

# **The Diversification of Employment Patterns in Japan**

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In the 1990s, we have witnessed various structural changes in the Japanese labor market in the process of unprecedented economic stagnation often described as the 'lost decade'. One of the most impressive is the rapid growth of atypical employment, in particular part-time workers, which now account for nearly one third of total employment. At the same time, what counts as “typical employment” is also changing. Nowadays, there are so many varieties of jobs and career patterns within the category of typical employment that we no longer define it in simple terms as a homogeneous category. Thus, employment patterns in Japan have been more and more diversified. Academic researchers as well as industrial relations practitioners are concerned about how to cope with this new reality.

In this paper, first, I would like to give an overview picture of the current state of the Japanese labor market based on our recent survey on the diversification of employment patterns. Then, second, I would like to analyze the influences of such diversification of employment patterns on human resource management and industrial relations system of the Japanese firms. Our focal point is the quality of working life under ‘flexible labor markets’. Third, I would like to discuss the policy agenda: how to create stable and good job opportunities in a changing economic environment; how to establish a socially acceptable ‘flexibility’ in the labor market in Japan.

## **1. Rapid growth of atypical employment in the Japanese labor market**

## 1.1 Growing atypical employment

One of the most striking features of the recent changes in the Japanese labor market is a rapid increase in the number of atypical employees such as part-timers, dispatched workers, and contract employees. Table 1 shows the increase of atypical employment in Japan in the last five years from 1997 to 2002 based on the data of the "Employment Status Survey" of the Statistics Bureau, Ministry of Public Management, Home Affairs and Posts and Telecommunications. The ratio of atypical employees to the total employment rose from 24.6% in 1997 to 31.9% in 2002.

Among the total numbers of atypical employment in 2002, the largest is part-time workers, 7.8 million, and second is *Arubaito*(side-job) workers, 4.2 million. In many cases, *Arubaito*(side-job) workers are working at part-time basis. So, these two categories of employment are lumped together as "part-time and *Arubaito*(side-job) workers", which totals more than twelve million and accounts for 74.3% of atypical employment in 2002. Other types of atypical employment are far less than part-time and allied workers. However, dispatched workers and contract workers are growing rapidly in the recent years. Thus, atypical employment is also undergoing diversification in the Japanese labor market.

Table 1. The increase of atypical employment in Japan, 1997-2002

	1997		2002		Changes from 1997 to 2002	
	(1,000 persons)	(Ratio, %)	(1,000 persons)	(Ratio, %)	(1,000 persons)	(Rate of change, %)
Total employees (except executives)	51147.1	100.0	50837.5	100.0	-309.6	-0.6
Regular employees (typical)	38541.9	75.4	34557.0	68.0	-3984.9	-10.3
Non-regular employees (atypical)	12589.3	24.6	16206.2	31.9	3616.9	28.7
of which						
Part-timers	6998.0	13.7	7824.3	15.4	826.3	11.8
Arubaito (side-job workers)	3344.2	6.5	4237.4	8.3	893.2	26.7
Dispatched workers	256.6	0.5	720.9	1.4	464.3	180.9
Contract employees	965.9	1.9	2477.3	4.9	1511.4	156.5
Others	1024.6	2.0	946.3	1.9	-78.3	-7.6

Sources: Employment Status Survey, Statistics Bureau, Ministry of Public Management, Home Affairs and Posts and Telecommunications

### Notes

(1) Regular employees: People designated as "general employees" or "regular employees" at their place of work. In general, the period of their employment is not specifically set.

(2) Part-timers and arubaito: People designated as "part-timers," "arubaito (side-job workers)" or who have a similar title at their place of work regardless of the number of hours or days worked. In many cases, "arubaito (side-jobs)" are part-time

(3) Dispatched workers: People hired at a worker dispatching agency and dispatched to client companies under the Worker-

(4) Contract workers: People who are hired for a fixed term to be assigned to a job that requires a special skill or knowledge.

