018, which is the highest seen since FY1973, 45 years ago. The active job openings-to-applicants ratio for regular employees has remained above 1.0 since July 2017. Moreover, the number of employed persons has been increasing for six consecutive years. As the population aged over 15 years declines, the labor force grew by 960,000 compared to the previous fiscal year to reach 68.41 million, while the population of those not in the labor force fell by 1.04 million to 42.36 million. When viewed in terms of employment formats, the number of people working as non-regular employed workers unwillingly continued to fall (decreasing by 210,000 from the previous fiscal year to 2.51 million), while the number of regular employed workers continued to grow for the fourth consecutive year (increasing by 530,000 from the previous year to 34.76 million). The labor force participation rate is rising as a result of increased labor force participation by women, the elderly, and others.

The white paper notes that nominal wages continue to rise. The nominal wages of ordinary workers and the hourly wages of part-time workers are both rising, and total employee earnings continues to increase due to the positive contributions of nominal wages and number of employed persons. The percentage of companies that executed wage increases in the spring labor-management negotiations was 89.7%. This represents the highest

level since 1999, when MHLW began conducting the Survey on Wage Increase. The share of companies implementing across-the-board pay increases (“base-up” in Japanese) also rose for the second consecutive year, reaching 29.8%.

Companies’ feeling of labor shortage at high levels second only to those of the bubble economy

The white paper states that since 2013, when companies’ feelings of surplus and shortage of workers shifted from surplus to shortage, the feeling of shortage has generally been on the rise, reaching high levels second only to those seen in the early 1990s, around the time of Japan’s bubble economy. Looking at the figures by company size and industry, the feeling of shortage is particularly strong in small and medium-sized enterprises (SMEs) and non-manufacturing industries, respectively. A breakdown by forms of employment shows a growing sense of shortage of regular employees (those directly employed with an open-ended, full-time contracts) as opposed to part-time workers and other such non-regular employees. This sense of shortage of regular employees is showing a relatively high increase among SMEs with less than 300 employees and in industries such as manufacturing and construction. The sense of shortage is growing outside of the three major megalopolises of Tokyo, Osaka and Nagoya in the same way that it is within those three areas.

