

EMPLOYMENT

Meeting the challenges of the future

Japan's employment system played a central role in the strong economic growth that the country achieved in the second half of the 20th century. The system was supported by three pillars: lifetime employment, seniority-based wages, and enterprise-based unionism. To these, a fourth pillar was later added: community consciousness within the company, one based on vertical relationships, reciprocal obligations, and decision-making by consensus.

The traditional system described in the first section below is still considered the ideal by many people. In the difficult economic environment that exists in Japan today, however, employment patterns are undergoing significant changes. Even among major corporations long considered bastions of Japanese-style management, organizations strictly following traditional practices are becoming increasingly rare.

The traditional employment system

Japanese companies have generally recruited workers immediately upon graduation from a school or university without requiring them to have job-specific skills, though basic ability is essential. This is due to the fact that mass production took rapid hold in Japanese companies after World War II. To train employees, companies offer hands-on experience, or invest in education and in-house professional training for the newcomer. Naturally, several years elapse until these new employees become efficient.



In exchange, employees have been expected to remain with the same employer until they reach the mandatory retirement age (usually age 60). Upon retirement, they receive a lump-sum payment and a company pension. When business is depressed, regular employees are dismissed only as a last resort.

Wage increases and promotions are primarily governed by the employee's age and length of service in the company. This institution of seniority-based wages—devised as a means of guaranteeing the stability of employment to all employees throughout their careers within a company—is closely connected to lifetime employment as a distinguishing characteristic of Japanese-style management.

Japanese companies typically provide fringe benefits that enable employees to enjoy recreation and leisure activities, such as athletic competitions, employee excursions,

New employees of a major retailer are formally received into the company

It is the custom in Japan to hire people chiefly in March and April, immediately following high school and university graduation.

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and so on. Employees have access to the facilities for hobbies, including sports, reading, and board games. As for other benefits, companies offer special allowances in addition to the basic salary, company-owned housing, dormitories for single workers, and various health and welfare benefits.

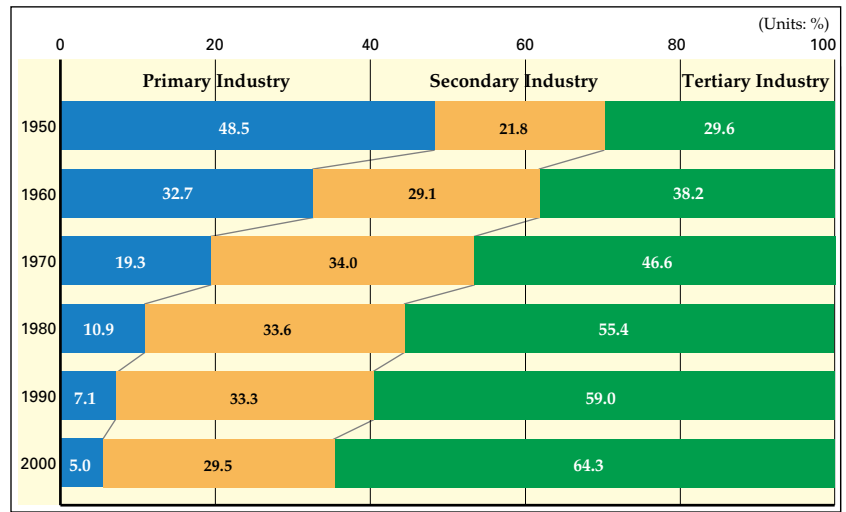
In the framework of the lifetime employment system, workers in general have found it to their own advantage as well as to that of their families, to demonstrate loyalty to their company. In addition to this, they have given precedence to company considerations over those of their family and personal life. Transfers to subsidiaries are quite common, and there are many cases where transferees leave their families behind, if it is the family's desire to remain in the community and/or avoid disrupting the children's education.

Even in the postwar decades of rapid economic growth, however, this system was not universal. It applied mainly to the employees of large enterprises and to civil servants. Workers at small companies seldom received the same degree of benefits or job security.

Working Population and Hours

Labor distribution follows the pattern set by other industrialized nations. While agriculture and other primary-sector industries employ fewer people, services and other tertiary industries show an increase. Employment in primary industry fell from 32.7% of the working population in 1960 to 5.0% in 2000. Over the same period, tertiary occupations rose from 38.2% of the total to 64.3%. A vast majority of Japan's working population is made up of salaried workers. In 2002, 84.2% of the total population worked at salaried jobs.

