

# Changing Corporate Society and Future Challenges for Companies, Individuals, and Society: Toward an “Employment Focused Society”

## Summary

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### Research Objective

Society in which individuals are dependent on particular companies under the systems of lifelong employment and seniority-based treatment is receding. In this context, we need to build society in which companies and individuals cooperate and place a greater importance on employment. In other words, the society as a whole must focus on “employment” without depending on particular companies.

With this awareness of the issues in mind, in this research, we examined to find out the mechanisms that will be required by companies, individuals, and society to realize this “employment-oriented society.” The research was carried out by reviewing existing researches and conducting interviews with companies and business associations.

Also, we explored some policy implications based on the research results we obtained.

## **Outline of the research results**

### **1. Research objective and issues**

#### **[Research objective and issues]**

Japan has achieved material affluence on company-oriented society. But as the nation became affluent, a significant change occurred in the mind and values of the Japanese people. Each person questioned the way of one's life and work and began to aspire for society in which one could take the initiative in every aspect of one's life. This also meant that a significant change was occurring in the weight that each person gave to the meaning of companies, or organizations. On the other hand, with the change in the market environment as a result of slowdown in economic growth and intensification of international competition, companies are beginning to explore new ways of personnel management. These developments indicate that "tacit rules" that existed between the company, or organization, and individuals, or employees, are disintegrating.

Those who are middle-aged college-educated white-collar workers today must have drawn up a blueprint of their lives based on the assumption that they would be able to continue working for their company or business group until the mandatory retirement age. That blueprint was founded on lifelong employment and a seniority-based wage system. In the seniority-based wage system, younger workers receive pay that is lower than what amounts to their productivity, and the remainder of the pay is considered to have been lent from the employees to the company. When the same workers reach middle age, they are repaid the money lent to the companies so that they receive pay that is higher than their productivity. This variance in pay corresponds with variance in employees' living expenses as one ages. This system constituted the "tacit rules."

Under these "tacit rules," society was built in which individuals were dependent on particular companies for employment. As these "tacit rules" disintegrate, however, we will have to make a transition from society dependent on particular companies for employment to society in which companies and individuals cooperate in focusing on employment. In other words, we need to build society in which individuals are not reliant on a particular company but in which entire society focuses on employment (hereafter called the "employment focused society"). For this, companies, individuals, and society will have to prepare new mechanisms.

Based on the above understanding of the issues, we will, in this research, first look at what kind of personnel strategies (basic views on personnel management) companies and particularly the management are aiming for and how they are trying to change

personnel management. For implementation of this new personnel management for the purpose of realizing the “employment focused society,” what kind of new mechanisms needs to be introduced within companies? Secondly, we will examine how individuals (employees) are expected to act for the realization of the “employment focused society” and what kind of assistance they need from companies and society. Thirdly, we will, for the realization of the “employment focused society, present the kind of new social frameworks that should be prepared instead of the existing social framework that links “people to work” based mainly on the qualification of “age.”

### **[Method of the research]**

We organized a study group for the research. The study group collected information by surveying existing research and inquiries as well as conducting interviews on companies and business associations.

## **2. Role of companies, individuals, and society in realizing an “employment focused society”**

### **(1) The role of companies**

#### **Preparation of a function to “know” and to “communicate”**

For the realization of the “employment focused society,” companies are required, in planning their personnel management, to thoroughly analyze and clarify “the abilities that form the basis of competitiveness” and to “know” the current state of human resources within the company relative to the clarified goals for development of abilities. This is because companies’ requirements in their employees are definitely changing, and serious surplus employment and employment adjustment within companies are considered as a frictional phenomenon that is occurring in the process of readjustment of the “changing requirements in employees” and “employees’ actual abilities.”

From the standpoint of employees, on the other hand, they will need to know the abilities that a company requires in its employees as well as to understand their own abilities and communicate them to the company. Moreover, a mechanism for appropriately linking individual employees to the company for building optimum careers (a mechanism for “linking people to work”) will also become essential. The design and functioning of such a mechanism will significantly influence development of individuals’ abilities and careers.

