

# The Significance and Objectives of Employee Benefits Amid Japan's Evolving Employment Practices

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## Introduction

Since the collapse of the bubble economy, Japan's economy has failed to achieve a sustained recovery. Meanwhile, economic globalization has advanced, while international competition has intensified.

Under these severe business conditions, companies have been forced to cut labor and other costs to remain competitive. In fact, they have not only been consolidating internally, but merging externally with other companies. There has also been a trend of spinning off new subsidiaries to improve business efficiency.

In addition, the severity of the business environment has been compounded by population trends such as aging and decline in the number of children, as well as the accelerating pace of business. As a result, traditional employment practices such as long-term employment and seniority-based pay have also been under siege. For example, companies undertaking restructuring have reduced total employment through layoffs. In fact, the unemployment rate has remained high ever since it reached 5% in July 2001. Moreover, companies are also shifting from seniority-based pay to performance-based pay systems.

Employee benefits—a key component of employment and labor management—have evolved with and supported traditional Japanese-style employment practices.<sup>1</sup> For example, housing loans provided by companies have effectively compelled employees to remain at the company for the long term, while company-sponsored housing and events for employees have perpetuated the metaphor of the company as a big family.

However, amid the ongoing changes in Japan's traditional employment practices, how will the significance and objectives of employee benefits change in the future? <sup>2</sup> This paper presents the author's personal views based on a study commissioned by the Ministry of Health, Labor and Welfare and conducted by NLI Research Institute called "Survey of

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<sup>1</sup> This paper focuses primarily on discretionary employee benefits.

<sup>2</sup> Although employee benefits are affected not only by changes in employment practices, but by factors such as increases in legally required benefit costs, this paper focuses on the effect of changes in Japan's

Employee Benefits and the Workers' Property Accumulation Promotion System.”<sup>3</sup>

Strictly speaking, the diverse nature of employee benefits as peripheral conditions of employment suggests that a focused approach might be in order. However, since our focus is on the broader significance and objectives of employee benefits, we have decided to take a comprehensive approach.

## 1. Awareness of Employee Benefits

Given the severe business environment, the very existence of employee benefits has come under scrutiny. For example, one commentator says that “The biggest contribution that companies can make is to focus on production and sales activities so as to bring about economic vitalization and employment.” In addition, “The role of employee benefits provided by large companies in Japan has ended. Companies should instead pay out the amount as wages and let employees choose how to use the money.”<sup>4</sup>

As will be discussed later, the significance of employee benefits as a supporting pillar of Japanese-style employment practices has indeed waned. In the past, when wages were equal throughout an industry, employee benefits were a valuable way for employers to differentiate themselves. Today, however, as companies shift to performance-based wage systems, wages are becoming less rigid. Moreover, to avert risks associated with owning company-provided housing and other fixed assets, many companies are searching for ways to convert facility-related benefits into wages.

However, the most critical element in the significance of employee benefits is whether labor actually sees a need for them.

With regard to the statement, “employee benefit costs should be minimized, and the funds allocated to wages instead,” only 6.4% of companies and 16.0% of employees in the survey agree. Even including those who “tend to agree,” total affirmative responses amounted to only 33.7% for companies and 40.9% for individuals (Figure 1 top).

This tendency is relatively unchanged by company size. Even at large companies with 1,000 or more employees, where changes in employment practices are thought to have a particularly large effect, affirmative responses account for only 26.9% among companies and

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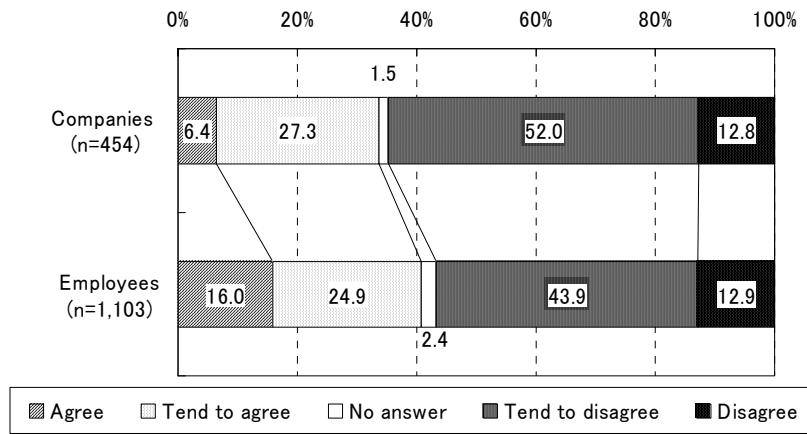
employment practices.