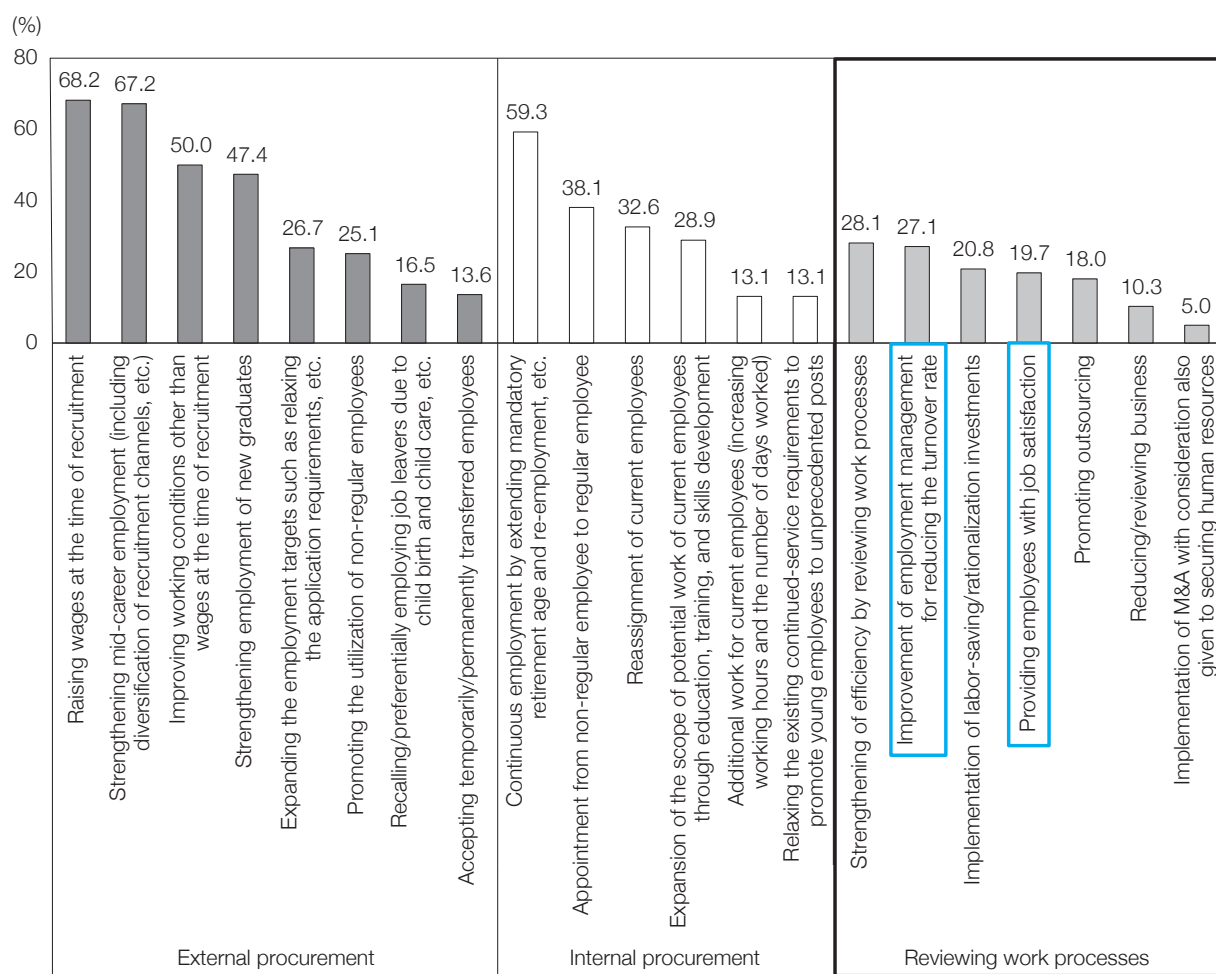
Labor shortage as a catalyst for improving productivity

Drawing on results from JILPT (The Japan Institute for Labour Policy and Training)’s “Survey on Work Styles and the Current Conditions Related to Labor Shortage” (2019), the white paper analyzes the relationship between labor shortage and labor productivity. As companies seek to improve labor productivity, many believe that in order to increase the amount of value added—which is treated as the numerator in the formula for labor productivity—it is necessary to focus their efforts on factors such as “strength of marketing and sales,” “skills development for employees,”

“personnel management toward boosting employees’ motivation,” “technical capability,” and “capacity to secure repeat customers through increasing customer satisfaction.” And yet, figures on the state of such efforts in the past three years indicate that companies are in fact least likely to have engaged in efforts to improve the areas in which efforts are most believed to be necessary. Looking at how such efforts may develop in the future, the percentage of companies that responded that they planned to work on increasing labor productivity when they looked ahead three years is higher among companies that responded that they had a “shortage” of personnel on the whole in comparison with those that responded that they had an “adequate” supply of personnel on the whole. The white paper notes that this suggests that labor shortage may be serving as a catalyst to encourage companies to consider improving labor productivity.

Poor progress in review of work processes

Over 80% of all companies have engaged in measures to alleviate labor shortage in the past three years. The white paper notes that many companies see the eradication of labor shortage as a pressing task, and presents companies’ approaches toward alleviating such shortage (Figure 1). Many companies are adopting approaches focused on the external procurement (obtaining personnel from the external labor market) such as “raising wages offered at the time of recruitment” and “strengthening mid-career employment,” as well as approaches focused on the internal procurement (securing the necessary personnel within the company) such as “continuous employment by extending mandatory retirement age and reemployment, etc.” “appointment from non-regular employees to regular employees” and “reassignment of current employees.” In contrast, the percentages of companies that adopt approaches focused on aspects other than the supply of labor are relatively low. The white paper finds that approaches such as “strengthening of efficiency by reviewing work processes,” “improvement of employment management for reducing the turnover rate,” and “providing employees with job satisfaction (through



Source: Independent tabulation by Office of Counsellor for Labour Policy Planning of MHLW based on responses to JILPT “Survey on Working Styles, etc. and the Current Conditions Related to Labor Shortage, etc.” (2019).

