

The Growing Demand for Specialists Amid Rising Unemployment

– *The Nissay Business Conditions Survey* –

by the Industrial Research Dept.

Introduction

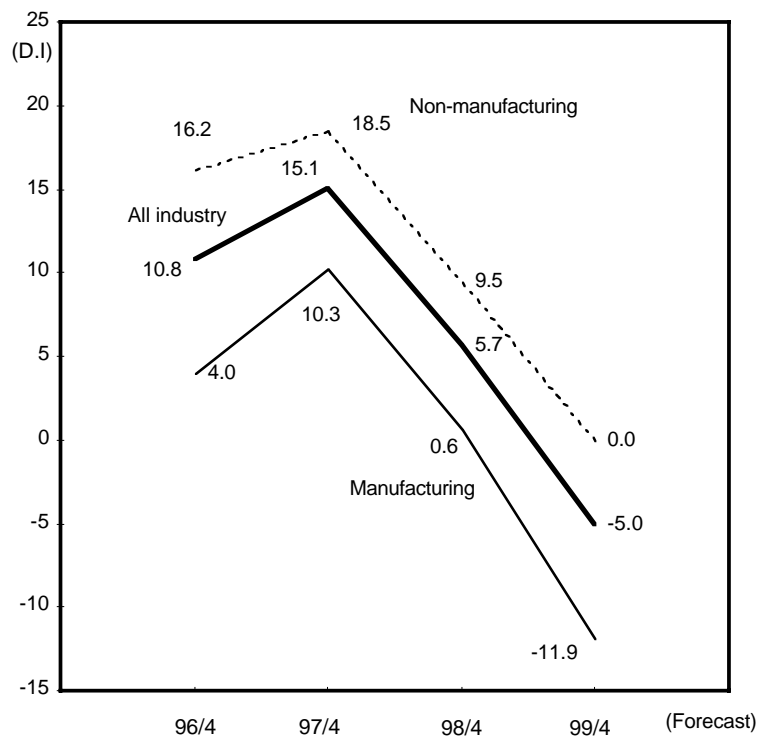
Unemployment climbed to a record 2.97 million persons in August, bringing the jobless rate to a new high of 4.3 percent. Moreover, the effective rate of job openings to job seekers, a measure of corporate hiring intentions, also fell to a new low of 0.5. The employment situation continues to deteriorate.

Amid growing concerns that the employment situation could become disastrous, how are companies responding in their employment trends, personnel policies, and perceptions toward specialized personnel? In July and August, Nippon Life Insurance Co. and NLI Research Institute jointly conducted a nationwide survey on employment and personnel strategies, receiving responses from 5,364 mostly second tier and small and mid-sized companies. The results should have a high degree of validity given the large sample size for this type of survey. In this paper, we analyze the survey results in reference to changes in the business environment and job market trends.

1. Employment D.I. Posts First Negative Value

While the prolonged slump in personal consumption and capital investment are known to have hurt business sentiment, our findings clearly reveal that the recession is finally impacting employment. The diffusion index for estimated change in number of employees in April 1999, which reflects corporate hiring intentions (percent of companies increasing employees minus those decreasing employees), fell to -5.0, the first negative value since the survey was begun in 1996.

Figure 1 D.I. for Change in No. of Employees



Source: Unless otherwise indicated, all figures and tables are derived from the Nissay Business Conditions Survey (1H FY 1998).

