

## I. Japan's Small and Medium-sized Enterprises

### 1. Small and Medium-sized Enterprises in Japan

When defining the term "small and medium-sized enterprises" (hereinafter referred to as SMEs) in Japan, it is usual to base the definition on the provisions of the Small and Medium-sized Enterprise Basic Act, which sets forth the basic approach to policy on SMEs. The Small and Medium-sized Enterprise Basic Act stipulates that companies with stated capital (or investment) below a certain amount or with a regular workforce below a certain number of employees are SMEs; the definition of what kind of company (or individual working as an employer) constitutes an SME differs according to the business type. Looking at the provisions relating to the regular workforce, the Act states that a company or an individual in the wholesale trade or service industry with no more than 100 persons, a company or an individual in the retail trade with no more than 50 persons, and a company or an individual in manufacturing or other categories of business with no more than 300 persons constitutes an SME.<sup>2</sup>

According to the "Economic Census" conducted by the Ministry of Internal Affairs and Communications, in 2009 the number of enterprises in Japan in industries other than agriculture, forestry and fisheries numbered 2.028 million, 95.1% of which conformed to the aforementioned definition of an SME. Moreover, the number of employees working at SMEs in industries other than agriculture, forestry and fisheries was approximately 48.58 million, accounting for 80.2% of all employees working in industries other than agriculture, forestry and fisheries. Although their relative importance as a share of the number of enterprises and the number of employees is declining compared with the situation at the beginning of the 2000s,<sup>3</sup> there is no change in the fact that the SME sector still accounts for the vast majority of enterprises and employees in Japan.

Turning our attention to wage levels among employees working at SMEs,<sup>4</sup> the average salary paid monthly to regular employees aged between 30 and 34 is ¥305,900 at enterprises with between five and nine employees, and ¥315,500 at enterprises with between 10 and 99 employees. If the average salary paid monthly to male regular employees also aged between 30 and 34 working at enterprises with 1,000

1 The content of this paper is mainly based on the analyses in each chapter of Japan Institute for Labour Policy and Training (ed.) [2012a].

2 The Small and Medium-sized Enterprise Basic Act also stipulates that a company or an individual engaged in commerce (wholesale or retail trade) with no more than 5 persons and a company or an individual in any other category of business with no more than 20 persons constitutes a "small enterprise".

3 According to the "Establishment and Enterprise Census" (the survey that was the forerunner of the "Economic Census") conducted by the Ministry of Internal Affairs and Communications in 2001, the proportion of SMEs among all enterprises in industries other than agriculture, forestry and fisheries was 99.2%, while SMEs accounted for the employment of 88.4% of all employees; thus, both figures were higher than the results for 2009. In particular, with regard to the number of employees, the number of employees overall working in industries other than agriculture, forestry and fisheries has grown (rising from approximately 58.03 million in 2001 to approximately 60.60 million in 2009), while the number of employees in the SME sector has fallen (from approximately 51.28 million to approximately 48.58 million over the same period), representing a considerable decline in relative importance. It is presumed that the factors behind this include the impact of the economic downturn, including the 2008 Lehman Shock, as well as the rise in business closures in the SME sector due to such issues as the aging of employers.

4 The statistics below concerning wages are based on the "Basic Survey on Wage Structure" conducted by the Ministry of Health, Labour and Welfare in 2011.

or more employees is set at 100, the average salary of those working at enterprises with between five and nine employees is 71.5, while that of those working at enterprises with between 10 and 99 employees is 73.8; thus, average salaries are approximately 30% lower in the latter two cases. Moreover, again among regular employees aged between 30 and 34, the average amount of bonuses, etc. paid annually is ¥354,300 among those working at enterprises with between five and nine employees and ¥528,900 among those working at enterprises with between 10 and 99 employees. If these are compared and the average bonus paid at enterprises with 1,000 or more employees is set at 100, the figure for those working at enterprises with between five and nine employees is 24.5, while that for those at enterprises with between 10 and 99 employees is 36.5, so it can be seen that even among those in the same age bracket, the levels at SMEs are only between a quarter and a third of the level at enterprises with 1,000 or more employees.

## 2. The Management of SMEs

What management-related issues do Japanese SMEs currently face and what initiatives are they implementing to deal with these? Let us look at these questions next.

Looking at the matters that SMEs currently feel to be a problem in relation to their business, from the results of a questionnaire-based survey ("Survey of Business Improvement Measures among Small and Medium-sized Enterprises")<sup>5</sup> conducted in 2010 among SMEs by the Shoko Chukin Bank (a government-affiliated financial institution specializing in providing loans to SMEs), the issue

most commonly indicated by enterprises was "dwindling or stagnant demand", which was highlighted by 85.3% of respondents, followed by "falling selling prices" (50.9%) and "intensifying competition with enterprises within Japan" (39.1%).<sup>6</sup> It can be seen that, with demand itself for products and services diminishing due to such factors as the recession and the aging of the population, many SMEs are being compelled to reduce prices in order to increase sales and are facing increasingly intense competition with other companies. In addition, a certain number of companies cited the following as business-related problems: "increasing burden of fixed costs" (17.1%); "changes in the domestic demand structure" (16.5%); "financing" (15.7%); "requests from major clients to reduce production costs" (14.5%); and "deteriorating terms of sales" (13.6%).

While feeling the kind of problems detailed above, the most common answer from respondents (67.7%) concerning the future was that they were "strengthening profit margins based on the premise of the current situation level of sales", while the next most common answer was that they were "awaiting a self-sustaining recovery in domestic markets" (47.8%). It can be seen that many enterprises are managing their business based on the premise that demand will continue to be sluggish, or are waiting for demand to recover, but on the other hand, there are also quite a few companies that are striving to stimulate domestic demand, responding that they were "rethinking marketing techniques in order to cultivate domestic demand" (30.5%) or that they were "engaging in new product development and cultivating the domestic market" (25.5%).

5 This survey was conducted among 9,996 SMEs in receipt of loans from the Shoko Chukin Bank, with responses being received from 4,911 enterprises (a valid response rate of 49.1%) concerning their situations as of January 1, 2010.

6 The fact that demand for the products and services handled by SMEs is diminishing and the downward trend in selling prices also appear in the results of the "Short-Term Economic Survey of Enterprises in Japan" (often referred to as the Tankan survey), which is conducted quarterly by the Bank of Japan, Japan's central bank. The D.I. relating to supply and demand for products and merchandise (the proportion of SMEs responding that they were experiencing "excess demand" minus the proportion of SMEs responding that they were experiencing "excess supply") has consistently been at -30 or lower since the first quarter of 2008. Moreover, the D.I. relating to the prices of products and merchandise (the proportion of SMEs responding that prices had "risen" minus the proportion of SMEs responding that prices had "fallen") dropped sharply from the fourth quarter of 2008, following the Lehman Shock, and has subsequently remained at a level somewhere between -30 and around -20.

## V-1 Management Improvement Measures Due to Be Implemented in Future

Intend to implement over the next year or two	Intend to implement over the next five years
(i) Cultivating new marketing channels (45.7%)	(i) Securing personnel and enhancing education within the company (31.3%)
(ii) Securing personnel and enhancing education within the company (30.7%)	(ii) Cultivating new marketing channels (24.1%)
(iii) Developing new products, commodities or services (30.4%)	(iii) Cultivating new markets (23.5%)
(iv) Cultivating new markets (29.0%)	(iv) Reducing total assets, via asset sales, etc. (21.7%)
(v) Increasing technology development capabilities / production technology capabilities (22.6%)	(v) Expanding into new business areas (20.5%)

Source: Shoko Chukin Bank [2010]

What are the initiatives to which SMEs wish to devote their energies in order to improve their business situation (V-1)? With regard to the measures that respondents stated they wished to implement over the next year or two, almost half of all SMEs that responded cited "cultivating new marketing channels", while the proportion citing "securing personnel and enhancing education within the company", "developing new products, commodities or services", or "cultivating new markets" was approximately 30% in each case. It can be seen that implementing some kind of initiative to expand sales and securing the personnel to support corporate activities amid a harsh business environment are issues that a comparatively large number of SMEs must deal with. Even when they were asked about the measures they intend to implement over the next five years, many respondents highlighted the same initiatives; the largest share was accounted for by enterprises citing "securing personnel and enhancing education within the company", while a larger number cited measures that were not among the top answers in relation to measures that respondents planned to implement over the next year or two, namely "reducing total assets, via asset sales, etc." and "expanding into new business areas" (the proportion of enterprises responding that they planned to implement these measures over the next year or two was 13.4% and 9.7% respectively). It is thought that more enterprises might feel that there is a necessity to secure and cultivate personnel, reform their asset composition, or expand into new business areas, but think of these as medium- to long-term

issues, because it is difficult to embark on such tasks immediately.

## II. Characteristics of Human Resource Development and Skills Development at Small and Medium-sized Enterprises

At SMEs, which have less capital and equipment than large corporations, the state of the skills and know-how of individual employees plays a major role in efforts to adapt to various environmental changes in order to maintain and develop the business. Most proprietors of SMEs are aware of this; accordingly, securing and cultivating personnel and promoting skills development is seen as a major business challenge. However, at the same time, some SMEs are finding that things are not progressing as they would like, due to the recent harsh business environment and financial situation, even though they wish to cultivate personnel or promote skills development.