In 2001, RIALS surveyed the diversification of employment patterns in the unionized workplace of the RENGO affiliated unions. It contains two surveys, namely "Union

branch survey” and “Workplace survey”. In the former, we distributed 600 questionnaires sheets to union branch leaders at plant level and got 332 answers, in the latter 3000 questionnaire sheets to the shop level union leaders and got 1644 answers. Our survey also shows the rapid growth of atypical employment in most of the workplaces of the RENGO affiliated unions. In 2001, atypical employment comprises more than a quarter of employees in the surveyed workplaces, and most of the union branch officers and shop level union leaders answered that atypical employment will grow for the future.

## **1.2 Typology of various employment patterns**

The growing atypical employment reflects the recent trend of flexibilization of the labor market as seen elsewhere in the industrialized countries. There is a distinction between qualitative and quantitative flexibility. In the Japanese context, the former relates to the practice of multi skilling and flexible allocation of regular employees, while the later describes the strategies used to affect the volume of work or employment by utilizing atypical employment. This can be linked to the division of flexibility into external and internal flexibility. External flexibility encompasses the practices used to vary the volume of employment. It refers to the nature of the employment relationship as defined in the employment contracts and hence the status of the employees, e.g. temporary employment, freelance labor, hiring and firing etc. Internal flexibility assumes stability in the employment relationship but fluctuations in capacity utilization, thus this adjustments of the volume of work are accommodated via internal mobility between facilities of the same undertaking.

RIALS’ “Company survey 2002” investigated the diversity of employment patterns in accordance with the internal mobility criteria. We distributed 2,925 questionnaire sheets to the HRM managers of large companies and got 547 answers. We asked about various aspects of employment patterns in the company and found that diversification of employment is seen not only among non-regular employees but also among regular employees.

Table 2 shows one typology of employment patterns based on this survey. In this analysis, we classified the employment patterns by two criteria. First, whether the job allocation of the employees is limited to a particular job or unlimited, that is transfer to different jobs is expected. Second, whether the allocation of the employees to the workplace is limited or unlimited. Unlimited workplace allocation means that the employees are expected to be transferred to various workplaces of the company.

Nearly seventy percent of regular employees belong to “Job-unlimited,

Workplace-unlimited” type, which is said to be one of the key factors of functional flexibility of the Japanese employment system. On the other hand, three quarters of non-regular employees are of the “Job-limited, Workplace limited” type. However, it is remarkable that there are also minority types of internal mobility patterns both in regular and non-regular employees in the company. Thus, the diversification of employment patterns is developing in various ways in the internal labor market in Japanese big companies.

Table 2. Typology of employment patterns

(%)

		Regular employees		Non-regular employees	
		Workplace allocation		Workplace allocation	
		limited	unlimited	limited	unlimited
Job allocation	limited	9.6	10.4	74.9	9.1
	unlimited	10.9	69.0	14.5	1.5

Note: Figures in each cell are averages of the percentages in each of the surveyed companies (adding up 100 for regular and non-regular,

Source: RIALS Company survey (2002)

## 2. The impact of growing atypical employees

### 2.1 Atypical employment and business performance

Table 3 shows the reasons why the company takes on more atypical employees. Although there are slight differences according to the types of atypical employment, the priority is almost the same. The most common reason is “Cutting labor costs”, followed by “Filling the vacancies of easy tasks that anybody can do”, and then “Adjusting employment levels to business fluctuations”. They are aiming to get a competitive edge.

Table 3. The reasons why the company takes on more atypical employees  
(answers of union branch officers)

	(multi answer, %)			
	types of atypical employment			
	part-time workers	temporary workers	contract workers	dispatched workers
Cutting labor costs	56.7	40.7	54.8	56.7
Dealing with specialized duties	1.7	3.7	9.7	5.6
Inability to secure regular employees	25.0	25.9	24.2	36.0
Adjusting employment levels to business fluctuations	28.3	33.3	38.7	41.1
Maintaining continuity of operations	16.7	25.9	8.1	6.7
Facilitating employment restructuring	10.0	7.4	25.8	25.6
filling the vacancies for easy tasks that anybody can do	43.3	44.4	30.6	38.9
filling the vacancies for decreasing or disappearing jobs	—	—	3.2	1.1
Obtaining employees who can immediately contribute	3.3	7.4	24.2	16.7
Accepting surplus workers to help trading partners or group enterprises	—	—	1.6	—
Related to rehirement of elderly workers	10.0	3.7	16.1	1.1
Coping with the maternity leave of female employees	11.7	—	1.6	3.3
Others	1.7	—	3.2	1.1
No answer	13.3	14.8	11.3	12.2

source: RIALS union branch survey (2001)

