

# Changing Scenario of Employment Management System in Japan

## Abstract

Japan is well known for its unique and effective management system that have influenced in shaping the organizational structure across globe. Some of the Japanese management practices that have received worldwide attention are continuous improvement (kaizen), consensus building (nemawashi), seniority system (nenkō joretsu), total quality management (TQM), just in time (JIT) etc. Japanese companies have always paid much attention to the human resource management practices which can be said as one of the core and priority aspect of Japanese management system. This paper focuses on changing employment system in Japan with reference to the lifetime employment system considered to be an important human resource management practice. The paper attempts to gain an understanding on the traditional model of lifetime employment system of Japan, its decline and the adoption of new system with reference to socio-economic context of Japan and its subsequent social implications. A learning disability is a neurological disorder that affects an individual's ability to process, understand, and use information. In this paper, special emphasis is given on diagnosing of different pedagogical strategies to meet the needs of students of learning disabilities.

**Keywords:** Japanese Management Practices, Lifetime Employment System, Contractual Employment.

### Introduction

Japan is well known for its unique and effective management system. The Japanese style management as it came to be known as refers to a set of practices, philosophies, methods or concepts that were initially followed by Japanese companies but are now adopted worldwide. Some of the practices that have received worldwide attention are continuous improvement (kaizen), consensus building (nemawashi), seniority system (nenkō joretsu), total quality management (TQM) etc. Japan has come a long way in adopting, innovating and establishing some effective management practices in Japanese companies. The origin of Japanese management practices has its roots in the history and culture of Japan. Majority of Japanese practices were developed during the rebuilding phase of Japanese economy after WWII which in no time garnered attention and interest of other developed and developing countries and soon came to be adopted globally. Culturally, these practices takes their characteristics of loyalty, harmony from Confucianism, collectivism and humility from Buddhism, obligation and duty from bushido (Firkola, 2006).

### Objective of the Study

The objective of this paper is to study the changing scenario of employment management system in Japan.

### Review of Literature

Various books have been studied for this paper which have been discussed through out the main text of this paper.

### Main Text

The Japanese management system not only stands out for its work related quality measures but also for its unique approach in personnel related management practices that emphasizes on the qualities of harmony, teamwork, cooperation among others. Japanese companies have always paid much attention to the human resource management practices and treated the employees as its human capital which can be said as one of the core and priority aspect of Japanese management system. This is evident from the job commitment and security, collective and shared goals, and the efforts put in by the company in familiarizing the employees to the workplace as to a generate the sense of belonging. Human resource management system takes its source from the management Theory Z developed by William Ouchi in 1980s which is based on Japanese management ideas that stresses the value of employee participation, team spirit, and long-term employment. Some of the human resource management practices in Japanese companies includes seniority system, lifetime employment system and other employee welfare related practices such as training or job rotation.

### Lifetime employment system

Lifetime employment system or Shūshin koyō is one of the unique personnel management practices adopted in Japan. It refers to the permanent employment in Japan. Fujimura (2016) defines lifetime employment as continuing one's job at the same company till the retirement, that one has joined immediately after completing the university. It can be understood as a long term employment contract where companies commit to provide job

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security and in turn the employees are expected to be loyal and in harmony with company goals and decisions. The lifetime employment system works on this understanding of the mutual obligations between the employer and the employee. The concept of lifetime employment dates back to when James Abegglen described the employment management of Japanese corporations as a lifetime commitment (Matanle, 2011). The practice of long term employment is not unique to Japan but the way it functions makes it unparalleled such as the new graduate recruitment practice (Shinsotsu-ikkatsu-saiyō) where companies hire new university graduates en masse offering long term job security and compulsory retirement. The hiring is based on the general potential of the candidate who are then trained and assigned to posts in the company's best interest. Further, the promotion and wages of employees are based on the principles of seniority levels. Fujimura (2016) states that the reason behind such job commitment and loyalty is attributed to the labor shortages and the economic boom in post war Japan that led to the stabilization of employment which eliminated the fear of being laid off and solidified the trust of the employee in the company and its functioning. Further implementation of the Labor Contract Act in 1970s limiting company's rights to dismiss or laying off the employee, favored the retention of the young employees and provided more job security against the trend of job switching and establishing a lifelong employment system that worked wonders for Japan and in its postwar economic growth. The sense of job security among youth coupled with company's policies of internal transfers based on a rotation system and on-the-job training resulting in company-specific skills further made it extremely difficult for employees to switch jobs, thus, contributing immensely to the growth of the companies. Moriguchi (2004) mentions that the lifetime employment is a result of collective interplay of labor, management and government in response to the changing environment that eventually steered it in taking the shape of human resource management policy. Labor laws, state welfare system and social norms further strengthened the practice and its establishment in most of the companies across Japan.

