

1 Long-Term Employment System

Employee Tenure in Japan

III-1 shows a breakdown of employees in Japan, the United States, and several European countries according to employee tenure. The only countries to have fewer than 40% of employees employed at the same company for less than five years are Japan and Italy, which, alongside countries such as France, Italy and Finland, have more than 20% employed for more than 20 years. It can thus be seen that, by international standards, employee tenure tends to be longer in Japan.

According to the 2007 *Basic Survey on Wage Structure*, average employee tenure in Japan is 11.8 years. However, this varies according to the attributes of employees and the corporate organizations to which they belong. Average employee tenure is longer for men than women, and increases with the size of the company to which they belong (III-2). By international comparison, long-term employment in Japan is thus a particular feature of employment of male workers at large companies.

III-1 Breakdown of Employees by Employee Tenure

Country (Year)	Japan 2007	United States 2008	United Kingdom 2002	Germany 2002	France 2002	Italy 2002	Belgium 2002	Holland 2002	Denmark 2002	Finland 2002	Norway 2002	Austria 2002
Percentage of all employee												(%)
Less than 5	36.5	52.8	55.0	43.4	42.0	37.3	45.5	57.1	57.7	41.6	54.8	45.6
5 to less than 10	18.3	20.2	15.0	15.8	12.5	15.4	12.7	10.5	17.1	13.4	13.8	15.0
10 to less than 20	24.2	16.8	19.0	23.7	22.0	24.2	22.7	19.9	17.0	22.2	22.3	23.1
Over 20	21.3	10.3	10.0	17.0	23.5	23.0	19.1	12.6	8.1	22.8	9.1	16.2

Sources: Japan – Ministry of Health, Labour and Welfare (2008), *Basic Survey on Wage Structure 2007*.

United States– U.S. Department of Labor (2008), *Employee Tenure in 2008*.

United Kingdom – Office for National Statistics (2003), *Labour Force Survey*.

Other countries – Eurostat (2006), *Structure of Earnings Survey 2002*.

III-2 Average Employee Tenure (by Sex and Number of Employees of Company)

	All workers	Male workers	Female workers
All companies	11.8	13.3	8.7
1,000+ employees	14.4	16.2	9.7
100-999 employees	11.2	12.7	8.2
10-99 employees	10.0	10.9	8.3

Source: Ministry of Health, Labour and Welfare (2008), *Basic Survey on Wage Structure 2007*.

Background to Long Employee Tenure: Long-term Employment Systems

Why then is employee tenure in Japan so

long? One answer lies in the long-term employment systems that have developed at Japanese companies.

Many Japanese companies rely mostly on fresh school or college graduates to meet their hiring requirements, and this tendency is particularly pronounced at large companies. Fresh graduates have no real experience of work in a company until they are hired and their employers cannot tell what professional aptitudes they might have. The assumption is, therefore, that companies will hire them focusing on their trainability after hiring, and that their professional abilities will improve as they gain in experience in the workplace. Wage systems are similarly based on this assumption, and the approach adopted at many companies is to gradually raise wages in accordance with employees' length of service.

From the company's point of view, it makes sense to have workers who have attained a certain level of professional ability stay with them for as long as possible so that they can get the most out of them when their productivity outweighs what they are paid and recoup the cost of providing them with various training opportunities to raise their abilities after hiring. They therefore encourage employees to stay by raising their wages over time. If a company employs a wage system that emphasizes length of service, employees, for their part, can expect to earn a higher wage the longer that they remain with the same company. The large number of companies that offer other non-wage incentives that increase in value with length of service, such as attractive retirement benefits, also encourage employees to stay with their employers for the long haul. The long-term employment systems of Japanese companies and the long tenure of employees in Japan may be said to have arisen out of these expectations of management and labor.

Transformation of Long-term Employment Systems

Although employee tenure in Japan is comparatively long by international comparison, it is in fact very slowly shrinking and the average tenure of all employees in 2003 was 0.4 years longer (12.2 years) than what it was in 2007 ac-

ording to the above Basic Survey on Wage Structure.

Behind this trend is the transformation of long-term employment systems at Japanese companies. Paying higher wages to longer-serving employees necessarily carries with it a risk of pay exceeding productivity in the case of employees whose professional skills have ceased to rise. Although this risk did not manifest itself during the 1950s through to the 1970s when most Japanese companies were enjoying rapid growth, the wage costs of middle-aged to older employees increasingly came to be seen as a problem by companies from the 1970s onward when the Japanese economy was no longer growing as it had. As a result, the practice spread among large companies in particular of temporarily or permanently transferring middle-aged and older workers to affiliates or business partners. During the prolonged recession of the 1990s, a wave of companies experienced serious business difficulties, with the consequence that many asked their employees of above a certain age (usually those in their late forties to fifties) to accept voluntary early retirement in exchange for a topping up of their retirement benefits. The use of such methods to remove middle-aged to older employees from companies' workforces appears to be what has led to the gradual decline in Japan's average employee tenure.

With the revision of the Act Concerning Stabilization of Employment of Older Persons, however, it became mandatory from April 2006 for companies to provide employment opportunities from 60 until pensionable age. While some expect this legislative action to reverse the shortening of average employee tenure, the imposition of the obligation to secure employment opportunities from the age of 60 onward may also reinforce moves by Japanese companies to rid themselves of employees before they reach that age, making it hard to predict how long-term employment systems will develop in the future.

2 Recruiting and Hiring

Because Japan's labor market is divided into a new graduate market and a mid-career job seeker market, or into large enterprises and small businesses, there are accordingly great differences in recruiting and hiring. The collective hiring of a group of new college graduates immediately upon graduation is one of the characteristics of hiring activities in Japan. However, looking at III-3, we see that it is in great part the large enterprises hiring new graduates, and that

as the size of the company decreases, the rate of hiring new graduates also decreases. On the other hand, for mid-career hires, this difference based on company size is not as large as with the new graduates; in particular, the rate of hiring mid-career workers in nonclerical positions is higher at small-scale businesses (see III-4). (Note that the Survey of Employment Management cited below was discontinued in 2004, and so there are no results for subsequent years.)

III-3 Current Ratio of Hiring for New Graduates (Multiple Answers)

(%)

	2001			2004
	Clerical	Technical, Research	Non-clerical	
High school graduates				
Total of all companies	4.7	2.8	12.9	16.7
5,000 or more employees	27.1	10.9	42.4	44.3
1,000-4,999 employees	14.4	6.3	31.9	37.9
300-999 employees	11.8	4.7	31.0	33.6
100-299 employees	7.0	4.6	22.3	21.1
30-99 employees	3.0	2.0	7.8	13.1
College (including graduate school) graduates				
Total of all companies	7.9	9.2	7.0	19.6
5,000 or more employees	76.2	56.8	27.4	94.1
1,000-4,999 employees	57.5	46.0	28.5	81.2
300-999 employees	33.5	36.9	22.4	64.3
100-299 employees	13.1	17.0	11.6	33.8
30-99 employees	2.5	3.2	3.6	9.0

Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2001, 2004*.

Note: The 2004 survey was not categorized into clerical, technical/research, and non-clerical job types.

III-4 Current Ratio of Hiring for Mid-Career Workers

(%)

	Management	Clerical	Technical, Research	Non-clerical
Total of all companies	13.7	27.5	18.4	50.8
5,000 or more employees	34.9	54.8	51.9	38.4
1,000-4,999 employees	26.5	44.9	38.6	42.4
300-999 employees	23.8	43.6	31.3	48.7
100-299 employees	15.6	34.5	20	49.3
30-99 employees	11.7	23.2	15.9	51.7

Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2004*.

Methods of Recruiting and Hiring

III-5 shows the general methods of recruiting and hiring. For recruiting college graduates, methods such as “job-search magazine or job search website,” “introduction or recommendation by professors, etc at college,” “company, etc. hosts a job fair or seminar” are widely used. On the other hand, for mid-career hires the most common methods are “public employment security office, etc.,” “Help Wanted’ advertisement or flier in the newspaper,” and “job-search magazine or job search website” (see III-5; survey conducted in 2004).

Compared to the same survey conducted three years ago, one notices that methods of recruiting and hiring have drastically changed. “Job-search magazine or job search website” became first and third, respectively, for new college graduates and mid-career hires. “Independent company website” came fourth for mid-career hires, and methods involving the internet are increasing. On the other hand, “personal connections” (22.9%) which was third in mid-career hires three years ago has dropped to fifth (6.1%) in this survey (see III-5; survey conducted in 2001).

