

Career Development of Contingent Workers - The Current Status of Ability Development and the Transition to Regular Employees 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 nonstandard employees in

developing their ability and the direction of employment management that companies should take in the medium to 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. nonstandard employees such as part-time and contract employees.

Objectives and Composition of the Report

A decrease in regular employees and an increase in nonstandard employees can be cited as the structural change in Japan's labor market since the latter half of the 1990s. Behind this structural change is changing patterns of the utilization of human resources by businesses, particularly a shrinkage of the scope of work or jobs staffed by regular employees and a concomitant expansion of the scope of jobs staffed by nonstandard employees and other outside human resources, such as dispatch/contract workers. The increase in nonstandard employees in the overall labor market is having a significant impact on career development of workers and opportunities for vocational ability development through on-the-job training (OJT) and Off-JT.

Many types of jobs where businesses use nonstandard employees require, on average, less skills than the jobs for regular employees and can be staffed with employees with short periods of human resources investment. Furthermore, even if skill improvement opportunities are offered, these types of jobs usually have the lower career limits. On the other hand, the expansion of the scope of jobs where nonstandard employees are used has not only narrowed the scope of jobs where regular employees are assigned but also upgraded the levels of business operations in which regular employees are engaged in the early stage of their career, raising the levels of vocational ability requirements businesses demand of human resources deployed in the early stage of the career for regular employees. Consequently, this has resulted in raising the hurdles nonstandard employees have to clear in their shift to the status of regular employees.

These changes in the patterns of human resources utilization by businesses resulted in the following changes in ability development and career development of workers. Firstly, it has been noted that as a result of an increase in people who start their working life as nonstandard employees upon graduation from schools, human resources investment that new graduates can receive in the early stage of their career has decreased, which in turn is highly likely to have a negative impact on their career development in the future. Secondly, among people who found jobs as regular employees upon graduation, those who changed jobs within three years of graduation and those

who work as nonstandard employees after changing jobs are increasing. From the perspective of the overall labor market, these trends are increasing the ratio of nonstandard employees who have less opportunities to receive human resources investment, raising the possibility of creating a situation where the accumulation of human capital cannot be carried out smoothly. Particularly in Japan where human capital has played an important role in economic growth, such an obstacle to the accumulation of human capital can be described as a cause of concern for future economic growth. Thirdly, the lack of adequate investment in human resources and the resultant failure to enhance vocational abilities are expected to give rise to problems not only at the macroeconomic level but also at the microeconomic level, i.e., at the level of individual workers. People who stay in low-paying jobs for long periods would increase, while nonstandard employees would find ability development on an ongoing basis difficult as their job opportunities offer lower limits on a career that could lead to ability improvement.

In order to positively shed light on responses to the above-described problems arising from the increase in nonstandard employees, this research project, “Research Study on Ability Development Measures in Accordance with Forms of Nonstandard Employees” (Study Group Chairman: Prof. Hiroki Sato, Institute of Social Science, University of Tokyo), was established in April 2007 to learn the current status of ability development by focusing on nonstandard employees who have direct employment relationships with companies and consider ways to secure ability development opportunities for and support career development of nonstandard employees.

In the first year of the research project, we conducted hearing surveys on business establishments that are active in the recruitment of regular employees from among nonstandard employees and offering in-house training programs to nonstandard employees in order to understand the current condition of career development opportunities businesses offer to nonstandard employees.¹ In the second year, we conducted a quantitative analysis based on a data set that matched individual data and establishment data of the “Basic Survey of Human Resources Development” by the Ministry of Health, Labour and Welfare to find out nonstandard employees working at

¹ In fiscal 2007, the first year of the project, in order to look into examples of companies with employment management for active ability development of nonstandard employees, we conducted hearing surveys on businesses that actively utilize nonstandard employees and their labor unions to collect good examples of ability development and employment management for nonstandard employees, and also carried out a special tabulation of individual data in the “Basic Survey of Human Resources Development” to look at problems businesses establishments face in the development of abilities of nonstandard employees and identify attributes of businesses that are active in their ability development. The research outcome has been published in Study Material Series No.36, “Preliminary Study on Employment Management and Human Resources Development of Non-Regular Employees.”

what sort of businesses are receiving adequate in-house training, i.e., attributes of businesses establishments offering active firm-provided training, in terms of employment management systems.² Research during the two years shed light on many facts concerning ability development and career development opportunities provided by companies on the labor demand side and factors that regulate them.