So what form does the cultivation of employees and their skills development take at SMEs in Japan? The following looks at the situation based on statistics from the Ministry of Health, Labour and Welfare and the results of a questionnaire conducted by the Japan Institute for Labour Policy and Training (hereinafter referred to as "JILPT").

### 1. Comparison with Large Corporations

Firstly, let us look at the the status of human resource development and skills development among SMEs compared with the situation among large

## V-2 Who Determines the Policy on the Skills Development of Employees: The Company or the Worker?

(%)

	Regular employee					Non-regular employee				
	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B
30-49 people	28.7	42.8	17.2	9.4	44.9	23.9	28.9	20.2	19.8	12.8
50-99 people	29.1	44.8	19.3	5.4	49.2	27.0	31.8	21.3	17.4	20.1
100-299 people	33.1	43.7	19.0	4.2	53.6	29.4	33.6	20.3	14.0	28.7
300-999 people	32.2	51.0	12.9	3.9	66.4	30.0	37.7	16.8	13.9	37.0
1000 people or more	35.2	49.4	12.2	3.0	69.4	25.8	30.0	26.1	16.2	13.5

Source: Ministry of Health, Labour and Welfare [2011].

Notes: A - Approach/policy in which "the policy on the skills development of workers is determined by the company itself"

B - Approach/policy in which "the policy on the skills development of workers is determined by the individual worker"

A-B: (definitely A + tend more toward A) - (definitely B + tend more toward B)

corporations, based on the results of the "Basic Survey of Human Resources Development" conducted annually by the Ministry of Health, Labour and Welfare. According to the Company Survey<sup>7</sup> carried out in 2010 as part of this survey, the proportion of enterprises at which the policy on the skills development of regular employees was determined by the company itself (those responding "definitely A" plus those responding "tend more toward A") was 71.5% among companies with a regular workforce [s1][MF2]of between 30 and 49 people and 73.9% among those with a regular workforce of between 50 and 99 people. Thus, even among small-scale enterprises, those at which the company itself takes the initiative in skills development account for the majority. However, if the differences between these shares and the proportion responding that "the policy on the skills development of workers is determined by the individual worker" are tallied by the scale of the enterprise, the tendency toward companies taking the initiative in promoting skills development is weak among SMEs in comparison with that among large corporations with 300 or more staff. This tendency can also be seen among attitudes to employees other than regular employees (although enterprises with 1,000 or more employees in their regular workforce

depart from the trend and adopt a weaker approach of taking the initiative in skills development) (V-2).

What views do SMEs have concerning the focus of education and training? According to V-3, enterprises adopting the approach of "emphasizing education and training that increases the skill level of the workers in general" account for more than half of all respondents among all sizes of enterprise (in terms of the number of employees). However, looking at the differences between these shares and the proportion responding that they focus on "emphasizing education and training that increases the skill level of selected workers", whereas the difference is 17.9 percentage points among enterprises with between 300 and 999 employees and 39.0 percentage points among enterprises with 1,000 or more employees, it is less than 10 percentage points among enterprises with no more than 299 employees. In other words, it can be seen that there is a stronger tendency to narrow down the focus of education and training among SMEs than among large corporations. In the same way, in regard to education and training for staff other than regular employees, the proportion of enterprises with 299 or fewer employees which responded that their approach involves "emphasizing education and training that increases the skill level of the workers in general" was lower than that among enterprises with at least

7 Each year, the Ministry of Health, Labour and Welfare conducts three types of survey as part of the Basic Survey of Human Resources Development: a Company Survey, a Business Establishment Survey, and an Individual Survey.

### V-3 Focus of Education and Training: Employees in General or Selected Employees?

(%)

	Regular employee					Non-regular employee				
	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B
30-49 people	21.0	29.9	34.8	12.4	3.7	18.8	29.5	28.3	16.0	4.0
50-99 people	18.6	32.9	37.5	9.1	4.9	16.2	27.5	34.4	18.5	-9.2
100-299 people	19.0	34.3	35.2	11.2	6.9	16.6	31.6	30.6	18.3	-0.7
300-999 people	18.3	40.7	33.6	7.5	17.9	18.2	35.9	29.3	14.8	10.0
1000 people or more	23.1	46.3	26.6	3.8	39.0	22.3	38.6	24.9	11.6	24.4

Note: A - Approach/policy focused on "emphasizing education and training that increases the skill level of the workers in general"  
 B - Approach/policy focused on "emphasizing education and training that increases the skill level of selected workers"  
 A-B: (definitely A + tend more toward A) - (definitely B + tend more toward B)

300 employees, while the proportion of enterprises responding that their focus is on "emphasizing education and training that increases the skill level of selected workers" was higher among enterprises with between 50 and 99 employees and those with between 100 and 299 employees.

Enterprises that have emphasized on-the-job training (hereinafter referred to as OJT; off-the-job training is referred to as Off-JT) in undertaking education and training - or which tend more toward that approach - account for 69.3% of enterprises with a regular workforce of between 30 and 49 people, and 74.6% of enterprises with between 50 and 99 people. However, the results show that around 80% of enterprises with at least 300 employees emphasize OJT, demonstrating that the tendency to emphasize OJT is slightly weaker among SMEs than among large corporations. Moreover, with regard to the ways in which education and training are undertaken for

staff other than regular employees, around 70% of enterprises emphasize OJT, but as seen in the ways in which education and training are undertaken for regular employees, the tendency to emphasize OJT is somewhat weaker among SMEs than among large corporations (V-4).

In relation to ways of undertaking education and training, if we turn our attention to the status of investment in education and training methods other than OJT, namely Off-JT and self-development support,<sup>8</sup> the average expenditure per member of the regular workforce at the enterprise spending this money does not differ greatly according to the scale of the enterprise, both in the case of Off-JT and self-development support, and no tendency can be seen for expenditure to decrease because the enterprise is smaller (in fact, in the case of self-development support, the average expenditure per employee is higher among smaller enterprises). However, the

### V-4 Direction of Employee Skills Development: Emphasis on OJT or Off-JT?

(%)

	Regular employee					Non-regular employee				
	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B	Definitely A	Tend more toward A	Tend more toward B	Definitely B	A - B
30-49 people	26.6	42.7	18.7	9.1	41.5	30.2	38.7	11.9	11.2	45.8
50-99 people	21.1	53.5	17.7	5.6	51.3	31.9	45.8	11.3	7.7	58.7
100-299 people	23.1	49.9	18.9	7.4	46.7	33.1	44.4	11.1	8.0	58.4
300-999 people	20.9	58.5	16.1	4.3	59.0	38.1	46.8	9.0	4.3	71.6
1000 people or more	19.7	60.2	16.8	2.3	60.8	39.8	43.6	12.1	2.1	69.2

Source: Ministry of Health, Labour and Welfare [2011]

Note: A - Approach/policy focused on "emphasizing OJT in education and training"  
 B - Approach/policy focused on "emphasizing Off-JT in education and training"  
 A-B: (definitely A + tend more toward A) - (definitely B + tend more toward B)

proportion of enterprises engaging in such expenditure differs considerably according to their scale. In the case of Off-JT, whereas more than 80% of enterprises with at least 300 employees had expenditure in this area, only half of enterprises with

between 50 and 99 staff and around 40% of those with between 30 and 49 staff invested in such training. In addition, in terms of the proportion of enterprises implementing expenditure on self-development support, there is a considerable gap

## V-5 Status of Expenditure on Off-JT and Support for Self-development and Average Expenditure per Member of the Regular Workforce

	Off-JT			Self-development support		
	Was there expenditure? (%)		Average expenditure per member of the regular workforce at the enterprise spending the money (10,000 yen)	Was there expenditure? (%)		Average expenditure per member of the regular workforce at the enterprise spending the money (10,000 yen)
	Yes	No		Yes	No	
30-49 people	39.5	60.1	1.5	18.8	80.6	0.6
50-99 people	50.0	50.0	1.4	26.2	73.3	0.5
100-299 people	66.4	33.4	1.1	32.9	66.9	0.4
300-999 people	81.3	18.7	1.2	56.4	43.6	0.3
1000 people or more	85.4	14.6	1.9	68.7	30.8	0.2

Source: Ministry of Health, Labour and Welfare [2011]

## V-6 Breakdown of Costs Associated with Off-JT (Mean Values Accounted for by Each Cost Item in the Breakdown)

	In-house personnel costs	External personnel costs	In-house facilities and equipment fees and management costs	Fees for the use of external facilities	Fees for teaching materials	Training outsourcing costs and participation fees	Other
30-49 people	13.1	15.5	2.1	4.3	7.8	54.0	3.2
50-99 people	14.5	19.2	1.9	4.0	7.5	49.1	3.8
100-299 people	13.4	16.8	3.1	6.0	7.3	47.8	2.2
300-499 people	14.7	17.4	2.6	6.4	7.7	41.6	3.5
500-999 people	13.7	20.5	2.5	10.2	7.4	41.5	4.1
1000-4999 people	22.5	23.7	6.2	8.0	8.4	23.6	7.6
5000 people or more	18.9	20.5	13.8	9.6	6.4	21.9	9.0

Source: Ministry of Health, Labour and Welfare [2006]

Notes: "In-house personnel costs" – Salaries and allowances for staff at in-house training facilities and the education and training division  
 "External personnel costs" – Honorariums paid to external lecturers and instructors when conducting training within the enterprise  
 "In-house facilities and equipment fees and management costs" – Depreciation costs of in-house training facilities and buildings used by the education and training division, utility costs, rent, etc.  
 "Fees for the use of external facilities" – Rental charges for external facilities and equipment used for training conducted within the enterprise, management/usage fees for joint facilities, etc.  
 "Fees for teaching materials" – Fees for teaching materials used in education and training, fees for the development of teaching materials, etc.  
 "Training outsourcing costs and participation fees" – Fees incurred for outsourcing all education and training to an external organization, fees for participation in external seminars, fees for domestic study-exchange or overseas study, etc.