**III-5 Methods of Recruiting New College Graduates and Mid-career Hires
(multiple answers)**

2001						(%)
	First	Second	Third	Forth	Fifth	
College (including graduate school) graduates	Introduction or recommendation by teachers, etc. at school 38.4	Company, etc. hosts a job fair or seminar 32.9	Job search magazine or job search website 29.8	Independent company website 23.7	Public Employment Security Office, etc. 18.6	
Mid-career hires	Public Employment Security Office, etc. 59.6	“Help Wanted” advertisement or flier in the newspaper 31.3	Personal connections 22.9	Others 22.3	Job search magazine or job search website 18.1	
2004						(%)
	First	Second	Third	Forth	Fifth	
College (including graduate school) graduates	Job search magazine or job search website 38.2	Introduction or recommendation by teachers, etc. at school 33.9	Company, etc. hosts a job fair or seminar 32.4	Public Employment Security Office, etc. 25.2	Public Employment Security Office, etc. hosts a job fair or seminar 16.0	
Mid-career hires	Public Employment Security Office, etc. 64.9	“Help Wanted” advertisement or flier in the newspaper 33.3	Job search magazine or job search website 30.0	Independent company website 16.2	Personal connections 6.1	

Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2001, 2004.*

The hiring of four-year university graduates in the humanities and social sciences is generally carried out in the following way. First, the hiring process starts with a request for material from the company. This usually begins during the junior year. The company will then hold a seminar or information session for the students who looked at the company materials, and proceed on to the written exam and interview stages. Ordinarily, conditional job offers are decided upon after two or three interviews. While the start of the

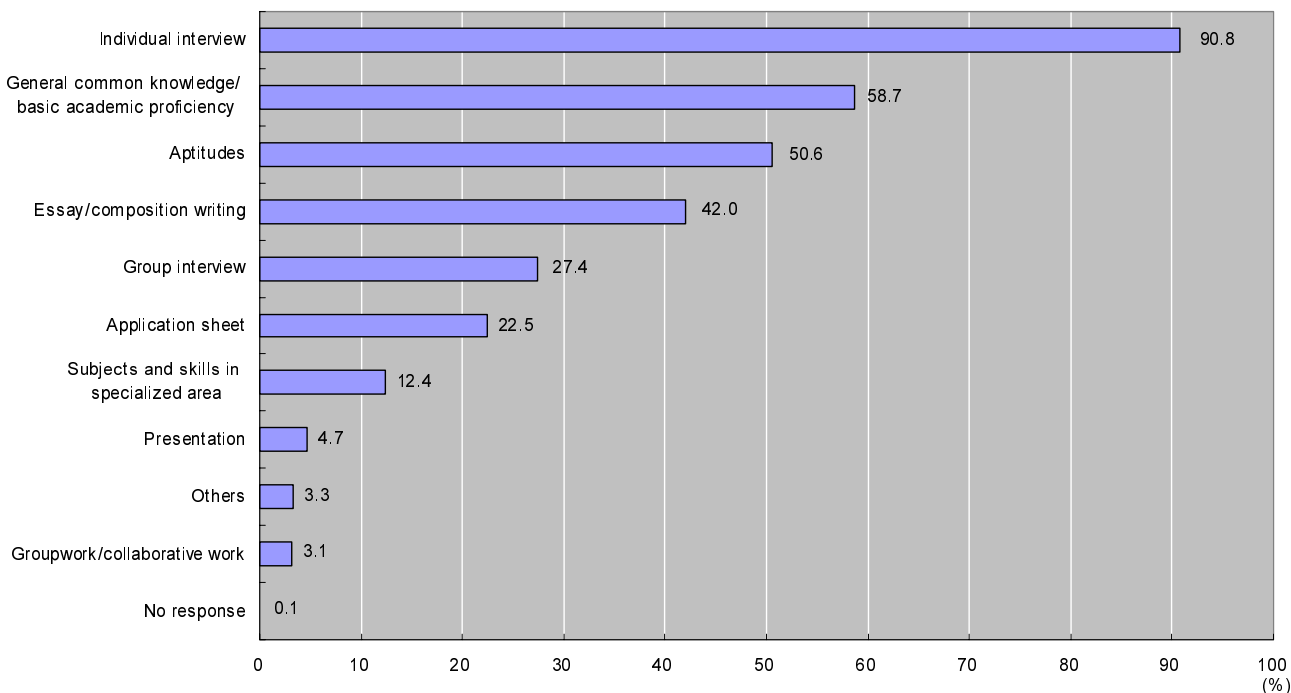
communication of these conditional job offers in 1997 and 1998 peaked during June and July, it peaked around April in 2004, indicating that the time was reduced by two months in those years (“Hiring of College Graduates and Human Resource Management in a Period of Reform,” Report No. 128, 2000, Japan Institute of Labour; “Survey on Hiring University Graduates,” 2006, Japan Institute for Labour Policy and Training). As seen in Table III-5, many of the request for materials and application procedures for semi-

nars are made through E-mails or websites due to the dissemination of the internet, and private-sector portal sites built to support such activities are widely used.

The hiring of graduates of four-year universities in the natural and physical sciences generally often takes the form of either an introduction

and recommendation by the student's academic advisor, or a request to the advisor from the company for introduction of a student. Furthermore, there are many students of natural and physical sciences who find jobs after pursuing a postgraduate degree.

III-6 Methods of Screening New College Graduates (Multiple Answers)



Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2004*.

Most of the methods used for recruiting are those that have been long used such as individual interviews, tests on general common knowledge/basic academic and aptitudes, etc. Among them individual interviews reaches 90%.

The past few years of economic growth, the longest—if modest—spell of growth since World War II, combined with the mass retirement of the baby-boom generation fanned hiring interest among firms, and the market remained a seller's one from the point of view of new graduates. However, the situation changed dramatically when the global financial crisis broke and the economy changed course in autumn 2008, and the problem of job offers to students being withdrawn drew considerable attention. Although

proportionately small in number compared with the total number of hires, a record high of well over a thousand two-year and four-year graduates had had their offers cancelled as of February 2009. However, for small businesses that had hitherto faced hiring difficulties and industries such as the nursing care and hospitality industries that had experienced chronic labor shortages, the situation is being seen by some as an opportunity to hire better human resources.

Points Taken Seriously in Hiring Workers

III-7 looks at the points considered important when hiring new college graduates. In the 2004 survey, where job types were not divided into

clerical, technical/research, and non-clerical categories, “enthusiasm and ambition,” “communication skills,” and “drive and executive ability” respectively came as first, second, and third priorities. In the 2001 survey where job types were divided, for each of the three job categories—clerical, technical/research, and non-clerical—the number one consideration was “enthusiasm and ambition.” However, large differences could be seen in the number two and number three choices. For clerical positions, importance is attached to “general common knowledge, well educated and cultured” and “cooperative spirit and sense of balance;” “technical knowledge and skills” and

“understanding and judgment” are seen as crucial for technical/research positions; and for non-clerical work “drive and executive ability” and “good health and stamina” are viewed as assets.

Looking at points considered important when hiring mid-career workers (points with a rate over 50% in III-8), “job experience” is the top consideration for both management and clerical categories while “technical knowledge and skills” and “job experience” rank high for technical/research positions, and “enthusiasm and ambition” is the most desired attributes for non-clerical workers.

III-7 Points Considered Important When Hiring Recent College Graduates (Up to 3 Multiple Answers)

2001 (%)					
	First	Second	Third	Forth	Fifth
Clerical	Enthusiasm, Ambition 74.0	General common knowledge, Well educated and cultured 39.5	Cooperative spirit, Sense of balance 39.2	Drive, Executive ability 32.8	Understanding, Judgment 31.8
Technical, Research	Enthusiasm, Ambition 66.7	Technical knowledge, skills 51.1	Understanding, Judgment 33.6	Drive, Executive ability 29.6	Cooperative spirit, Sense of balance 20.4
Non-Clerical	Enthusiasm, Ambition 76.5	Drive, Executive ability 46.6	Good health, Stamina 38.3	General common knowledge, Well educated and cultured 35.4	Cooperative spirit, Sense of balance 29.2
2004 (%)					
	First	Second	Third	Forth	Fifth
2004	Enthusiasm, Ambition 64.0	Communication skills 35.1	Drive, Executive ability 31.0	Cooperative spirit, Sense of balance 30.9	Understanding, Judgment 25.9

Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2001, 2004*.

Note: The 2004 survey was not categorized into clerical, technical/research, and non-clerical job types.

III-8 Points Considered Important When Hiring Mid-Career Workers (Up to 3 Multiple Answers)

(%)

	First	Second	Third	Forth	Fifth
Management	Job experience 57.7	Technical knowledge, skills 48.3	Enthusiasm, Ambition 30.9	Drive, Executive ability 29.7	Understanding, Judgment 20.0
Clerical	Job experience 52.7	Enthusiasm, Ambition 41.5	General common knowledge, Well educated and cultured 33.6	Cooperative spirit, Sense of balance 28.3	Technical knowledge, skills 25.9
Technical, Research	Technical knowledge, skills 68.9	Job experience 58.1	Enthusiasm, Ambition 36.1	Drive, Executive ability 16.6	Good health, Stamina 15.7
Non-Clerical	Enthusiasm, Ambition 58.8	Good health, Stamina 47.3	Job experience 38.3	Drive, Executive ability 26.0	Cooperative spirit, Sense of balance 23.1

Source: Ministry of Health, Labour and Welfare, *Survey of Employment Management, 2004*.

3 Allocation and Transfer of Human Resources

Allocation and Transfer of Human Resources at Japanese Companies

In the context of human resource management, “allocation” refers to a company’s apportioning of work to its employees. In Japan, where the concept of “jobs” is less entrenched than in Europe and North America, the content of work assigned to employees tends to change to suit the aptitudes and abilities of the employee and changes in the environment faced by the company, rather than human resources with the necessary aptitudes and abilities being allocated to perform a predetermined task.

“Transfers,” meanwhile, consist of moving employees around to perform different work, and the practice of transfers at Japanese companies exhibits several characteristics. Firstly, their main purpose is not only to reshuffle human resources to meet the needs of the organization (such as expansion, downsizing, or job reorganization), but also to act as a means of training and developing employees (III-9). Secondly, companies have an enormous say in determining trans-

fers. Transfers at large companies are a classic example in that the wishes of the human resources department are paramount in the allocation and transfer of newly-hired fresh graduates and the transfers of managers, while it is the wishes of the department actually responsible for the work to be performed that largely determine transfers of regular employees. Thirdly, while transfers of non-management personnel often do not extend beyond particular departments, inter-departmental transfers of management personnel are common. And fourthly, temporary external transfers (where an employee of company A works at and is subject to the orders of company B while remaining an employee of company A) and permanent external transfers (where an employee leaves company A and becomes an employee of company B) entail transfers beyond the boundaries of the company for the purpose of supporting business partners and affiliates, developing employees’ skills, and securing positions for middle-aged and older employees.