However, according to the answers of the union branch officers, there are positive as well as negative effects of growing atypical employment on the performance of the workplace (see Table 4). Among the positive effects of utilizing atypical employment, common answers were “Regular employees can concentrate on more sophisticated work” (56.5%), “The working hours of regular employees can be reduced” (49.9%), “The quality of products and services can be improved” (37.2%). On the other hand, many negative effects were also indicated. The most frequent was “Knowledge cannot be accumulated and passed on” (50.6%), followed by “Risks of leaking commercial secrets”(45.1%), “Regular employees cannot concentrate on their proper jobs because they have to spend too much time training atypical workers”(40.4%). It is suggested that without effective efforts to cope with these negative effects, there will be morale problems at the workplace.

Table 4. Expected Impacts by the increase of atypical employees at the workplace  
(answers of shop level union leaders)

	Do you think the following effects can be seen if atypical employees increased by 20%		
	yes	no	no answer
<Positive effects>			
a. Regular employees can concentrate on more sophisticated work	56.5	37.4	6.1
b. The working hours of regular employees can be reduced	49.9	44.0	6.1
c. Business know-how from outside the company can be introduced	27.5	65.7	6.8
d. Difficult tasks for the existing teams within the company can be executed	21.9	71.0	7.1
e. The quality of products and services can be improved	37.2	56.1	6.7
<Negative effects>			
f. Security leak risks	45.1	48.0	6.8
g. Knowledge cannot be accumulated and passed on	56.1	37.1	6.8
h. Smooth cooperation within the company becomes difficult	34.5	58.9	6.6
i. Team working at the workplace becomes difficult	29.2	64.3	6.5
j. Employee's commitment becomes weak	25.9	67.3	6.7
k. Labor turn over rate increases	16.9	76.5	6.6
l. Extended working hours for regular employees	15.7	77.5	6.8
m. Downskilling of the regular employees	28.0	64.9	7.1
n. Regular employees cannot concentrate on their proper jobs because of coordination and team management t	34.0	59.2	6.8
o. Regular employees cannot concentrate on their proper jobs because they have to spend too much time training atypical	40.4	52.8	6.7
p. Training of the new comers becomes difficult if they are allocated to the highly skilled jobs at the	29.3	63.5	7.2
q. The quality of products and services can deteriorate	22.6	70.0	7.4

source: RIALS workplace survey (2001)

Hara(2003) also found negative and positive effects of atypical employment on the business performance of the company based on the analysis of “RIALS Company survey 2002”.

The utilization of atypical employment will enable the company to cut labor costs and to get more numerical or external flexibility. So, in the short run, the business performance of the company ought to improve. As the estimation results in table 5 shows, there is indeed a positive relationship between the operating profit to turn over ratio and atypical employment ratio. It is interesting to note that, in Model 2 of Table 5, the estimated parameter of “Square of atypical employment ratio” is minus, that means the estimated profit function is convex. There may be some optimal point of atypical employment ratio. Although the estimated parameters of “atypical employment ratio” are not statistically significant, this point is worthy of further study.

On the other hand, the influence of atypical employment on the long-term business performance is quite different from short-term one. Estimated results in Table 6 shows that the expansion of atypical employment has negative effects on the organizational capability of the firm, which consists of marketing and R&D capability, the quality of human resources, and employee commitment. If the organizational capability of the firm becomes weak, the competitiveness of the firm may fall in the long run.

