

1 Long-term Employment System

Employee Tenure in Japan

Table III-1 shows a breakdown of employees in Japan, the United States, and several European countries according to employee tenure. Along with France, Italy and Belgium, the ratio of persons continuously employed for less than 5 years in Japan is in the 30% range (35.1%), lower than in the other countries. Conversely, the ratio of persons continuously employed for 10 years or more is relatively high at 44.7%. It can thus be seen that, by international standards, employee tenure tends to be

longer in Japan.

According to the 2012 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 (Table III-2). By international comparison, long-term employment in Japan is thus a particular feature of employment of male workers at large companies.

Table III-1 Composition of Employees by Length of Service

Country	< 1	1 to < 3	3 to < 5	5 to < 10	10 to < 15	15 to < 20	20+ (years)
Japan ¹⁾	7.4	14.4	13.3	20.2	12.5	10.0	22.2
United States ²⁾	21.1	11.2	16.6	21.8	12.5	6.1	10.6
	< 1	1~ < 6	6~ < 12 (months)	1~ < 3	3~ < 5	5~ < 10	10~ (years)
Canada ³⁾	—	11.3	8.4	21.0	13.5	17.1	28.7
United Kingdom	2.1	4.7	7.9	14.1	16.3	23.9	31.0
Germany	3.1	5.1	7.5	12.6	12.2	16.3	43.2
France	4.5	4.8	4.7	8.8	12.6	19.2	45.3
Italy	2.6	4.2	4.3	9.6	12.3	20.3	46.6
Netherlands	3.0	5.8	7.2	13.2	15.4	18.5	36.9
Belgium	2.8	4.6	6.2	12.0	12.2	18.5	43.6
Denmark	4.8	8.1	8.9	16.8	16.7	17.1	27.6
Sweden	7.8	6.1	7.2	11.1	12.8	18.0	37.1
Finland	7.9	6.6	7.7	10.9	12.7	16.7	37.4
Norway	2.8	5.1	8.4	14.5	16.7	18.6	34.0
Austria	3.0	6.5	6.8	10.4	14.2	19.5	39.7
South Korea	7.2	17.1	11.2	21.6	11.0	13.8	18.1
Australia ³⁾	4.1	8.3	10.2	22.9	16.5	17.5	20.5

Sources: (Japan) Ministry of Health, Labour and Welfare (2012), *Basic Survey on Wage Structure 2011*

(United States) U.S. Department of Labor (2012), *Employee Tenure in 2012*

(Other countries) OECD Database (<http://stats.oecd.org/>), *Employment by Job Tenure Intervals 2012*

Notes: 1) As of June 30, 2011

2) As of January 2012

3) Figures for 2010

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

	All workers	Male workers	Female workers
All companies	11.8	13.2	8.9
1,000+ employees	13.9	15.7	9.7
100-999 employees	11.1	12.5	8.5
10-99 employees	10.2	11.0	8.6

Source: Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure 2012*

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 2012 according 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, since April 2006 it has been mandatory for companies to guarantee employment opportunities to workers from age 60 until they start receiving state pensions. From April 2013, moreover, companies will have to employ

all workers until age 65 if they wish to remain in employment. 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.