III-9 Objectives of Transfers by Companies (Multiple Answers)

(%)

	Establishment of new division	Expansion/downsizing of existing division	Job reorganization	Transfer to job commensurate with abilities	Development of workers' abilities through experience of diverse work (career development)	Enhancement of worker motivation	Others
Clerical	14.3	32.8	40.1	40.7	35.0	16.4	9.1
Technical/Research	14.0	32.1	41.4	42.4	32.2	15.7	6.0
Manual	10.0	34.1	35.5	45.8	32.8	18.7	5.3

Source: Ministry of Health, Labour and Welfare, *Employment Management Survey (2002)*.

Note: Percentages indicate the proportion of the total number of enterprises that employed transfers in the corresponding category of worker.

New Developments in Allocation and Transfer of Human Resources

The approach to allocation and transfer of human resources employed by Japanese companies offers two advantages: (1) human resources in a company can be swiftly and flexibly reallocated as movements are tailored to the circumstances of the individual employee and the business environment faced by the company, rather than being restricted by the need to fill particular jobs; and (2) employees can be trained to cope with a wide range of work due to the experience that they acquire of work in a comparatively large number of departments and at other companies. On the downside, the extremely strong authority and initiative exercised by companies over allocations and transfers increases the possibility that employees' employment and career development needs may not be taken into account when they are assigned or moved to different departments, which may in turn generate greater friction between the employee's family life and work. Transfers of male employees who are household heads, for example, may require that they live away from their families.

To combat this downside, more and more companies in Japan are introducing mechanisms such as "self-return" and "in-house recruitment" schemes to take greater account of employees' wishes. Self-return schemes are systems by which employees report their personal circumstances and wishes so that this information can be taken into account by the company in making allocation, transfer, and career development decisions. In-house recruitment schemes, on the other hand, are systems for recruiting human resources for the launch of new projects or operations internally and transferring selected employees who apply. In their practical application, however, these measures tend to be hindered by the wishes of employees' own departments and

the difficulty of finding work to suit employees' needs, and few companies have so far been entirely successful in implementing them.

Features of Promotions

One form of allocation or transfer of employees is "promotion" through movement from work of one grade to work of a higher grade according to a company's grading system. Japanese companies have a strong tendency to place more emphasis on finding human resources from within the organization, and management positions are more normally filled by in-house promotion than by the hiring of people from outside the company.

While the majority of companies with established promotion criteria emphasize assessments of the performance and abilities of candidates for promotion, it is not unusual for some to promote personnel on the basis of seniority emphasizing their length of employment by the company (III-10). Promotion practices at Japanese companies are also considered to be characterized by the promotion of most employees in the same cohort—i.e., employees who joined the company at the same time as fresh graduates as regular employees—to a certain level of management, such as section head class. This approach gives most employees hope of promotion and serves to increase motivation.

At the same time, however, promoting most employees delays the narrowing down of the personnel capable of filling higher level management positions, rendering it difficult to efficiently pick out appropriate human resources from within the company. Recognizing this, more Japanese companies are now fast tracking the promotion of personnel capable of filling more advanced management and executive positions by accelerating the timing of their selection and focusing on the training and career development of these selected human resources.

III-10 Promotion Criteria at Japanese Companies (Multiple Answers)

(%)

Category of worker and grade	Established promotion criteria (multiple responses allowed)								
	Ability evaluation			Employee tenure	Performance assessment	Promotion training	Education	Personality	Others
	Total	Tested	Not tested						
Clerical									
Promotion to subsection chief class	85.4	13.2	72.1	48.6	82.5	4.8	5.7	40.1	14.7
Promotion to section head class	84.1	15.9	68.2	47.0	85.0	7.2	7.0	41.3	15.8
Technical/research									
Promotion to subsection chief class	84.7	13.7	71.0	48.8	82.1	5.8	5.6	38.4	13.3
Promotion to section head class	84.7	16.2	68.5	45.1	84.9	8.2	6.6	39.9	14.3
Manual									
Promotion to subsection chief class	81.5	12.6	68.9	43.7	84.4	6.1	4.1	41.4	14.3
Promotion to section head class	82.2	14.5	67.7	43.6	87.3	8.2	5.2	43.0	14.8

Source: Ministry of Health, Labour and Welfare, *Employment Management Survey (2002)*.

Note: Percentages indicate the proportion of the total number of companies with promotion criteria in each category of worker and grade.

4 Resignation, Mandatory Retirement and Dismissals

Resignation

“Retirement” is a cause for the cancellation of employment contract relations, and is a general term applying whenever an employee leaves the company where he or she is employed (disregarding dismissals). There are different types of retirement: “general resignation” and “resignation for one’s own convenience” take place when the employee unilaterally cancels the employment contract relationship; “resignation by agreement”, “resignation by employee’s request”, and “voluntary retirement” all occur through consent between employee and employer; and “retirement at the mandatory age” comes about according to rules in the employment contract, work rules in the company or collective agreement.

Recent problems related to resignation that have arisen are advised resignations and preferential treatment when soliciting employees for early retirement with business restructuring.

Regarding the former, the wrongful urging of retirement such as through persistent pressing or violence is illegal, and business owners are liable for damages. The actual situation is not clear, but looking at the operational statistics of the System for Resolution of Individual Labor Disputes, approximately 22% of disputes that develop at the workplace are over bullying and harassment related to advised resignation or something closely connected to advised resignation (Refer to Labor Disputes and Resolution Systems, Chapter 4).

Regarding the latter, there have been lawsuits in which employees have claimed the amount of the difference arising from unfair treatment or inequalities in the application of preferential financial treatment according to the timing of retirement. As preferential treatment has no basis in legislation, it is basically up to companies to decide what to apply to whom and when. Even when matters such as whether or not such ar-

rangements are applied, the need for users’ consent when they are applied, and unfair treatment or inequalities in the application of preferential treatment give rise to litigation, employees’ claims for payment of any differences are generally not recognized.

Mandatory Retirement

According to the summary findings of the “2008 General Survey of Working Conditions” published by the Ministry of Health, Labour and Welfare on October 7, 2008, 94.4% of private enterprises with 30 or more regular employees have mandatory retirement systems, of which 98.4% have a uniform mandatory retirement age. Of these, 85.2% set the mandatory retirement age at 60, and 10.9% set it at 65 or above.

Article 8 of the Act Concerning Stabilization of Employment of Older Persons specifies that employers may not establish a mandatory retirement age of younger than 60. In addition, Article 9 requires that employers take steps to secure employment for employees up to the age of 65. This measure was introduced under the revised Act Concerning Stabilization of Employment of Older Persons of 2004 and provides for three means of doing so: raising the mandatory retirement age, introducing systems of continued employment, and abolishing mandatory retirement (for the background and details of the revisions, see “Policies Designed to Secure Employment for Older and Disabled Workers”).

Looking at the state of introduction of measures to secure employment until age 65 under the revised Act Concerning Stabilization of Employment of Older Persons, an average of 96.2% of approximately 94,000 companies of all sizes, and 95.6% of small and medium enterprises, had introduced measures to secure employment beyond 60 and up to 65 as of June 1, 2008. Of these, 79.5% capped employment security at 65 or older and 20.5% set an age limit of 63 or 64. A break-

down of the types of measures introduced shows that 2.1% have abolished mandatory retirement, 12.5% have raised the age of mandatory retirement, and 85.4% have introduced continued employment systems (according to statistics on the state of employment of older people as of June 1, 2008, published by the Ministry of Health, Labour and Welfare on October 7, 2008). Employment opportunities for older people are thus being secured increasingly widely in compliance with legal requirements.

Meanwhile, there are influential opinions stating that legally speaking, the mandatory retirement system lacks rationality in terminating an employment contract for reaching a certain age, and goes against the principle of employment security. However, the common thinking is that the mandatory retirement system has rationality in the long-term continuous employment system based on seniority, and even the court does not judge the mandatory retirement system as unlawful (violation of Article 90 of the Civil Code on public order).

Dismissals

1. General

The Labor Standards Act only prohibits dismissal during leave due to occupational injury or illness, leave taken by women due to pregnancy and childbirth, and the 30 days following such leave, and does not prohibit dismissal per se (Article 19). Discriminatory or retaliatory dismissal on the grounds of gender or labor union activity, however, is prohibited by law (principally by Article 3 and Article 104 (2) of the Labor Standards Act, Article 6, (iv) and Article 9 of the Equal Employment Opportunity Act, Articles 10 and 16 of the Child Care and Family Care Leave Act, and Article 7 of the Labor Union Act).

Looking at dismissals in general (due to lack of capacity, inability to perform labor) under current legal condition, the restriction imposed by the legal principle of abuse of dismissal rights, has attained an especially important role. This principle, which has been established by precedents of the Japanese Supreme Court from about

the mid-1970s onward, is a legal theory that will examine and restrict the use of dismissal rights when an employer unilaterally cancels a employment contract with an employee. The Supreme Court formulated the context of this principle by stating that “the use of the right of dismissal by an employer shall become invalid, as an abuse of rights, when lacking in objectively rational pretext and thereby cannot be approved as corresponding to any socially accepted idea”. Further, the Court has presented specific requisites and methods for interpretation of the principle by expressing that “even when there is a reason for general dismissal, the employer may not always be able to dismiss the employee. If the basis for dismissal in the specific situation concerned is remarkably unreasonable, or when it cannot be approved as corresponding to a socially accepted idea, the concerned expression of intention to dismiss shall be invalid as an abuse of the right of dismissal”.