Table 5. Regression analysis of operational profit and atypical employees ratio

Dependent variable	Operational profit to turn-over ratio			
Independent variables	Model 1		Model 2	
	coefficient	t-value	coefficient	t-value
Atypical employees ratio	0.1333**	2.15	0.1683	0.94
Square of atypical employees ratio			-0.0463	-0.21
Employee size (base is 'Less than 1000')				
More than 1000	0.00009	0	0.0005	0.02
Industry (base is 'Transport')				
Construction	-0.0586	-1.13	-0.0569	-1.08
Manufacturing	-0.0802*	-1.85	-0.0788*	-1.79
Retail	0.1482**	2.21	0.149**	2.21
Wholesale	-0.1057**	-2.1	-0.1046*	-2.06
Finance & Insurance	-0.2886***	-3.4	-0.2879***	-3.38
Electricity, gas and water supply	0.1061	1.44	0.1079	1.45
Services	-0.0789	-1.59	-0.0774	-1.53
Others	-0.0208	-0.22	-0.0208	-0.22
Utilization of external laborforce	0.0718**	2.44	0.0715**	2.42
Constant	0.0278	0.66	0.0241	0.53
Size of sample	211		211	
F value	3.33		3.04	
Prob>F	0.0003		0.0006	
Coefficients of determination	0.1555		0.1557	

Notes:

- 1) \* implies statistical significance at the 0.10 level, \*\* at the 0.05 level, and \*\*\* at the 0.01 level.
- 2) Atypical employees ratio: (number of atypical employees/total employees)\*100
- 3) Utilization of external laborforce : Whether the company is using external laborforce like contracting out or in-plant contract service etc. Yes is 1, no is 0.

Source: Hara(2003)

Table 5. Regression analysis of organizational capability of the company

Dependent variable	Organizational capability	
Independent variables	coefficient	t-value
Atypical employees ratio	-0.2941 *	-1.96
Employee size (base is 'Less than 1000')		
More than 1000	0.2372 ***	3.7
Industry (base is 'Transport')		
Construction	-0.1528	-1.21
Manufacturing	0.0472	0.45
Retail	0.3544 **	2.09
Wholesale	0.0555	0.45
Electricity, gas and water supply	-0.1082	-0.57
Services	0.0508	0.41
Utilization of external laborforce	-0.0545	-0.71
Constant	3.1058 ***	28.23
Number of samples	258	
F value	3.68	
Prob>F	0.0002	
Coefficients of determination	0.1177	

Notes:

- 1) \* implies statistical significance at the 0.10 level, \*\* at the 0.05 level, \*\*\* at the 0.01 level.
- 2) "Organizational capability" is a composite variable calculated by summing up the following five performance evaluation of the company. (For the details, see end notes.)

(1) Marketing and R&D capability, (2)The administrative efficiency, (3)Quality of human resources of regular employees, (4)Quality of human resources of non-regular employees, (5)Employee's commitment to the company

"Organizational capability" ranges from 1 to 5, and larger the value, higher the capability,

Source: Hara(2003)

## 2.2 Quality of work in atypical employment

There are many problems in the quality of working life for those atypically employed. Wages and labor conditions of atypical employees are low in general. Their training opportunities are very limited. In addition, most of part-time employees are not covered by social security system.

A comparison of wage gaps among female workers in 2001 in terms of hourly wages, calculated from annual wages including bonus payments, shows that female part-time employees earned only 54.3 percent of what female regular employees made. Wage differentials between part-time employees and regular employees widened in the last decade (Ministry of Health, Labour and Welfare, "White paper on labor economy 2003").

The reasons behind such wage gaps are as follows. First, wage systems are different between part-time employees and regular employees. Although the average tenure of part-time employees has become longer, and an increasing number of such



part-time employees are responsible for essential jobs in the companies, wage systems for such workers do not reflect their length of tenure. Second, the widening wage gap is also attributable to a change in occupational structures in the latter half of the 1990s. It is in low paid jobs that the proportion of part-time workers has increased more than the average. One factor behind the widening wage gaps, thus, is the concentration of part-time workers in low-paid jobs.

Part-time workers who engage in their duties with a strong self-motivation tend to be more dissatisfied with low wages. A continued gap in labor conditions between non-regular and regular employees is likely to sap morale and motivation for self-improvement among the former, hindering their optimum use.

### 2.3 Trade union's responses

According to the RIALS union branch survey, half of the branch level union leaders are in discussion with the management on issues concerning atypical employment such as the number of atypical employees allocated to the workplaces, their jobs and so on. However, unions' efforts to hear the voice of atypical employees are not enough. More than two thirds of the shop level union leaders have not discussed atypical employees' needs and complaints either within the union or with the shop level managers.

