

# Change in Japanese Employment Practices

*Movements around Lifetime Employment*

Arjan Keizer  
Bradford University School of Management  
[a.b.keizer@bradford.ac.uk](mailto:a.b.keizer@bradford.ac.uk)

## The Research

- A study in 2002/2003 on changing employment practices in response to the economic problems in the 1990s and early years of the 21<sup>st</sup> century;
- Case-studies of firms in four different industries:
  - Automobiles (3);
  - Electronics (6);
  - Construction (2);
  - Retail / Restaurants (3);
- Existing labour market statistics and Japanese studies on changes in human resource management.

## Two major developments in recent years

1. A rise in performance-related pay (*seikashugi*)
2. A rise in non-regular employment

Both these developments can be understood from the continued support for the lifetime employment of regular employees. In accordance, the developments are related. The conditions of regular employment, as defined by the internal labour market, have a major impact on the role of non-regular employment.

## The stereotype: 3 pillars of Japanese employment practices

1. Lifetime employment (*shūshin koyō*): a worker is hired immediately after school and is expected to stay with the same firm until retirement while the firm, in return, is expected to retain him until the age of mandatory retirement (typically 55 to 60) regardless of business conditions.
2. Seniority wages (*nenkō jōretsu*): wages and promotions are dependent upon seniority (defined in terms of age or tenure).
3. Enterprise unionism (*kigyō kumiai*): all the employees of the firm, including both blue-collar and white-collar workers but excluding those in managerial positions above a certain rank, are presented by a single union.

Source: Odagiri (1994) 'Growth through Competition, Competition through Growth'

## Continued support lifetime employment

	1999	2003
(Basically) maintain the practice	34	36.1
Partial adjustment is inevitable	44	40.0
Fundamental review is necessary	17	15.3
Do not have lifetime employment	4	5.2
Can not forecast	1	-
Unknown, no response	-	3.3

### Attitude of firms towards the future viability of lifetime employment

Sources: Hattori and Maeda, 2000, chart 15 (research by *Kigyō Keiei Koyō Kankō Senmon Iinkai*) and Japan Institute of Labour, 2004.

## Strategies for personnel adjustment

	Total	Construction	Consumer Manufacturing	Machinery manufacturing	Wholesale, trade, food	Finance, Insurance
Natural attrition	81.6	81.0	81.5	85.0	81.3	89.9
Employment restraint	76.9	82.8	78.5	81.3	77.8	77.2
Voluntarily retirement invitation & early retirement preference	34.2	48.3	36.9	44.9	19.6	25.3
No Contract renewal for contract and part-time employees	29.7	22.4	35.4	42.1	27.1	11.4
Expansion of <i>shukko</i> and <i>tenseki</i>	26.0	46.6	18.5	30.8	29.2	24.1
Dismissal	6.9	1.7	10.8	5.6	7.6	2.5
Others	1.3	0.0	0.0	2.8	2.1	2.5

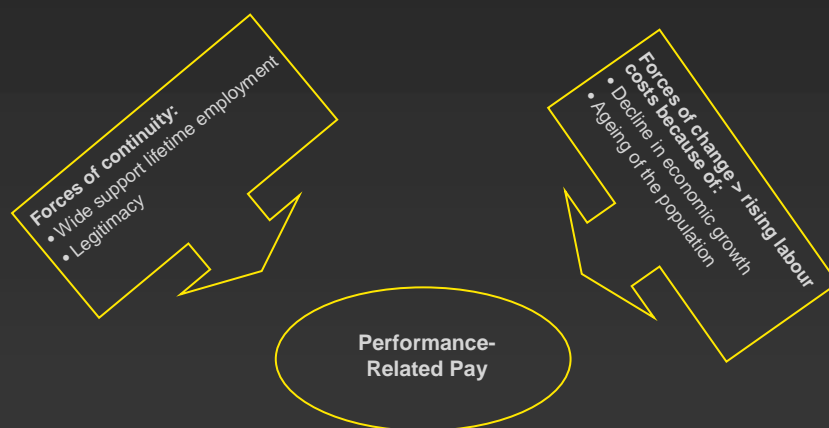
### Strategies for personnel adjustment by industry

