

Chapter 3 Changing Corporate Behavior and Employment Management Issues

Section 1 Changing Population and Age Structure and Changes in Corporate Systems

As Japan is facing a declining population, many firms expect this to have a negative impact on their business. In light of industrial characteristics and the current business environment, they are attempting to overcome the impacts of population decline by taking various measures including diversification, offshore production, and development of diversified personnel skills.

Companies have taken steps to change institutional rules for their wage and promotion systems. Whether employees accept these new systems and are motivated by them to work harder will depend on the successful implementation of performance appraisal systems. However, many companies feel that their appraisal system has some problems, so they are taking steps to address these issues, while attempting to raise employee motivation.

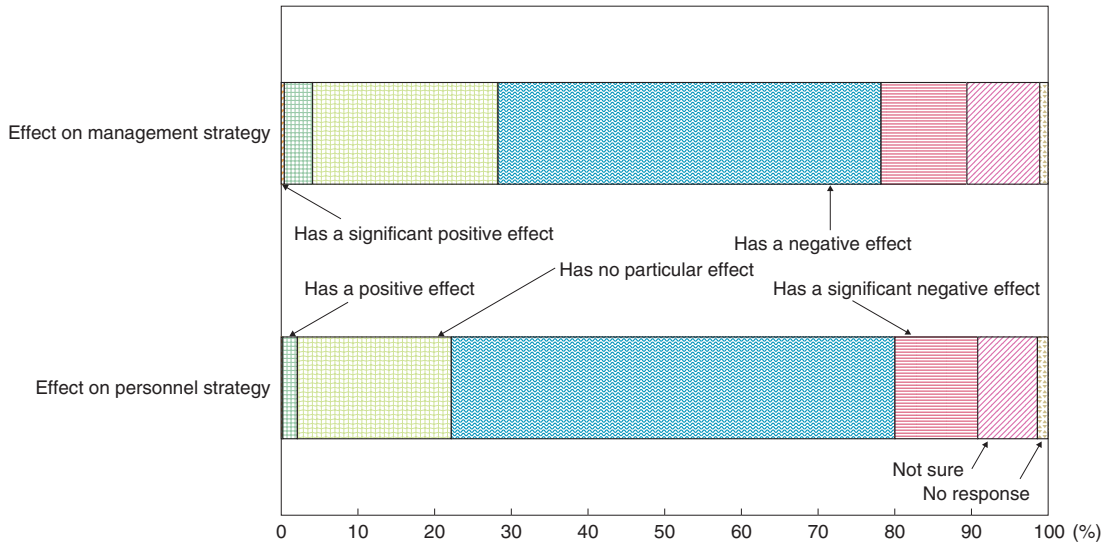
(Shift in the Management Strategy and Personnel Strategy)

On the verge of a declining population and aging/declining birthrate, Japan's overall population structure and the age distribution in firms are changing gradually but significantly. According to a corporate study on the effects of declining population and aging/reduced birthrate on management and personnel strategies, the percentage companies which responded that they foresaw "large negative effects" or "significantly large negative effects" on management strategy and personnel strategy was 61.2% and 68.7%, respectively. For both categories, therefore, a large number of companies considered that there would be some negative impacts on their business activities (Figure 51).

With respect to measures aimed at the declining population and aging/declining birthrate to be taken three years from now, in terms of management strategy, a number of companies responded that they would deal with the issue by "reducing costs", "focusing on profits rather than sales", and/or "developing value added products and services" (Figure 52). In the area of personnel strategy, several companies answered that they would "develop personnel skills", "use elderly workers by extending retirement age or reemployment" and/or "increase the use of female workers". These results suggest that the companies plan to overcome the negative impacts of declining population and aging/declining birthrate by making full use their profits, for which a significant rise is not expected in the future, to provide better services and products, developing existing personnel skills, and utilizing elderly and female workers, which were not valued highly as the human resources before.