(1) Growing Employment Disparities Across Industries

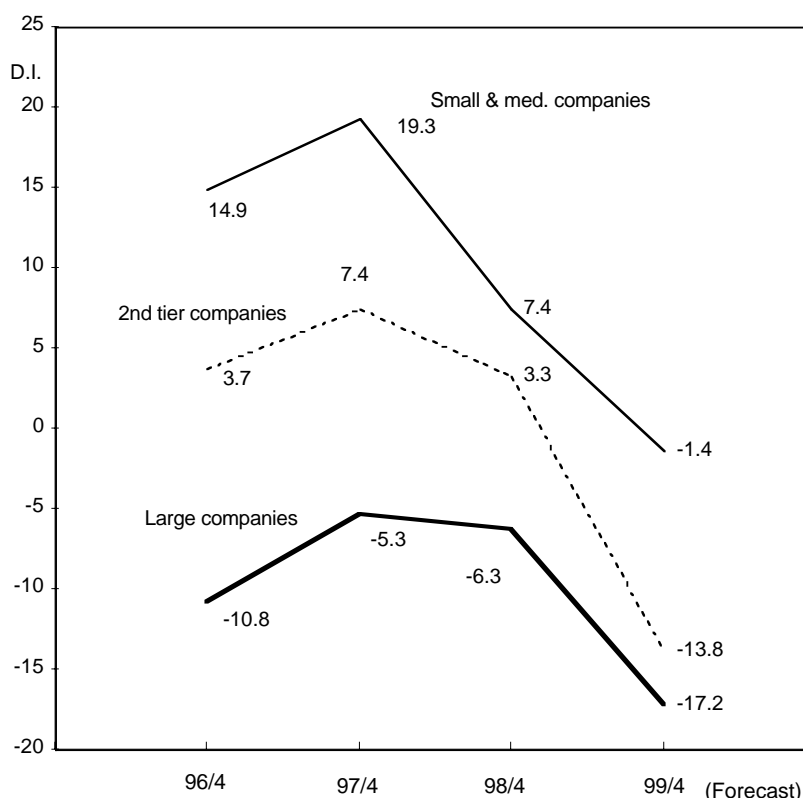
The decline in hiring intentions has spread to many industries. The actual results for April 1998 and estimate for April 1999 both show a clear increase in employment disparities among different industries.

For example, hiring intentions remain strong among business services such as information services, specialized services and communications, as well as for information technology (IT) industries. These industries are boosted by factors such as the accelerating pace of IT adoption and response to the year 2000 problem. Meanwhile, steel, textile, nonferrous metal and other material manufacturing industries suffer increasingly from excess employment, and process manufacturing industries, relatively healthy until April 1998, show a D.I. dropping to -8.5 for the April 1999 estimate. In particular, the transport equipment industry's D.I. plunges from -7.7 to -24.3 in just half a year because the prolonged slump in auto sales increases pressure on subcontractors in the auto industry to adjust employment.

(2) Hiring Intentions Plunge Among Small and Mid-Sized Companies

By company size, the trend continues in which larger companies have a stronger desire to reduce employment. Among small and mid-sized companies, the D.I. for change in employees, which remained positive until April 1998, turns negative in the April 1999 estimate. The decline in hiring intentions among small and mid-sized companies, traditionally a bulwark of employment, reflects the growing severity of the recession. By region, negative D.I.'s are most pronounced in the Chugoku, Kinki, Koshinetsu, Hokuriku, and Tohoku regions.

Figure 2 D.I. for Change in No. of Employees by Company Size



2. Small and Mid-Sized Companies Lack Good Personnel

(1) Adequate Quantity of Personnel Secured

The growing anxiety in employment may reflect the unrelenting pressure to restructure due to sagging sales. We now look at how personnel hiring trends are changing under the current business climate.

As for employment trends in the past year, the majority of companies reported filling their targets, while the proportion of companies who did not fill targets for desired personnel fell to 14.8 percent from 28.3 percent in the previous survey.

(2) Only 16.7% of Small and Mid-Sized Firms Could Hire Good Personnel

On the other hand, the proportion of companies satisfied with the quality of personnel edged down from the previous survey to 19.6 percent. Companies have no problem securing an adequate quantity of personnel, but high-quality personnel is harder to find. In particular, while 37.3 percent of large companies could secure good personnel, only 16.7 percent of small and mid-sized companies did so. Smaller companies generally have difficulties securing good personnel in good times, but apparently this pattern has persisted in the recession.

(3) Personnel Flow Continues into Leading Industries

In the information services and communications industries, approximately 40 percent responded that they were able to secure good personnel, while over 20 percent in the retail and restaurant industries said they could not secure the targeted number of desired personnel. This indicates the present trend in which good personnel are flowing into leading-edge industries, while retail and restaurant industries are struggling to fill their strong demand for good personnel (Table 1).