These legal principles are established as unequivocal mandatory civil provisions in the revised Labor Standards Act of 2003 (Article 18-2). Underlying this was a recognition of two things: that these legal principles should be clearly stated because, despite having played an important role in regulating dismissals in Japan, their lack of statutory form made them unclear to the public; and that employers should be prevented from resorting to dismissals without careful consideration during the recession at time that the act was revised. This provision has now been transferred to the Labor Contract Act enacted in 2007 (Article 16).

2. Collective Dismissals for Economic Reasons

Adjustment of employment in Japan is achieved primarily through regulation of overtime and similar measures designed to avoid causing undue hardship to employees, and the elimination of regular employees has been avoided as long as business conditions have not been excessively severe. The basis for this situation is that dismissals are, in actuality, difficult to carry out because Japanese companies have come to view

long-term continuous employment as important, and the existence of the legal principle for “abuse of dismissal rights” supports this.

The regulations for collective dismissal are formulated originating from the legal principle of abuse of dismissal rights, and will be considered illegal or invalid unless it matches the legal principle of collective dismissal constituted of the following four criterions.

1) That there was a necessity in personnel cuts, 2) that every effort was made to avoid dismissals (e.g. restrictions on overtime, reassignments, temporary transfers, freeze on new hires, layoffs, voluntary retirement, and cuts in part-time and other non-permanent positions), 3) that there were reasonable criteria for selection of dismissal candidates (e.g. number of late arrivals and absences, history of violation of work rules, and lowness of economic blow to employees such as those with no dependents), and 4) that every effort was made to talk the situation over with employees or the labor union (to conduct adequate explanation and hearing of opinions regarding the events leading up to the collective dismissals, and the term and method of carrying out such dismissals).

3. Disciplinary Dismissals

Employment regulations normally provide for disciplinary action to punish employees such as those who violate work orders. Disciplinary actions are the personal sanctions or punishments that a company carries out against its own employee for the reason that the employee disturbed the order of that company. These actions are, from the most minor: warning, reprimand, official reprimand, salary reduction, suspension, counseled dismissal, and disciplinary dismissal.

Dismissals lend a great disadvantage to employees, especially in the case of a disciplinary dismissal since the employee will be evaluated as

a person who has violated the order, and the employee will be at an extreme disadvantage when finding new employment. However, if such a violator of the order is left in the company, it is possible that the productivity and daily business of the other employees may be hindered.

Accordingly, an approach from precedent-based principle is being taken where, while considering the disadvantage to the employee and the benefits to the company, rigorous judgment of the legal validity of disciplinary dismissal is conducted. In short, the following are necessary in the event of a disciplinary dismissal: 1) the reason for action, and the type and degree of action corresponding to this reason, are specified in the company rules, etc. (legal principle of *nulla poena sine lege*, or no punishment without a law), 2) the same type and degree of action to be carried out as in past cases (principle of equal treatment), 3) the substance of the action is appropriate when held up against the type and degree of violation, and other circumstances (principle of equivalence), and 4) the procedures of the action are fair (appropriate procedures: examination by a disciplinary committee and an opportunity to defend given to the person in question).

Since disciplinary dismissals, too, are a form of dismissal, they were expressly provided for in the revised Labor Standards Act and are presently governed by the legal principle of the abuse of dismissal rights carried over to Article 16 of the Labor Contract Act. As disciplinary dismissals are at the same time a type of disciplinary action, they are regulated by the principle of the right to take disciplinary action also provided for in the Labor Contract Act (in the disciplinary provisions set forth in Article 16). The prescriptions and interpretation of the principle of the right of disciplinary action are the same as in the case of the principle of case law described above.

5 Career Development through In-house Training and Education

Changes in In-house Training and Education

While Japan's life-long employment practice experiences is changed by forcing restructuring, recruiting external human resources and other reason, training and education are also subject to changes due to the advocates on importance of individual career development such as emphasized capacity development through the independent responsibility of the worker and the introduction of selective education, in addition to long-term human resource development (overall basic education) in the company based on the assumption of long-term employment. Issues such as the increase in number of non-regular employees without access to in-house training and education, the decrease in number of young employed persons with the fall in the birthrate and aging of society, and the increase in "NEETs" (young people Not in Education, Employment or Training) and "freeters" (job hopping part-time worker) also create a number of challenges for corporate human resource development that will have to be resolved.

OJT: Practical Training Predicated on Long-term Employment

Workers HRD training is based on on-the-job training (OJT) although there have been the changes as seen above, predicated on the assumption that employees will stay at one company throughout their careers, in-house development of human resources at Japanese companies takes place over a long period. In-house training-central to this development-consists primarily of OJT which gives employees the opportunity to develop their skills through actual business experience. OJT fulfills an important role in training both blue- and white-collar workers. In factories, for instance, OJT is used not only to teach personnel about the production process, but also to enable them to repair mal-

functioning machinery and perform maintenance work. Clerical workers in accounting and other departments learn through OJT how to manage unreliability by, for example, analyzing divergences between budgeted and actual results.

Two Types of OJT

Because OJT often overlaps with the execution of everyday work, it is difficult to gain an understanding beyond surface appearances; however, we can divide OJT into two types-formal and informal. Formal OJT generally involves assigning instructors and setting training schedule to train employees, and setting post-training evaluation standards. These points separate formal OJT from informal OJT.

Long-term Informal OJT Builds High-level Talent

The primary distinguishing features of HRD in Japan are as follows.

(1) Informal OJT performs a considerably greater role than formal OJT. On the other hand, the latter is often given in limited occasions such as to cover only a part of initial skill improvement period of newly hired workers or to provide by-level training to those who assume higher rank position.

(2) A long-term informal OJT is indispensable for employees to acquire high-level skills. Some of the principle forms of informal OJT include gradual progression of work experiences from simple to more difficult tasks and a rotation system where workers shift and serve in a variety of positions. OJT gives workers the opportunity to gain a wide range of experience, thus improving their business skills.

(3) Long-term informal OJT is implemented in large companies in a wide and organized manner. While although there are only few small- and medium-sized companies that tend to implement in organized manner, they implement in a man-

ner where senior workers gives guidance to junior workers.

(4) Off-JT (off-the-job training; those conducted outside the workplace) is being implemented in between the OJT. By systematically acquiring the necessary knowledge and theory to perform their work through off-JT, workers can consolidate and give a theoretical underpinning to the experience gained through OJT and in turn enhance the benefits of such training.

OJT is Founded on Seniority-based Promotion and Promotional Management

This type of OJT functions effectively in Japan thanks to a promotion and pay raise management system that enables senior workers to smoothly transfer skills on to subordinates. Senior workers are not reluctant to train their subordinates, since they are confident that the latter will not be promoted or given raises ahead of them; this, in turn, has reinforced teamwork at the workplace.

This approach to HRD has proven to be a positive way for employees to refine their skills, and is also an aspect of Japanese company culture that makes Japanese companies so competitive.

Implementation of Formal OJT/off-JT and Disparity in Opportunities to Receive Education and Training

According to Japan's most comprehensive survey of in-house education and training, MHLW's *Basic Survey of Human Resource Development*, 45.6% of establishments provided "formal OJT" and 77.2% provided "off-JT" to regular employees during FY2006. In contrast, the respective proportions that gave training to non-regular employees were 18.3% and 40.9%. These figures indicate the existence of a 2.5-fold gap in formal OJT opportunities and a 1.9-fold gap in off-JT opportunities for non-regular employees compared with regular employees.

Given that non-regular employees account for one third of total employees, the time has come to consider the following from a long-term viewpoint:

- 1) The creation of systems that allow non-regular employees to develop their skills and careers
- 2) The creation of systems to incorporate their skills development into corporate training and education

Developing measures to assist the development of such systems is thus now an urgent issue.

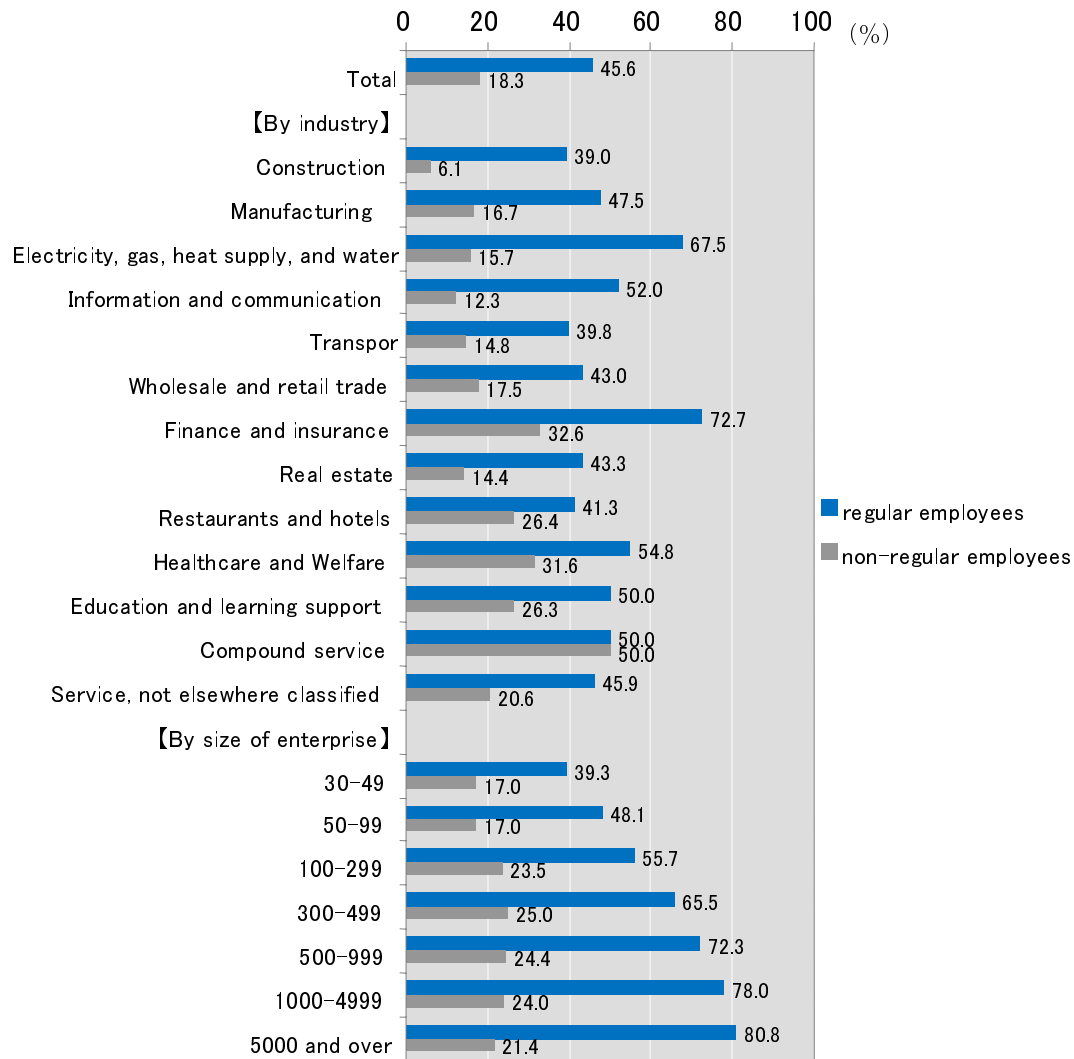
III-11 Trends of the Number of Regular Employees and Non-Regular Employees