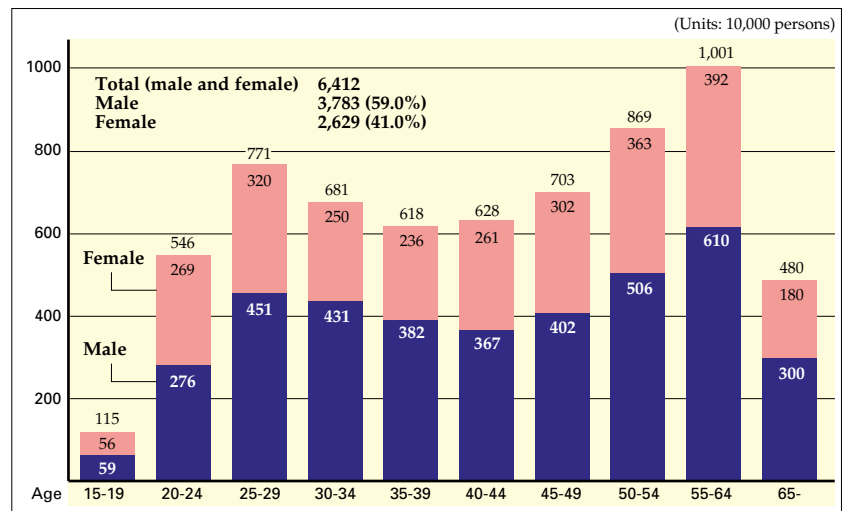
The government has declared shorter working hours to be the most important element in realizing an improved quality of life for the Japanese people. Revisions to the Labor Standards Law, a trend toward adoption of a five-day work week, and such measures as allowing for substitute holidays when a national holiday falls on a Sunday have



contributed to shorter working hours. Annual working hours, which had been 2,110 in 1985, stood at 1,837 in 2002.

Industrial Distribution of Employment

Source: Ministry of Internal Affairs and Communications



Women in the Work Force

Women accounted for 41% of the workforce in 2001. In 1986, a law stipulating equal employment opportunities for men and women went into effect, and in 1997 this law was amended to explicitly prohibit gender discrimination in job advertisements, hiring, assignments, and promotions. In spite of this, the average monthly salary for women in 2002 remained at about 66.5% of their male counterparts, and the upper-level managerial posts in major companies were still almost entirely a male domain. In recent years, the wage differential between men and women has been adversely affected by a new trend: in order to cut costs, large companies are increasingly using low-paid part-time and temporary workers for clerical functions formerly performed by older and relatively high paid female employees.

A childcare leave system that was implemented in 1992 has begun to show some effect as the number of women who

Employment by Age and Gender (2001)

Source: Ministry of Internal Affairs and Communications

take advantage of it is gradually increasing. Nevertheless, much more needs to be done to improve the working environment and childcare infrastructure for women who want to have children while continuing to work. This is an area that has received increasing attention in recent years as fears over the rapid aging of Japanese society have prompted the government to look for ways to encourage women to have more children.

Wage System

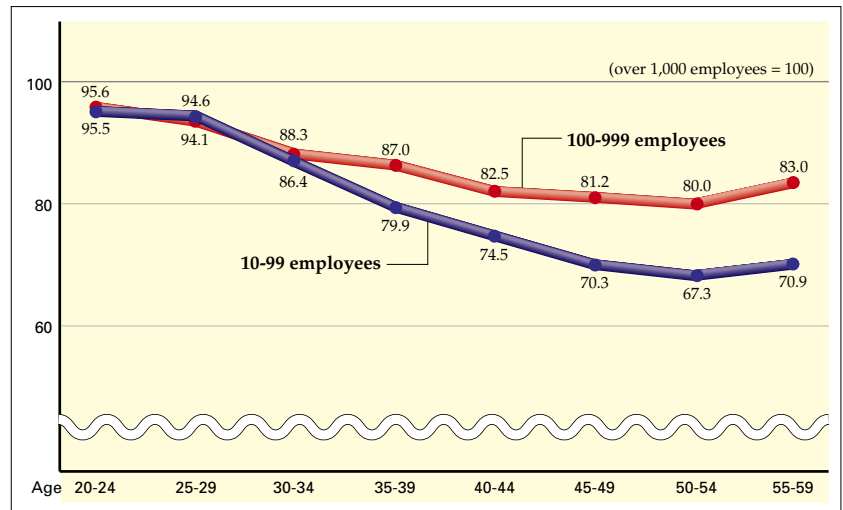
The Japanese wage system has traditionally been closely linked to the seniority system. Wages are often still strongly influenced by an employee's length of service. Salaried workers normally receive a monthly salary plus two seasonal bonuses. Particularly in large companies, the bonus system plays an important role. In 2002, bonuses amounted to about one-fourth of annual base wages.