In the third year, our research focused on the actual condition of career development of individual workers and investigated changes in the state of career development of workers amid the increasing weight of nonstandard employment in the labor market by examining individual employees. More specifically, based on examinations of individual employees, we tried to find out changes in career patterns of individual employees, in particular whether periods when they work as nonstandard employees are getting longer in their career, how many employees experienced career transitions, including the shift from nonstandard to regular employment, and whether ability development brings pay increases and other benefits to workers.

This report represents an attempt to clarify the above-mentioned issues based on the results of a survey on individual employees conducted independently by the Japan Institute for Labour Policy and Training to shed light on the changes and current condition of ability development and career development of workers, “Survey on the Ways of Working and Learning (hereinafter referred to as “the Survey”).”

Preceding studies on the career patterns of Japanese workers include a series of research on social movements and strata (SSM survey), research based on a reanalysis of a working person survey by the Works Institute, a research division of Recruit Co., Ltd.³, and an analysis using panel data⁴. Our research in this report focuses on the relationship between transitions in patterns of employment and vocational ability development. More specifically, the Survey is characterized as follows.

As explained next section the Survey covers school education, work experiences and life events between graduation from school and the present without interruption. Firstly, one of the characteristics of the Survey is the quarterly research unit for changes in employment. Our research study focuses on the conversion of forms of employment, and we opted for the capturing of changes in a career on a quarterly basis since many nonstandard employees tend to change jobs in short cycles. Secondly, given varied

² In fiscal 2008, the second year of the project, we looked into relationships between factors that encourage ability development of nonstandard workers and businesses' employment management system related to nonstandard employees by analyzing the situation of nonstandard employees receiving firm-provided training. The research outcome has been published in JILPT Research Report No.110, “Analysis of Firm-Provided Training for Non-Regular Employees in Japan.”

³ *Nishimura (2008)*

⁴ *Chichii (2009)*

patterns of the way of working by nonstandard employees, another characteristic of the Survey is a survey of multiple forms of nonstandard employment. The Survey analyzes forms of employment by dividing nonstandard employees into those with full-time work for scheduled working hours of at least 35 hours per week and those with part-time work for scheduled working hours of less than 35 hours per week, and also covers temporary agency workers separately from directly employed workers. At the same time, the Survey studies, on a quarterly basis, the implementation situation of Off-JT and self-development as well as the timing of life events such as marriage and childbirth.

Based on data collected in the Survey, this report is intended to typologize the career patterns of workers in Japan and shed light on the present state and problems involved in the transition from nonstandard to regular employment. Then, this report attempts to measure the effects of firm-provided training on nonstandard employees and analyze whether differences in potential career development opportunities among nonstandard employees affect the actual implementation and motivation of ability development.

Data Used for Analysis

Data used for our analysis is based on the “Survey on the Ways of Working and Learning,” conducted in October-December 2008. The Survey was carried out to find out the actual ways of working and ability development efforts of employed workers in Japan and gather materials for considering a social environment where employed workers can obtain ability development and career development opportunities regardless of forms of employment such as nonstandard employees and regular employees. The Survey covered employed men and women aged between 25 and 44 (excluding housewives and students) living in cities, towns and villages across Japan, using an area sampling method⁵. While we set the target collection number of survey responses at 4,000, the actual number of valid responses collected was 4,024⁶. Take note that the method of selecting survey targets excludes people who are not employed at the time of the survey. It means that the Survey gathers data of the career of people after graduation from schools but does not include the career in the past of people who are not employed at the time of the survey.