Table 1 Employment Trends in the Past Year

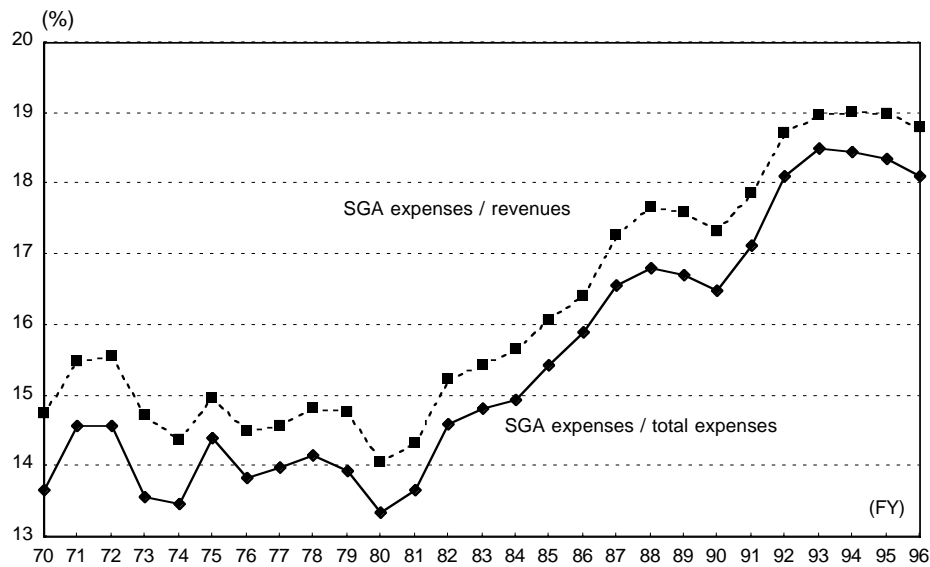
	Availability of personnel			Increased hiring of:	
	Hired good personnel	Couldn't get desired personnel	Couldn't fill hiring plan	Young	Women
All industries	19.6	14.8	4.4	39.8	8.3
<i>Company size</i>					
Large	37.3	10.6	2.3	37.3	8.3
2nd tier	25.2	14.0	4.6	42.8	7.8
Small & med.	16.7	15.3	4.5	39.1	8.4
<i>Business conditions</i>					
Good	29.7	14.7	4.6	54.4	11.5
Normal	22.6	13.8	4.6	41.7	8.4
Bad	17.1	15.1	4.3	37.0	7.7
<i>Typical industries</i>					
Steel	15.3	12.5	4.2	50.0	6.9
Transport machinery	18.2	12.7	2.8	48.6	7.2
Communications	36.5	15.4	11.5	61.5	7.7
Retail	18.5	21.3	8.3	44.4	10.9
Restaurant	20.2	21.3	7.9	36.0	12.4
Information services	41.0	12.9	6.5	46.0	3.6
97/9 Survey	20.4	28.3	8.8	36.5	8.9

Note: For business conditions, "good" includes "somewhat good," and "bad" includes "somewhat bad" (same below).

3. More Companies Struggle with Rising Personnel Costs

Despite substantial corporate restructuring following the collapse of the bubble economy, administrative costs remain high, in part because sale have been slow to recover (Figure 3). While high administrative costs have hurt global competitiveness, high personnel costs in particular have been a major issue in the 1990s.

Figure 3 Sales, General, and Administrative Expense Ratios in Manufacturing



Source: MOF, *Quarterly Statistics of Financial Statements of Incorporated Enterprises*.

Regarding present employment issues, 34.6 percent of companies cited growing personnel expenses. This is second only to the problem of securing good personnel (41.4 percent), and represents a 6.2 percentage-point increase from the previous survey (September 1997). Thus the problem of rising personnel expenses has resurfaced after appearing to recede in the previous survey. This can be attributed to the deteriorating business climate in the past year due to financial failures, the consumption slump, and weakness in capital investment.

These findings confirm the decline in employment intentions mentioned earlier. Even as the unemployment reaches new highs, companies still feel burdened by excess employment, suggesting that companies will continue cutting personnel costs and hiring for the near future.

Obviously, the companies concerned with rising personnel costs are more prevalent among ailing industries, and among larger companies. By industry, over 40 percent of companies cite this problem in the personal services, retail, transport and warehousing industries. On the other hand, only about 20 percent of companies in information services and specialized services cite this problem. Thus differences in business conditions are also apparent from the employment perspective – personal services are suffering from the consumption slump, while business services remain strong due to outsourcing demand.