(10,000 persons)

Year	Total employees	Regular employees	Non-regular employees	Ratio of non-regular employees to total employees
2003	4,948	3,444	1,504	0.304
2004	4,975	3,410	1,564	0.314
2005	5,007	3,374	1,633	0.326
2006	5,088	3,411	1,677	0.330
2007	5,174	3,441	1,732	0.335

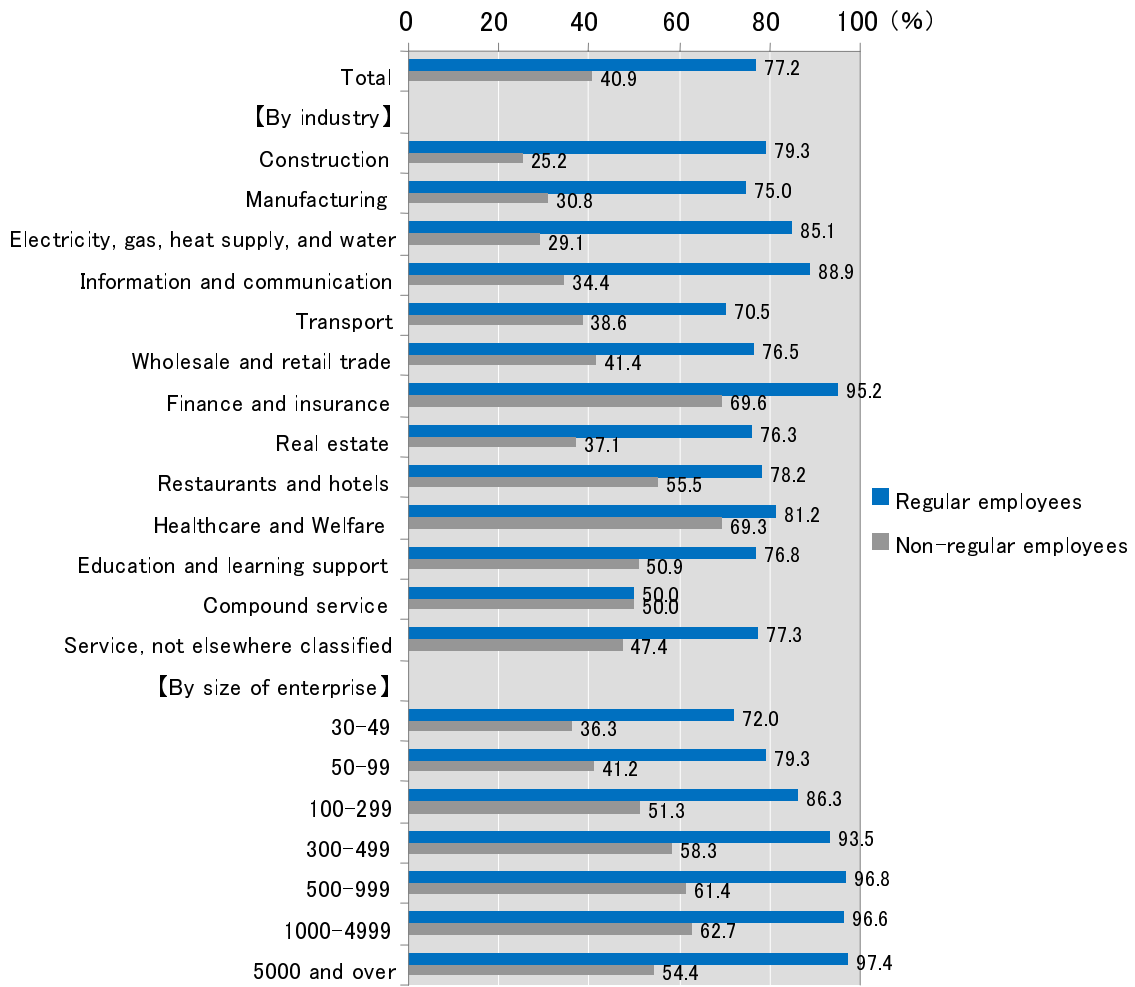
Source: Statistics Bureau, Ministry of Internal Affairs and Communications, *Labour Force Survey 2007*.

III-12 Current Situation of Formal OJT Implementation



Source: Ministry of Health, Labour and Welfare, *Basic Survey of Human Resources Development*, 2007.

III-13 Current Situation of Off-JT Implementation



Source: Ministry of Health, Labour and Welfare, *Basic Survey of Human Resources Development*, 2007.

6 Wage Systems

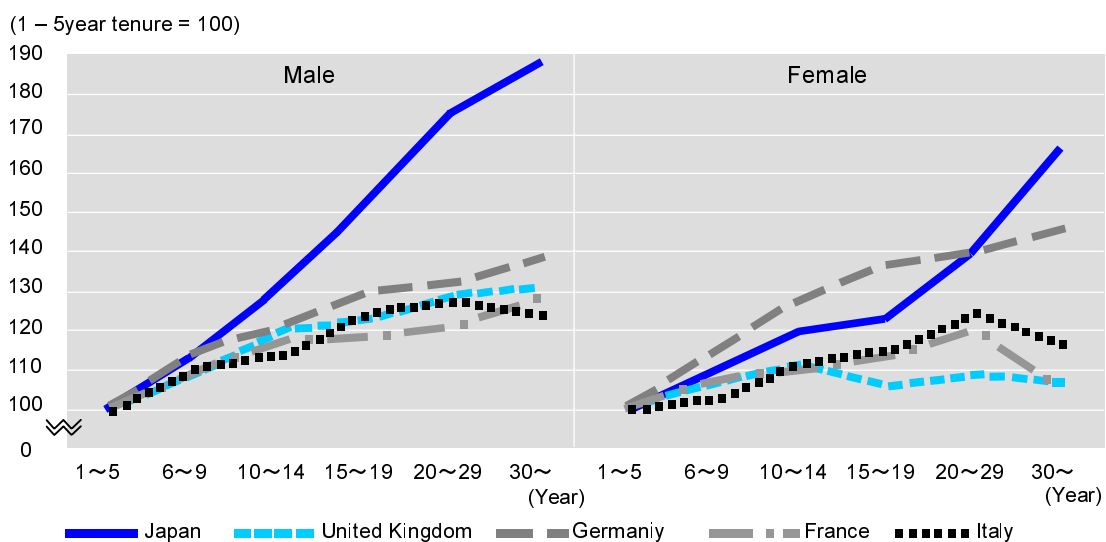
Strong “Seniority” Element

III-14 shows that the wage levels of manufacturing workers in several countries differ according to employee tenure. In all the countries shown, wage levels tend to increase with length of tenure, but this trend is particularly pronounced in the case of Japan. Looking at male workers in Japan, the wages of workers who have worked continuously for the same company for at least 30 years is almost twice as high as that of workers who have been employed 1-5 years, compared with around 1.2 to 1.4 times as high in other countries.

There are several possible reasons for the markedly stronger “seniority” element of wages in Japan compared with other countries. One is that Japanese companies tend not to determine “job wages” based on the content of the job that

an employee performs. Instead, they much prefer to pay employees according to the level of “ability” required to perform a variety of tasks in the company. This “ability” is assumed to increase the longer that an employee has worked at a company, and accordingly wage levels increase with length of service. A further reason, in addition to the view that wages are compensation for the ability and labor services provided by an employee, is that there remains a deep-seated acceptance at Japanese companies that wages are the main means by which employees secure their livelihoods. If the intention of a company is to pay a wage that will cover the typical cost of living at a given age, then it will pay a higher wage to longer-serving employees who, being older, tend to have to spend more at home on children, education, and so forth.

III-14 Wage Differences in Manufacturing according to Employee Tenure (2002)



Sources: Japan — Ministry of Health, Labour and Welfare (June 2003), *Basic Survey on Wage*.

Other countries — EU (November 2005), *Structure of Earnings Statistics 2002*.