Figure 1. Companies’ approaches toward alleviating labor shortage

allocation in consideration with employees’ wish, implementation of a feedback system, etc.)”—namely, alternatives to tackling the difficulties of the external or internal procurement—are potentially somewhat effective for eradicating labor shortage, improving labor productivity, and reducing turnover rates, but are “not sufficiently widespread.”

Thus, the countermeasures against labor shortage that companies are actually implementing center on securing human resources by means of sweetening job offers or strengthening recruiting. Efforts aimed at improving employment management or raising employees’ feeling of fulfillment at work or job satisfaction after they join the company are inadequate. There are concerns that labor shortages

will not be mitigated if their retention and separation rates do not improve. The white paper notes the importance of initiatives to realize higher work comfort and fulfillment through improvement of employees’ retention rates and separation rates and thus help mitigate labor shortages.

Labor shortage affects working with fulfillment and motivation

The white paper describes work comfort (*hatarakiyasusa*) as workers’ sense of security and ease in their work situations that leads to fairness at work and choices of working styles according to their life events, which can be realized by companies in the employment management such as working hours,

paid leaves, and measures for balance with family life. It describes fulfillment at work (*hatarakigai*) as workers' sense of work merits enthusiasm and pride that eventually fosters their job satisfaction and personal growth, which is, for companies, mostly related with human resource management specifically in the goals settings or procedure and process management. Long working hours and the accompanying buildup of stress and fatigue may be exerting a negative impact on workers' working lives mostly related with work comfort and fulfillment. Indicating such possibility, the white paper suggests that the heightened sense of labor shortage in recent years may be exacerbating this trend.

What kinds of impacts is labor shortage exerting on business operations and working environments? The white paper finds that over 70% of all companies feel that labor shortage exerts impacts on how they run their business, and that in many cases these are negative impacts on operations. Particularly companies in rural areas, which tend to be relatively small in size, are being forced to cope with labor shortage by cutting back their existing business—namely, closing places of business, reducing business hours, or reducing the services that they offer. There is also the issue that skills and know-how are not being passed on sufficiently, due to difficulties in securing and training successors. The white paper notes that these impacts may be affecting their business operations.