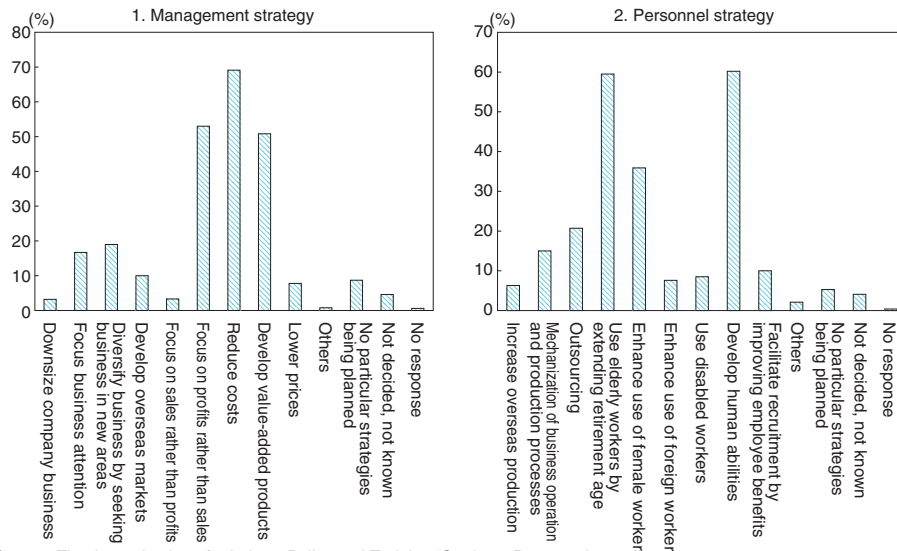
Declining population and aging/declining birthrate, however, may also bring effects other than negative ones. For example, companies can expect a reduction in wage costs as the baby boomers, which are receiving higher salaries than younger employees, are retiring soon. Assuming that there will be no change in annual wages by sex, age group and employment pattern, and the portion of the employees against population (except for population structure), Japan's total wage bill in 2004, 2010, and 2015, will be 216 trillion, 210 trillion, and 203 trillion yen, respectively, indicating that total wages will decrease by 1 trillion yen per year (Figure 53). Thus, in terms of wage costs, firms may find some positive effects of population decrease.

Figure 51 Effect of Declining Population



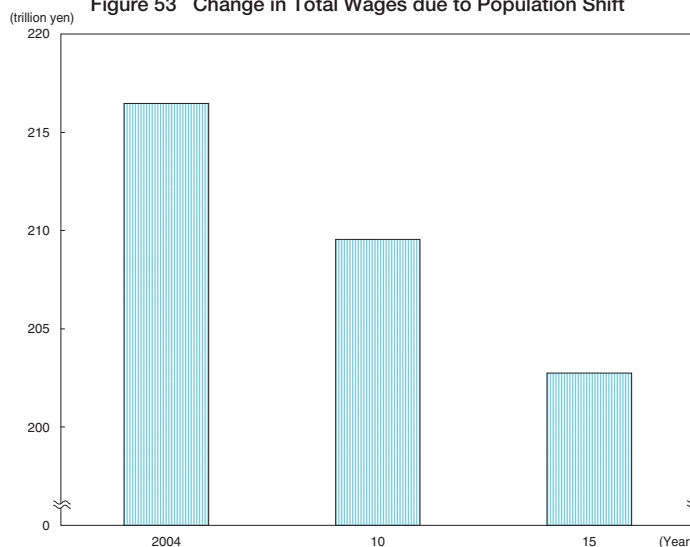
Source: The Japan Institute for Labour Policy and Training "Study on the Personnel Strategy and Vocational Awareness in a Society Experiencing Declining Population" (Corporate Study, 2004)

Figure 52 Three-Year Strategy to Cope with Declining Population



Source: The Japan Institute for Labour Policy and Training "Study on Personnel Strategy and Vocational Awareness in a Society Experiencing Declining Population" (Corporate Study, 2004)
 Note: The above result reflects multiple responses.