Source: *Nihon Rōdō Kenkyū Kikō* [Japan Institute of Labour], 2002

## The economic argument for Japanese employment practices (JEPs)

- The development of skills:
  - Flexibility through simple broad job descriptions and fluidity of jurisdiction
  - The broad skills necessary are taught through on-the-job training and job rotation
  - Long-term evaluation of skills through an 'ability qualification system'
- The motivation of employees:
  - Long-term governance through a 'ranking hierarchy'
  - Motivation through 'career concerns' under late selection

### 1: Trend towards Performance-Related Pay



## Management-by-Objectives (*mokuhyō kanri seido*)

	%
Already implemented	69.9
Implemented but halted or abolished	2.7
Not yet implemented but already planned	8.3
Not yet implemented but under study	14.2
Not implemented and no plans to do so	4.4
Others	0.6

### Introduction of management-by-objectives (*mokuhyō kanri seido*)

Source: *Seisensei Rōdō Jōhō Sentā* [Productivity Labour Information Centre], 2002: 45

### ‘Open’ management-by-objectives forms

Organisation / Division Objectives:							
	Weight	Assignment / Task (task – deadline – process)	Evaluation Comments		Level of difficulty	Level of achievement	
Objectives	%		Empl.		Pts.	Pts.	
			Mgr.		Pts.	Pts.	
	%		Empl.		Pts.	Pts.	
			Mgr.		Pts.	Pts.	
	%		Empl.		Pts.	Pts.	
			Mgr.		Pts.	Pts.	
	%		Empl.		Pts.	Pts.	
			Mgr.		Pts.	Pts.	
	%		Empl.		Pts.	Pts.	
			Mgr.		Pts.	Pts.	
Employee Self-evaluation			Evaluation by the manager				
Total Score		Difficulty	Achievement	Total	Difficulty	Achievement	Total
		pts. *	pts. =	pts.	pts. *	pts. =	pts.

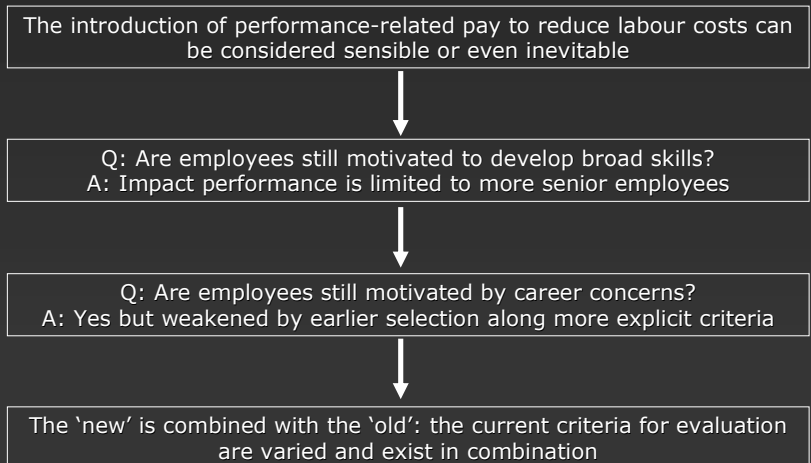
### Management-by-objectives evaluation form at a major electronics firm

**'Closed' management-by-objectives forms**

Item	Evaluation content	Kinds of ability under consideration
1	Does the candidate pursue new objectives on a regular basis?	Ability for self-renewal, ability to direct policies, goal-awareness, customer satisfaction awareness, creativity, vision.
2	Does the candidate solve the objectives in a systematic way?	Ability to apprehend the situation, ability to foresee problems, ability for strategic planning, ability to solve problems.
3	Does the candidate have proper specialist knowledge?	Specialist knowledge, specialist skills.
4	Does the candidate have enough / proper drive and flexibility to pursue the objectives?	Decision-making ability, implementation ability, persuasive ability, negotiation ability, speed, sense of balance, mental strength.
5	Does the candidate utilise his full capacity to the organisation?	Communication skills, ability to lead and train.