Moves to Overhaul Wage Systems

In recent years, however, some companies have sought to overhaul their conventional wage systems and develop new ways of determining

wages. The *General Survey of Working Conditions* conducted in 2007 by the Ministry of Health, Labour and Welfare shows that 46.3% of companies had modified their wage systems in some

way over the preceding three years. The proportion to have taken such action is greater among larger companies, with 56.5% of companies with 1,000 or more employees having done so. Regarding the types of changes made, comparatively large proportions of companies of all sizes had expanded the wage component linked to performance/results, content of work (such as job or occupational category), or job-performance skills (III-15).

There has thus recently emerged a trend among Japanese companies toward clarification and reinforcement of the relationship between outputs (performance and results) and wages

paid. This increasingly output-oriented emphasis in pay determination has been particularly evident since the 1990s. A second development has been the trend toward paying wages commensurate with the content of work actually performed by employees. As employees tend not to be assigned to a specific “job” at Japanese companies, however, it is commoner for companies to adopt ways of determining wages according to the extent of the “responsibilities” and “functions” performed by employees through their work, rather than based on the work itself. Arrangements of this kind are known as responsibility or function-based wage systems.

III-15 Percentages of Companies Making Changes to Wage Systems in Preceding Three Years and Types of Change (%)

	Percentage of companies to have made changes	Type of change (multiple answers)									
		Expansion of portion of wage linked to work content (job or occupational category, etc.)	Expansion of portion of wage corresponding to job-performance skills	Expansion of portion of wage linked to performance/results	Reduction of allowances and inclusion in base pay	Reduction of retirement benefits and inclusion in base pay	Restriction of base pay and relative expansion of bonuses	Introduction of pay scale	Modification/introduction of ability-based grade system	Modification/introduction of annual salary system	Discontinuation of regular pay increases
All companies	46.3	23.3	22.1	23.7	9.1	1.1	6.0	7.7	11.0	4.0	7.1
1000 and over	56.5	27.2	23.0	31.3	18.1	0.9	5.7	11.9	22.3	8.9	11.5
300-999	52.9	23.7	23.5	30.2	15.3	0.7	6.2	13.8	19.1	8.3	10.2
100-299	45.5	21.7	19.7	24.9	10.3	1.4	5.1	10.4	14.4	5.7	6.1
30-99	45.5	23.7	22.6	22.4	7.8	1.0	6.2	6.2	8.7	2.8	6.9

Source: Ministry of Health, Labour and Welfare, *General Survey of Working Conditions 2007*.

Issues Encountered in Revision of Wage Systems

Moves to strengthen the link between wages and work content and output are always designed to correct the demerits of wages with a seniority element. The aging of corporate workforces with the graying of society as a whole and the decline of the birthrate, combined with the destabilization of the business environment faced due especially to the intensification of international competition, has rendered it unfeasible for Japanese companies to continue to maintain the conventional seniority element of their wage systems. There are also concerns from the perspective of employers that the continued application of wage systems based on seniority could lower the motivation of younger employees and high performers.

However, revising wage systems is not with-

out its pitfalls. If wages are to be linked to performance and results, mechanisms for evaluating performance are needed. According to the above General Survey of Working Conditions, 45.6% of companies have introduced performance evaluation systems. 60% of these, however, regard these as having led to the problem of employees being dissatisfied with the results of their evaluations or a lowering of incentive to work depending on the results. Introducing function and responsibility-based wages to strengthen the linkage between work content and wages also has only a limited corrective effect on conventional seniority-based wage systems if the details of roles and responsibilities are not clearly established. Japanese companies will have to tackle issues such as these as they design and administer their wage systems in the future.

7 Working Hours

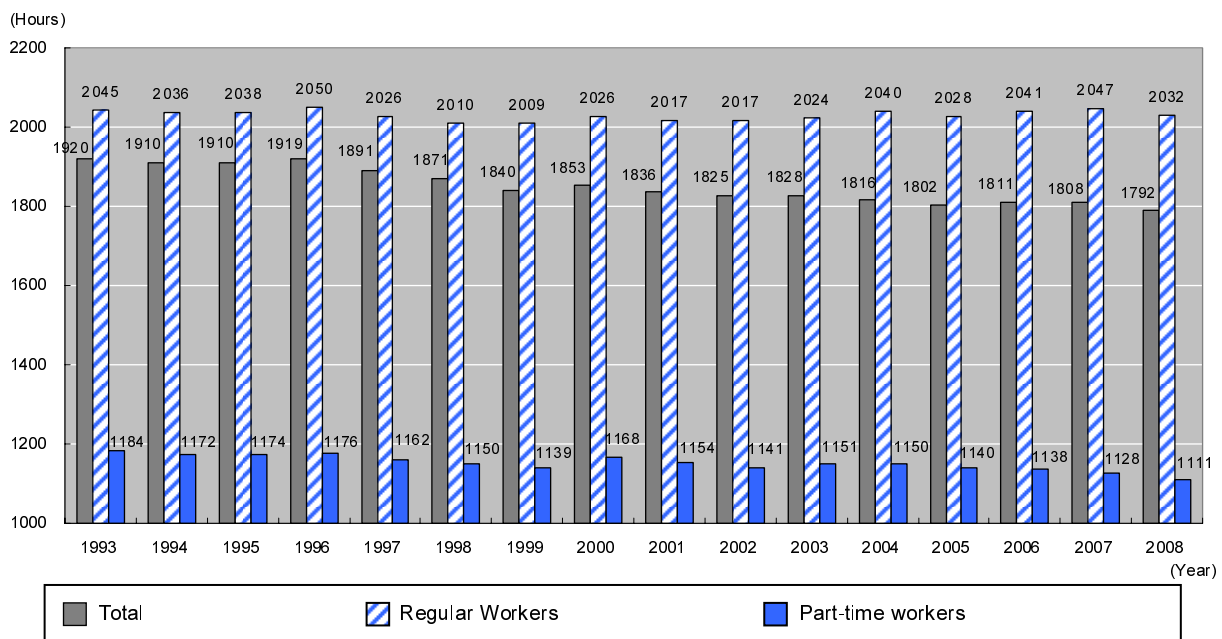
Japan's Working Hours Legislation-40 Hours

Japan's working hours legislation is provided in the Labor Standards Act, which has been in effect since 1947. Because the shortening of working hours became a big policy issue in the latter half of the 1980s, the traditional 48-hour workweek set by the law was gradually shortened since 1988. Now, aside from the 44-hour weeks served by workers at commerce, motion picture and theatre, health and hygiene, and service and entertainment workplaces of fewer than 9 employees, the workweek across all industries and business sizes has become 40 hours long.

Annual Total of Hours Actually Worked

III-16 shows the annual total of hours actually worked of regular workers and part-time workers. The total for the two categories combined indicates that hours have steadily declined since 1993. However, if one looks only at regular workers, who work longer hours, it is apparent that hours have fallen hardly at all over the 16-year period. In other words, the shortening of overall working hours during this period was an outcome of the increase in part-time workers working shorter working hours.

III-16 Trends in Annual Total of Hours Actually Worked by Regular and Part-Time Workers



Source: Compiled from Ministry of Health, Labour and Welfare, *Monthly Labour Survey* (establishments with five or more workers).

Annual Non-scheduled Hours Worked

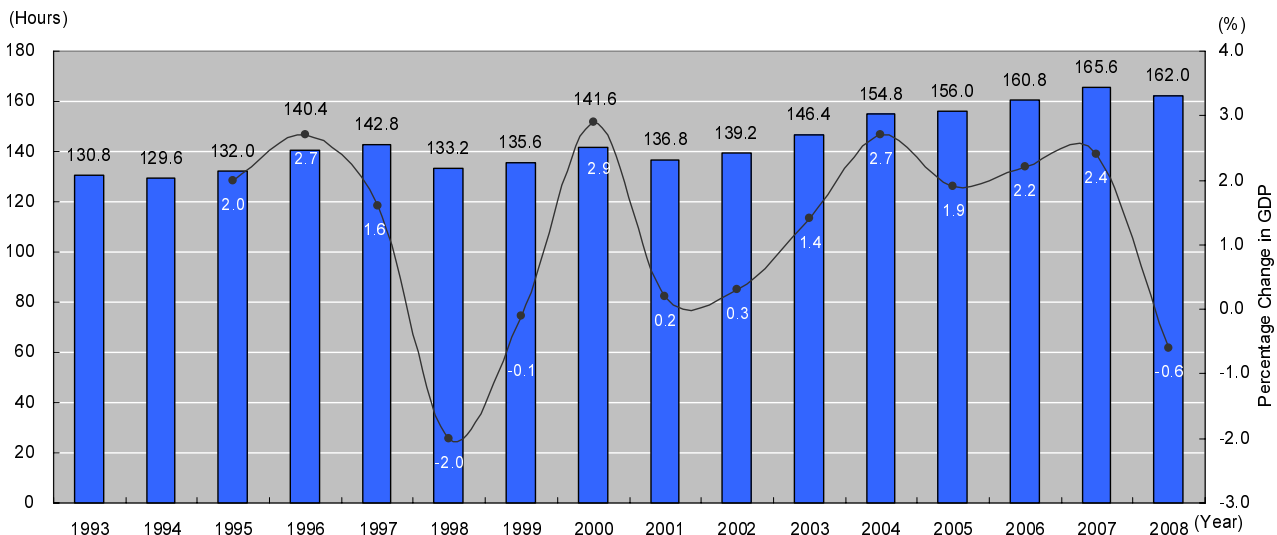
III-17 shows non-scheduled working hours and changes in GDP, from which it can be seen that non-scheduled working hours in Japan move in tandem with, and slightly behind, movements

in the economy. This is due to the fact that overtime work is leveraged by companies as the principle means to make employment adjustments in response to fluctuations in production demand. In other words, enterprises increase the non-

scheduled working hours of existing employees rather than taking on new hires during upturns, and conversely respond by cutting non-scheduled working hours before taking other steps, such as laying off workers, during downturns. Behind this is the fact that the cost of overtime allowances for existing employees is generally less than labor costs related to hiring additional employees. Ordinary non-scheduled working hour allowances increased 25%, but the hourly rate upon which this calculation is based does not include various allowances such as employee bo-

nuses. This is consequently considerably lower than the hourly rate obtained by dividing annual income by annual working hours, and this appears to be a contributor to enterprises' preference for overtime. At present, an annual maximum of 360 overtime hours per worker is prescribed by the Labor Standards Act; within this range, upper limits are set for fixed periods, such as 15 hours per week, 45 hours per month, and 120 hours per 3-month period, though no penalty is imposed for violating these standards.