Figure 53 Change in Total Wages due to Population Shift



Sources: Calculated by the Office of Counselor in charge of Labour Policy, MHLW, using the MHLW "Basic Survey on Wage Structure", Statistics Bureau, MIC "Labour Force Survey" National Institute of Population and Social Security Research "Population Projections for Japan" (January 2002 projection/intermediate projection)

(Changes in Company Institutional Systems)

The wage curve in 2004 fell to 70% of the peak attained in 1990 (Figure 54). In terms of wage systems, which have been revised in the past three years, many of the companies responded that they "extended the portion of the wages which reflect performance and results". While companies are not able to commit to raising wages, it appears that they changed the wage system to reflect employee performance, results and ability, so that employees understand the wage mechanism and are satisfied with their work.

Looking at working hours, the proportion of employees with less than 35-hour per week is on an upward trend, but proportion of employees reporting 60 or more hours is also increasing. Thus, there is a diversification of working hours among employees. There have also been notable changes in the proportion of the firms that have switched to a variable working hours system over the past dozen years.

On the personnel development side, though the ratio of employee education and training expenses to labour cost remains low compared to the 1990 level, companies demonstrate a positive attitudes toward personnel development. However, there is now a tendency to shift responsibility from the company to the individual.

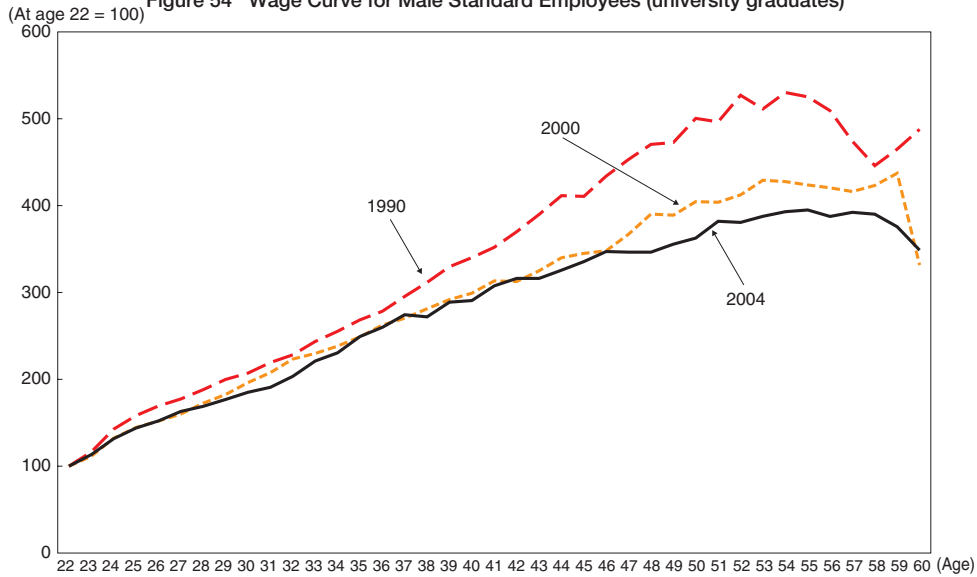
For promotion, the average age by job grade is rising for all grades, reflecting the fact that, as a result of the changing company age structure due to an increasing number of middle-aged and older persons, the age at which promotion to management positions by different generations, looking at the proportion of of university graduates in management positions, the generations they are, the lower the rate of occupying management positions, even among the same age class (Figure 55). A number of the firms are introducing professional positions, which is one way of addressing the shortage of management positions.

(Performance Appraisal)

Whether employees accept new systems and get motivated to work depends on the successful implementation of an effective performance appraisal system. However, many companies feel that there are some problems with their system. Some of the challenges and problems cited by companies include, "it is difficult to coordinate evaluation standards between departments", "evaluators are not well trained", "employees do not accept the evaluation result", and "evaluation will reduce employee's motivation to work". To deal with such issues, many companies answered that they "developed an evaluation manual" and are "taking some measures for those with a low evaluation result" (Figure 56). There was a high rate of responses for "the employees do not accept the evaluation result". One possible explanation is that the companies do not clearly present their expectations of employees in terms of ability and achievements. For the successful operation of a performance evaluation system, it is essential for both the company and workers to provide information on their requirements/needs and capabilities.