<sup>3</sup> The survey covers 3,000 companies with at least 10 employees (470 valid responses received), and 9,000 employees at the companies (1,103 valid responses received). The survey was conducted by mail in November and December 2002.

<sup>4</sup> Toshiaki Tachibanaki, “Companies Consider Withdrawing from Corporate Welfare,” (in Japanese) *Nihon*

36.8% among individuals (Figure 1 bottom).

**Figure 1 “Benefits should be minimized, and funds allocated to wages instead”**



	Sample size	Total	Agree		Disagree		No answer	Total	
			Agree	Tend to agree	Tend to disagree	Disagree			
All companies	454	100.0	33.7	6.4	27.3	64.8	52.0	12.8	1.5
By company size:									
~29 persons	180	100.0	37.8	7.2	30.6	60.6	50.0	10.6	1.7
30 ~ 99 persons	128	100.0	25.0	7.8	17.2	73.4	53.9	19.5	1.6
100 ~ 999 persons	94	100.0	41.5	4.3	37.2	57.4	48.9	8.5	1.1
1,000+ persons	52	100.0	26.9	3.8	23.1	71.2	59.6	11.5	1.9
All employees	1103	100.0	40.9	16.0	24.9	56.8	43.9	12.9	2.4
By company size:									
~29 persons	288	100.0	45.1	19.8	25.3	50.3	38.5	11.8	4.5
30 ~ 99 persons	196	100.0	38.8	16.3	22.4	58.7	44.4	14.3	2.6
100 ~ 999 persons	287	100.0	38.7	14.6	24.0	60.3	46.3	13.9	1.0
1,000+ persons	163	100.0	36.8	12.9	23.9	61.3	49.1	12.3	1.8

These results suggest that under the severe business environment, even as Japanese-style employment practices undergo change, labor continues to regard the existence of employee benefits as an important concern.<sup>5</sup>

We next examine the specific objectives of companies in offering employee benefits.

## 2. Objectives of Employee Benefits

The survey asked all companies providing at least one employee benefit what objectives they

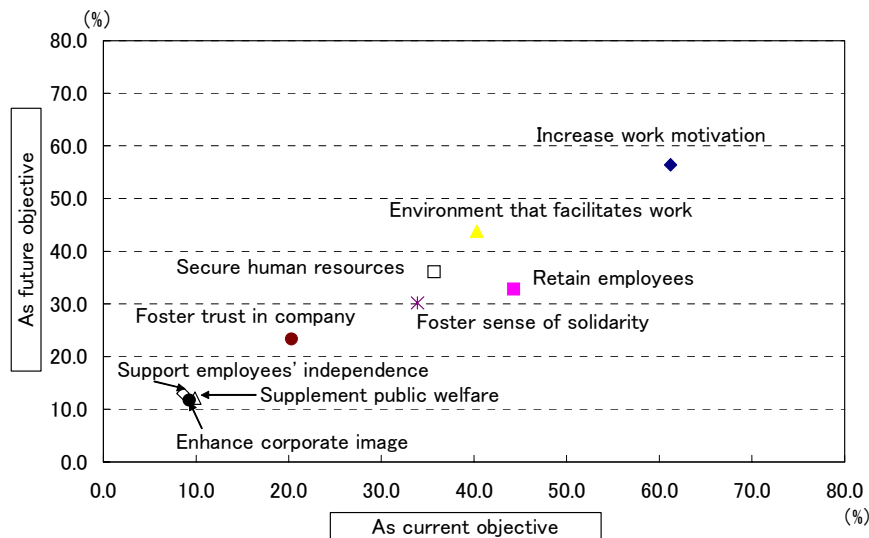
*Keizai Shinbun*, February 15, 2002.

<sup>5</sup> From the opposite perspective, we could also argue that with the lengthy recession and little chance of

emphasize with regard to employee benefits now and in the future.