8 In the "Basic Survey of Human Resources Development", "Off-JT" is defined as "Work orders requiring employees to attend education and training, which involves temporary departure from normal work", while "self-development support" is defined as "activities carried out by a worker towards the continuance of his or her career, by autonomously developing and improving abilities related to work".

between them according to their scale and, as in the case of expenditure on Off-JT, the proportion of enterprises investing in such support is lower among SMEs (V-5).

The 2006 "Basic Survey of Human Resources Development" asked enterprises with expenditure on Off-JT to provide a breakdown of these costs. The response results are summarized in Figure 6. According to this, among enterprises with a small number of employees in their regular workforce, only a small share of expenditure was accounted for by "in-house facilities and equipment fees and management costs", such as depreciation costs of in-house training facilities and buildings used by the education and training division, and utility costs, and "fees for the use of external facilities", such as facility rental charges and the management or usage fees for joint facilities, while the share accounted for by "training outsourcing costs and participation fees" was high. Whereas the average share accounted for by "training outsourcing costs and participation fees" was 23.6% among enterprises with a regular workforce of between 1,000 and 4,999 people, and 21.9% among those with at least 5,000 staff, it was 49.1% among enterprises with between 50 and 99 people and 54.0% among those with between 30 and 49 people. From this, it can be seen that the main opportunities for Off-JT at SMEs are education and training

opportunities conducted by bodies outside the enterprise.

## 2. Relationship to Employment

In 2009, JILPT conducted a questionnaire-based survey of enterprises and employees in the small and medium-sized service industry,<sup>9</sup> while in 2010 it conducted a similar survey of enterprises and employees in the small and medium-sized manufacturing industry.<sup>10</sup> Next, let us clarify the situations in which human resource development and skills development actually take place, by analyzing the questionnaire results. Below, the questionnaire focused on the small and medium-sized service industry is referred to as the "JILPT Small and Medium-sized Service Industry Survey (companies or employees)", while that focused on the small and medium-sized manufacturing industry is referred to as the "JILPT Small and Medium-sized Manufacturing Industry Survey (companies or employees)".

In considering the objectives of human resource development and skills development carried out by SMEs, one should firstly focus on its relationship with trends in recruitment and employment, which ? like human resource development and skills development ? are ways for enterprises to secure personnel. The JILPT survey divides the recruitment and employment of regular employees over the three

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9 This questionnaire-based survey was conducted among enterprises with head offices in prefectural capitals in the Kanto region in eight service industry sectors ((i) building services sector; (ii) cram schools; (iii) beauty sector; (iv) information services sector; (v) funerals sector; (vi) motor vehicle maintenance sector; (vii) senior citizens' welfare services sector; and (viii) civil engineering and construction services sector), and among two of the employees working at each enterprise. The survey was conducted between January 16 and March 6, 2009; the company questionnaires were distributed to 3,482 enterprises and 897 responses were received (a valid response rate of 25.8%). Moreover, 1,317 responses to the questionnaire for employees were received (taking the number of companies to which questionnaires were distributed  $\times$  2 = 6,964 as the number of questionnaires for employees distributed, this gives a valid response rate of 18.9%). As well as Japan Institute for Labour Policy and Training (ed.) [2012a], which has already been referred to, id. [2010a] also provides a summary of an analysis based on this survey. Moreover, for details of the selection of survey subjects and the content of the survey, as well as the results, see id. [2010b]. In addition, the totals shown hereinafter for the company survey refer to the 719 companies classified as SMEs in the service industry.

10 This questionnaire-based survey was conducted among enterprises in the machinery and metals-related sectors of manufacturing industry, which have between five and 299 employees and have a head office located in either Tokyo, Osaka, Aichi, Fukushima, Nagano, Hiroshima or Fukuoka; in addition, questionnaires were distributed to two employees working at each of those enterprises. The survey was conducted between February 12 and March 19, 2010; the company questionnaires were distributed to 3,282 enterprises and 842 responses were received (a valid response rate of 25.7%), while the 903 responses were received to the questionnaire for employees (taking the number of companies to which questionnaires were distributed  $\times$  2 = 6,564 as the number of questionnaires for employees distributed, this gives a valid response rate of 13.8%). As well as Japan Institute for Labour Policy and Training (ed.) [2012a], which has already been referred to, id. [2011] also provides a summary of an analysis based on this survey. Moreover, for details of the selection of survey subjects and the content of the survey, as well as the results, see id. [2012c].

years up to the survey date into employment of new graduates (new graduate employment) and employment of experienced workers (mid-career employment) (V-7). Looking at new graduate employment, 48.1% of enterprises in the small and medium-sized service industry carried out recruitment, of which 25.0% were "able to employ the planned headcount of new staff", while 12.7% "employed staff but were unable to fill the planned headcount of new staff" and 10.4% were "unable to employ any staff". Moreover, 46.5% ? almost half ? of the enterprises did not conduct any recruitment activities focused on new graduate employment. On the other hand, in the small and medium-sized manufacturing industry, the proportion of companies engaging in recruitment was 33.3%, which was even lower than in the small and medium-sized service industry. However, of those that did engage in recruitment, three-quarters were able to employ the planned headcount of new staff; given that the proportion responding in this way in the small and medium-sized service industry was approximately 60%, it can be said that there is a tendency for post-recruitment matching to go more smoothly in the small and medium-sized manufacturing industry.

When the situation relating to mid-career employment was examined in the same way, the proportion of enterprises in the small and medium-sized service industry that conducted recruitment was

59.8%, while 32.5% of enterprises did not conduct recruitment and 35.3% of enterprises were able to employ the planned headcount of new staff; the figures in the small and medium-sized manufacturing industry were 47.8%, 36.1% and 38.4%, respectively. In both the small and medium-sized service industry and the small and medium-sized manufacturing industry, the proportions of enterprises conducting recruitment were higher than in the case of new graduate employment. Moreover, comparing the small and medium-sized service industry and the small and medium-sized manufacturing industry, although the recruitment implementation rate was lower among the latter, there was no difference from new graduate employment in terms of the fact that enterprises that were able to employ the planned headcount of new staff accounted for a greater share of enterprises conducting recruitment among the latter than among the former.

Next, V-8 shows the relationship between whether or not new graduate or mid-career employment took place and the implementation status of various workplace initiatives focused on the cultivation of staff or the development of their skills. The figures indicate the proportion of companies that are proactively implementing such initiatives.

Looking at the differences in the small and medium-sized service industry in terms of whether or not new graduate employment took place, the

### V-7 Status of the Recruitment and Employment of Regular Employees at SMEs (over the 3 Years to the Survey Date)

(%)

	Category	Recruited			Did not recruit	No response
		Able to recruit & employ		Unable to employ any staff		
		Able to employ the planned headcount of new staff	Employed staff but were unable to fill the planned headcount of new staff			
Small and medium-sized service industry (719 companies)	New graduate employment	25.0	12.7	10.4	46.5	5.4
	Mid-career employment	35.3	17.1	7.4	32.5	7.6
Small and medium-sized manufacturing industry (833 companies)	New graduate employment	25.2	4.6	3.5	54.1	12.6
	Mid-career employment	38.4	6.0	3.4	36.1	16.1

proportion of enterprises that employed such staff is higher than the proportion of enterprises that did not hire such staff in the case of all five initiatives listed in the table. Of these, the difference in share in regard to those proactively implementing initiatives was 14-17 percentage points in the case of those responding that they "have decided on an instructor and are cultivating staff and conducting skills development in accordance with a plan", "use work standards and manuals to cultivate staff and conduct skills development", or that "staff organize study groups and presentations of proposals", and there is a particularly large gap in the level of initiatives according to whether or not the enterprise concerned has employed new staff. Given that these initiatives involve considerably more effort on the part of the company than having employees build up experience during the course of their normal duties, as they require planning and the securing of time and a venue, the degree to which an enterprise is proactive in these initiatives clearly indicates its attitude to human resource development and skills development. A similar tendency can be seen in the relationship between whether or not mid-career employment takes place and the implementation status of the various initiatives, but the difference between the shares according to whether or not employment has taken place is smaller than in the case of new graduate

employment. Looking at the results of the survey of small and medium-sized manufacturing industry as well, the proportion of responses stating that various workplace initiatives were being proactively undertaken was higher among enterprises that had engaged in new graduate or mid-career employment. Moreover, in addition to the initiatives regarding which differences could be seen according to whether or not employment had taken place in the small and medium-sized service industry, there were also differences according to whether or not employment had taken place in the case of enterprises responding that they "give staff experience of progressing from simple tasks to harder work" and "give staff experience of related duties on a rotating basis".

