

**Analysis of Firm-Provided Training for Non-Regular Employees in Japan
—Based on Special Analysis of FY 2006 Basic Survey of Human Resources
Development—**

Summary

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Objectives of Research

This study, “Research Study on Ability Development Measures for Different Types of Non-Standard Workers” (study group chaired by Hiroki Sato, professor at the Institute of Social Science, University of Tokyo), which started in April 2007, is aimed at conducting research to identify the problems confronting non-regular employees in developing their ability and the direction of employment management that companies

should take in the medium and long term, and studying in detail vocational ability development measures for different methods of human resources utilization by companies and forms of employment. In this study, the analysis mainly focuses on non-standard workers under fixed-term contracts, i.e. non-regular employees such as part-time and contract employees.

[Background of Research]

In the Japanese labor market, so-called regular employees who work under long-term employment contracts have been decreasing since the 1990s, while non-regular employees, such as part-time and contract employees, and outside workers who are not directly employed by the companies they work at, such as dispatched workers and outsourced workers, have been increasing. There is no denying that non-standard workers such as non-regular employees and outside workers generally have fewer opportunities for ability development than regular employees in both terms of quantity and quality. If the present situation continues, they will not be able to develop and accumulate vocational skills, which will not only hinder their career development but also result in disparities in income-earning ability in the future. Under these circumstances, in response to the increase in the need for grasping the current state of ability development of non-standard workers, the research project titled “Research Study on Ability Development Measures for Different Types of Non-Standard Workers” (study group chaired by Hiroki Sato, professor at the Institute of Social Science, University of Tokyo) started in April 2007.

In the Japanese economy, exporting industries, mainly automobile-related industries, have been growing in the past 10 years led by overseas demand¹. However, when foreign economies slowed down after the collapse of Lehman Brothers in the autumn of 2008, these industries began to adjust production and, with this as a trigger, the conditions of the Japanese labor market have grown severer. At present, employment adjustment is carried out mainly among outsourced and dispatched workers and employees of small and medium-sized companies in the manufacturing sector. However, since it is not easy to stimulate domestic demand given the recent export-reliant growth pattern of the Japanese economy, some major companies in the manufacturing sector started cutting regular employees due to the downturn in export levels caused by the overseas economic recession. These trends could also affect non-manufacturing industries through a decrease in national income and employment, and as a result

¹ This statement is based on *Yamada (2009)*.

more companies may reduce their employees.

In addition, looking at the recent economic structure, with the advancement of globalization of markets for products and services and diversification of products and services, changes in amount of work are getting more intense and product life cycles are getting shorter, and a speedier response to these changes is required. Considering that changes in the industrial structure are expected to continue to give less importance to manufacturing industries and that the recent changes in economic structure require short-term changes in the amount of work and a speedy response, it is unthinkable to operate businesses only with regular employees who are supposed to continue working until retirement age, and therefore companies' needs for non-standard workers are expected to remain high.

Recently, there is an opinion that non-standard work should be regulated out of concern over the rapid increase in cases where contracts for dispatched workers terminate without renewal in manufacturing industries². However, tightening regulations over non-standard work in the above-described economic structure entails a risk that companies will look to overseas workforces to meet their labor demand, and thus more jobs will be lost in Japan. Therefore, we should take into account the structure of the labor market, where non-standard workers occupy a large portion, and seek to realize a society where working people can develop their careers free from anxiety regardless of the form of employment or the working style.

In order to realize a society where individual working people can develop their careers free from anxiety, the supply-demand matching rate in the labor market needs to be increased. One way to do it is to enhance human resources development efforts by the whole society because it is considered important to establish an environment which facilitates the smooth transfer of human resources when changes occur in the economic structure and enables workers to acquire additional skills smoothly. Also, as long as there are people working under an employment relationship, the role of companies directly involved in human resources development will never be reduced. Therefore, a structure which gives an incentive to companies to promote human resources development needs to be designed. What is needed for that purpose is a way of utilizing human resources which enables workers to develop their careers regardless of the employment style, i.e. an employment management system which provides workers with opportunities to improve their ability irrespective of working style and assign them to more advanced jobs as they improve their ability.