III-17 Trends in Annual Non-Scheduled Working Hours of Regular Workers and Percentage Change in Real GDP from Previous Year



Source: Compiled from Ministry of Health, Labour and Welfare, *Monthly Labour Survey* and the Cabinet Office website.

- Notes:
1. Annual non-scheduled working hours equal the difference between the annual total of hours actually worked and annual scheduled working hours of regular employees at establishments with at least 5 workers in all industries surveyed.
 2. Real GDP (calendar year) is calculated according to the chained price method employed since 1994. Figures prior to 1995 were unavailable.

Annual Paid Leave

III-18 examines the number of days of annual paid leave given and taken, and, with those figures as denominator and numerator, the percentage of holidays taken. According to the Labor Standards Act, 10 days leave shall be granted to those workers with an 80% or greater attendance rate and at least 6 months of continuous service with a business, and 20 days shall be given upon reaching 6 years and 6 months of service. But

unfortunately the average number of holidays taken throughout Japan in 2008 was 8.2. So, in actuality, many of paid leave days are not consumed.

There is a variety of factors behind this such as that company personnel management do not presume that all the holidays will be used, and that workers are often too busy with work to use holidays.

III-18 Days of Annual Leave Given and Taken and Percentage Consumed

	Days given ¹⁾ (days)	Days taken ²⁾ (days)	Percentage con- sumed ³⁾ (%)
All sizes	17.6	8.2	46.7
1,000 employees or more	18.8	10.0	53.1
300-999 employees	17.7	8.0	45.0
100-299 employees	17.0	7.3	42.8
30-99 employees	16.4	7.0	42.4
Mining	18.5	11.5	62.0
Construction	17.5	6.2	35.3
Manufacturing	18.3	9.9	54.0
Electricity, gas, heat supply, and water	19.6	14.9	76.3
Information and telecommunications	18.3	10.0	54.8
Transport	16.9	8.4	49.6
Wholesale and retail trade	17.2	6.0	34.6
Finance and insurance	19.0	8.0	42.0
Real estate	16.4	7.0	42.7
Restaurants and hotels	15.9	4.7	29.8
Healthcare, welfare	14.9	6.4	42.7
Education and learning services	17.1	7.5	44.0
Services	16.4	7.9	48.3
2004	18.0	8.5	47.4
2005	18.0	8.4	46.6
2006	17.9	8.4	47.1
2007	17.7	8.3	46.6
2008*	17.8	8.5	47.7

Source: Ministry of Health, Labour and Welfare, *General Survey of Working Conditions*.

- Notes:
1. "Days given" does not include days carried over.
 2. "Days taken" is the number of days actually taken during 2007 (or fiscal 2006).
 3. The percentage consumed is calculated as follows: total number of days taken / total number of days given x 100 (%)
 4. The scope of the survey was expanded from "private enterprises whose main office has 30 or more regular employees" up to 2007 to "private enterprises that have 30 or more regular employees" from 2008.
 5. 2008 shows the figures for "private enterprises whose main office has 30 or more regular employees," and should be referred to for the purpose of making comparisons over time.

Flexible Working Hours System

A variable scheduling system is also prescribed for in the Labor Standard Act.

All within this system are: a system of monthly variation, a system of annual variation, flexi-time, and a free-style system of weekly variation. In the monthly and annual variation systems, the weekly scheduled working hours will be increased to over 40 hours for, respectively, a specified week(s) or specified month(s); all other weeks/months will be shorter. Therefore, this sys-

tem can be applied to situations such as a manufacturing industry for which the exceptionally busy periods vary with season, and the corresponding clerical fields. For the annual variation system, it has been possible since April 1999 to plan scheduled working hours flexibly for a period greater than one month, but maximums have been set at 10 hours per day and 52 hours per week. Flexitime is a system allowing workers self-management over their comings and goings to and from the workplace during a one-month

settlement period. The free-style system of weekly variation was designed for types of businesses such as retail shops, restaurants, and Japanese-style inns, where business may slow down greatly on certain days of the week. This system provides for advance changes (made by the end of the previous week) in the scheduled working hours for a particular day or days, keeping the weekly scheduled hours at a fixed constant. Furthermore, the Labor Standard Act also stipulates a de-facto working hours system. Firstly, in the case of pit work, the total time spent from the time the worker enters the underground workplace until he or she leaves it will, including the recess time, be considered as part of the working time. Secondly, it deals with a system for work which is “conducted outside of the official workplace without specific command or supervision provided and for which it is difficult to calculate the amount of time spent”, and is targeted at work such as sales and reporting/information gathering. Thirdly it deals with what is so-called discretionary scheduling system. This consists of two parts: the “discretionary scheduling system for specialized work” that is aimed at specialized work such as research and development, computer programming, mass communication-related work such as editing, broadcast and film directing, as well as designing, and the “discretionary scheduling system for planning work” that is aimed at white-collar work involving such areas as planning and project development.

Karoshi (Death from Overwork)

The Japanese phenomenon of “karoshi” is known the world over. This can be translated broadly as death that occurs as a result of excessive work (involving such things as extremely long working hours or unnaturally high stress levels). However it must be noted that it is ex-

tremely difficult to have such cases handled by the legal system if a causal association with the work is not proved. In a more limited sense, death as a result of cerebrovascular disease or ischemic heart diseases (such as brain infarctions, subarachnoid hemorrhage, cardiac infarction, cardiac angina etc.) that have been a result of work overload can be termed as “karoshi” or “death from overwork”, and death that is triggered as a result of mental disability that is caused by work overload or unnatural levels of stress can be said to be “suicide through overwork”

There is no doubting the fact that the principle factor behind the “death from overwork” occurrence is exceptionally long working hours. Due to this, the issue of whether a death qualifies for workmen’s compensation is considered taking into account whether the work that the intended recipient was involved in between the stage just prior to occurrence of the symptoms until the day before the death was excessive or not, and to next reflect on the conditions up until a week before the incident. In addition to this, from 2001 onwards it has also begun to be taken into account whether the worker was involved in more than 45 hours of overtime work between one to six months prior to the occurrence, or similarly involved in more than 100 hours of non-scheduled work in the first month, or more than 80 hours per month in the period between the second to sixth month prior to the occurrence.

The number of cases for both the application and certification of “death from overwork” and “suicide through overwork” have been on the rise: in 2004, 142 cases from the total number of 318 applications for “death from overwork” and 81 of the total of 164 cases (including attempted deaths) for “suicide through overwork” were certified as genuine cases.

8 Company Welfare

Long-terms Trends in Company Welfare Costs

According to a survey by Nippon Keidanren, the cost of compulsory and non-compulsory company welfare combined in 2007 accounted for 17.7% of the total value of cash earnings (III-19). This is slightly higher than in the early 1990s,

when the proportion was 15-16%.

Compulsory benefit costs are made up of the cost of social insurance contributions and other such expenses that are borne by the employer. Differences are accordingly observed between enterprises in the cost of non-compulsory benefits that they provide voluntarily.

III-19 Trends in Monthly Benefit Costs and Retirement Benefits per Employee

Survey	Fiscal year	Category	Total value of cash earnings (yen)	Benefit costs (¥)			Retirement benefits (¥)	Proportion of benefit costs to total value of cash earnings (%)
				Total	Compulsory	Non-compulsory		
35th	90		482,592	74,482	48,600	25,822	36,466	15.4
36th	91		492,587	77,091	49,865	27,226	42,786	15.7
37th	92		501,188	79,130	50,782	28,348	36,866	15.8
38th	93		500,983	79,543	50,998	28,545	38,171	15.9
39th	94		513,412	82,169	53,291	28,878	42,908	16.0
40th	95		525,651	88,174	58,679	29,495	45,341	16.8
41st	96		542,368	90,989	61,233	29,756	48,288	16.8
42nd	97		541,209	91,828	62,896	28,932	56,745	17.0
43rd	98		546,116	91,575	63,162	28,413	63,341	16.8
44th	99		548,191	92,188	63,763	28,425	72,775	16.8
45th	2000		550,802	93,203	65,423	27,780	69,256	16.9
46th	01		562,098	95,883	68,482	27,401	80,495	17.1
47th	02		558,494	96,755	68,552	28,203	87,283	17.3
48th	03		565,935	100,811	72,853	27,958	92,037	17.8
49th	04		578,054	102,372	74,106	28,266	80,499	17.7
50th	05		583,386	103,722	75,436	28,286	81,685	17.8
51st	06		587,658	104,787	76,437	28,350	76,605	17.8
52nd	07		586,008	103,934	75,936	27,998	71,551	17.7

Source: Nippon Keidanren, *Results of the FY2007 Survey of Company Benefit Costs*.