In regard to Off-JT and self-development support initiatives as well, just as in the case of workplace initiatives, the shares of all initiatives being implemented were higher among enterprises that were conducting new graduate or mid-career employment of regular employees. In the case of enterprises in the small and medium-sized service industry, differences in the tendency toward implementation can be seen in the case of enterprises responding that they "secure a budget each year" and "ensure that plans are formulated" for Off-JT, in particular. For example, the proportion of enterprises that are employing new graduates as regular employees that "secure a budget

## V-8 Status of Employment of Regular Employees over the Past Three Years and Human Resource Development and Skills Development Initiatives in the Workplace

(%)

	Small and medium-sized service industry				Small and medium-sized manufacturing industry			
	New graduate employment		Mid-career employment		New graduate employment		Mid-career employment	
	Carried out	Did not carry out	Carried out	Did not carry out	Carried out	Did not carry out	Carried out	Did not carry out
Have decided on an instructor and are cultivating staff and conducting skills development in accordance with a plan	53.5	38.6	45.6	42.9	49.6	32.5	47.0	30.4
Use work standards and manuals to cultivate staff and conduct skills development	42.4	28.4	38.2	28.6	44.0	30.6	40.5	29.5
Give staff experience of progressing from simple tasks to harder work	79.3	66.5	75.1	66.9	72.6	61.5	71.1	58.4
Give staff experience of related duties on a rotating basis	49.4	41.8	44.6	43.9	45.6	34.8	41.6	34.3
Staff organize study groups and presentations of proposals	48.3	31.3	43.8	32.1	36.3	18.5	29.7	17.3

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies)

each year" or "ensure that plans are formulated" is 20.6% and 19.1% respectively, figures that are 3.1 times and 2.6 times higher, respectively, than the share of companies not engaging in new graduate employment that implement such initiatives (6.7% and 7.3%). The proportion of small and medium-sized manufacturing industry enterprises implementing each initiative is actually lower than that among enterprises in the small and medium-sized service industry, but the differences in the tendency toward implementation according to whether or not employment has taken place are more clear-cut than in the case of small and medium-sized service industry. Looking at differences according to whether or not new graduate employment has taken place, the share responding that they "secure a budget each year" is 5.6 times higher among enterprises that have been employing new staff (10.7%) than among those that have not (1.9%), while the share responding that they "ensure that plans are formulated" is 3.3 times higher among enterprises that have been employing

new staff (14.2%) than among those that have not (4.3%).

The results of the analysis shown above demonstrate that enterprises that are actually employing new staff are more proactive in regard to cultivating staff and promoting their skills development; it might be that this relationship comes about due to employment being the trigger that makes enterprises start cultivating staff and promoting their skills development, or it might be that the results demonstrate that enterprises that have more advanced staff cultivation and skills development initiatives have gone on to employ more new staff. Either way, what is important is that employment does not completely satisfy personnel needs at SMEs; rather, it is vital to strengthen links between recruitment and employment, on the one hand, and staff cultivation and skills development, on the other.

## V-9 Personnel regarding Whom Particular Efforts Are Made in Relation to Cultivation and Skills Development

(%)

	n	Proprietor him/herself	Personnel who can handle the management of the company as a whole at a senior or mid- ranking level	Personnel who can play a leadership or supervisory role	Personnel who can expand sales or cultivate customers	Personnel in charge of administrative work
[Manufacturing industry (machinery / metals)]						
Mainly technicians	643	32.7	29.4	53.8	14.6	10.9
Mainly engineers	154	34.4	27.3	34.4	13.6	9.1
[Service industry]						
Cram school	35	40.4	46.8	66.0	27.7	21.3
Building services	92	20.1	32.8	69.4	30.6	19.4
Motor vehicle maintenance	154	45.9	37.2	52.7	29.7	15.5
Information services	117	27.8	39.8	63.2	24.1	15.8
Funerals	51	51.0	40.8	49.0	32.7	14.3
Civil engineering and construction services	157	31.3	39.4	65.0	24.4	10.6
Beauty	61	61.7	45.0	75.0	26.7	18.3
Senior citizens' welfare	52	36.7	49.0	79.6	16.3	22.4

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies)

Note: Among enterprises in the manufacturing industry, those classed as employing "mainly technicians" are those at which technicians directly involved in the manufacture of goods constitute the majority of employees involved in the manufacture of goods, while those classed as employing "mainly engineers" are those at which engineers involved in design and development constitute the majority of employees involved in the manufacture of goods.

### 3. Human Resource Development and Skills Development Aimed at Securing Workplace Leaders and Supervisors

V-9 summarizes the results of the responses given in the questionnaire by each enterprise concerning the personnel in regard to whom they are making particular efforts in relation to cultivation and skills development. Excluding the funerals sector, the highest proportion among seven of the eight service industry sectors surveyed was accounted for by those responding "personnel who can play a leadership or supervisory role". Moreover, in manufacturing industry (machinery and metals) as well, the highest response rate was seen among those responding "personnel who can play a leadership or supervisory role", accounting for more than half of all responses if one looks only at enterprises consisting mainly of technicians directly involved in the manufacture of goods.

So why are many SMEs devoting their energies to securing and cultivating workplace leaders and supervisors? This becomes clear if one looks at the issue in conjunction with the approach to the production/provision of goods/services at each enterprise included in the figures, as well as the things that each enterprise acknowledges as its competitive advantage in relation to other companies. Among enterprises in the senior citizens' welfare, building services (building maintenance, etc.) and information services sectors, in which a particularly large proportion of enterprises is devoting their energies to cultivating and developing the skills of workplace leaders and supervisors, and among manufacturers consisting mainly of technicians directly involved in the product manufacturing process, it is usual to produce/provide goods or services through a group of employees of a certain size carrying out their duties at a specific facility or within a particular region. In such forms of the production/provision of goods/ services, the factor that has the greatest influence on the quality of goods/services and the efficiency of production/provision is the stratum of leaders or supervisors who manage the sites where the service is provided. Consequently, the needs of enterprises that want to

secure and cultivate such personnel stem directly from their desire to maintain and strengthen the "quality of goods/services", which many SMEs perceive as the source of their advantage in competition with other companies.

Another factor can likely be found in the characteristics of the composition of employees. For example, enterprises in the building services and cram school sectors stand out from other enterprises in that the bulk of their employees are non-regular employees. There are many who do not work full-time, and where an enterprise seeks to provide a service to customers using a group of employees consisting primarily of non-regular employees, who have a greater likelihood of leaving their jobs than regular employees, it becomes even more important to secure leaders and supervisors who can deal appropriately with customers and conduct appropriate employment management in the field, based on the business situation of the enterprise and customer needs.

Enterprises that are devoting their energies to cultivating those in middle management, in the form of workplace leaders and supervisors, are more proactive in cultivating employees and promoting their skills development. V-10 compares the situation relating to initiatives aimed at cultivating employees and promoting their skills development at enterprises that are devoting their energies to nurturing workplace leaders and supervisors and at those that are not. It can be seen that there are clear differences between the two groups in both the manufacturing industry and the service industry in relation to the proportion implementing (or proactively working on) each of the initiatives. Of these, with regard to the cultivation and skills development initiatives that involve workers being away from the workplace, namely "staff organize study groups and presentations of proposals", "gathering information relating to teaching materials and training, etc.", "dispatch employees for training conducted by an external organization" and "self-development support", among manufacturers, there is a considerable gap between the two groups in terms of the level of initiative, with around three times as many companies devoting their energies to cultivating such personnel implementing these initiatives than

## V-10 Initiatives Aimed at the Cultivation and Skills Development of Employees: Differences According to Attitude toward the Cultivation of Workplace Leaders and Supervisors

(%)

		n	Have decided on an instructor and are cultivating staff systematically	Use work standards and manuals	Staff organize study groups and presentations of proposals	Gathering in formation relating to teaching materials and training, etc.	Dispatch employees for training conducted by an external organization	Self-development support
Manufacturing industry (machinery / metals)	Devoting energies	409	50.4	47.9	35.5	24.0	37.2	36.2
	Not devoting energies	433	27.5	23.1	13.2	8.8	11.8	12.5
Service industry	Devoting energies	402	54.0	41.0	46.8	29.9	42.3	43.5
	Not devoting energies	317	32.8	25.2	26.8	16.7	24.3	28.7

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies)

Note: This shows the proportion of enterprises that responded that they are "actively implementing" initiatives in relation to the statements that they "have decided on an instructor and are cultivating staff systematically", "use work standards and manuals", and that "staff organize study groups and presentations of proposals", and the proportion that responded that they are "implementing" the other initiatives listed.

those not making particular efforts in regard to such staff. Looking at the situation in this way, it can be seen that one of the other triggers for actions relating to human resource development and skills development at SMEs is the securing of workplace leaders and supervisors who play an important role in business activities at an enterprise (it can be said that they are figures who manage the actual manufacturing or service provision site on behalf of the proprietor).