In terms of measures to raise employee motivation, a number of companies said they emphasize performance-based wage and promotion, offer steady employment and wages, apply the goal management approach, and empower their workers. Though emphasizing all these measures does not necessarily raise employees' level of satisfaction with their work, the company's efforts to increase employee motivation to work can lead to greater job satisfaction.

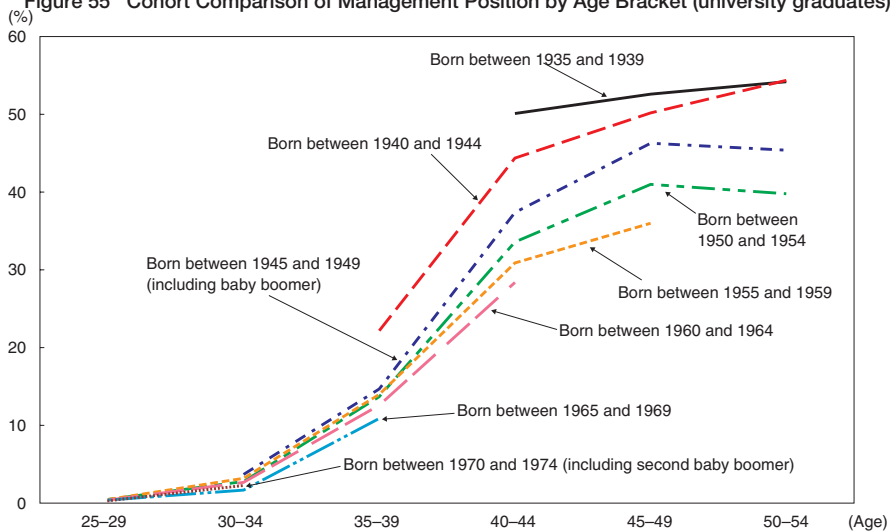
Figure 54 Wage Curve for Male Standard Employees (university graduates)



Source: MHLW "Basic Survey on Wage Structure"

Note: Wage = Scheduled cash wages × 12 + Bonus over the past year

Figure 55 Cohort Comparison of Management Position by Age Bracket (university graduates)

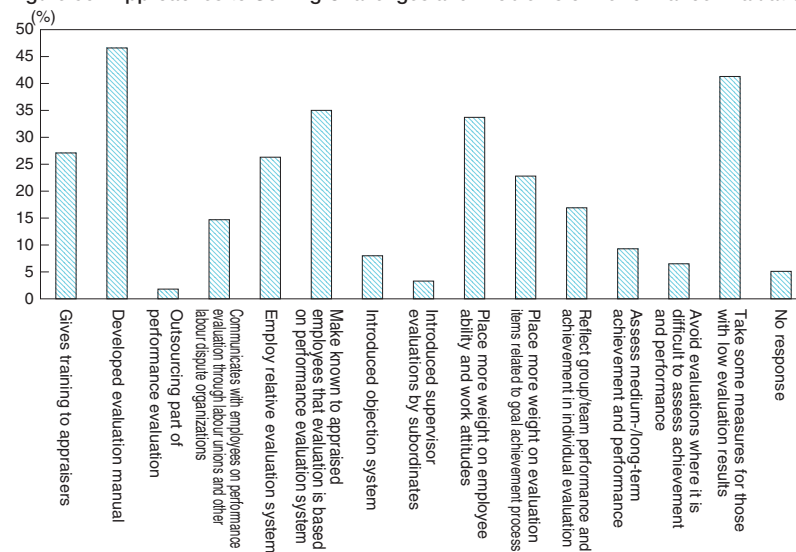


Source: MHLW "Basic Survey on Wage Structure"

Notes: 1) Management position here includes directors and section managers and is calculated by the Office of Counselor in charge of Labour Policy, MHLM.

2) The survey target companies are those with more than 100 employees.

Figure 56 Approaches to Solving Challenges and Problems of Performance Evaluation



Source: MHLW "General Survey on Working Conditions" (2004)

Note: Companies with performance evaluation system = 100