This “matching mechanism” (a mechanism for “linking people to work”) will need to be considered from the aspects of the “function to communicate” and the “function to

know.” Companies will need to depart from the short-term view of focusing on the currently available abilities of the current workplace and clarify and communicate what abilities are required in employees over the long-term. In addition, it is indispensable for companies to reinforce their career consulting functions to accurately understand the abilities that employees have and at the same time, to provide appropriate career development assistance.

In this respect, superiors play an important role in the career development of employees on a daily basis. They will need to recognize that they have the role to observe their subordinates, provide feedbacks on their aptitude, talents, and challenges they need to take on, give advice on their careers, and encourage and motivate them in the achievement of goals.

Therefore, there is a need to prepare a corporate environment in which superiors are interested in their subordinates' career development. In addition, preparation of a framework for improving personnel staff's career consultation capabilities and for hire of professional career consultants from outside the companies should also become an important consideration in the future.

### **Development of a common language for expressing abilities**

The ability-based grade system that has formed the backbone of Japanese companies' personnel management is a system for rating employees based on “standard of ability.” In this system, the standard of ability is determined by “absolute evaluation of potential abilities,” but the purpose of those abilities has been ambiguous. As a result, much has to depend on substitute indices, such as age and length of service, that indirectly express potential abilities. In order to prepare a mechanism for “knowing” and “communicating,” however, there is a need for a language that is used to express abilities and that can be shared among companies or within the society as a whole. In particular, as we can expect movement of workers from company to company, it would be difficult to effectively construct a framework for “linking individuals and companies” at the social level if we did not have a common language for expressing the “abilities required by companies” and the “abilities individuals have.” Conditions such as length of service and age should be replaced by an approach that directly evaluates individuals' abilities. It should also be noted that abilities have a meaning only when they are connected with particular jobs and when they can produce certain results through those jobs. There can be no general abilities that are disconnected from jobs. In this respect, the term “competencies” is one of the effective tools. We will need a new approach in expressing individuals' abilities and to develop personnel management

based on individuals' abilities.

The development of such personnel management should result in the transformation from personnel management based on "tacit rules" to personnel management that is "accountable" and "acceptable" to employees (regardless of different working styles of regular and non-regular employees).

### **Corporate social responsibility**

Japanese companies are promoting structural reform with a design to increase linkage with the market. Pushing this type of reform too aggressively, however, may result in breeding social and economic concerns. In the U.S., which is also reinforcing linkage with the market, corporate management that is too heavily focused on the market has expanded income gaps and created other problems. U.S. companies are now urged to correct the trend.

In the Japanese labor market, active structural reform of corporate management and introduction of greater flexibility in employment for the purpose of increasing linkage with the market has become an important factor in expanding employment mismatch. Unemployment caused by employment mismatch requires the burden of paying unemployment benefits to unemployed people and job seekers and of training them for reemployment. In the past, labor reallocation was most often done by transferring or loaning employees within a company or within a business group, and therefore companies absorbed the burden for reallocation. In an increasing number of cases today, however, society has to deal with and accept the burden for reallocating the labor force. Because of the high level of unemployment rates, moreover, this burden is growing heavier and more persistent.

While corporate social responsibility is taken up as an issue today, employment mismatch has a significant impact not only on employees, but also on society. Therefore, the more companies promote market-centered personnel strategies, the more they will likely be asked to fulfill their social responsibility in addressing the problem of employment mismatch. Companies will be required to consider their personnel strategies (employment strategies) from the viewpoint of corporate social responsibility as well.

## **(2) The role of individuals**

### **New strategy of work for individuals**

For the transformation from society in which individuals were dependent on particular companies for employment to society in which society as a whole focuses on

employment, what role are individuals, or employees, expected to play? In principle, they should adopt the viewpoint of developing their careers and abilities at arm's length from their companies so that they can develop an expertise that is current socially and not only within a single company. In the past, employees may have been too cloistered within a company. The term "employability" clearly expresses the direction for the future.