² "Regarding the situation of contract nonrenewal for non-standard workers," Ministry of Health, Labour and Welfare, <http://www-bm.mhlw.go.jp/houdou/2009/02/h0227-5.html>.

[Outline and Objectives of Whole Research Project]

Based on the awareness of those issues described above, this research project was launched with the objectives of conducting research to identify the problems confronting non-regular employees in developing their ability and the direction of employment management that companies should take in the medium and long term, and studying in detail the methods of human resources utilization by companies and ability development measures for different forms of employment. However, there are various types of non-standard workers, and it is inappropriate to deal with those working under direct employment agreements and those working under indirect employment contracts, such as dispatched workers, under a single category. Therefore, this research mainly deals with non-standard workers who are directly employed by companies and working under fixed-term contracts, such as part-time and contract workers.

[Composition of Report and Objectives of Analysis]

In this fiscal year, the second year of the research project³, a special tabulation was made of the result of the “FY 2006 Basic Survey of Human Resources Development” in order to clarify the attributes of establishments or individuals that facilitate ability development by companies, i.e. firm-provided training with special attention paid to the human resources management system (hereinafter referred to as “HRM system”) used. In other words, the focus is on the analysis of factors that make it easier for non-regular workers who are currently employed by companies to participate in firm-provided training. The results of this analysis are summarized in Chapter II of the report. Also, prior studies on ability development, particularly those regarding non-standard workers, are presented at the end of the report for reference.

Under severe employment situations, attention tends to be on support for ability development of the people who are at a disadvantage in the labor market, such as jobless people and out-of-work youths called NEETs. However, given further technological advancement centered on informatization and the aging of the population,

³ In the previous fiscal year, or the first year of the project, an interview survey was conducted of companies and establishments that actively employ non-standard workers and of labor unions to obtain good examples of ability development of non-regular employees and employment management. Also, a special tabulation of the data on individual survey sheets of the “Basic Survey of Human Resources Development” was made to identify in detail the challenges confronting non-regular employees in ability development by attribute, and the attributes of the establishments that are active in ability development, especially the employment management system applied to non-regular employees, were also examined. The study results are published in Discussion Paper Series No. 36 “Preliminary Study on Employment Management and Human Resources Development of Non-Regular Employees.”

which will result in a declining trend of the working population, it is also important to enhance the ability, skills and adaptability of those who already have jobs, and establishing an environment to achieve the above and providing support in an efficient manner is an important policy task. In particular, considering the high rates of job separation and job transfer among non-regular employees who are not supposed to work under long-term employment, companies are probably less motivated to invest in the training of these employees, and there is a lot of room for public support.

However, as few studies have been done to clarify the current state of ability development of non-regular employees in Japan⁴, it cannot be said that the differences between non-regular employees and regular employees in terms of opportunities to receive firm-provided training and the factors defining such differences have been examined sufficiently. This is mainly attributable to the limited number of surveys conducted focusing on ability development of non-regular employees. Although some secondary analyses have been performed using the data of other surveys conducted for other purposes, the number of samples of non-regular employees was not enough for analysis and appropriate questions regarding ability development of non-regular workers were not included in those surveys, and therefore adequate examination is necessary. Fortunately, the “Basic Survey of Human Resources Development” recovered the status of an approved statistical survey in FY 2006 and a survey of ability development of non-regular employees started⁵. Thus, it has now become possible to gather a sufficient number of samples on a national scale and grasp the actual situation based on a highly reliable result. In this report, an analysis was conducted for the purpose of providing information helpful in discussing support measures for ability development of non-regular employees by examining the actual state of ability development of non-regular employees, particularly the attributes of individual non-regular employees and the workplaces that affect the frequency of Off-JT provided by the employer, by analyzing the results of the survey for FY 2006 by comparing the establishment survey sheets with the personal survey sheets.