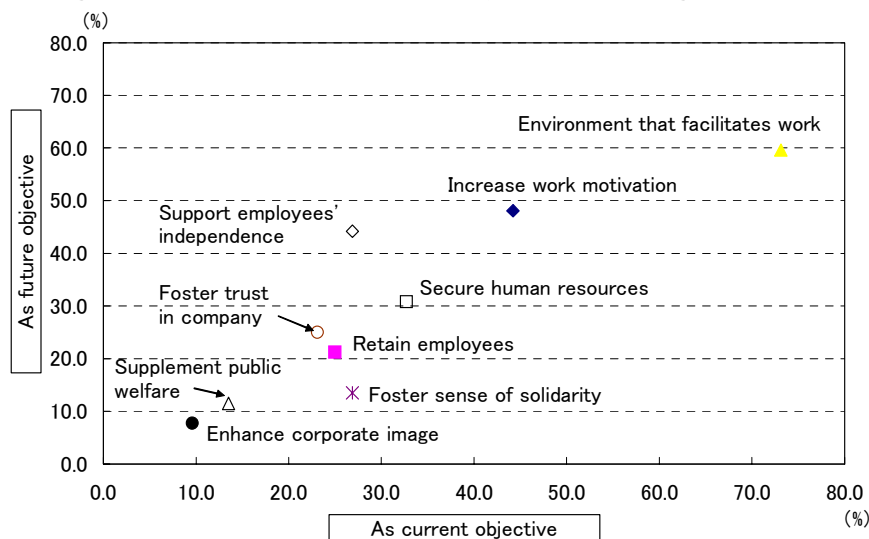
The results for all companies are shown in Figure 2, and for large companies (with at least 1,000 employees) in Figure 3. In both figures, the horizontal axis measures the proportion of companies emphasizing current objectives, and the vertical axis measures the proportion emphasizing future objectives. We explain the results in further detail below.

**Figure 2 Current and Future Objectives of All Companies**



Note: Multiple response (up to three responses).

**Figure 3 Current and Future Objectives of Large Companies**



Note: Multiple response (up to three responses).

wage growth, labor does not put much value on the temporary impact of converting benefits into wages.

### **(1) Primary Objectives are to Motivate Employees and Promote Focus on Work**

With regard to objectives emphasized now and in the future, the majority of companies aim to increase work motivation (61.2% current, 56.4% future), while over 40% seek to create an environment that facilitates concentration on work, including stability of home life (40.3% current, 43.8% future).

At large companies with 1,000 or more employees, the top two objectives for now and the future are to create an environment for concentrating on work (73.1% current, 59.6% future), and to increase work motivation (44.2% current, 48.1% future).

Judging from these primary objectives, the corporate stance on employee benefits appears to be strongly focused on producing tangible business results, and not easily deterred by changes in the business environment or in traditional employment practices.

Moreover, if employee benefits actually succeed in attaining these objectives, they will have achieved the goal that they supposedly hinder: “to focus on production and sales activities so as to bring about economic vitalization and employment.”

### **(2) Supplementing Public Welfare is a Result, Not an Objective**

Companies that emphasize supplementing public welfare as an objective are in the minority (9.9% current, 12.1% future). The same result is found among large companies (13.5% current, 11.5% future).

As these results show, companies do not implement employee benefits for the sake of providing welfare. In other words, employee benefits may supplement public welfare programs as a result, but differ fundamentally from public welfare programs in that welfare itself is not a main objective.

### **(3) From Retaining Employees to Supporting Their Independence**

The clearest difference between current and future objectives appears in the areas of retaining employees and supporting their employees.

With regard to retaining employees—long regarded as a major objective of employee benefits—more companies emphasize it as a current objective (32.8%) than as a future objective (44.3%). In particular, among large companies, both current and future emphases are low (25.0% current, 21.2% future).

On the other hand, compared to only about 10% of companies overall who emphasize supporting employees' independence either now or in the future, an impressive proportion of

large companies do so now (26.9%) and in the future (44.2%).

These results suggest that amid changes in Japanese-style employment practices, large companies in particular are shifting the emphasis of employee benefits from retaining employees to supporting employees' independence.

#### **(4) Fostering Trust is Critical for New Employment Practices Too**

Despite the strong emphasis of large companies on supporting employees' independence, survey results indicate that the importance of fostering loyalty and trust toward the company will not necessarily decline among large companies (23.1% current, 25.0% future) or among companies overall (20.3% current, 23.3% future).

Since a company is an organization that pursues business objectives, a relationship of trust between the company and its employees is indispensable. In this sense, even in an era that emphasizes employees' independence and evaluates individual performance, employee benefits will continue to play an important role in fostering company loyalty and trust.