**Ability evaluation form at a major construction firm (employees grade 4 – 7)**

## The Rise in Performance-Related Pay



## 2: The Rise in Non-Regular Employment

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Regular	79.2	79.7	79.1	78.5	76.8	76.4	75.1	74.0	72.8	71.3	69.7	68.6	67.4
Part-timers	11.9	11.7	11.8	12.3	12.9	13.2	14.0	14.7	15.4	14.3	15.2	15.3	15.6
<i>Arubaito</i>	5.0	5.0	5.5	5.7	6.2	6.6	6.9	7.3	7.6	6.6	6.9	6.7	6.8
Others	3.9	3.6	3.7	3.6	4.2	3.8	4.1	4.0	4.2	7.8	8.2	9.4	10.3

### Percentages of employees by type of employment

Source: Japan Institute of Labour (2002, 2004, 2006)

Part-time workers	Workers whose scheduled working hours are less than those of regular employees in the same workplace. Usually 35 hours a week is taken as the dividing line in this respect (Araki, 2002). However, certain surveys simply consider those employees as part-time who are classified as such in their workplace.
<i>Arubaito</i>	A job taken by someone still in school or with other reasons to work limited hours
Contract workers	Employees with specialist skills on fixed-term contracts.
<i>Shokutaku</i>	Employees on temporary contracts; often re-hired after mandatory retirement. Certain companies also use the term to refer to contract workers.
Dispatched workers	Workers hired from a dispatching agency. A further distinction can be made between a registered type ( <i>tōrokugata haken</i> ) and employment type ( <i>jōyōgata</i> or <i>jōyō koyōgata haken</i> ). The first involves the registration of the potential worker at the dispatching company while under the second type workers become regular employees of the employment agency (Shire, 2002).
Temporary workers	Employees hired for a limited duration. Sometimes a further distinction is made between temporary (contracts between 1 month and 1 year) and daily workers (contracts up to 1 month).
<i>(Kōnai) ukeoi</i>	An <i>ukeoi</i> -arrangement does not qualify as non-regular employment but its role justifies inclusion. Under an <i>ukeoi</i> -arrangement, subcontracting companies send their workers to work at the facilities of the client. It was seen as an answer to the prohibition against dispatching agencies in manufacturing. The <i>ukeoi</i> -type of dispatching was also illegal but could exist because of lax enforcement of regulations (Imai, 2003).

### Definitions different types of non-regular employment

	Type of employment	Employees eligible	Wages	Bonuses	Basis for promotion
Core, long-term employees (A)	Open-ended employment contract	Managerial career track, core-technical occupations	Monthly salary or yearly remuneration package; ability-based wages; wage increment	Specified rate and sliding scale for performance	Promotion to managerial ranks; pay increase based on job performance qualifications
Specialists (B)	Fixed-term employment contract	Specialist occupations (planning, sales, R&D, etc.)	Yearly remuneration package; performance wages; no wage increment	Sharing of company performance results	Evaluation of performance
Flexible workforce (C)	Fixed-term employment contract	Clerical, technical, sales positions	Hourly wages; Job-based wages; no wage increment	Specified rate	Switch to higher-ranking position

**Overview Nikkeiren employment portfolio categories**  
Source: Japan Business Federation (Nippon Keidanren), 2003: 38

	Short-time part-time jobs	Other part-time jobs	Temporary agencies' staff
Need to control labour costs	61.5	59.1	40.3
Require additional personnel on a daily/weekly basis	36.2	21.9	8.1
Need to adjust hiring practices due to changes in business conditions	26.9	24.8	26.2
Require more workers because of extended business hours	23.9	17.3	6.0
Need to meet temporary or seasonal demand	19.1	18.2	22.8
Allow regular workers to specialise in important work	14.6	12.2	14.2
Require persons capable of doing specialized work	11.5	11.6	23.8
Require persons with experience and expertise	10.6	14.2	31.0
Unable to recruit regular workers	9.3	10.9	8.5
Wish to re-employ older workers	5.5	7.0	0.9
Substitute for regulars on child- or family-care leave	4.7	4.0	7.5
Others	6.1	6.4	5.8

**Reasons for hiring non-regular employees 1999**  
Sources: Survey of the Diversification of Employment Status, Ministry of Labour, 1999



Year	Females			Males		
	Regular workers (¥)	Part-time workers (¥)	Wage ratio	Regular workers (¥)	Part-time workers (¥)	Wage ratio
1990	989	712	72.0	1632	944	57.8
1991	1072	770	71.8	1756	1023	58.3
1992	1127	809	71.8	1812	1053	58.1
1993	1187	832	70.1	1904	1046	54.9
1994	1201	848	70.6	1915	1037	54.2
1995	1213	854	70.4	1919	1061	55.3
1996	1255	870	69.3	1976	1071	54.2
1997	1281	871	68.0	2006	1037	51.7
1998	1295	886	68.4	2002	1040	51.9
1999	1318	887	67.3	2016	1025	50.8
2000	1329	889	66.9	2005	1026	51.2
2001	1340	890	66.4	2028	1029	50.7
2002	1372	891	64.9	2025	991	48.9
2003	1359	893	65.7	2009	1003	49.9