### 4. The Positioning of Vocational Qualifications and Human Resource Development and Skills Development

Along with recruitment and employment activities and attitudes to the cultivation of workplace leaders and supervisors, the positioning of vocational qualifications within the enterprise are another factor believed to be strongly related to human resource development and skills development initiatives at SMEs.

V-11 shows the average number of staff cultivation and skills development initiatives being actively implemented in the workplace, and the differences in the average number of initiatives relating to Off-JT and self-development support currently being implemented, according to the positioning of qualifications by an enterprise. Here, both enterprises that have qualifications that they encourage staff to acquire before reaching a certain rank within the

company and those that have qualifications that they encourage staff to acquire for the purpose of self-development are classed as enterprises that have "qualifications that staff are encouraged to acquire for the purpose of skills development or career development within the company".

Looking at enterprises in the small and medium-sized manufacturing industry, the average number of education and training initiatives being actively undertaken in the workplace and the average number of Off-JT and self-development support initiatives is much higher among enterprises that have qualifications that they order staff to acquire or have qualifications that they encourage staff to acquire for the purpose of skills development or career development within the company, than among those that do not have such qualifications. Similarly to the situation in the manufacturing industry, the level of workplace education and training initiatives proactively undertaken by enterprises in the small and medium-sized service industry and the level of Off-JT and self-development support initiatives implemented in these service sectors differs according to whether or not the enterprise has qualifications that it orders or encourages staff to acquire for the purpose of skills development or career development within the company, with all of these initiatives being commonly implemented at companies with such qualifications.

From the results above, it can be said that the

## V-11 The Positioning within the Company of Vocational Qualifications and Education and Training Initiatives

	Small and medium-sized manufacturing industry		Small and medium-sized service industry	
	Number of workplace initiatives being actively implemented (average)	Number of Off-JT and self-development support initiatives being implemented (average)	Number of workplace initiatives being actively implemented (average)	Number of Off-JT and self-development support initiatives being implemented (average)
[Existence of qualifications that staff are ordered to acquire]				
Have qualifications that staff are ordered to acquire	2.66	1.35	2.78	2.25
Do not have qualifications that staff are ordered to acquire	1.90	0.71	2.35	1.24
[Existence of qualifications that staff are encouraged to acquire for the purpose of skills development or career development within the company]				
Have qualifications that staff are encouraged to acquire for the purpose of skills development or career development within the company	2.77	1.55	2.73	1.83
Do not have qualifications that staff are encouraged to acquire for the purpose of skills development or career development within the company	1.88	0.68	2.22	1.09

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies).

Notes:

- Enterprises that have "qualifications that staff are encouraged to acquire for the purpose of skills development or career development within the company" indicates enterprises that have at least one of the following: "qualifications that they encourage staff to acquire before reaching a certain rank within the company" or "qualifications that they encourage staff to acquire for the purpose of self-development".
- "Number of workplace initiatives being actively implemented" indicates the number of initiatives that the enterprise is proactively undertaking (i.e. responded that it is "actively implementing" or "actively implementing to some degree") from among the following five initiatives: "have decided on an instructor and are cultivating staff and conducting skills development in accordance with a plan", "use work standards and manuals to cultivate staff and conduct skills development", "scrutinize their work and give staff experience of progressing from simple tasks to harder work", "give staff experience of related duties on a rotating basis, in addition to their main duties", and "staff organize study groups and presentations of proposals".
- The "number of Off-JT and self-development support initiatives being implemented" indicates how many of the following six initiatives the enterprise is undertaking: "secure a budget for Off-JT each year", "determine who will be in charge of planning Off-JT", "prepare teaching materials, machinery and equipment for Off-JT", "gathering information relating to teaching materials and training, etc.", "dispatch employees to training programs undertaken by an external organization", and self-development support.

positioning of qualifications as some form of criterion for skills development and career development has the potential to lead to more proactive initiatives focused on the cultivation of staff and skills development. It is presumed that, as a result of enterprises requiring employees to acquire qualifications ? that is to say, by having qualifications that are required in order for employees to accomplish their duties ? systems focused on implementing effective workplace education and training initiatives, Off-JT and self-development are developed and maintained, with a view to the acquisition of those qualifications.

Incidentally, with regard to the handling from a personnel management perspective of vocational qualifications that SMEs require their employees to acquire, judging from the results of the JILPT Small and Medium-sized Service Industry Survey and the JILPT Small and Medium-sized Manufacturing

Industry Survey, firstly, even in the case of qualifications that employees are required to acquire, handling within the company differs considerably between industries. In manufacturing industry, perhaps because many of the qualifications employees are required to acquire are essential to production activities, the acquisition of required qualifications by employees is not often reflected in their treatment. On the other hand, in the service industry, if employees are encouraged to acquire qualifications as part of their personal development and they go on to acquire them, it is generally reflected in their treatment. Secondly, in manufacturing industry, there is little tendency to employ personnel who already have a relevant qualification. Even in the service industry, there is not a very strong preference among enterprises to employ staff who hold qualifications, in the case of most qualifications, but there is a stronger

preference in favor of qualified staff in the case of qualifications that enterprises often require staff to acquire in the senior citizens' welfare or building services sectors. Thirdly, the most common initiative focused on supporting the acquisition of qualifications in most cases is financial support, regardless of whether the enterprise concerned is in the manufacturing industry or the service industry. However, the approach to support differs from other qualifications in the case of qualifications that enterprises often require staff to acquire in the senior citizens' welfare sector; in this sector, support measures generally take the form of making accommodations in terms of time to enable staff to take examinations or attend lectures.<sup>11</sup>

### III. Various Mechanisms for Stimulating Human Resource Development and Skills Development

Chapter II looked at which particular aspects of human resource development and skills development are perceived as being an issue among the usual business activities of SMEs, and how these translate into actual initiatives.<sup>12</sup> Although based on an analysis of the same questionnaire-based surveys as were used in Chapter II, this chapter has a different perspective and examines what kind of initiatives lead to further stimulation of human resource development and skills development at SMEs.

#### 1. The Development of Systems for Dealing with Human Resource Development and Skills Development Throughout the Company as a Whole

In the "Survey Concerning the Cultivation and

Skills Development of Young Employees" conducted by JILPT in 2010, enterprises in machinery and metals-related sectors and in the wholesale, retail and service sectors were asked about the status of their securing and cultivation of young (aged under 35) staff. Looking at the results tallied from the responses provided by SMEs (2,970 companies with no more than 300 employees, in the case of the machinery and metals-related sectors, and 2,198 companies with no more than 100 employees, in the case of the wholesale, retail and service sectors), approximately 30% of enterprises in both the machinery and metals-related sectors and the wholesale, retail and service sectors believe that the cultivation and skills development of young staff is not going well at present. When enterprises that responded that the cultivation and skills development of young regular employees were asked about the reasons for this, a larger proportion picked out the following responses in preference to the other options: (i) lack of mid-ranking employees to take charge of cultivating them; (ii) lack of know-how in conducting education and training effectively; (iii) lack of motivation among young regular employees to acquire new skills and knowledge; and (iv) few young regular employees newly assigned to the workplace. Accordingly, it can be seen that, in addition to an insufficient number of young regular employees and insufficient motivation on the part of those who are employed, SMEs that feel they have issues with the cultivation and skills development of young regular employees also face the problem that the organization as a whole lacks a system for undertaking such cultivation and skills development.

The fact that the lack of a system at the organizational level is a bottleneck hindering the

11 For further details of the analysis of the handling of vocational qualifications in terms of personnel management, see Fujimoto [2012].

12 In II, (i) the employment of new staff, (ii) the securing of leaders and supervisors, and (iii) requiring vocational qualifications to carry out duties were deemed to be aspects leading to initiatives focused on human resource development and skills development at SMEs, but a further aspect thought to be an important trigger is (iv) the proprietor's own awareness of the necessity of self-improvement. This is because there are many cases at SMEs where the proprietor is not only the top decision-maker, but also the most important salesperson, and the content of their own activities has a decisive influence over the business situation of the enterprise. However, the two questionnaire-based surveys conducted by JILPT among SMEs did not ask about the proprietor's own awareness and activities concerning self-improvement, so it is not possible to present data to back this up; accordingly, trigger (iv) was not referred to in this paper.

cultivation and skills development of young employees at SMEs can also be seen from the status of the implementation of specific initiatives aimed at cultivation and skills development. As well as the evaluation of the cultivation and skills development of young regular employees at their own company, V-12 tallies the implementation rate of each initiative. Looking at initiatives aimed at young regular employees at enterprises in the machinery and metals-related sectors, in terms of the implementation rate of initiatives, there is not a particularly pronounced difference between enterprises at which cultivation and skills development were going well and those at which they were not, but the implementation rate for the response "OJT in accordance with a plan, having selected an instructor" was more than ten percentage points higher at enterprises responding that cultivation, etc. was going well. Furthermore, turning one's

attention to initiatives relating to the cultivation and skills development of managers and supervisors, the proportion of enterprises responding that they were not conducting such initiatives was more than ten percentage points higher among enterprises at which cultivation and skills development were not going well than among those at which they were, both in the machinery and metals-related sectors and in the wholesale, retail and service sectors.