Although the trade union responses to the problems of atypical employment are very limited at the moment, we can see some developments. Table 7 indicates the union effect on equal treatment for part-time employees. In the group of companies where trade unions have discussed atypical employment issues with the management, many companies are making equal treatment arrangements for part-time employees. Trade unions clearly can contribute much to improve the conditions of atypical employment if they exercise their "voice" vis-a-vis management on behalf of atypical employees.

Table 7. Trade union's effect on equal treatment for part-time employees

	Percentage of companies negotiating over equal treatment for part-time employees	
	in cases where part-time workers are engaged in entirely identical jobs and duties as regular employees	in cases where part-time workers are engaged in roughly (80%) identical jobs and duties as regular employees
Trade union's response to the changes in the wages and personnel system of atypical employees		
Discussing with the management at the joint consultation committee	45.9	36.4
Merely receiving information from the company	38.6	27.5
Doing nothing	32.7	31.3

Source: RIALS Company survey (2002)

The failure to improve working conditions of part-time workers is also, to no small extent, the responsibility of the trade unions. At its 37th Central Committee Meeting in June 2000, RENGO confirmed in a special resolution that it was determined to realize equal treatment for part-time workers and to make efforts to organize them into trade unions. RENGO is now discussing with the government on how to strengthen the social protection of atypical employees. At the same time, through a RENGO project group on part-time workers, RENGO affiliated unions are tackling the following specific issues and trying to push for a nationwide consensus concerning relevant legislation: (1) clarification of the criteria for “reasonable differentials” ; (2) unionization of part-time workers (3) collective agreements to set minimum wage levels within individual firms that will be applicable to all employees.

### **3. Concluding remarks**

We must accept the fact that the diversification of employment patterns is a natural development of the labor market accompanying economic and social changes. However, we also need to realize that diversified forms of employment need to be properly integrated to avoid negative effects. The improvement of the quality of atypical employment is an important task for human resource managers as well as for trade unions. It is necessary not only for giving people decent working lives but also for business prosperity in the long run.

For trade unions, the first priority is unionization of atypical employees. At the moment, only 331,000 part-time employees are unionized, and union density is merely three percent as Table 8 shows. However, it must be noted that union membership among part-time employees is growing rapidly despite the decline of total membership. In the spring of 2004, three big enterprise unions in the super market industry, Aeon, Ito-Yokado and Seiyu, made an agreement with the management to include part-time employees in their unions. By this agreement, 140,000 part-time employees will become new members of these unions. Other retail trades are said to be likely to follow this trend.

Thus, the unionization of atypical employees in Japan is on the way. The Japanese enterprise unions have played some significant role in shaping the current employment system as well as the corporate system by integrating rank and file employees within the corporate community. Now, they are facing the challenge of

integrating a new element, the atypical employees. Trade unions' effort to deal with this agenda is indispensable if the increasing adaptability of employees to the new labor market environment is to become "socially acceptable flexibility".

Table8. Unionization of part-time workers					
Year	Part-time	Unionized part-time workers			Union
	workers	Change to the			density of
	(1,000 persons)	(1,000 persons)	(1,000 persons)	%	%
1999	9,930	244	4	1.7	2.5
2000	10,170	260	16	6.6	2.6
2001	10,420	280	20	7.8	2.7
2002	10,970	292	13	4.5	2.7
2003	10,980	331	38	13.1	3.0

Source: Survey of trade unions, Ministry of Health, Labor and Welfare

#### <Notes>

1) Organizational capability measure was based on self-assessment and calculated by summing up the points respondents awarded their company in response to the following questions and dividing by five.

How do you evaluate the performance of your company compared to other companies in the same business? Please choose your evaluation to each of the following items.					
	far better	better	equal	worse	far worse
Marketing and R&D capability	5	4	3	2	1
Administrative efficiency	5	4	3	2	1
The quality of human resources of regular employees	5	4	3	2	1
The quality of human resources of non-regular employees	5	4	3	2	1
Employees' commitment to the company	5	4	3	2	1

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