#### **Changing pattern of employment**

Lifetime employment has long been seen as one of the main and distinctive characteristic of the Japanese employment system. The system gained momentum and prominence in postwar phase and proved extremely useful in economic, political and social interest. However, with the oil crisis in 1973-74, the collapse of bubble economy in 1990s and the prolonged recession, it started to break down. All these economic hardships posed a serious question on the continuation of lifetime employment system. The system considered to be one of the main factors contributing to the economic success in Japan in 1980s came under criticism as one of the obstacles during economic recession in 1990s. The recent financial crisis of 2007-10 further resulted in mass lay offs and forced many companies to abolish the practice. One of the major factors for the diminishing prominence of lifetime employment system is the rapid economic downturn in Japan. The rapid decline in the economic growth has put companies in a difficult situation to sustain the traditional model of lifetime employment. It has become increasingly difficult for the companies to continue to provide lifetime job security and creating enough middle management positions and forced many companies to revise both long-term employment practices and seniority-based wages. Most of the major firms changed their employment strategies to adjust to new market situations. The changing economic environment and economic hardship demanded more flexible alternatives and therefore the companies resorted to 'restructuring'. The process of restructuring or risutora means reorganization of the company, however, in case of Japan the term is used refer to as reduction of the number of employees. Considering that dismissal of an employee is not that easy in Japan given its laws of strong protection of labor, some companies instead of harsh or outright dismissals, chose to amend the terms and conditions of employment and used various strategies to reduce their labor costs. One method was stopping the new recruitment given that over employment was already a burden and issue for the companies. The companies reduced the number of fresher hiring that saved them from further investing in training and promotions. Other policies that were introduced and incorporated were reduced salaries and cuts in the benefits and allowances. Overtime payment also was compromised in order to deal with the economic load. Employees willing to continue had no choice but to agree to the revised conditions of reduced wages and increments in lieu of the job security which was gradually becoming difficult to find during the economic slump. Companies also actively promoted voluntary early retirement among its employees with schemes such as attractive early retirement package or bonuses or help with upcoming job search (Firkola, 2006). Similarly, transferring surplus employees to other divisions of the company or to other subsidiary companies for assistance purpose or worker's capacity building, also known as secondment was another way of accommodating the employees. These natural attrition strategies helped mitigate the issue to some extent in downsizing the number of employees. Apart from these, another method that companies adopted to counter the

financial burden was increasing the number of non-regular workers and decreasing the number of regular workers. This provided the freedom and flexibility to the company to adjust the manpower as well as sustain the regular employees on lifetime employment (seishain). It is notable that considerable number of regular employees have been replaced by non-regular employees in the process of "restructuring". Companies resorted to hiring employees on fixed term or contractual basis that provided the flexibility of terminating or renewing the contract at employers discretion. Fixed term contract (keiyaku-shain) include part time employees on lower labor cost who may be terminated according to business requirements and full time employees for whom the number of working hours remain unchanged but didn't provide the job security. A remarkable transition is seen from lifetime employment system to fixed term employment system especially in large Japanese companies creating a two-tier employment system. Under the new system, the employer may now freely employ different types of employees, including regular employees, fixed-term employees, part-time employees, dispatch employees, and employees seconded from affiliated companies. Duerr(2011) points out that in the times of recession, Japanese ways of doing business were considered to be inadequate to cope with the changing international and domestic competitive environments and it was important for the Japanese companies to adapt to the changing needs of the international market. Globalization, growing influence of western management techniques, and rise of foreign workers further compelled Japanese companies to adopt various aspects of Western management approaches such as individuality, diversity etc. Pejovic(2014) mentions that the Japanese labor market has also been adversely affected by a number of demographic, macro-economic, and structural pressures, which are gradually changing traditional Japanese employment practices. Demographic shifts play an important role in shaping the labor force of any nation. Aging population and declining birth-rate in Japan have resulted in labor shortages leaving companies with no option but to employ shorter labor contracts and more flexible working arrangements. Shrinking young workforce negatively impacts the company's growth leading to declining productivity, higher labor costs, delayed business expansion, and reduced international competitiveness. The circumstances compel companies to harness the option of technology and automation to maintain productivity levels in addition to better efficiency. This creates a demand for continuous learning and upskilling, requiring employees to acquire new skills and adapt to new roles and job obsolescence in technology dominated economy, making the traditional lifetime employment model difficult to continue. Further, companies are reluctant to train the irregular employees since they are not associated for lifetime and on the other hand, the non regular employee too faces time constraint to update to new skills given the long working hours. The digital transformation has started to impact Japanese companies and employment. All these factors are contributing to the departure from traditional employment system and transitioning to a new system, however this change has come at its cost and social implications.