## 2. The "Visualization" of Employee Skills

The results of the analysis cited in 1. above suggest that the situation in relation to human resource development and skills development changes as a result of an enterprise developing a system that approaches human resource development and skills development from the perspective of the company as a whole, such as initiatives to increase

### V-12 Initiatives by Enterprises According to Evaluation of the Cultivation and Skills Development of Young Regular Employees

(%)

	Machinery & metal-related		Wholesale, retail and services	
	Going well	Not going well	Going well	Not going well
[Measures aimed at young regular employees]				
OJT in accordance with a plan, having selected an instructor	51.6	39.0	38.0	32.6
Scrutinize their work and give staff experience of progressing from simple tasks to harder work	56.4	58.6	53.8	51.2
Give staff experience of related duties on a rotating basis, in addition to their main duties	40.3	32.6	34.3	28.7
Make staff take up the challenge of new duties	15.1	11.8	15.4	11.0
Use work standards and procedure manuals to cultivate staff and conduct skills development	53.6	48.0	22.5	18.9
Encourage improvements and proposals in the workplace	45.5	40.3	22.5	24.8
Workplace activities such as small-group activities and QC Circles	25.7	21.2	—	—
Off-JT, such as training (education and training conducted outside the workplace)	35.4	34.2	29.6	21.3
Support for self-development activities	28.3	27.1	26.7	22.5
[Initiatives aimed at managers and supervisors]				
Distribution to managers and supervisors of manuals concerning the education of their subordinates	7.7	4.9	10.0	5.6
Training concerning the education and management of subordinates	28.0	20.0	26.2	16.8
Have managers and supervisors formulate plans for cultivating their subordinates	36.2	26.8	20.3	14.0
Include items concerning the education of subordinates as items in the appraisals of managers and supervisors	20.0	18.1	20.1	17.0
Other	1.5	1.6	1.3	2.0
No particular initiatives aimed at managers or supervisors	33.5	46.4	43.1	54.5

Source: Japan Institute for Labour Policy and Training [2010] "Survey Concerning the Cultivation and Skills Development of Young Employees"

the awareness of interested parties at the manager and supervisor level, thereby leading to positive outcomes.

"Visualization" initiatives can be cited as another type of initiative within companies that leads to the stimulation of human resource development and skills development. "Visualization" initiatives reveal the skills required of employees in a form linked to the business activities of a company. For example, at Company A, which has approximately 70 employees and manufactures components for cars and trucks, an evaluation table similar to that shown in V-13 is compiled in regard to basic tasks for staff in their first year after joining the company. The row at the top shows the task items subject to evaluation (press operation, die attachment, etc.), while the names of the employees subject to evaluation are written in the column on the left. Company A uses four task evaluation levels ("Pass" ? "Task can be entrusted but there are times when guidance is required" ? "In training" ? "Cannot do"), with a symbol indicating the relevant level being written in each box (◎, ○, △, and ×, respectively) to clarify the current level of each employee in relation to each and every task item. The evaluation table and evaluation results are disclosed to all employees, with each employee being shown the know-how and skills required to carry out their duties, the current state of their skills development and the targets to be achieved.

Looking at the degree to which the abilities required in their jobs are disclosed to core employees at each of the enterprises that responded to the JILPT Small and Medium-sized Service Industry Survey and the JILPT Small and Medium-sized

Manufacturing Industry Survey, in each sector of the service industry, 60-80% of respondents replied that they are made "very clear" or "quite clear", with a particularly large proportion of enterprises in the beauty and civil engineering and construction services sectors indicating that they were confident that they had clearly disclosed these matters. On the other hand, "very clear" (15.8%) and "quite clear" (35.3%) combined accounted for more than half of all responses in the manufacturing industry, with the remainder accounted for by "cannot say either way" (27.3%) and "not clear ("not very clear" (10.0%) and "not clear" (9.1%))" (19.1%). It cannot be said that such efforts are adequate, compared with the service industry, where the clarification of abilities required is quite advanced (V-14).

The methods used by enterprises to notify employees of the abilities required can be broadly divided into two groups: methods involving notifying the organization as a whole (whole company or division) and methods involving notifying specific individuals. With regard to the methods involving notifying the organization as a whole, methods involving disclosing in advance the abilities required by the organization through "disclosure of the job description" (7.1% in the service industry, 8.2% in the manufacturing industry; the same order applies below), "disclosure of the personnel/wage system to staff" (9.0%, 5.2%), "company intranet" (5.7%, 2.6%), or "distribution of pamphlets or circulars" (7.2%, 5.1%) were less common than methods involving managers directly notifying their subordinates verbally, through "meetings or small group gatherings" (54.7%, 45.8%) or "morning meetings"

### V-13 "Visualization" Initiative at Manufacturing Industry Company A: Compilation of an Evaluation Table

Employee Name / Work Item	Press operation	Furnace operation	Die attachment	.	.	.	.	.	.
Employee A	◎	△	◎	△					○
Employee B	◎	△	◎	◎					△
Employee C	◎	△	○	○					×

Source: Materials provided by Company A

## V-14 Status of Progress in Clarifying the Abilities Required of Employees

(%)

	n	Clear				Cannot say either way			
			Very clear	Quite clear			Not very clear	Not clear	Not clear
[Manufacturing industry (machinery/metals)]									
Mainly technicians	643	53.0	15.1	37.9	25.8	11.2	8.7	19.9	
Mainly engineers	154	50.6	18.8	31.8	35.1	4.5	9.1	13.6	
[Service industry]									
Cram school	35	65.7	34.3	31.4	14.3	17.1	2.9	20.0	
Building services	92	64.1	22.8	41.3	14.1	17.4	4.3	21.7	
Motor vehicle maintenance	154	70.8	22.1	48.7	16.2	10.4	1.3	11.7	
Information services	117	65.8	24.8	41.0	19.7	11.1	1.7	12.8	
Funerals	51	72.5	41.2	31.4	11.8	7.8	5.9	13.7	
Civil engineering and construction services	157	75.8	29.9	45.9	9.6	12.1	0.6	12.7	
Beauty	61	86.9	47.5	39.3	4.9	4.9	0.0	4.9	
Senior citizens' welfare	52	69.2	17.3	51.9	11.5	9.6	7.7	17.3	

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies)

(31.3%, 45.4%). Comparing the service industry with the manufacturing industry, in terms of methods involving managers directly notifying their subordinates verbally, "meetings or small group gatherings" were the more common method in the service industry, while "morning meetings" were more commonly used in the manufacturing industry. The methods that involve notifying specific individuals are primarily focused on advising individuals of the abilities they require in their current jobs, "in the course of their everyday duties" (66.6%, 58.8%) or through "OJT in the workplace" (22.8%, 22.8%); this trend was the same in both the service industry and the manufacturing industry.

So can a relationship be seen between the "visualization" of the abilities required of employees and the human resource development and skills development initiatives undertaken by enterprises? Looking at the relationship between staff cultivation and skills development initiatives in the workplace and the degree of "visualization", it can be seen that in both the service industry and the manufacturing industry, there is a greater tendency to proactively promote such initiatives in the workplace among companies at which "visualization" is more advanced. The difference in values after deducting "not very clear + not clear" from "very clear" is particularly large in the case of "have decided on an instructor and are cultivating staff systematically" in

the service industry ("very clear" - "not very clear + not clear" = 46.7%), while in the manufacturing industry there is a considerable gap in the case of "staff organize study groups and presentations of proposals" (31.5%, based on the same formula), so it can be said that a pronounced difference in the degree of progress in "visualization" emerges in the case of initiatives with costs in terms of time or money (V-15).

### 3. Making Use of Opportunities within the Region or Sector

From the aforementioned Ministry of Health, Labour and Welfare "Basic Survey of Human Resources Development", it was seen that the main opportunity for Off-JT at SMEs is the use of opportunities for education and training outside the company. If this is the case, there is a possibility that human resource development and skills development initiatives at SMEs are more intensive where there are greater opportunities for interaction, education and training in the sector to which an enterprise belongs or in the region where it is located. Let us verify this on the basis of data from the JILPT survey of small and medium-sized manufacturing industry.

The JILPT Small and Medium-sized Manufacturing Industry Survey (Companies) asked enterprises about the characteristics of the region in which they are currently located and about the status of activities

## V-15 Degree of "Visualization" and Cultivation and Skills Development Initiatives in the Workplace

(%)

	n	Have decided on an instructor and are cultivating staff and conducting skills development in accordance with a plan	Use work standards and manuals to cultivate staff and conduct skills development	Give staff experience of progressing from simple tasks to harder work	Give staff experience of related duties on a rotating basis	Staff organize study groups and presentations of proposals
[Small and medium-sized service industry]						
Very clear	202	64.9	50.5	74.3	48.5	54.0
Quite clear	311	45.3	34.1	74.3	47.9	37.0
Cannot say either way	96	25.0	20.8	62.5	27.1	20.8
Not very + not clear	99	22.2	15.2	69.7	41.4	26.3
[Small and medium-sized manufacturing industry]						
Very clear	133	58.6	48.9	80.5	56.4	41.4
Quite clear	297	46.1	43.1	69.7	38.7	28.3
Cannot say either way	230	29.6	30.4	59.6	39.1	19.6
Not very + not clear	161	24.2	19.3	52.2	21.7	9.9

Source: JILPT Small and Medium-sized Manufacturing Industry Survey (Companies), JILPT Small and Medium-sized Service Industry Survey (Companies).

