

Reworking Employment

Professor **Yoshio Higuchi**, an expert in labor economics at Keio University, examines changes in Japanese management in relation to employment practices and discusses some medium- to long-term approaches to related issues.

Tracing employment practices back to the 1920s or thereabouts, the so-called Japanese system of seniority-based pay and life-long employment still didn't exist at that time. In those days, the job retention rates of workers in leading U.S. companies were higher than those in Japanese companies. The labor market in Japan was extremely fluid, with companies facing a situation whereby they would train human resources only for them to leave the company immediately afterwards. Japanese companies went through a process of trial and error as they tried to increase staff retention rates. Due in part to a government ban on changing jobs during World War II, long-term employment started to become increasingly common during the postwar period and the early years of Japan's economic boom.

With Japan experiencing rapid growth from the end of the 1950s and into the 60s, long-term employment and seniority-based pay became firmly established, resulting in the emergence

of company unions and the so-called three treasures of Japanese management. Needless to say, this was all underpinned by Japan's soaring growth rate. During an economic boom, employment turns into a buyer's market, with human resources not attached to any company thin on the ground. Naturally, companies had to train their own human resources and then ensure that a high percentage remained with the company once they had been trained. This gave rise to a system that benefited workers the longer they stayed with a company, namely seniority-based pay or seniority-based employment.

In spite of any temporary lulls in the economy, Japan's growth rate continued to soar. Realizing that they would need human resources in any eventuality, companies began to alter working hours for their existing human resources rather than resorting to layoffs.

Under this approach, labor and management worked together to ensure the growth of their company. This in turn benefited company workers fi-

nancially, creating a cycle that enabled companies to increase productivity.

This became one of Japanese companies' strengths as they were commended for keeping job losses to a minimum compared to other countries after the second oil crisis in the 1970s. Given the results it produced, even workers were prepared to put up with this system.

As times have changed however and Japan can no longer expect to experience such a high rate of growth, companies have increasingly developed a tendency towards trying to cut fixed personnel costs.

From the standpoint of corporate financing, the primary objective of the major banks that provide companies with funding is to ensure that they are repaid, meaning that it is in their interests for companies to maintain stable growth rather than bringing in short-term profits. On other fronts, the idea of cross holding schemes gained ground as companies tried to safeguard mutual growth from a long-term perspective. It was as a result of practices such as these that Japanese corporate management came to adopt a long-term perspective.

As these trends gradually started to fade away however, and even large companies increasingly started to secure funding from the likes of institu-

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tional investors and overseas shareholders, companies found themselves having to pursue short-term profits as well as working from a long-term perspective in order to survive. During the mid to late 1990s, it was often said that when a company announced it was restructuring, its share price fell because it meant that things were so bad that the company had finally been forced to make cutbacks to personnel. As major companies began to announce restructuring packages after this point however, the opposite happened. Companies engaging in restructuring saw their share prices rise on the grounds of a positive outlook for the future. To complete the turnaround, companies failing to carry out restructuring in the face of over-employment actually experienced a drop in their share prices. Managers took this on board and, as a result, began to place a greater emphasis on short-term profit.

Amidst such a major turnaround, managers became more aware of the need to cut fixed personnel costs than ever before. This became starkly apparent in 1997 in particular, as Japan was plunged into financial crisis in the wake of the Asian currency crisis on an international front and developments at home such as the collapse of Yamaichi Securities and the Hokkaido Takushoku Bank. This sparked a significant change in managers' approach to corporate governance, resulting in a growing preference for a patchwork approach to employment whereby companies strived to keep permanent employees to a minimum and use non-permanent staff instead. This is what led to current trends in employment.

Guarantees and Restraints

One of the most important points to consider with regard to management and employment in the future and current issues is that the trend towards the pursuit of short-term profit will not be easy to change given the globalization of corporate financing. Another key point meanwhile is that the role traditionally played by Japanese companies in their employees' lives is changing considerably.

In the past, Japanese companies

used to offer a degree of job security, guaranteeing their employees' livelihoods to a certain extent. In some cases, companies have even provided employees with a reason for living and guaranteed them opportunities to develop their skills. In return for such guarantees, companies have always imposed various restraints on their employees, including requiring them to work long hours for instance or transferring them to different positions. To put it another way, those workers not covered by such guarantees are non-permanent employees or those on fixed-term contracts. Essentially, an increase in the percentage of fixed-term and non-permanent employees compared to permanent employees has seriously weakened companies' ability to offer guarantees to any of their employees, including permanent employees.

The key issues now are how to deal with these changes from the standpoint of society as a whole rather than individual companies, what sort of safety net society can offer as individuals accept greater responsibility and how people can develop their skills. As Japan faces a dwindling birthrate, an aging society and a declining working population, its top priority should undoubtedly be to create a society in which everyone can put their enthusiasm and abilities to good use. In order to do this, the traditional relationship between companies and their employees, based on guarantees and restraints, will need to be reassessed. In other words, it will definitely be necessary to remove existing restraints such as long work hours and transfers, which restrict access to work amongst women and the elderly, and reshape society so that the likes of women and the elderly can fully harness the skills they have to offer.