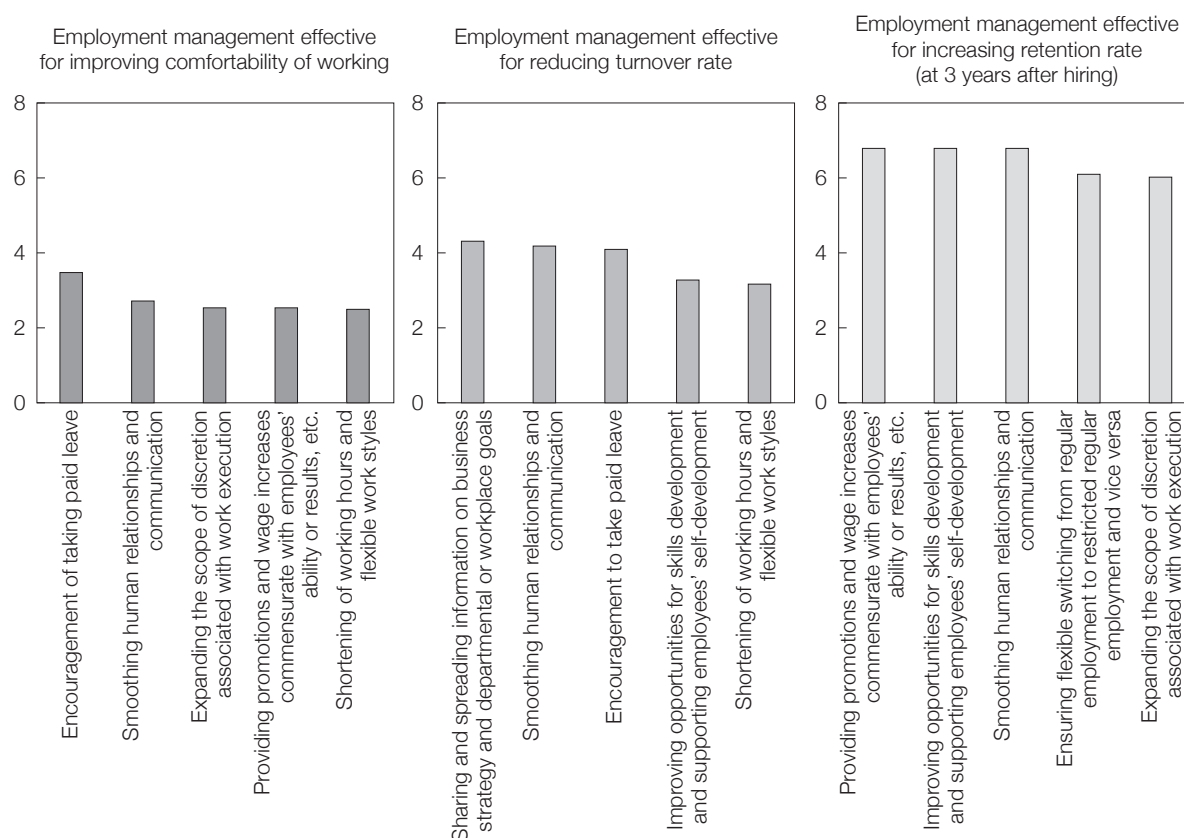
While high percentages of both companies and employees responded that labor shortage was exerting impacts on working environments, there are disparities between them in terms of the perception of the existence and nature of those impacts. A higher percentage of employees than companies felt that labor shortage did have impacts on working environments, and a particularly higher percentage of employees than companies saw “decline in employees' fulfillment at work and motivation” as one of those impacts. The white paper notes that heavy workloads resulting from labor shortage may not only lead to increases in working hours and number of days worked, but also affect fulfillment at work and motivation. It highlights the necessity for

companies to pursue measures that take into account such risks.

Work comfort for employees amid labor shortages

What kinds of work styles do employees see as providing work comfort amid labor shortages? According to the employee survey of JILPT 2019, among the possible employment management approaches considered important for improving work comfort, the approach selected by the highest percentage of regular employees was “ensuring smooth human relations and communication in the workplace,” followed by “encouragement of taking paid leave,” and “shortening working hours and allowing increased flexibility in work styles.” According to the white paper, the tendency among employees to perceive such measures to be important can be seen across all age groups and among both male and female employees. In addition, women in the “age 15–34” and “age 35–44” groups believe in the importance of “supporting combining work and childcare.” The white paper suggests that the numbers of employees who believe in the importance of “supporting combining work and long-term family care” and “supporting combining work and receiving treatment for illness” increase along with the age of employees.

How does each of the employment management approaches help to improve work comfort? Figure 2 shows how the percentages of employees who feel comfort in their working environment differ between employees working at companies implementing such approaches and those at companies not implementing such approaches. The percentages of employees who responded that they “feel comfort” are high at companies that have implemented measures for “encouragement of taking paid leave,” “smoothing human relationships and communication at work,” “expanding the scope of discretion associated with work execution,” “providing promotions and wage increases commensurate with employees' ability or results, etc.,” and “shortening of working hours and flexible work styles.” The white paper notes that this implies that the implementation of such approaches



Source: Independent tabulation by Office of Counsellor for Labour Policy Planning of MHLW based on responses to the JILPT “Survey on Working Styles, etc. and the Current Conditions Related to Labor Shortage, etc.” (2019).

Notes: 1. The left figure shows the difference between the percentage of “Workers of companies implementing the respective employment management measures who are feeling satisfaction with the comfortability of working” and the percentage of “Workers of companies NOT implementing the respective employment management measures who are feeling satisfaction with the comfortability of working.”