Note: The proportions show the totals for "actively implementing" and "actively implementing to some degree" combined.

relating to education and training and skills development in that region. Respondents were asked to select from five options in the question relating to the characteristics of the region where the enterprise is located, with the responses being assigned a score based on the opportunities for interaction with other enterprises, as follows: "a region in which manufacturing companies in a specific sector are gathered": 5 points; "a region focused on large-scale manufacturers, in which their subcontractors are also gathered": 4 points; "a region in which there are no core large-scale manufacturers, but manufacturing companies from various sectors are gathered": 3 points; "a region in which there are no manufacturing companies in the surrounding area": 2 points; and "other": 1 point. Moreover, in relation to education and training and skills development in the region in which the enterprise is located, respondents were asked to use a five-step scale to grade how proactively initiatives concerning the following were implemented: "arranging internships", "holding seminars and workshops", "mutual skills and technology guidance initiatives between companies, such as dispatching and

hosting technicians and engineers, etc.", and "academic-industrial collaboration between companies and technical colleges and universities, etc." The responses of each company in regard to each initiative were then assigned a score ranging from "actively implementing" = 5 points to "not actively implementing at all" = 1 point. When these are added up, the scores for each enterprise range between 5 and 25 points. Companies scoring 5-10 points were classified as having "few" opportunities for interaction or education and training in the region in which they were located, those with 11-19 points were classed as having "moderate" opportunities, and those with 20 points or more were classed as having "many" opportunities.

The aforementioned indicator is used here to analyze the relationship between human resource development and skills development at SMEs and initiatives in the region, but because the responses of enterprises were used to compile the indicator, there is a strong possibility of an overlap between enterprises that are proactive about education and training and enterprises that perceive many opportunities in the

## V-16 Opportunities for Interaction, Education and Training in the Regions Where Enterprises Are Located and Off-JT and Self-development Support at the Place of Employment

(%)

	n	Dispatch employees for training conducted by an external organization	Support for self-development
[Opportunities for interaction and education and training in the regions where enterprises are located]			
Few	264	38.6	25.4
Moderate	258	46.5	33.3
Many	204	51.5	37.7

Note: Uses matching data from the JILPT Small and Medium-sized Manufacturing Industry Survey (Companies) and *id.* (Employees).

## V-17 Information-gathering Activities concerning Employee Skills Development

	Were information-gathering activities carried out? (%)				Degree of enthusiasm for information-gathering activities		
	n	Yes	No	No response	Effective number	Number of media (average)	Standard deviation
[By number of learning resources in the region]							
Few	264	60.6	33.3	6.1	248	1.08	1.08
Moderate	258	73.3	20.2	6.6	241	1.34	1.07
Many	204	75.5	19.1	5.4	193	1.44	1.23
Total	726	69.3	24.7	6.1	682	1.27	1.13

Notes: 1) Uses matching data from the JILPT Small and Medium-sized Manufacturing Industry Survey (Companies) and *id.* (Employees).

2) The degree of enthusiasm for information-gathering activities indicates the average number of media used in gathering information.

region in which they are located. Accordingly, in order to avoid this overlap or bias, the analysis was carried out using results where the responses of employees could be matched to the enterprise where they worked. V-16 examines the relationship between human resource development and skills development initiatives from the perspective of employees and opportunities for interaction, education and training in the region concerned. Enterprises located in regions with more opportunities for interaction, education and training have a greater tendency to be proactive, from the employee's perspective as well, in regard to Off-JT and support for self-development by staff.

One can also recognize the influence of the region in which a place of employment is located in the activities undertaken by employees themselves in

relation to skills development. V-17 summarizes the degree to which employees gather information about education and training and skills development, according to the level of opportunities for interaction between companies and education and training in the region in which their place of employment is located. It shows that the proportion of employees who gather information about such matters is higher among employees working at enterprises located in regions where there are more opportunities, and that they conduct these information-gathering activities using a wider range of media. Furthermore, in relation to OJT, Off-JT and self-development initiatives, employees that work for enterprises located in regions with more opportunities are more proactive in their efforts toward skills development, through such

## V-18 Employee Skills Development Activities: Process Policy

(%)

	n	Acquiring knowledge and skills through OJT	Making use of opportunities for Off-JT in the workplace	Engaging in independent study or learning (self-development), such as taking correspondence courses
[By number of learning resources in the region]				
Few	264	12.9	8.0	8.3
Moderate	258	17.4	11.6	8.9
Many	204	21.6	16.2	12.3
Total	726	16.9	11.6	9.6

Notes: 1) Uses matching data from the JILPT Small and Medium-sized Manufacturing Industry Survey (Companies) and *id.* (Employees).

2) The proportions show the totals for "actively implementing" and "actively implementing to some degree" combined.

endeavors as "acquiring knowledge and skills through OJT", "making use of opportunities for Off-JT in the workplace" and "engaging in independent study or learning (self-development), such as taking correspondence courses" (V-18).

### IV. Social and Political Issues Surrounding Human Resource Development and Skills Development at SMEs

Finally, let us consider social and political issues for the future, while looking at the number of problems relating to human resource development and skills development faced by SMEs and the current status of human resource development and skills development as seen from the analyses above.

#### 1. Problems Felt by Enterprises Concerning Human Resource Development and Skills Development

What kind of problems do SMEs feel that they face in relation to human resource development and skills development initiatives at their own companies? According to the JILPT Small and Medium-sized Service Industry Survey, the most common issue felt to be a problem by enterprises in the service industry is "employees are too busy and have no time for education and training" (45.8%). In addition, other issues felt by enterprises to be a problem were, in descending order, "the cost of using external education and training organizations is too high" (23.6%), "insufficient motivation on the part of

employees" (19.6%), and "staff quit soon after they are fully trained" (16.8%). On the other hand, according to the JILPT Small and Medium-sized Manufacturing Industry Survey, the most common problem cited by manufacturing companies was "employees are too busy and have no time for education and training" (30.4%), followed by "the cost of using external education and training organizations is too high" (21.6%), and "insufficient motivation on the part of employees" (20.5%). Although there are some slight differences in the response rates for each item, the results of both surveys are very similar and it can be seen that a lack of either time, money or employee motivation is a typical problem hindering human resource development and skills development at SMEs, regardless of the sector.

Moreover, there is a greater tendency to face such issues among enterprises that feel a strong need for human resource development in the running of their company. For example, when the responses concerning what each enterprise felt to be an issue in relation to the cultivation and skills development of employees were divided up according to differences in attitude to the cultivation of workplace leaders and supervisors (V-19), a larger proportion of enterprises that are devoting their energies to the cultivation of such staff pointed out most of the items listed as examples of issues. In both the manufacturing industry and the service industry, the most common issue pointed out by enterprises that are devoting their energies to the cultivation of workplace leaders

**V-19 Issues concerning the Cultivation of Employees and Their Skills Development (Multiple Responses Permitted) Differences According to Attitude toward the Cultivation of Workplace Leaders and Supervisors**

(%)

		n	It is difficult to identify the abilities required of employees	Even if the abilities required of employees are identified, it is not possible to convey these effectively	Insufficient motivation on the part of employees	Employees are too busy and have no time for education and training	Staff quit soon after they are fully trained	Poor communication between superiors and subordinates and between seniors and juniors (in terms of length of service)	We do not know what kind of education and training organizations exist and where to find them	No education and training organizations have established training courses with the appropriate content or at a suitable level	The cost of using external education and training organizations is too high	We do not understand the application procedures for government grants for education and training / the procedures are too complex	Other	No particular problems devoting
Manufacturing industry (machinery/metals)	Devoting energies	402	13.9	9.2	21.9	52.0	17.7	—	4.2	8.2	29.4	7.7	1.2	14.4
	Not devoting energies	317	9.1	6.6	16.7	37.9	15.8	—	2.5	5.7	16.4	6.6	3.2	21.1
Service industry	Devoting energies	409	13.0	8.8	24.0	38.6	—	15.4	6.1	12.5	27.1	9.3	1.7	19.6
	Not devoting energies	433	9.2	4.8	17.3	22.6	—	5.8	5.8	5.3	16.4	4.8	1.4	26.1

Note: Items marked "-" denote items for which options were not included in either the manufacturing or the service industry survey.

and supervisors, and the issues where there was the greatest difference between such enterprises and those that are not devoting their energies to the cultivation of such staff was "employees are too busy and have no time for education and training". In addition, there was a pronounced difference between the two groups of enterprises in relation to the issue that was the second most common among enterprises devoting their energies to the cultivation of such staff, namely "the cost of using external education and training organizations is too high".