One problem however is the effective polarization of the labor market. The market is split between non-permanent employees, who have no job security and are paid low wages, and permanent employees, who are under strict restraints requiring them to work long hours. At either end of the scale, employees are in situations that could potentially lead to mental health problems. It is therefore essen-

tial that we put an end to this system of polarization and create an environment in which individuals are able to choose how they work rather than management staff.

This is ultimately linked to the concept of a work-life balance, something that should ideally be promoted in a strategic manner.

The bottom line is that companies, the employees and individuals who work for them and society as a whole all need to think about and engage in in-depth discussion regarding personnel strategies aimed at striking a work-life balance.

Work-life Balance

In December 2007, the government put together a Work-Life Balance Charter and an accompanying set of Action Guidelines for a Work-Life Balance based on an agreement with representatives acting on behalf of both employers and employees.

Whilst the charter sets out a broad direction for national initiatives, the action guidelines outline effective initiatives for companies and their employees and policies for measures to be implemented by national and local public bodies.

Put simply, having been agreed upon by economic, labor and local leaders as well as the government and its experts, the charter and action guidelines represent an attempt to capitalize on current initiatives as a major opportunity to spur society as a whole into action, based on recognition of and reflection on the fact that efforts to reassess existing work patterns to date have relied on individual companies and have failed to penetrate any further into society than a handful of successful forward-thinking initiatives.

There are three main reasons why the charter and guidelines were put together in unison between these three parties, namely the government, employers and employees. Firstly, the Aging Society Committee concluded that approaches to work need to be reassessed in order to deal with Japan's aging society. Although the government has continued to work on improving financial support, through initiatives such as the child allowance

scheme, and childcare services, it has been called upon to address the issue of striking a work-life balance based on the perceived need to reassess it as another key approach to work. Secondly, the Committee for the Promotion of Gender Equality called for work patterns to be reassessed in order to provide support for different methods of working for women, especially to enable them to strike a balance between their work and home lives, building on the existing Child-Care Leave Law, which is designed to help women find employment whilst raising children. Thirdly, the Council on Economic and Fiscal Policy (CEFP) stressed the need to break down existing barriers, such as those between permanent and non-permanent em-

ployees and men and women and those excluding the elderly, in order to effectively harness human resources given that Japan is expected to experience a dwindling birthrate and aging population in the future.

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The fact that the government has recognized issues such as these underlines the need for a work-life balance. All this stems from recognition that the current situation, whereby the labor market has become polarized, resulting in non-permanent workers being unable to marry due to an uncertain future and permanent employees opting not to have children due to problems at home as a result of being forced to work long hours, simply has to change.

The action guidelines state that achieving a work-life balance is not an issue to be tackled solely by the national government but that a concerted

effort needs to be made by all of the concerned parties nationwide, including corporate management, workers, non-workers and local authorities.

The guidelines specify the roles that each of these parties should play. In the case of companies and those who work for them, the guidelines state that “labor and management should discuss effective methods based on the individual company’s situation and ensure that measures are implemented willingly.” In terms of requirements for the national government and local authorities, the guidelines state that “as achieving a work-life balance is integral to ensuring the sustainability of Japanese society, the national government and local authorities should actively provide support for

companies and those who work for them and for public initiatives and actively engage in social infrastructure development in areas such as childcare support and care services in line with a diverse range of work patterns.”


For their part, companies need to change the way they think. Given that each company has its own circumstances to consider and that work patterns clearly vary depending on the area in which each company is based however, it is essential to ensure extensive dialogue between labor and management. In that respect, the action guidelines show how to set, publicize and work towards targets based on cooperation between labor and management. Looking at examples of companies that have already started to implement measures, it is evident that leadership is required from management first and foremost and that inter-

mediate and other managerial staff also need to change their way of thinking. At the same time, both men and women also need to change their attitudes in the workplace. Even so, people cannot be ordered to change their way of thinking; it needs to be a cooperative process.

It is crucial that changes are made as part of a cooperative process from an overall perspective too, encompassing the government, private companies, individuals and local authorities.

A Shift in Individual Attitudes

As attitudes change, both men and women are increasingly trying to make the most of their time. The issue of how to increase productivity per hour will be crucial for companies in the future, if not already. With this in mind, it is vital that companies reassess the nature of their operations and work practices in the interests of investing in the future as well as merely cutting costs. This approach would also benefit society as a whole as it would allow for a diverse range of flexible work patterns and help open up the workplace to human resources that have a great deal of potential but are currently excluded from working. In addition to enabling companies to improve productivity per hour, this would effectively make it possible to forge win-win relationships from the point of view of both labor and management. Furthermore, judging by successful examples to date, companies that develop an awareness of such relationships will undoubtedly become more competitive.

In addition to enabling individuals nationwide to feel motivated and fulfilled as they work and perform their work responsibilities, as stated in the charter, it is essential that we capitalize on initiatives such as these to create a society in which everyone can choose from a diverse range of lifestyles to suit whatever stage of life they are at, from child rearing age to middle and old age, at home and in the community as well as at work. 

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