Breakdown of Benefit Costs

III-20 shows a breakdown of benefit costs in FY2007. The bulk of compulsory benefit costs consists of the portion of employees' pension insurance, health insurance, and long-term care insurance borne by the employer, which accounts for approximately 89% of compulsory benefit costs, 65% of total benefit costs, and 11% of the

total value of cash earnings. A breakdown of non-compulsory benefit costs reveals a relatively high proportion to be accounted for by housing-related expenses, which account for approximately 48% of non-compulsory benefit costs and 13% of total benefit costs. Also notable is that expenditures are declining year on year in almost all categories, including housing (-0.2%), health and medi-

cal care (-10.7%), living assistance (-0.1%), congratulations and condolences (-12.4%), culture, sport, and recreation (-0.8%), mutual aid associations (-2.0), and benefit agency services (-6.1%). The declines in congratulation and condolence expenses and health and medical care expenses are particularly marked.

Non-compulsory benefit costs account for ap-

proximately 27% of total benefit costs, but only 0.48% of the total value of cash earnings. A major characteristic of Japanese enterprises is their proportionately high spending on retirement benefits, which, as the table shows, account for approximately 12% of the total value of cash earnings.

III-20 Breakdown of Welfare Expenses in FY2007 (All-industry Monthly Average per Employee)

Category		Amount (¥)	Change from previous fiscal year (%)
Total value of cash earnings		586,008	-0.3
Benefit costs		103,934	-0.8
Compulsory		75,936	-0.7
	Health and long-term care insurance	26,090	0.2
	Employees' pension insurance	41,227	1.4
	Employment and workers' accident insurance	7,902	-14.2
	Child allowance contributions	710	40.3
	Other	7	-79.4
Non-compulsory		27,998	-1.2
(Main category)	(Sub-category)		
	Housing related	13,473	-0.2
	Housing	12,717	-0.2
	Home ownership support	756	0.5
	Health and medical care	2,942	-10.7
	Operation of medical and health care facilities	2,184	-12.6
	Healthcare support	758	-4.8
	Living assistance	6,294	-0.1
	Meals	2,303	-3.8
	Purchases and shopping	289	-9.4
	Clothing	494	12.0
	Insurance	957	3.1
	Nursing care	32	-36.0
	Childcare	100	11.1
	Family support	383	13.0
	Asset accumulation	1,113	-1.7
	Commuter buses and parking	489	0.8
	Other	134	8.9
	Congratulations and condolences	809	-12.4
	Allowance for congratulations and condolences	753	-12.6
	Fringe benefits in excess of legal minimum	56	-8.2
	Culture, sport, and recreation	2,223	-0.8
	Facilities and operation	1,174	-2.9
	Subsidization of activities	1,049	1.8
	Mutual aid money	287	-2.0
	Benefit agency services	355	-6.1
	Other	1,616	13.2
Commuting allowance and commutation costs		9,867	0.4
Retirement benefits		71,551	-6.6
	Lump-sum retirement allowance	30,676	-5.1
	Retirement annuity	40,875	-7.7

Source: Nippon Keidanren, *Results of the FY2007 Survey of Company Benefit Costs*.

Retirement Benefits System

In Japan, the monetary allowance in the event of retirement can be divided into the two categories of lump sum retirement allowances

and retirement pensions. A look at III-21 shows that enterprises that paid retirement benefits accounted for 83.9% of the total in 2008. Among these, only lump sum retirement allowances and

only retirement pensions constitute 55.3% and 12.8% respectively, while the figure for cases where these categories are combined is 31.9%. However, it should be noted that the incidence of only lump sum retirement allowances being provided is inversely proportional to the size of the company in question, whereas the incidence of lump sum and annuity is being provided increases in direct proportion to the size of the company.

It is generally seen that both retirement benefits and retirement pensions are paid in proportion to the number of years of continuous service at a specific business. However there is a demarcation done on the basis of the reason for leaving the company. The ratio of payment is low for those workers who have left on their own convenience while the ratio is raised for long-term workers who have retired at the mandatory age after long-term employment and for those who had to resign at a company's request as those seen in recession etc. It is for this reason that the retirement benefits and retirement pension have become a factor that promotes the long-term work tenures of workers in Japan. In addition to this, in the past it was largely the case that the amount for the lump sum retirement allowance was large, and the worker received a considerable amount of money at the time of mandatory retirement. However in the course of the last few years the proportion of the retirement pension has been on the rise. A number of reasons lie at the background of this development, such as the fact that the amounts for lump sum retirement allowances has been increasing for companies together with the ageing of the workforce,

thereby causing heavy burdens of cost, and also that companies become eligible to receive certain benefits through tax laws by converting retirement benefits to retirement pensions.

Company Welfare in recent years

Lately, changes in company welfare have rested on matters like the increase in companies' cost burden for public welfare and the diversification of employee needs as well as the development of the social security system. Some new mechanisms are currently being introduced: 1) a retirement benefit pre-payment system will add the former welfare portion of labor costs to wages paid to individual workers; 2) a point system in retirement benefits can be combined with a merit-based wage system; and 3) a stock option system is being popularized, allowing workers the choice of purchasing stock in their companies at a price fixed in advance.

In addition, to mitigate the welfare cost burden and to satisfy the diversifying needs of employees, arrangements are being made for a variety of welfare choices, and a cafeteria-style plan that will allow employees to use features according to their needs is being gradually disseminated.

Furthermore, a "Family-Friendly Company" award has been created. This is to commend businesses with personnel management systems giving consideration to the household conditions of workers through such efforts as the creation of a vacation/leave system for child care and family care, and the establishment of a daycare center. The Ministry of Health, Labour and Welfare began honoring such enterprises in 1999.

III-21 Percentages of Enterprises with Retirement Benefit (Lump Sum/Annuity) Schemes and Breakdown by Type

(%)

Enterprise size, industry, and year	All enterprises	Enterprises with retirement benefit (lump sum/annuity) scheme ¹⁾		Enterprises with retirement benefit (lump sum/annuity) scheme			Enterprises with no retirement benefit (lump sum/annuity) scheme	(Re-grouped) With retirement benefits	
				Lump sum only	Annuity only	Lump sum and annuity		Lump-sum scheme (inc. enterprises with both)	Annuity scheme (inc. enterprises with both)
All sizes	100.0	83.9	(100.0)	(55.3)	(12.8)	(31.9)	16.1	(87.2)	(44.7)
1,000 employees or more	100.0	95.2	(100.0)	(19.3)	(24.0)	(56.7)	4.8	(76.0)	(80.7)
300-999 employees	100.0	92.2	(100.0)	(30.7)	(23.7)	(45.6)	7.8	(76.3)	(69.3)
100-299 employees	100.0	88.0	(100.0)	(41.1)	(17.7)	(41.2)	12.0	(82.3)	(58.9)
30-99 employees	100.0	81.7	(100.0)	(63.0)	(9.9)	(27.1)	18.3	(90.1)	(37.0)
Mining	100.0	96.4	(100.0)	(64.5)	(15.3)	(20.2)	3.6	(84.7)	(35.5)
Construction	100.0	91.9	(100.0)	(50.6)	(10.1)	(39.2)	8.1	(89.9)	(49.4)
Manufacturing	100.0	88.8	(100.0)	(51.7)	(13.9)	(34.4)	11.2	(86.1)	(48.3)
Electricity, gas, heat supply and water	100.0	100.0	(100.0)	(32.9)	(13.6)	(53.6)	-	(86.4)	(67.1)
Information and communication	100.0	89.3	(100.0)	(42.4)	(17.8)	(39.8)	10.7	(82.2)	(57.6)
Transport	100.0	78.1	(100.0)	(59.8)	(13.7)	(26.5)	21.9	(86.3)	(40.2)
Wholesale and retail trade	100.0	87.3	(100.0)	(55.2)	(12.6)	(32.3)	12.7	(87.4)	(44.8)
Finance, insurance	100.0	95.6	(100.0)	(28.7)	(27.8)	(43.5)	4.4	(72.2)	(71.3)
Real estate	100.0	79.4	(100.0)	(69.6)	(9.9)	(20.5)	20.6	(90.1)	(30.4)
Eating and drinking place, accommodations	100.0	69.9	(100.0)	(71.3)	(8.6)	(20.1)	30.1	(91.4)	(28.7)
Healthcare, welfare	100.0	62.3	(100.0)	(82.2)	(3.4)	(14.3)	37.7	(96.6)	(17.8)
Education, learning assistance	100.0	79.9	(100.0)	(67.7)	(15.6)	(16.7)	20.1	(84.4)	(32.3)
Services(Not otherwise classified)	100.0	72.5	(100.0)	(61.1)	(11.2)	(27.6)	27.5	(88.8)	(38.9)
1989	100.0	88.9	(100.0)	(49.3)	(11.3)	(39.3)	11.1	(88.7)	(50.7)
1993	100.0	92.0	(100.0)	(47.0)	(18.6)	(34.5)	8.0	(81.4)	(53.0)
1997	100.0	88.9	(100.0)	(47.5)	(20.3)	(32.2)	11.1	(79.7)	(52.5)
2003	100.0	86.7	(100.0)	(46.5)	(19.6)	(33.9)	13.3	(80.4)	(53.5)
2008*	100.0	85.3	(100.0)	(53.1)	(13.2)	(33.7)	14.7	(86.8)	(46.9)

Source: Ministry of Health, Labour and Welfare, *General Survey of Working Conditions (2008)*.

- Notes:
1. Figures in parentheses indicate the proportion as a percentage of enterprises with retirement benefit (lump sum/annuity) schemes.
 2. Survey dates are as of December 31 up to 1999 and January 1 from 2001, and are shown as the survey years.
 3. The scope of the survey was expanded from "private enterprises whose main office has 30 or more regular employees" up to 2007 to "private enterprises that have 30 or more regular employees" from 2008. 2008 shows the figures for "private enterprises whose main office has 30 or more regular employees," and should be referred to for the purpose of making comparisons over time.