## 2. Social and Political Issues

From the situation indicated in 1. above, it is anticipated that there are many cases where SMEs face issues of human resource development and skills development that require consideration or a response but find various constraints and result in only losing motivation to undertake initiatives. If this is the case, social and political endeavors focused on lowering the hurdles hindering the implementation of such development initiatives, and which do not discourage proprietors, are required in order to prevent

motivation being reduced or enterprises dragging their heels over such initiatives, and to encourage human resource development and skills development at SMEs. Moreover, at the same time, amid the globalization of market competition, companies will become increasingly oriented toward high-added-value management, and this is carried out on the basis of advanced vocational abilities. The need for human resource development emerges from this. Moreover, there is ceaseless technological innovation, requiring workers to master new knowledge, technologies and skills, so it is necessary for workers to redevelop their abilities constantly. The need for what is termed "lifelong learning" emerges from this.

Are the human resource development mechanisms in Japan able to respond to such needs? Imano and Japan Trade Union Confederation Research Institute for Advancement of Living Standards (eds.) [2011] point out the following.

"However, the social mechanisms of human resource development in Japan are unable to respond to such changes. The basic mechanism of human

resource development hitherto has been formed as a "fortunate transition system" that was expedient for both young people and companies, in which companies provided in-house education to cultivate young people who had completed their school education. However, the social role of companies in relation to human resource development is now declining steadily. It has been widely noted that the human, time and financial resources invested in staff education are dwindling, leading to a decline in the ability of companies to conduct human resource development. Another important fact is that the scope of those targeted by staff education is shrinking. As a result, companies have altered their employment strategies, cutting back on regular employees in favor of increasing the number of non-regular employees, giving rise to a serious situation in which a large number of workers who have lost opportunities for human resource development are emerging, such as young workers who cannot find jobs as regular employees.

Looking at the issue of human resource development in this way, it will become necessary for society as a whole to develop mechanisms for effectively cultivating personnel." (Imano and Japan Trade Union Confederation Research Institute for Advancement of Living Standards [2011:1]).

While sharing this awareness that "vocational ability among Japanese workers has been formed exclusively through education within individual companies → its function is now declining → social mechanisms that provide support and make up for that decline in function are required", Kikuchi [2011] goes further in focusing on tools to support social mechanisms.<sup>13</sup>

"For many years, the development and formation of vocational skills was mainly carried out within each company, through education and training focused primarily on OJT. However, companies themselves are now losing (or abandoning) their

scope to increase vocational ability among personnel through long-term investment in education and training predicated on long-term employment, and when the selective employment of "ready-made workers" occurs in the labor market, young people whose path to becoming a regular employee has been cut off lose even the opportunity for skills development and formation.

This situation gives rise to problems that are difficult for companies as well. The cultivation of highly-skilled technicians is being neglected in the manufacturing industry, giving rise to a situation that could shake the very foundations of the craftsmanship and skills that should support "Japan, home to the art of monozukuri (manufacturing)". Moreover, in new industries and categories of business, even if a company tries to procure personnel from the labor market because it is not possible to rely on existing personnel within the company, there is the question of the degree to which it can depend upon those specialist vocational abilities being of a high level, as the "quality assurance" of abilities is uncertain. Precisely because of this, the government was unable to leave the situation as it was and embarked upon the introduction of the "Japanese NVQ" system and the "career grade system", which incorporate the development of vocational skills and public assurance." (Kikuchi [2011:13]).

Having said that, it is not the case that the social human resource development and vocational ability training and development mechanisms that Imano and Kikuchi assert are necessary, which go beyond the boundaries of individual companies, were completely non-existent in Japan. As was touched upon in the section concerning Off-JT at SMEs (II.1), in many cases, Off-JT at SMEs is carried out via external organizations and, naturally, external organizations that provide education and training do exist; the organizations that have mainly offered the education and training opportunities that are used by SMEs are regional or nationwide level employers' associations,

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13 See also Sato [2011], which proposes using school education or collaboration with public vocational training organizations to supplement the decline in the functions of education and training within enterprises, based on the same awareness of the problem.

such as chambers of commerce and industry or other commercial and industrial associations, or are industry groups organized by enterprises in the same category of business, or are public vocational training organizations, such as vocational training institutes, and the activities of these groups and organizations have fulfilled a role as public infrastructure for human resource development and skills development. In light of this fact, rather than constructing the mechanisms themselves from scratch, what is required in seeking to enhance social mechanisms for human resource development and skills development, as recommended by Imano and Kikuchi, is the revision of the content of human resource development and skills development and of approaches to its provision that go beyond the boundaries of companies, in order to provide effective support for human resource development and skills development activities by enterprises, as well as skills development activities undertaken by individuals.

Moves toward such revisions have already begun in various parts of Japan. For example, a number of organizations that play a leading role in human resource development initiatives in regions with manufacturing industry clusters in Japan implement these in parallel with initiatives aimed at new business development that makes use of the region's strengths, in many cases. In the Hamamatsu region of Shizuoka Prefecture, the Hamamatsu Industry Creation Center has established a study group consisting of those who have completed the human resource development projects implemented by the Center, as well as related enterprises and local academic institutions, which is promoting the acquisition of applied technologies, with a view to their commercialization, and is conducting research into next-generation industrial fields that the region should work on. Moreover, in the Tsubame-Sanjo region of Niigata Prefecture, as well as various courses and seminars aimed at human resource development, the Tsubame-Sanjo Regional Industries

Promotion Center also sets up study groups focused on new technologies and new materials, with the objective of enabling local enterprises to acquire useful information about production technologies and product development and put this to practical use. There are also moves focused on forming effective, efficient human resource development mechanisms within specific regions. In the Toyo district of Ehime Prefecture, the Toyo Industry Creation Center has played a key role in devising a framework for human resource development projects within the region and is aiming to cooperate with other organizations in putting into practice the implementation system that it has developed in line with this idea, concerning the roles that should be played by various organizations, such as the Chamber of Commerce and Industry, technical high schools and technical colleges.<sup>14</sup>

This paper has already examined "visualization" as an endeavor to encourage human resource development and skills development within enterprises, but one area that should be the focus of attention in regard to the basic direction of revisions is that of initiatives aimed at promoting such "visualization" in a manner that goes beyond the boundaries of individual enterprises. More specifically, these involve activities focused on the disclosure of the personnel requirements necessary for the running of a business and the implementation of education and training in light of those requirements. One example of such activities can be found in the Yonezawa region of Yamagata Prefecture. In this region, the Yonezawa Business Network Office, which was formed by manufacturing companies with the involvement of financial institutions and local government, has played a key role in establishing the Yonezawa Industry Cultivation Project Management Committee; this committee runs the "Yonezawa Region Common Certification System for Lead-free Soldering Technology", with the aim of improving technical abilities in the electronic component industry, which is the major industry in this region, and clarifying the technical skills of each enterprise in the area. In the aforementioned Toyo district of Ehime

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14 For further details concerning such initiatives in regions with manufacturing industry clusters, see Japan Institute for Labour Policy and Training (ed.) [2012b].

Prefecture, the "Plant Maintenance Engineer Cultivation Project" is being carried out, with those who complete the courses carried out as part of this project being granted the qualification "Plant Maintenance Master (PMM)". This qualification has been created by developing a new plan for the content of the courses that personnel must take in order to obtain the existing qualifications within the industry, and reorganizing it to suit the personnel needs within the region.<sup>15</sup>

Moreover, the activities of the Kansai Electronics Information Industry Society can be cited as another initiative that uses what Kikuchi describes as "tools to support social mechanisms". Using the "Job-Card System"<sup>16</sup> promoted by the Ministry of Health, Labour and Welfare, this society has devised a scheme<sup>17</sup> to help member companies to secure more new graduates by positioning a series of education and training initiatives as an extension of the internships and employment activities that it has conventionally implemented in partnership with member companies, and enhancing training for those who are hired by member companies.

It seems likely that in the future, enterprises will make progress in clarifying the abilities that they require, in a form based on their operational initiatives, while industry groups, various regional organizations and the government strive to expand and enhance initiatives such as those detailed above, thereby broadening the points of contact between enterprise and employee needs, on the one hand, and various initiatives that go beyond the boundaries of individual enterprises, thereby leading to the establishment of social mechanisms that effectively support human resource development and skills

development at SMEs.

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15 For further details of the operation of vocational qualifications in the Yonezawa region of Yamagata Prefecture and the Toyo district of Ehime Prefecture, see the aforementioned Japan Institute for Labour Policy and Training (ed.) [2012b].

16 The "Job-Card System" (implemented from April 2008) is a system that is mainly aimed at people with little experience of being regular employees, which involves conducting vocational training that combines practical training at a company with study at an education and training organization; during this process, matters such as details of the duties carried out by the individual concerned, the things that they have learned, their experience of vocational training, and any licenses or qualifications they have attained are recorded on a document called a "Job-Card", with the objective of promoting subsequent job-seeking activities and career development.

17 For further details of initiatives by the Kansai Electronics Information Industry Society, see Japan Institute for Labour Policy and Training (ed.) [2010c].

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