Table 2 Urgent Issues Regarding Employment

	Securing good employees	Rising labor cost	Aging of employees	Rising excess employment
All industries	41.4	34.6	29.2	7.1
<i>Company size</i>				
Large	35.3	43.9	34.7	8.3
2nd tier	37.6	40.3	32.4	9.5
Small & med.	43.0	32.3	27.9	6.4
<i>Business conditions</i>				
Good	59.8	23.1	19.8	1.5
Normal	48.0	30.5	24.5	2.3
Bad	36.7	37.7	32.0	9.5
<i>Typical industries</i>				
Steel	37.5	26.4	58.3	8.3
Transport/warehouse	23.0	41.2	37.0	11.9
Communications	48.1	32.7	26.9	1.9
Retail	46.6	41.4	25.6	3.0
Information services	70.5	20.9	11.5	2.9
Personal services	39.7	44.4	23.2	3.3
97/9 Survey	49.0	28.4	29.1	2.9

4. Over 40 Percent May Revise Wage Structure

As the business outlook grows more perplexing and higher personnel costs become a pressing issue, we turn to how companies are dealing with employment and personnel matters.

When we asked what companies have done in the past year or what they plan to do in the next year regarding employment and personnel issues, the most common response was to revise the wage structure (42.8%), followed by enhancing training and development (29.4%) and revising the organization of work (21.9%). Over half of large and second tier companies cited the revision of wage structures (Table 3).

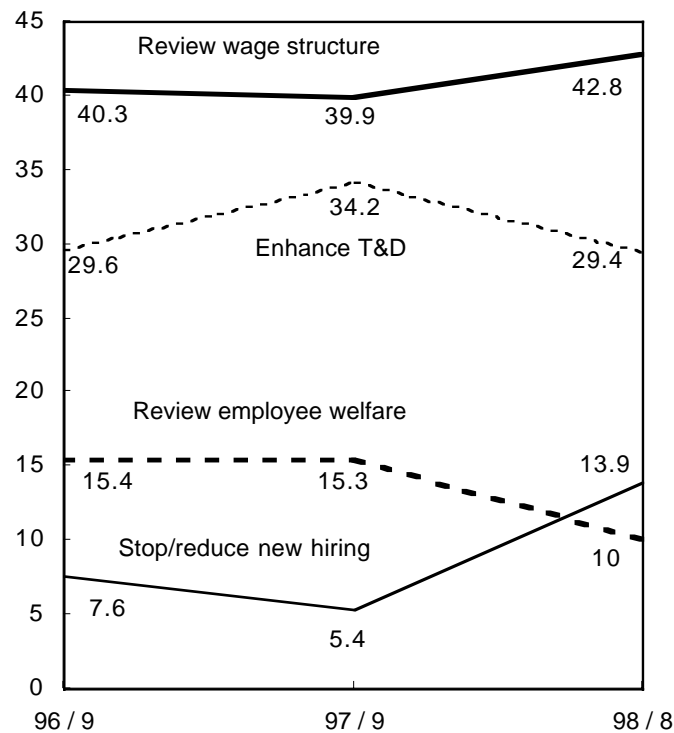
Table 3 Recent (or Planned) Revisions to Employment and Personnel Systems

(multiple response; %)

	Employment/personnal system			Human resources			
				T&D	Increases		Reductions
	Change in wage svstem	Change in work organiz.	Change in employee welfare	Enhance T&D	Use more part-time workers	Use temp. staff serveces	Stop/ reduce new hiring
All industries	42.8	21.9	10.0	29.4	14.3	9.0	13.9
<i>Company size</i>							
Large	50.5	20.1	10.2	25.7	17.5	12.9	18.8
2nd tier	52.3	23.2	11.4	30.0	14.8	9.0	13.6
Small & med	39.5	21.5	9.6	29.6	14.0	8.7	13.7
<i>Business conditions</i>							
Good	40.9	23.2	13.2	38.1	14.2	10.9	3.2
Normal	41.5	22.4	11.9	29.7	12.7	9.0	7.4
Bad	43.6	21.5	9.1	27.9	14.9	8.6	17.6
<i>Typical industries</i>							
Furniture/fixtures	38.8	16.3	8.2	24.5	18.4	10.2	26.5
Transport/ warehouse	46.0	17.9	9.3	21.8	22.7	8.4	17.6
Communications	30.8	15.4	17.3	34.6	7.7	26.9	13.5
Retail	45.9	20.3	8.3	37.7	25.6	4.8	10.9
Restaurant	49.4	28.1	5.6	25.8	41.6	3.4	9.0
Specialized services	48.1	29.9	6.5	32.5	7.8	6.5	9.1
97/9 Survey	39.9	21.7	15.3	34.2	16.4	10.1	5.4