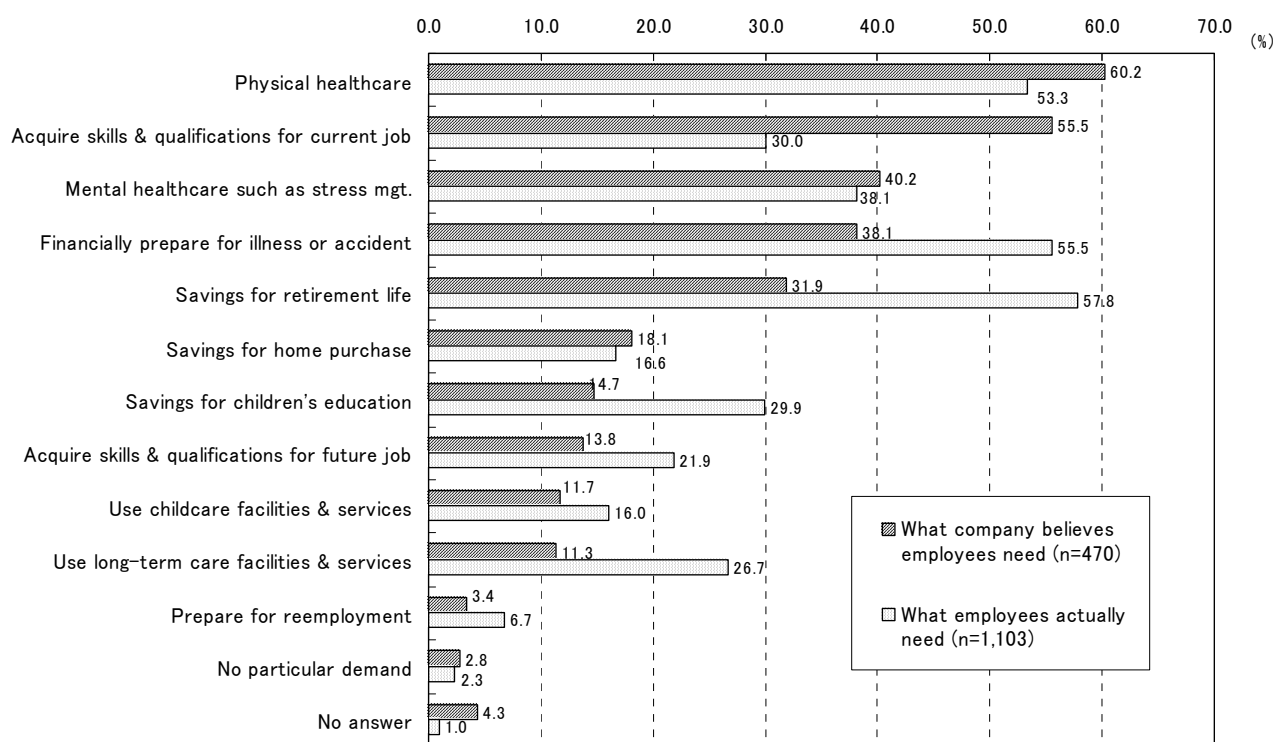
On the other hand, survey results indicate that emphasis on fostering solidarity among employees will not change significantly in the future among companies overall (33.9% current, 30.2% future), but will do so among large companies (26.9% current, 13.5% future).

### **3. Employee Benefit Categories Being Emphasized**

To achieve the objectives stated above, which categories of employee benefits are emphasized. Companies were asked to choose benefit categories they believe employees regard as necessary, while employees were asked to choose benefit categories they themselves regard as necessary.

The top three categories chosen by companies are physical healthcare (60.2%), acquisition of skills and qualifications useful in current job (55.5%), and mental healthcare including stress management (40.2%) On the other hand, the top three categories chosen by employees are savings for retirement life (57.8%), financial preparation in case of illness, accident or other contingency (55.5%), and physical healthcare (53.3%; Figure 4).

**Figure 4 Categories That Employees Need (multiple response)**



The results reveal a mismatch between the perceived and actual needs of employees regarding employee benefits. However, the results could also be interpreted as a difference of objectives and expectations toward employee benefits—companies ultimately seek to improve business results, while employees seek financial security. In fact, almost 70% of employees say that their benefits make them feel secure.