⁵ Survey areas were chosen by assigning the probability proportionate to the number of employed people in the target ages to cities, towns and villages across Japan based on the national population census (the number of survey areas: 300, excluding small islands and remote areas in the mountains. Survey targets are classified into eight groups by sex and age: men and women in the last half of the 20s, the first half of the 30s, the last half of the 30s, and the first half of the 40s.

⁶ We actually collected a total of 4,026 responses, but dropped two responses from unemployed samples. The amount of statistics from the total of 4,026 samples collected was published in Discussion Paper Series No.63 “Survey on the Ways of Working and Learning,” 2009.

This survey combined self-administered questionnaires and interviews. Questionnaires for interviews asked questions on the employment history and life events between graduation from schools and the time of the survey (hereinafter referred to as “present”) on a quarterly basis, while self-administered questionnaires ask questions on the present status of employment, consciousness about working and the workplace environment at the first occasion of employment.

Outline of Each Chapter of the Report

We analyze career development in Chapters 1 and 2, and ability development in Chapters 3 and 4. In Chapter 1, we analyze how the career patterns, or change of forms of employment, in the early stage of a career in five years after graduation from schools have changed since the 1980s and what factors have defined those changes. We describe the main findings below.

We set up the four school graduation cohorts for 1980-1987, 1988-1992, 1993-1997 and 1998-2003 by economic trend period and conducted an optimum matching analysis (hereinafter referred to as “the OM analysis”) for each school graduation cohort. By typologizing the OM analysis results by a cluster analysis, we derived the following main types of career patterns: (1) “dominance of regular employees”; (2) “regular employees → nonstandard employees”; (3) “dominance of nonstandard employees”; (4) “nonstandard employees → regular employees”; (5) “students”; (6) “unemployed in mid-course”; and (7) “self-employed.”

In each of the school graduation cohorts, “dominance of regular employees” was found to be the most common career pattern. However, for the cohorts of samples who graduated from schools in and after 1993, the career patterns of “dominance of nonstandard employees” and “nonstandard employees → regular employees” are increasing. And this trend is more conspicuous among women, with the ratio of the “dominance of nonstandard employees” career pattern high for women. By academic backgrounds, the ratio of the “dominance of regular employees” career pattern is particularly high among graduates of “universities/graduate schools,” confirming that higher education is contributing to access to employment opportunities as regular employees in the early stage of career development immediately upon graduation from schools. On the other hand, the patterns of an early career are similar for graduates of “high schools,” “junior colleges/specialized vocational high schools” and “vocational technical schools/schools for nonacademic subjects.”

Looking at attributive factors that divide the career pattern of “dominance of regular employees” and other career patterns, it was found that being males, being graduates of

“universities/graduate schools” before taking up the first employment and not being dropouts of school are contributing to the career pattern of “dominance of regular employees.” It was also found that even when academic backgrounds and gender are controlled, if the timing of graduation from schools coincides with the period of recession, early-stage career patterns other than the “dominance of regular employees” tend to increase.

Furthermore, the comparison between the nonstandard-type career patterns, such as “regular employees → nonstandard employees,” “dominance of nonstandard employees” and “nonstandard employees→regular employees” show that being males and being graduates of “universities/graduate schools” work favorably for the mid-career transition to regular employees, while the career patterns of nonstandard employees, such as “dominance of nonstandard employees” and “regular employees→nonstandard employees,” increase among dropouts of school. It was also found out that the timing of graduation from schools does not influence the high likelihood of being employed for the three aforementioned career patterns.

In addition, not many people are returning to educational institutions after finding employment upon graduation. In other words, interchanging career patterns between employment and educational institutions, such as the return to educational institutions after graduation, have not yet taken root in Japan.

In Chapter 2, we analyze the transition from nonstandard employees to regular employees from both factors concerning working people on the labor supply side and factors concerning employer businesses on the labor demand side while also incorporating the sense of values related to lifestyles of individuals and the choice of ways of working. We describe the main findings below.

Firstly, of people aged between 25 and 44 covered by the Survey, 19.2% (771 out of a total of 4,021 people)⁷ experienced the transition from nonstandard employees to regular employees in mid-career, and 40% of those who started their career as nonstandard employees are now working as regular employees.