When employment was relatively stable, it was enough for employees to focus on developing their abilities within their companies. In most Japanese companies, it is the management that decides which job an employee will take on and when, and employees could acquire certain skills if they are transferred to different sections of their company according to appointments by the company. In addition, they were assured of employment until the mandatory retirement age if they followed the company's appointments. At large companies, an employee may be transferred or loaned to a subsidiary or associated company before the retirement age of 60, but within the business group, the employee's employment was virtually guaranteed until the retirement age.

The downturn of the Japanese economy since the bursting of the bubble economy significantly weakened the ability of companies to guarantee employment. As a result of the bankruptcy of Hokkaido Takushoku Bank and voluntary closure of Yamaichi Securities in 1997 as well as the virtual breaking apart of Snow Brand Milk Product on the heels of food poisoning and a fraud involving government subsidies, there are concerns that even large companies are not immune to a failure. If a company fails, its employees would have to look for employment elsewhere. They may have been planning on developing their careers within their company, but suddenly they can no longer realize their plans. In case employees are asked to work for another company, they should give attention to enhancing their abilities on a daily basis.

As the environment surrounding individuals change considerably, it will be essential, if workers (regardless of different working styles of regular and non-regular employees) were to enrich their long professional life, to accurately grasp the changes in the requirements of workers, strategically redesign how they should develop their abilities and careers, and enhance their abilities so that they can exercise competitiveness within and outside the company they work for. This is all the more important for non-regular employees, who receive less support from companies than regular employees.

**For implementation of the new strategy of work**

What are the requirements for individuals to implement this new way of working? Firstly, as the role of companies, superiors should prepare the conditions for nurturing subordinates in the workplace. The first step in enhancing the value of work is for individual employees to correctly understand the position of their work in the bigger picture. If they understand the role they are expected to play in the overall scheme, they would be able to more appropriately call on ingenuity in the performance of their work.

Secondly, employees should take the initiative in the management and development of their own abilities in order to increase the value of their work (regardless of different types of working styles). They should know what their strengths are, decide on the abilities they need to develop, and devise new ideas in the performance of their work so that it will contribute to developing their skills. While employees have been responsible for managing their attitude towards work and their motivation to take on new challenges, they will also be required to be responsible for selecting their daily work.

Thirdly, they will need to acquire the ability to clearly sort out the achievements and abilities they developed during the course of their professional experience and careers and to express them concisely for the labor market. This is particularly true for young non-regular employees who have little professional experience.

### **(3) The role of society**

#### **Preparation of a function to “know” and to “communicate” one’s abilities**

With the changes in the market structure, companies are forced to reorganize their business structure and to increase productivity. In this context, they are cutting down on employment and significantly changing the employment structure (the demand structure for human resources). In this connection, companies are reorganizing their organization and management systems with a focus on efficiency and profitability. To realize the new “employment focused society” in this context of corporate reorganization, companies will more than ever before need to prepare a mechanism for precisely grasping the “abilities that a company requires in its employees” and the “abilities that employees actually have” and building optimum careers by linking the two.

In preparing such a mechanism, there is a need for a corporate environment in which superiors are interested in their subordinates’ career development. In addition, preparation of a framework for improving personnel staff’s career consultation capabilities and for hire of professional career consultants from outside the companies should also become an important consideration in the future. Government

policies should also be introduced to socially support such developments.

As people's work life tends to be lengthened and the lifelong employment system is moderated, the chances for individuals to transfer to other companies will increase. In light of this, they will need to "know their abilities" not only within the context of their own company, but also from the viewpoint of society, or the labor market. They will need to acquire the ability to clearly sort out the achievements and abilities they developed during the course of their professional experience and careers and to express them concisely for the labor market. Social support should be provided to help individuals acquire such ability for development of their careers. Such support is particularly important for young non-regular employees who have little professional experience.