Compared to the previous two surveys (September 1996 and 1997), the response rate for revision of wage structures remains high. In addition, the response rate for reducing or freezing hiring rose from 5.4 percent in the previous survey to 13.9 percent, indicating again that corporate hiring intentions are down. The tightening of conditions surrounding employment is also apparent from the decline in responses for enhancement of training and development and revision of employee welfare programs (Figure 4).

Figure 4 Corporate Response to Employment Issues



By industry, over half of companies in the restaurant and specialized services industries cited the revision of wage structures, while enhancement of training and development was cited most by retail (37.7%) and communications industries (34.6%).

Moreover, differences emerge among industries in methods for securing personnel – the restaurant industry response rate was notably high for increasing part-time workers (41.6%), while the communications industry had a high response rate for using temp staff agencies (26.9%).

5. Growing Need for Specialized Administrative Department Personnel

Advances in information technology and globalization are making business more advanced and complex. Furthermore, with deregulation stimulating greater competition, managements must make more accurate and speedy decisions in all aspects of business based on a large volume of information.

Yet aside from engineers and technical areas, Japanese companies have maintained a strong generalist tendency in management and administrative departments, and specialized personnel in these fields are scarce by international comparison. It is well known that western companies extensively use specialists in the areas of law, accounting, tax matters, personnel, marketing, product development, sales strategy, and information systems. The demand for specialists is also growing rapidly in Japan.

Our survey thus examined the perceptions among second tier and small and mid-sized businesses regarding the use of expert personnel in management and administrative areas.

(1) Over 80% Perceive a Need for Specialists in Management and Administration

Regarding the use of specialists in management and administrative functions, 43.1 percent of companies responded that they already sense a need, while 39.8 percent believe that the need will arise in the near future. Combining these responses, we find that a very high proportion of 82.9 percent of companies perceive the need for specialists. Meanwhile, only 4.2 percent do not perceive a need for specialists.

Based on these results, we predict that the advances in corporate management spurred by information technology and globalization will spread quickly to second tier and small and mid-sized companies.

By industry, the need for specialists was most strongly perceived in the communications industry (92.3%).

Table 4 Perceived Need for Specialist in Management and Administration

	Need	((1)+(2))		Will not need soon	Do not need at all
		(1) Now	(2) Soon		
All industries	82.9	43.1	39.8	11.7	4.2
<i>Company size</i>					
Large	91.7	52.1	39.6	6.3	0.3
2nd tier	88.2	49.3	38.9	8.3	1.9
Small & med.	80.8	40.6	40.2	13.2	5.1
<i>Typical industries</i>					
Chemical	87.9	50.7	37.2	9.0	2.2
Transport machinery	86.2	48.6	37.6	11.6	1.1
Communications	92.3	57.7	34.6	5.8	1.9
Real estate	77.8	30.6	47.2	15.3	2.8
Restaurant	80.9	32.6	48.3	15.7	3.4

Source: Figures may not add up to 100 due to incomplete responses.

(2) Growing Need for Information Systems Specialists Among Non-Large Companies

As for the areas companies think specialists will be most needed, the greatest response was in sales strategy (32.9%), followed by information systems (30.8%) and product development (28.8%).

The combined response for sales related specialists totals 57.7 percent, pointing to the growing demand for sales specialists amid the prolonged slump companies face in sales. In addition, the demand for information systems specialists is stronger among second tier and small and mid-sized companies than large companies, indicating that the adoption of information technology is moving rapidly among smaller companies as well.