Counting the transition of a person from the status of nonstandard employee to that of regular employee as one case (if the same person experiences the transition twice, that is counted as two cases of the transition), the cumulative total of transition cases came to 824 for the entire group of samples subject to the analysis. Of the total number, 20% involved the elevation from nonstandard employees to regular employees within

⁷ Out of 4,024 valid responses, 3 samples are excluded from analysis due to the lack of necessary details in the occupational career written on the questionnaire or being only employed in side business.

the same employers, while the remaining 80% represented the transition to regular employees through job changes between employer companies. These results are of particular note as they indicate a fairly high rate of the in-house elevation from nonstandard employees to regular employees.

Looking at the ratio of people who transitioned from nonstandard employees to regular employees in the same age group (the transition ratio), the ratio tends to be higher among people in their 20s as a whole. There is a discrepancy in the ratio by gender. While the ratio hovers around 10-20% among men in their 20s and early 30s, the ratio rarely exceeds 10% for women and stands low at 2-3% for women in their 30s.

Secondly, of people who experienced transition from nonstandard employees to regular employees, just over 70% stay as regular employees at present, with 20% working as nonstandard employees again and 10% becoming self-employed or being engaged in family businesses. These figures indicate that even when people can transition from nonstandard employees to regular employees, not a few of them transition back to nonstandard employees and those who transitioned to regular employees do not necessarily continue to work as regular employees.

When the characteristics of people who transitioned to regular employees and remain as regular employees at present (“transition type”) are compared with those of people who stay as nonstandard employees at present (“nonstandard employment type”), “transition-type” men who got married within about a year before or after the transition account for one-third of married male employees. In order to capture the sense of values concerning the choice of ways of working, we extracted the three sets of values via a principal component analysis based on questions asking reasons for the choice of ways of working: “simultaneous pursuit,” “realization of abilities” and “stability.” The analysis based on these types of the sense of values concerning the choice of ways of working revealed that “transition type” employees tend to put “realization of abilities” and “stability” before “simultaneous pursuit.”

Thirdly, when we looked for factors that work favorably for the transition to regular employees from the perspective of what businesses on the labor demand side value in their hiring, we found that positive factors of statistical significance include the sameness of job types immediately before and after the transition, Off-JT experiences in jobs immediately before the transition, experiences throughout the entire previous career life (experiences as regular employees, employment experiences upon graduation from schools), and the matching between majors in school education and job types for recruitment.

Fourthly, the results of a quantitative analysis of attributes of people who transition

from nonstandard employees to regular employees show that factors on the part of working people on the labor supply side that work favorably for the transition include that they transition to regular employees in their 20s, that they are strongly conscious of “stability” and that, for men, they got married recently or are about to get married soon.

In Chapter 3, we address OJT and Off-JT to find out whether attending firm-provided training sessions actually lead to pay increases and other benefits to the vocational life of nonstandard employees, and then identify who are the nonstandard employees attending firm-provided training sessions. We describe the main findings below.

Firstly, our research did not observe the pay increase effect for nonstandard employees who attend firm-provided training sessions, but confirmed that attending firm-provided training sessions did help raise nonstandard employees’ self-evaluation of compensation for their jobs and abilities. We also had the analysis results that suggest the statistically significant correlation between attendance at firm-provided training sessions and productivity. In other words, it can be construed that while firm-provided training is helping increase job performance and productivity of nonstandard employees, they are not reflected in their wages.

Secondly, attendance at Off-JT sessions at previous places of employment has the effect of the probability of being hired as regular employees in job changes for both regular employees and nonstandard employees. Limiting to people who were nonstandard employees at previous places of employment, the probability of being hired as regular employees rises statistically significantly for those who received Off-JT at previous places of employment in the case of job changes in the same job category.

Thirdly, of people who work as nonstandard employees, those who work at companies that are positive about career development of employees have the higher probability of attending both OJT and Off-JT sessions. Furthermore, of people who work as nonstandard employees, those who expect longer years of service tend to have the higher probability of attending OJT sessions, and nonstandard employees with full-time working hours tend to have the higher probability of attending Off-JT sessions than part-time nonstandard employees with working hours of less than 35 hours. In other words, of nonstandard employees, those who work in a manner close to regular employees are more likely to receive firm-provided training.