**Trends in the scheduled payment per hour for regular and part-time workers**

Source: *Nihon Rōdō Kenkyū Kikō* [Japan Institute of Labour], *Chingin kōzō kihon tōkei chōsa*

	All			Part-time	Temporary	Dispatched			Shokutaku	Contract
	All	Male	Female			All	T rokugata	J y gata		
To use special skills or qualification	14.5	25.7	11.0	9.5	7.8	21.1	20.7	21.9	37.3	40.7
Better pay	8.9	11.8	8.0	7.0	7.5	15.7	15.5	16.2	8.8	14.6
Cannot find regular employment	25.8	31.1	24.1	21.6	20.2	40.0	39.6	41.0	31.2	36.1
Do not want to be part of an organisation	8.6	10.8	7.9	7.5	9.0	23.1	26.2	15.6	5.4	9.9
Shorter working hours / days	23.2	14.9	25.8	28.8	14.5	14.7	15.8	12.2	8.8	8.8
Can work a convenient hours	30.9	26.2	32.3	38.8	21.6	15.2	17.0	10.8	5.5	9.9
To adjust annual income or hours	9.5	3.2	11.5	12.4	4.3	5.0	5.0	4.8	2.9	3.3
Easy job and low responsibility	9.4	9.0	9.5	10.9	11.7	6.3	6.3	6.1	7.3	4.3
Support household / pay school expenses	35.0	15.6	41.1	42.3	39.1	15.5	15.4	15.7	15.7	14.4
Compatible with household responsibilities or other activities	22.6	11.8	26.1	25.8	33.5	23.5	26.1	17.4	7.4	10.3
Short commuting time	28.1	15.0	32.3	33.	22.8	15.0	14.0	17.4	13.5	14.4
Physically too weak to work as regular employee	5.3	3.8	5.7	5.6	9.7	2.7	2.7	2.8	9.1	2.6
To have extra money for one's own	24.6	20.6	25.9	28.0	17.0	16.7	16.8	16.4	11.1	14.5
Other	3.4	5.2	2.8	1.7	7.0	4.4	4.2	4.7	12.4	7.0

## Duality in the Japanese labour market

'Situational factors' constrain the choice for regular work:

1. Women are often faced with a lack of alternatives in the labour market because of domestic responsibilities as jobs within the internal labour market require a commitment that may be long and irregular;
2. The choice for (female) non-regular employment is also reinforced by the tax and social insurance system and the family allowances provided by firms to their regular employees;
3. Most importantly, the access to the internal labour market tends to be limited to recent graduates or certain employees during the early years of their careers. It is therefore difficult if not impossible to find regular employment when one does not do so during the early years of a career or when one has left the labour market for a number of years.

## Conclusions

- Both major developments in recent years can be related to the rules of the internal labour market and in particular the continued support for lifetime employment:
  - Because of the continued support for employment security, firms have not been able (or willing) to question the internal labour market itself. Instead, they have 'calibrated' the internal labour market by the introduction (strengthening) of performance-related pay.
  - The rise in non-regular employment actually helps to uphold the internal labour market. Moreover, because the internal labour market is rather closed to 'outsiders', it creates a large group of potential non-regular employees (available at relatively low costs) and thus contributes to the ability of firms to organise their employees in a core and peripheral group.

## Additional issues

- So far the logic of Japanese employment practices has been upheld but several potentially influential developments continue:
  - Changes in retail where part-time employees are often considered part of the core workforce, albeit with inferior status and pay; with increased responsibilities and career opportunities. Will this blur the distinction between regular and part-time employees? Will these employees continue to accept their inferior status?
  - The rise in the number of highly educated women.
  - The apparent change in the attitude towards mid-career hiring. Will firms substantially increase mid-career hiring when strong economic growth returns?
- Comparative studies of the relationship between regular and non-regular employment; for instance:
  - The Netherlands: part-time work can no longer be considered 'atypical'. Instead, its rise has been supported by a process of 'negotiated flexibility' in which the work conditions of regular employees have become subject to differentiation.
  - The UK: what is the specific status of non-regular employment in a lowly regulated labour market?