Here, we will review the prior studies and define the hypotheses to be examined in the analysis in this report. In the prior studies that focused on regular employees as the targets of analysis, it has been shown that certain personal attributes, such as

⁴ With the exceptions of *Hara (2007)* and *Sano (2006, 2007)*

⁵ Up to FY 1999, the survey was conducted as an approved statistical survey under the title of “Survey of Private Education and Training.” After that it was entrusted to a private research institute from FY 2001 to FY 2005 and then became an approved statistical survey again in FY 2006. In the survey conducted in FY 2005 (entrusted to the Mitsubishi Research Institute), too, items concerning ability development of non-regular employees were included in the questionnaire. See the full report for details.

being highly educated and male, and workplace attributes, such as being a large company and engaging in information and specialized services or financial services, raise the likelihood of firm-provided training (Off-JT) being implemented⁶, and that establishments that have a labor union, welfare programs or HRM systems, such as “double-track” personnel management systems, tend to be active in providing firm-provided training⁷. These systems help obtain information on the ability of workers that is difficult for the company to check and encourage workers to stay with the company for a long period of time, and as a result expand the expected period that profit can be made from human investment. In this way, they are expected to contribute to active implementation of firm-provided training.

While the complementarity theory of HRM systems suggests that introducing a combination of more than one system rather than a single system would be more effective in increasing productivity, quantitative studies have also been conducted with the development of a theory model which is suggested mainly in *Milgrom and Roberts (1995)*. In the prior studies, it was reported in some cases abroad that the positive effect of firm-provided training on productivity is larger when introduced together with other HRM systems than when introduced alone⁸. In Japan, too, it is indicated that the workplaces with well-developed human resources management measures tend to be active in ability development, and its effect on productivity is larger than in other workplaces⁹. In other words, based on the results of the prior studies, it seems that companies introduce a certain HRM system together with the implementation of firm-provided training with a view to producing these complementary effects.

Then, are those companies that have a certain HRM system more likely to carry out firm-provided training also for non-regular employees? Does the introduction of more than one HRM system increase complementarity and further encourage the implementation of firm-provided training? Does it help increase the intensity of the training in addition to affecting whether or not the training is carried out?

In this report, in seeking to answer these questions, we conducted a quantitative analysis using the establishment survey sheets and personal survey sheets of the above-mentioned “FY 2006 Basic Survey of Human Resources Development.” It is important to examine not only whether the company carries out training but also

⁶ *Kurosawa (2001)*, etc.

⁷ *Frazis, et. al (2000)*, *Booth, et. al (2003)*, *Kosugi (2006)*, *Kawaguchi and Hara (2007)*, etc.

⁸ *Huselid (1995)*, *Delaney and Huselid (1996)*, *Ichniowski and Shaw (2003)*, etc.

⁹ *Kurosawa, Otake and Ariga (2007)* shows this with respect to regular employees. As for non-regular employees, the study result reported in *Ariga, Kanbayashi and Sano (2008)* indicates the complementarity of HRM systems.

whether the employees actually receive the training, because not all employees working for a company that carry out training can necessarily receive the training. In the said survey, therefore, information on firm-provided training was collected for two types of training, Off-JT and planned OJT, and the analysis was conducted mainly for Off-JT training which was asked about both in the personal survey sheet and the establishment survey sheet. An analysis of the number of hours of Off-JT training that employees received was also conducted in order to identify the factors affecting the intensity of the training in addition to whether or not employees received training.

The composition of Chapter II is as follows: Section 2 explains about “FY 2006 Basic Survey of Human Resources Development,” which was used for the analysis. Section 3 presents an overview of the actual state of firm-provided training using descriptive statistics. In Section 4, we first analyzed factors affecting whether or not an establishment carries out any ability development programs. Then, in Section 5, we analyze factors affecting whether or not employees receive Off-JT, after controlling the attributes not only of the establishments but also of the workers using the data obtained from the establishment survey sheet combined with the information on employees working for the establishment. Also, by describing the differences in firm-provided training for each employee based on a comparison of employees working for the same establishment, we clarify the effects of attributes of employees when the attributes of the establishment they work for are completely controlled.