In Chapter 4, we make a comparative analysis of in-house opportunities for career development and skill development for regular employees and nonstandard employees. The following are the main findings for nonstandard employees.

Firstly, compared with regular employees, nonstandard employees tend to get fewer opportunities to take charge of sophisticated and wide-ranging jobs and fewer opportunities to receive education and training as years of their continuous employment get longer. In other words, it is construed that compared with regular employees, skill improvement throughout years of service tend to peak out sooner for nonstandard employees.

Needless to say, this trend was not observed for all of nonstandard employees, and it was shown that younger nonstandard employees and nonstandard employees who work at companies that offer systems for the conversion to regular employees have more opportunities to take charge of sophisticated and wide-ranging jobs and are more likely to receive in-house training. In other words, skill development opportunities for nonstandard employees are defined by the career they can experience at places of employment. However, this trend can be observed more often in the case of shorter years of service, and even younger nonstandard employees and nonstandard employees who work at companies that offer systems for the conversion to regular employees tend to see fewer opportunities for experiencing changes of work and education and training as their years of service get longer. This means that while there exist career development opportunities for nonstandard employees, because of lower limits on a career than regular employees, career development of nonstandard employees come to a halt at shorter years of service than regular employees.

Secondly, the analysis results show that regardless of the length of years of service, nonstandard employees who think they can have opportunities to develop their career at present places of employment even while working as nonstandard employees tend to have stronger incentive to acquire skills for current jobs and enhance work abilities and knowledge for future jobs.

Policy Implications

Based on the analysis results describe above, we now consider their policy implications.

A number of publicized statistics show that the ratio of nonstandard employees in the Japanese labor market has been increasing year by year since the latter half of the 1990s. However, the analysis in Chapter 1 indicates that in recent years, the ratio of people who continued to work as regular employees during five years after graduation from schools is declining, while the ratio of people who are employed as nonstandard employees is rising. This suggests that the ratio of people who follow the career path of continued employment as regular employees is decreasing, though the period covered by

the analysis is limited to the five years immediately after graduation from schools. At a time when opportunities for workers to work as nonstandard employees are widening and periods they workers continue to work as nonstandard employees are getting longer, what sort of improvement in the working environment needs to be developed in order to secure ability development opportunities and make career development possible for people working as nonstandard employees?

First of all, according to the analysis in Chapter 3, businesses seem to be providing in-house training (human investment) for nonstandard employees selectively to those who work in a manner similar to regular employees, or nonstandard employees with higher expected returns such as those with full-time working hours and longer expected periods of continuous service. It means that it is likely that businesses do not make active human investment in those nonstandard employees whose ways of work are quite different from regular employees. In other words, it is essential to improve the environment for facilitating the accumulation of human capital for nonstandard employees who find it difficult to shift to full-time work and for those whom employing businesses expect only shorter periods of employment.

Based on the analysis of Chapter 4, skill development opportunities for nonstandard employees are defined by the career nonstandard employees can experience at places of employment and businesses' provision of career development opportunities to nonstandard employees can contribute to enhancing nonstandard employees' incentive for ability development. In other words, in order to widen career development opportunities for nonstandard employees, it is necessary to increase the number of companies who actively seek to make full use of the force of nonstandard employees by letting them take charge of wide-ranging jobs and allocate and assign work to allow them to pursue career development through continuous service. However, it is also known that there are limits to the scope of work for nonstandard employees and to the expansion of their career as they work under fixed-term labor contracts for limited periods of time. Therefore, in order to expand the scope of a career beyond these limits and lengthen the period of continuous employment companies expect from nonstandard employees, the conversion of forms of employment, or the transition to the status of regular employees within the same places of employment and changes of jobs to other employers as regular employees lead to wider opportunities of long-term career development for people who work as nonstandard employees. To realize this, it is important to exert efforts to spread mechanisms within businesses for the conversion to regular employees and enhance the matching function of the labor market for facilitating the transition from nonstandard employees to regular employees. It is

difficult to expand career development opportunities for nonstandard employees as a society as a whole, unless opportunities for in-house conversion and job changes to regular employment in the labor market are improved.