#### **Social implications**

The bubble economy era in Japan was a time of unprecedented economic growth, optimism, and excessive consumerism. Companies were prospering and earning huge profits and could provide, though not in written, guarantee of lifetime employment. In turn the company is benefited with employee's loyalty which meant a stable workforce. Lifetime employment provided employee with the job security along with benefits such as bonuses, health insurance, low cost housing among others. Moreover, seniority based promotion system provided a much less competitive environment that led to channelizing all the focus and energy collectively towards achieving the common goal. The financial stability and security played an important role in achieving high standard of living, long term savings and investments etc. Besides the financial aspect, job security also provided a sense of belonging to a community and social status in the society. However, as the bubble burst occurred in the early 90s followed by economic slump, many ended up in serious financial troubles, liabilities and unable to find a stable job. Japan entered a tumultuous period of economic stagnation known as the 'Lost Decade'. The economic decline caused a significant social crisis in Japan. The generation of young people, referred to as the lost generation, who graduated during the 'employment ice age' of the 1990s and 2000s found it extremely difficult to find good jobs and even today after reaching their 40s, the situation hasn't changed for them (Yūji, 2018). Not able to find a job after graduation resulted in low confidence and self esteem and eventually giving up on searching for the job. These came to be known as NEETs, an abbreviation for Not in Education, Employment, or Training. On the other hand those who managed to find temporary work were known as "freeters" or furita. The youth of bubble era were faced with the new system of limited new recruitment and contractual employment leaving few chances for permanent employment, thus they are left with no choice but to depend on their parents for financial support in their 50s. According to an article published in 2017, the percentage of part-timers, temps or contract

workers has reached close to 40 per cent of the workforce as compared to about 20 percent in the 1980s. This transition led to the emergence of a social phenomena called "parasite singles", a term coined by Sociologist Masahiro Yamada in 1997 refereeing to young adults living on their parents income. Tran (2006) refers to Genda's theory that parasite singles are an unfortunate consequence of a youth-unfriendly labor market. Further, with the rise of gig economy, low-paying unstable short term jobs does not provide sufficient financial stability to make ends meet, let alone bearing the responsibility of family and therefore, consequently marriage too has taken a back seat among youth in Japan who prefers to stay with the parents due to low cost of living. This further leads to other social problems such as late marriages, shrinking birth rate among others. Unable to cope up with the precarious employment and social stigma, a good number of people gave up becoming hopeless in finding a job and gradually started to isolate and went into social withdrawal. The social withdrawal or Hikikomori provided an escape from the real world and financial burden, however, prolonged isolation led to complete 'shut in' or no social contact with the outside world resulting in loneliness, anxiety and mental stress because of which again they are unable to find a job and become totally dependably on the parents mentally and financially, affecting community at large. This over dependency is also a burden for the parents who are in their old age and have limited means. Japan's aging population further aggravates the situation due to less working age population. As is evident that the youth of 1990s and 2000s has endured economic uncertainties and has struggled to keep up with the fast moving society and the social norms. They are sailing through the difficult times depending on their parents almost entirely. Losing a job is considered shameful or disgraceful in Japanese society and hence to save oneself and family from the humiliation, there are number of people who were laid off and are unable to disclose it to the family, continue to pretend to going to work every morning. However, there is another section of people that has emerged who have given up all the hope and in order to save the face, choose to disappear from society. The phenomena known as "evaporation" or johatsu refers to people who voluntarily disappear to escape from unbearable societal pressure or situation. The phenomena surfaced more prominently during the 1990s as a result of economic downturn when people were not able to meet societal expectation of school-to-work transition and finding full fledged long term employment. The accumulating financial obligations further worsened the situation. The overwhelming sense of failure, rigid societal expectations and the immense fear of bringing shame to one's family drives a person in choosing to disappear leaving behind their families rather than facing the social stigma of unemployment.

### Conclusion

The concept of lifetime employment, once considered the norm in Japan has been undergoing changes due to various factors but this transition has been slow due to cultural and legal constraints. The concept is evolving to meet the changing needs of the modern and diverse workforce and the rise of the gig economy but on the other hand, the fact that the system is still preferred by many Japanese people has maintained its prevalence even in contemporary times, thus making Japanese employment system to becoming a hybrid or two tiered model. Each system has its own merits and demerits in terms of socio-economic implications. Striking the right balance between adapting the new trends for desired economic growth and maintaining social stability becomes a major challenge for Japan given the technological advancements, demographic shift, and changes in work styles taking place in society.

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