### **Development of a common language for expressing abilities**

In evaluating workers' abilities, it will be very important to have a system for linking in-house evaluation and social evaluation. Up until now, however, such personal attributes as sex, educational background, and particularly age (as an indicator of potential abilities) were used as the common language in the labor market. This has to do with the fact that based on the "ability-base grade system," Japanese companies determined the "standard of ability" through "absolute evaluation of potential abilities," and that length of service at a company (in other words, age) was used as a substitute index to indirectly express these potential abilities. However, although this common language based on the substitute index of "age" is easy to understand, it lacked flexibility. As a result, when there is a large influx of people in the labor market, it could easily cause employment mismatch.

Therefore, in reducing employment mismatch in the labor market and realizing the new "employment focused society," indices with more flexibility need to be developed. A more flexible system using a common language focused on "abilities" as a new index for each type of work and jobs will be required in the future. In this respect, the most important consideration is to develop a "common language" for objectively expressing abilities while also incorporating existing officially certified qualifications. Efforts to develop this common language focused on "abilities" are being made in England in the form of NVQ and in the U.S. in the form of "skills standards" and "competencies". These efforts should serve as useful references for building a new way of expressing abilities and a framework for "linking people to work" based on individuals' abilities in Japan. In this case, it will be essential to address the major issue of how to ensure consistency of the new system with existing systems, an issue that was also faced when



the skills standards were introduced in the U.S.

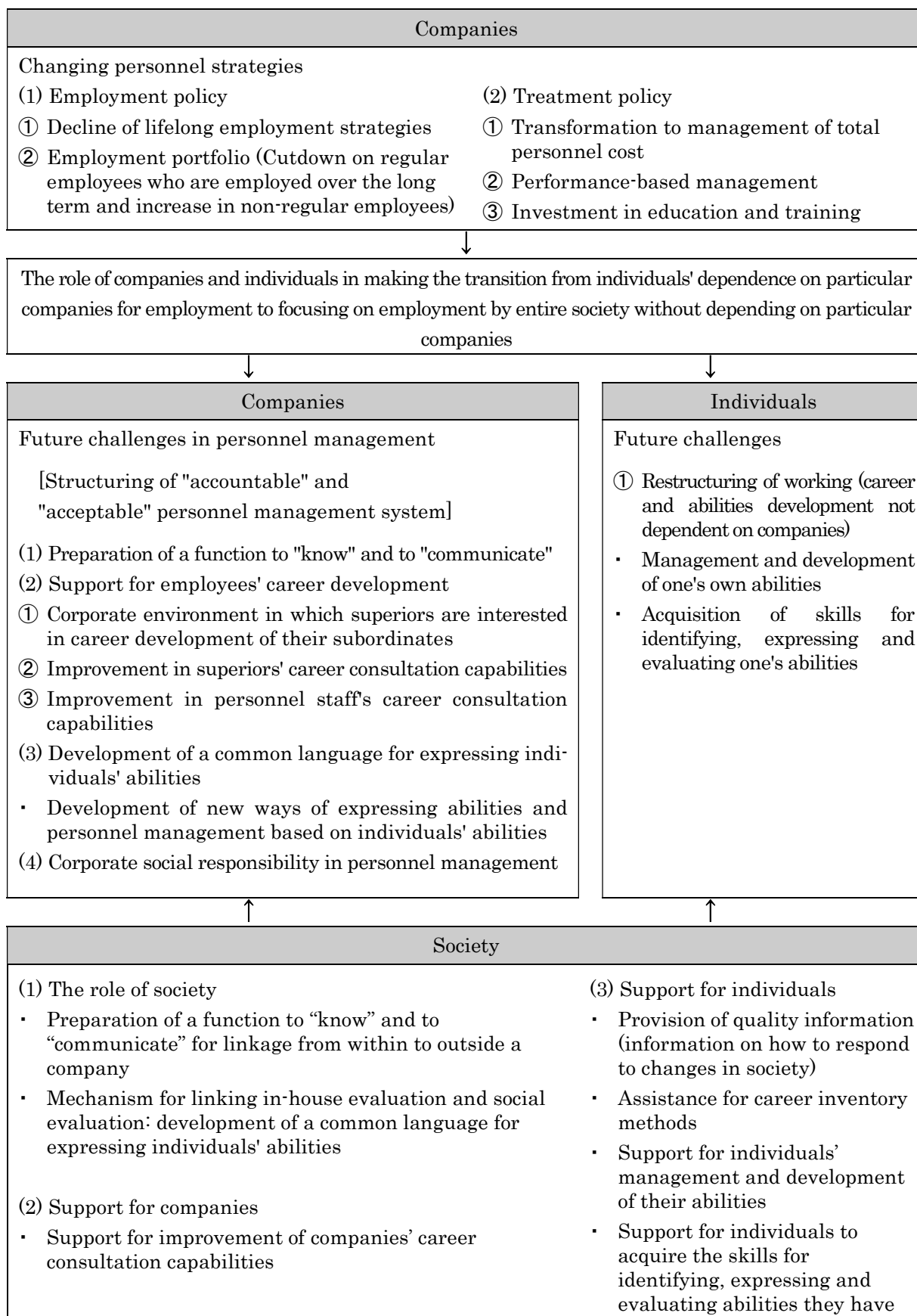
Even if this new framework is built, however, it would not be possible to completely remove the asymmetry of information in the labor market and the resulting uncertainty. Therefore, the only answer to this problem is for individuals to actually work at a particular company. Today, trial employment programs for young people have had a measure of success and are being expanded to include middle-aged people. Such programs are expected to provide an effective means for individuals to experience working at a particular company.