2. The middle figure shows the difference between the percentage of “Companies implementing the respective employment management measures whose turnover rate of their employees decreased compared to 3 years ago” and the percentage of “Companies NOT implementing the respective employment management measures whose turnover rate of their employees decreased compared to 3 years ago.”

3. The right figure shows the difference between the percentage of “Companies implementing the respective employment management measures whose retention rate (at 3 years after hiring) of newly hired employees increased compared to 3 years ago” and the percentage of “Companies NOT implementing the respective employment management measures whose retention rate (at 3 years after hiring) of newly hired employees increased compared to 3 years ago.”

4. Each figure shows the results for the top five types of effective employment management (effective for the relevant outcome) that showed differences in the aforementioned percentages.

Figure 2. Effective employment management for improving work comfort, reducing turnover rate, and retention rate of new employees

may lead to increases in employees’ work comfort.

Among companies that have seen a decline in their turnover rates (rate of all regular employees), the percentages of companies that have implemented employment management approaches such as “sharing and spreading information on business strategy and departmental or workplace goals,” “smoothing human relationships and communication

at work,” and “encouragement of taking paid leave” greatly exceed the percentages of companies that have not implemented such measures. The white paper concludes that such employment management approaches may be effective in decreasing turnover rates. Moreover, among companies that have seen an increase in their retention rates (rate of new employees remaining in their employment three

years after joining the company), the percentages of companies that have implemented approaches such as “providing promotions and wage increases commensurate with employees’ ability or results, etc.,” “improving opportunities for skills development and supporting employees’ self-development,” and “smoothing human relationships and communication at work” far exceed the percentages of companies that have not implemented such approaches.

Distinctive features of SMEs have a positive effect on work comfort

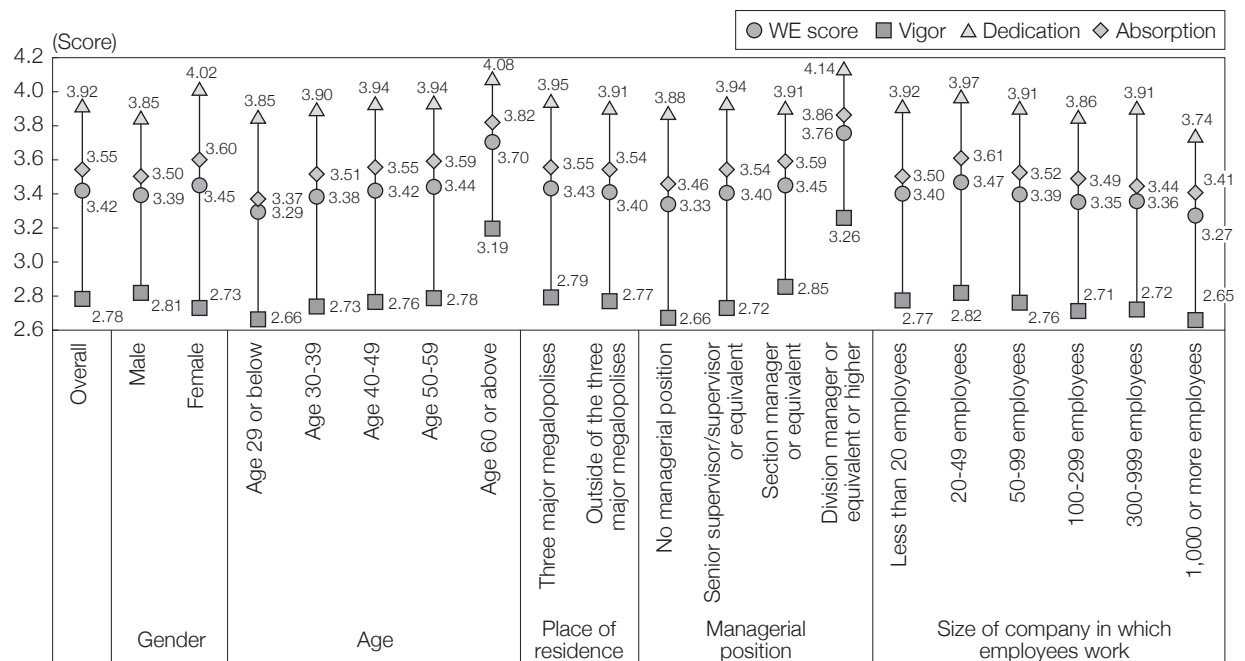
The white paper observes that the distinctive features of SMEs have a positive effect on comfort in the workplace. The results of the JILPT survey show that a greater percentage of regular employees employed by companies with less than 100 employees feel comfort in their workplace in comparison with those employed by companies with 100 or more employees, and a higher percentage of companies with less than 100 employees than companies with 100 or more employees responded that the turnover rate had decreased in comparison with three years previously. The white paper notes that this reflects the fact that SMEs have comparatively large percentages of female and older employees and thereby strong tendencies to allow employees discretion in decisions regarding their work and high levels of flexibility in the practical application of employment management systems. The JILPT survey results also indicate that approaches such as “supporting combining work and long-term family care,” “supporting combining work and receiving treatment for illness,” and “facilitating the use of childcare leave systems and family care leave systems” are more effective in improving work comfort and reducing turnover rates among SMEs in comparison with large enterprises and other such employers. The white paper concludes that it is important for SMEs to continue to place particular focus on implementing measures such as support for combining work and childcare, long-term family care, and receiving treatment for illness.