[Policy Implication]

The results of the analysis in this report and the policy implications drawn from them are as follows:

First, it has been confirmed that the establishments where the quit rate of non-regular employees is high are highly likely to provide training. Although we cannot conclude that for certain only from this result because we do not know exactly when the training was provided and when employees left the company, this tendency that the workplaces where the average quit rate is higher provide Off-JT more frequently is not observed for regular employees. As far as the training provides knowledge and skills that are more or less useful in working for other companies and non-regular employees who received the training transfer between companies, training for non-regular employees might entail greater externality. According to neoclassical economic theory, this issue should be left to the discretionary training activity of companies or workers and there is no room for policy intervention. However, the possible existence of such externality would be ground for justifying policy support,

such as providing subsidies to companies carrying out ability development of non-regular employees¹⁰. Furthermore, if the quit and turnover of them tends to take place within the same industry, it would be effective to accumulate and distribute information on trained workers and training know-how on an industry basis.

It is also found that the probability of non-regular employees receiving Off the job training is low in the prefectures where the unemployment rate is high. Substantial support would be necessary in the regions where economic conditions are poor.

Secondly, it has been observed that, at the establishments that are actively introducing HRM systems for non-regular workers, implementation of training for non-regular employees is promoted. Although it is difficult to provide information on the possibility of receiving education and training, it is possible to provide information on the introduction of HRM systems as part of job offer information. Considering that employees working for the establishments that have many HRM systems are provided with more opportunities for receiving training than employees of other establishments, building an information delivery system which distributes such information on establishments would be helpful for job seekers who want to acquire vocational skills or workers who intends to change their careers.

Thirdly, in order to promote ability development of non-regular employees from a medium- to long-term perspective, it is necessary to maintain the incentive for companies to provide training because companies are expected to continue playing an important role for the future. For that purpose, a mechanism of assigning non-regular workers to more advanced jobs as they improve their vocational ability is essential. As the first step, introducing a system for evaluating improvement in ability, i.e. introduction of a system for vocational ability evaluation would be helpful.

The analysis results indicate that a system for evaluating vocational ability and reflecting the evaluation in the treatment of employees increases not only the probability of establishments carrying out Off-JT but also the probability of non-regular employees receiving Off-JT, though the statistical significance is not high, at 10%. Also, it has been found that actively evaluating the ability to train subordinates as an item of personnel performance evaluation for managerial staff helps increase the number of hours of Off-JT received by non-regular employees, i.e. increases the intensity of training. Non-regular workers are a diversified source of

¹⁰ In *Toda and Higuchi (2005)*, it has been confirmed that after the factor of the form of employment is controlled, the job separation rate for female workers who received training declined in the first and second year following the training after 1997, which seems to indicate that the externality of luring workers away from their companies is not so significant. In order to compare this view with the discussion of this report, an analysis by form of employment would be necessary.

manpower offering a variety of vocational experience and job orientations, and for companies they are considered relatively uncertain subjects of training investment. However, the analysis results as described above suggest that the introduction of an evaluation system would reduce the asymmetry of information and the cost of Off-JT for non-regular employees. Providing support for the introduction of such a system or socially establishing this kind of system would be effective in promoting ability development of non-regular employees.

Lastly, it is desirable to improve the design of the questionnaire of the “Basic Survey of Human Resources Development.” Since there is no other survey of the actual state of human resource development by private companies which is conducted on such a large scale like this survey on a continuous annual basis, this is a valuable survey which provides basic information for a policy discussion of vocational ability development. Nevertheless, it does not necessarily cover all the basic variables that are indispensable for grasping the actual state of firm-provided training. In the future, the factors affecting firm-provided training and the issue of what contents or items of firm-provided training influence the productivity and salary of employees are expected to become more important as basic information for policy planning. Therefore, it is all the more desired that the design of the survey can be improved so that it can provide this kind of information.