### **3. Implications for building an “employment focused society”**

Some of the implications include the following:

- (1) Preparation of a function to “know” and to “communicate” for linkage from within to outside a company
- (2) Development of a mechanism for linking in-house evaluation and social evaluation
- (3) Development of a common language for expressing individuals’ abilities
- (4) Support for improvement of companies’ career consultation capabilities
- (5) Provision of information on how to respond to changes in society
- (6) Assistance for individuals’ career inventory method
- (7) Support for individuals’ management and development of their abilities
- (8) Support for individuals to acquire the skills for identifying, expressing and evaluating abilities they have

Figure: Changing Corporate Society and Future Challenges for Companies, Individuals, and Society



## Contents of the report

- Part I: Outline
1. Background and objective of the research: a changing relation between organizations and individuals
  2. Changing personnel strategies and future challenges
  3. Individuals' new strategy of work and future challenges
  4. Conclusion: Towards an "employment focused society"
- Part II: Details
- Chapter I: Changing personnel strategies and future challenges
1. Introduction: Understanding of the issues
  2. Changing stakeholders and management goals
  3. Changing personnel strategies
  4. Conclusion: Future challenges in personnel management
- Chapter II: Changing personnel strategies and corporate social responsibility
1. Introduction
  2. Trends in corporate social responsibility in the U.S.: SAI's SA8000 standards
  3. Trends in corporate social responsibility in Europe: European Commission's Green Paper 366
  4. Trends in corporate social responsibility in Japan: Japan Association of Corporate Executives' 15<sup>th</sup> Corporate White Paper
  5. Summary
- Chapter III: Changes in the lifelong employment strategy and employability: taking responsibility in developing one's own careers
1. Job insecurity and development of one's abilities
  2. Corporations' and individuals' views on development of professional abilities
  3. For development of abilities that have currency at other companies
- Chapter IV: Employment of diverse labor force and employability
1. A rise in the percentage of non-regular employment
  2. Non-regular employees in franchise chains
  3. Summary: What measures can be adopted to help non-regular employees and job-hopping part-timers form a career?
- Chapter V: Evaluation of professional abilities and employability: efforts made in the U.S.
1. Introduction
  2. Concept of skills standards
  3. Mechanisms and issues related to skills standards
  4. Conclusion