High level of “work engagement” may improve organizational commitment and retention rates of new employees

Fulfillment at work may give the impression of an abstract concept. In order to analyze the current state and challenges of fulfillment objectively, the white paper draws on the concept of “work engagement,”¹ which was previously introduced in a column of the 2018 version of the white paper. “Work engagement,” an antithetic concept of burnout, is a concept established by Wilmar Schaufeli (professor at Utrecht University, Netherlands) et al. in 2002, showing the relationship between “individual” and “work in general” and basically referring to a concept that captures the persistent and stable state of workers. Work engagement is characterized by three aspects: “vigor” (feeling “high levels of energy and mental resilience while working”), “dedication” (“being strongly involved in one’s work and experiencing a sense of significance, enthusiasm, inspiration, pride, and challenge”), and “absorption” (“being fully concentrated and happily engrossed in one’s work”). Work engagement is a state of mind that is achieved when all three of these aspects come together. The white paper defines such state as the state of working with fulfillment.

The white paper examine the current situation of workers’ fulfillment by extracting responses on these aspects of work engagement from the JILPT survey results to convert them into scores (Figure 3). Among regular employees, the work engagement score (the average of the scores for the three aspects) is 3.42, and while the “dedication” score is high, at 3.92, the “vigor” score is low, at 2.77. For women, the “vigor” score is lower, while the “dedication” and “absorption” scores are higher in comparison with those for men. The scores for young employees tend to be lower than those for other age groups. The scores increase with employment position and responsibilities.

The white paper also investigates the effects that may be achieved by improving fulfillment at work. Analysis of the relationships between work engagement and various outcomes reveals a



Source: Independent tabulation by Office of Counsellor for Labour Policy Planning of MHLW based on responses to the JILPT “Survey on Working Styles, etc. and the Current Conditions Related to Labor Shortage, etc. (responses from regular employees)” (2019).

Note: The work engagement (WE) score is based on responses regarding employees’ perception of their main job (excluding side jobs) at the time of the survey. For each of the three aspects of work engagement—vigor, dedication, and absorption—respondents selected from the options “always feel” (=6 points), “often feel” (=4.5 points), “sometimes feel” (=3 points), “rarely feel” (=1.5 points) and “do not feel” (=0 points). The sample of 16,579 respondents that selected all three aspects were used after calculating the mean value for each aspect.