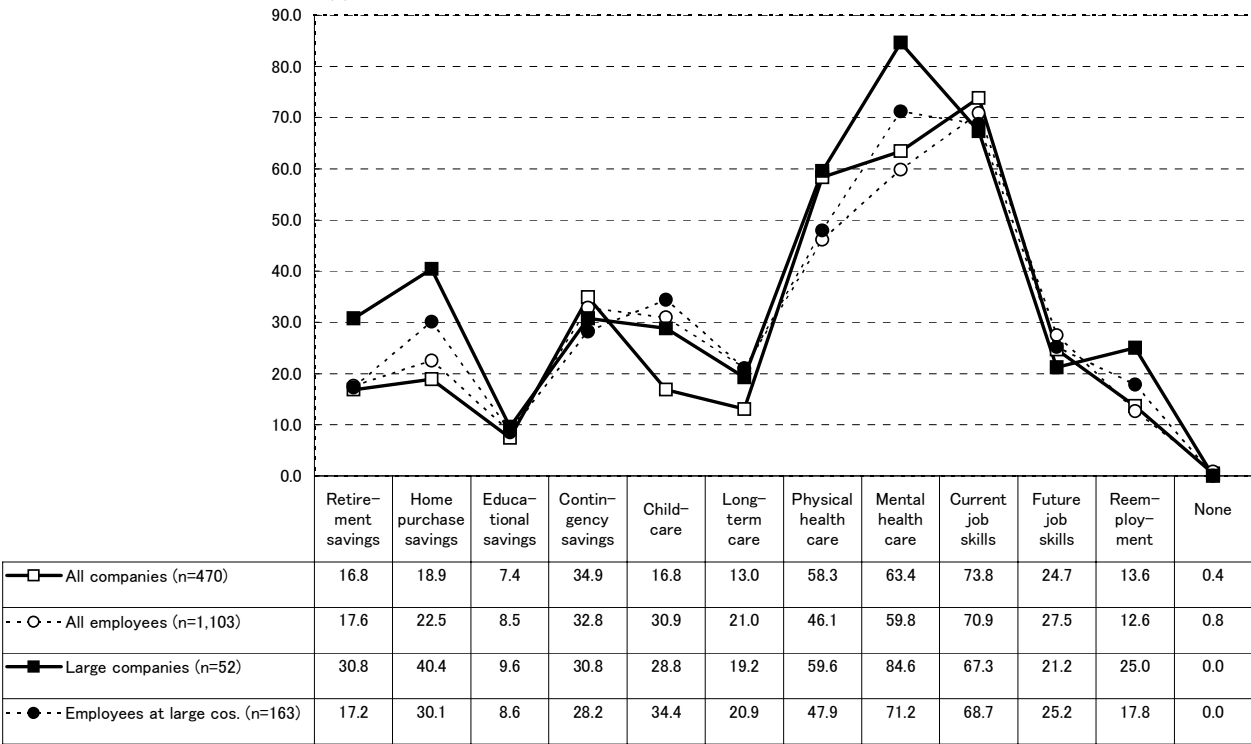
If companies and employees shared the same objectives while emphasizing different benefit categories, we could conclude that inefficiencies exist due to mismatching. However, given that the objectives are different to begin with, differences in emphasis are inevitable.

The survey then asked which benefit categories should be supported. Here companies show an even stronger stance of emphasizing business results, while employees tend to conform with the corporate stance, narrowing the perception gap with companies (Figure 5). In other words, employees do not believe that the categories they need should necessarily be supported by the company.

Specifically, the top three categories for both companies and employees are acquisition of skills and qualifications useful to the current job (73.8% companies, 70.9% employees), followed by mental healthcare (63.4% companies, 59.8% employees), and physical healthcare (58.3% companies, 46.1% employees). At large companies, mental healthcare ranks at the top (84.6% companies, 71.2% employees).

Acquisition of skills and qualifications is intimately related to the objective of supporting employees' independence. Physical and mental healthcare are not only fundamental to productivity growth, but critical from the perspective of business crisis management. All of these categories directly tie in to business results, and are also closely related to human resources management.

**Figure 5 Categories that Companies Should Support**



**Conclusion**

If wages represent the core conditions of employment, employee benefits are the peripheral conditions that evolve to meet the demands of the times like a living organism.

Adapting with diversity and flexibility to new employment practices and other changes in the environment, they continue to function effectively in employment and labor management.

But changing times demand new strategies for employment management, and employee benefits are no exception. Companies must take advantage of the strengths of employee benefits, while focusing on strategic objectives.