In addition, a review of wage levels of nonstandard employees is necessary in expanding ability development and career development opportunities for nonstandard employees. The analysis in Chapter 3 indicates that while the provision of training to nonstandard employees is considered instrumental in enhancing their work abilities as well as productivity of businesses employing them, attendance at training sessions does not directly lead to pay increases. While it is likely that much longer periods than a few months are required for the effect of attending training sessions to be reflected in wages, it is construed that factors other than work abilities (such as local levels of wages) play bigger roles in determining the levels of wages for nonstandard employees. It seems necessary to introduce mechanisms to realize the wage levels commensurate with improvement in productivity by developing ability-based and performance-based wage systems for the determination of the wage levels of nonstandard employees. This in turn should spur nonstandard employees' incentive for ability enhancement.

The efforts described above are construed to contribute to increasing in ability development opportunities and expanding the scope of career development for nonstandard employees. Then, what makes the transition from nonstandard employees to regular employees within and between companies easier? Next, based on the results of the analysis in Chapter 2, we consider measures to lower the barrier for the transition from nonstandard employees to regular employees.

Firstly, it was made clear that one of factors related to the previous employment that favorably affect the transition to regular employees is being full-time nonstandard employees with scheduled working hours of 35 hours or longer per week. In other words, in order to facilitate the transition to regular employees of nonstandard employees who currently find it difficult to shift to full-time work, it would be effective to change the way of work by regular employees, such as elimination of long working hours and the introduction of the shorter working hour system for regular employees.

Secondly, considering that age represents a major constraint in the transition from nonstandard employees to regular employees, intensive support for the career shift for young nonstandard employees in their 20s should greatly facilitate the transition to regular employees.

As known from previous studies, our analysis also indicates that the transition to regular employees has been concentrated in nonstandard employees in their 20s. Furthermore, it was found that people who transitioned to regular employees do not

always stay as regular employees, but not a few of them became nonstandard employees again. A study on *freeters* (young people who enter atypical employment such as part-time or temporary jobs), done separately from this report, shows that people in the last half of their 20s living in urban areas are increasingly becoming conscious of a career search. Based on this change and assuming that people in their 20s are in the career search period, it seems important for the transition to regular employees to develop systems for long-term career consulting/support and matching support and link such career consulting/support to vocational ability development opportunities.

Thirdly, it is shown that the transition from nonstandard employees to regular employees occurs more frequently within the same job types than between different job types. Based on this analysis, it is construed that the accumulation of employment experiences in the same job types and job-specific vocational abilities should lead to the continuation of a career. Thus, the spread of mechanisms that make it easier to evaluate experiences gained in nonstandard employment seems to further facilitate the transition from nonstandard employees to regular employees in a broader fashion, not limited to the transition within the same job types. For example, such mechanisms could include the wider application of evaluation criteria for vocational abilities and the Job-Card System to nonstandard employees.

In addition, the appropriate evaluation of vocational abilities of nonstandard employees as well as the distribution of information on job offers concerning companies where nonstandard employees may find easier access to education and training should be effective in the short run in encouraging businesses to actively provide education and training opportunities to nonstandard employees. The analysis in Chapter 3 indicates that Off-JT attendance at the previous places of employment work favorably for the transition from nonstandard employees to regular employees within the same job types. This is presumably because attendance at in-house training sessions by nonstandard employees smoothes the way to regular employment as it facilitates the accumulation of job-specific human capital and enhances their vocational abilities. It may be possible that nonstandard employees who desire to become regular employees can only find jobs as nonstandard employees. Even in such cases, nonstandard employees can find job changes to regular employees easier by gaining access to training at present places of employment. Thus, it would be effective for facilitating the transition to distribute job offer information concerning places of employment offering easier access to firm-provided training. In addition, the distribution of this sort of job offer information should also induce businesses to expand human resources investment in nonstandard employees.