Figure 3. Overview of regular employees’ fulfillment at work

positive correlation with the following outcomes: organizational commitment (a worker’s sense of commitment to their organization), decrease in employee turnover rates, retention rates of new employees (the percentage of the employees who have remained in their employment for at least three years, among the total number of regular employees hired three years previously), individual employees’ awareness of increase in one’s own labor productivity, companies’ labor productivity levels, initiative toward work (independent engagement in work without having received orders or instructions), support given to other employees without having received orders or instructions to do so, and companies’ awareness of customer satisfaction (increase in customer satisfaction). According to the white paper, it should be noted the cause and effect relationship may work in the opposite direction (in other words, employees with strong sense of commitment to their organization are possibly those

with high level of work engagement), but the results indicate, as previous studies show, that improving fulfillment (work engagement) of workers may lead to an increase in these outcome indicators.

What factors improve work engagement? The white paper addressed this question by analyzing employees’ perceptions toward work, and companies’ employment management approaches. Looking at employees’ perceptions toward work, it suggests that there may be a positive correlation between the work engagement score and the frequency with which employees hold the following perceptions²: “my work allows me to grow,” “my self-efficacy (confidence in my ability to pursue my work) is high,” “my career development prospects (what kind of career I will pursue at the company where I work) are clear,” and “I am satisfied with the level of work comfort,” in descending order.

With regard to the employment management approaches implemented by companies, the

white paper observes that there may be a positive correlation between work engagement scores and the implementation rate of the following approaches³: “smoothing human relationships and communication at work,” “shortening of working hours and flexible work styles,” “expanding the scope of discretion associated with work execution,” “ensuring flexible switching of status from regular employment to restricted regular employment (regular employment with restrictions on aspects such as time and place of work or job content) and vice versa,” “supporting combining work and receiving treatment for illness,” and “supporting the return to work of those who left employment for childcare, long-term family care, or receiving treatment for illness, etc.,” in descending order.

“Recovery experiences” especially important at companies with labor shortage

Taking time off in a way that allow employees to have “recovery experiences” is important for improving levels of work engagement. They should be opportunities for employees to recover from excessive work-related stress and fatigue by not only placing themselves away from their workplaces but also taking an emotional step back from work and relaxing as one sees fit, or enlighten themselves by, for example, learning new things. The effects of such experiences may be relatively strong in companies with labor shortage, where there are high levels of work intensity.⁴ The white paper suggests that it will be especially effective for such companies to pursue various ways of supporting employees to have recovery experiences.

Awareness of “boundary management” desired among both employees and employers

The white paper concludes by addressing the principle of “boundary management,” which refers to the ability to manage the boundary between work and free time, or, in other words, the ability to “work hard when at work, and rest well during time off.” Analysis of the results of the JILPT survey shows that a high percentage of people who felt that they were “capable” of conducting boundary management had high levels of work engagement. Boundary management is expected to exert a positive effect on employees’ performance. However, there is insufficient awareness of the importance of boundary management among both employees and employers. The white paper notes that its importance should be more recognized among labor and management.

1. Schaufeli, W.B., Salanova, M., González-romá, V. et al. *Journal of Happiness Studies* (2002) 3: 71, <https://doi.org/10.1023/A:1015630930326>. The following explanations of three aspects (vigor, dedication, and absorption) are quotes from Wilmar Schaufeli and Arnold Bakker 2004, https://www.wilmarschaufeli.nl/publications/Schaufeli/Test%20Manuals/Test_manual_UWES_English.pdf#search=%27schaufeli+vigor%27.

2. These are employees’ perceptions toward work for which there is a great difference in the frequency with which they hold that perception between those with high levels of work engagement and those with low levels of work engagement.

3. These are employment management approaches for which there is a great difference in the implementation rate by companies where the employees work between employees with high levels of work engagement and those with low levels of work engagement.

4. For discussion on work intensity in Japan, see Tomohiro Takami, “Current State of Working Hours and Overwork in Japan: (Part III) How Can We Prevent Overwork?” *Japan Labor Issues*, vol. 3, no. 19, <https://www.jil.go.jp/english/jli/documents/2019/019-05.pdf>.