Through the diversification of society, employment has been taking on new forms, including the popularization of freelance employment and the introduction of outsourcing. In response to such changes, the wage system has also been diversified.

Labor Relations

The relationship between employers and employees in Japan seeks to avoid confrontation. While conflicts of interest occasionally arise between executives and workers, Japanese companies aim to create a family atmosphere wherein consensus is encouraged. Another factor contributing to the sense of unity among company employees is that within the same company differences in income levels—between managers and workers or white- and blue-collar workers—are much smaller in Japan than in most other countries.

Close teamwork has also helped advance quality control in the manufacturing sector. Workers who feel secure at their jobs are able to work closely with one another and make suggestions to management. Fair distribution of corporate profits also provides workers with



greater incentives to improve their efforts at quality control. Many Japanese companies also encourage employees to use a portion of their monthly wages to purchase shares of company stock, reinforcing the feeling that they have a personal stake in the company.

Labor Unions

Most Japanese labor unions are organized not along industry-wide job specialty or occupational lines, but as enterprise unions with membership restricted primarily to regular, full-time employees working in a single company and its affiliates. An individual company's enterprise union generally belongs to an industry-wide union federation, one example being Un'yu Roren (All Japan Federation of Transport Workers' Unions), and that federation in turn usually belongs to a national, cross-industry labor federation. The largest of these is Rengo (Japanese Trade Union Confederation). It was established in 1989, and claimed a membership of 6.83 million people in June 2002.

Japan has over 65,000 unions, but only about one worker in five presently belongs to a union. (The figure was approximately 35% in 1975.) The decline is due, in part, to a fall-off in the percentage of workers in manufacturing and other industries that tend to be highly unionized, and, in part, to an increasing number of young employees who prefer to abstain from union membership.

The Spring Labor Offensive is a familiar practice in management-labor relationships in Japan. Held since 1956, various unions make their demands somewhat simultaneously in spring.

Another widely established labor-management practice is the joint-consultation system, a procedure that involves a large

Wage Differentials Between Company Sizes (2000)

Note: Figures are for male workers employed full time
Source: Ministry of Health, Labour and Welfare



Salaried workers

Shown here are workers in Tokyo's Marunouchi district, where the headquarters of many major Japanese companies are located.
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majority of Japan's workforce. While there is much variation within this system, it permits employees and executives to work out a management plan and decide on the levels of salaries and bonus payments through joint-consultation. In addition to attaching importance to human relationships, it encourages employees to regard themselves as fully participating members of the enterprise.

Employment in Transition

The traditional Japanese employment system was well suited to the building of a modern industrial society. It provided a stable and skilled resource base for manufacturers as they expanded production during the decades of strong economic growth prior to 1990. However, two key elements of the system—lifetime employment and seniority-based wages—function best in a growing economy and have proven difficult to sustain in the prolonged recession that followed the collapse of the so-called bubble economy at the start of the 1990s.

The need to cut costs and increase efficiency is having a severe impact on employment in Japan. Companies are reducing hiring of new graduates, pushing "voluntary" early retirement programs for older workers, transferring people to lower paying positions, and even resorting to outright layoffs as part of their restructuring efforts. In addition, a growing number of companies are replacing



seniority-based wages with performance-based systems.

In any country, an employee thrown back into the job market after working 20 or even 30 years in the same company will have a tough time finding a new job at a level close to the old one. This is especially true in Japan, however, because big companies remain reluctant to hire mid-career workers. As the economy recovers Japan is likely to experience growing structural unemployment where excess workers exist in one sector of the economy while another sector suffers from a labor shortage. A key challenge facing the Japanese government is to develop the systems and support mechanisms needed to help people obtain the skills necessary to move into a new industry.

Changes are also taking place on the supply-side of the employment system. Recognizing that no matter how loyal they are to a company, there is no guarantee of lifetime employment, young people are increasingly willing to leave one job in search of another offering more money, more satisfaction, or both.

Job search

Unemployed persons search for job opportunities at a government-operated employment service.
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