The demand for specialists in product development was high among manufacturing industries, with the response rate exceeding 50% in the textile and apparel and food products industries. In addition, particularly large responses were observed for sales strategy specialists by retail and personal services, and for information systems specialists by the communications industry.

Table 5 Expected Future Areas of Need for Specialists

	General affairs & personnel			Sales		Systems & development	
	Planning & admin.	Accounting	Legal	Sales strategy	Marketing	Information system	Product develop.
All industries	17.5	16.7	12.9	32.9	24.8	30.8	28.8
<i>Company size</i>							
Large	15.5	20.1	27.4	27.7	13.2	26.7	28.1
2nd tier	17.6	17.2	21.1	30.6	17.7	33.0	29.2
Small & med.	17.6	16.3	9.4	34.0	27.8	30.5	28.8
<i>Typical industries</i>							
Textile & apparel	12.8	12.8	7.0	40.7	22.1	22.1	53.5
Food	17.2	13.2	16.2	27.0	23.0	23.5	50.5
Construction & facility	20.5	17.8	19.1	22.8	39.4	29.5	13.1
Communications	15.4	26.9	11.5	40.4	21.2	48.1	13.5
Retail	19.0	18.0	10.2	51.3	28.7	33.5	12.5
Specialized services	27.3	27.3	15.6	20.8	29.9	28.6	11.7

(3) Almost Half Also Predict Revision of Evaluation System

The traditional practices of lifetime employment and seniority have also started to gradually change recently. In particular, more companies are reconsidering seniority based promotions and pay raises and new graduate hiring, while many have set up systems geared toward specialists and internal recruiting. In addition, laws are gradually being changed to promote diversity in employment systems, including the deregulation of discretionary labor systems, temporary staff agencies and employment agencies.

We asked companies how they would change their present personnel systems to accommodate the growing use of specialized personnel (Table 6).

Table 6 Changes in Personnel Systems for White Collar Workers

	Traditional practice		Recent developments
Evaluation criteria	Ability (Seniority in practice)	→	Results (Mgt. by objective)
Compensation			
Salary	Ability + seniority (Scheduled pay raises & base-up)	→	Seniority based pay Bonus assessment Pre-paid retirement pay
Incentives	Promotion by seniority According to length of service Retirement pay & pension	→	Stock options
Personal system			
Career path	Straight-path career (Uniform management career)	→	Diversified paths (Specialized path)
Rotation	Directed by personnel dept.	→	Directed by department Internal recruiting
Employment & work organization			
Hiring	New graduate hiring	→	Year-round, mid-career, and occupation specific hiring
Length of service	Long-term employment	→	Outsourcing
Work organization	Uniform time mgt.	→	Discretionary labor Flex time

Source: NLI Research Institute.

The single largest response was for the revision of evaluation systems at 47.7 percent for all industries, increasing to 60.1 percent among large companies.

This result suggests that companies have started to recognize the urgency of revising their personnel evaluation systems to accommodate the growing importance of specialists. Our survey showed that the more companies cited a strong need for specialists, the more likely they were to want to revise evaluation systems and salary and bonus schemes (Table 7).

Table 7 Desired Changes in Personnel Systems Due to the Growth in Specialists

Change in :	Evaluation system	Salary & bonus	Position	Mid-career hiring	Personnel rotation	Work hours & organ.
All industries	47.7	28.3	22.5	21.7	20.5	14.4
<i>Company size</i>						
Large	60.1	28.1	19.1	21.8	26.4	13.5
2nd tier	55.0	27.5	23.1	19.0	25.6	14.3
Small & med.	44.7	28.5	22.6	22.6	18.5	14.5
<i>Typical industries</i>						
Chemical	54.3	22.4	22.9	22.9	23.3	11.2
Electrical machinery	52.2	24.4	24.4	21.9	27.4	13.3
Transport machinery	53.0	22.1	26.0	23.2	27.1	9.9
Specialized services	51.9	37.7	16.9	22.1	11.7	13.0
Power, gas, water	37.9	17.2	32.8	31.0	31.0	13.8
<i>Need</i>						
Immediate	52.9	30.2	24.7	24.6	24.7	14.9
Near future	50.0	28.6	24.4	21.2	20.4	14.8
Don't need	34.3	25.3	15.1	18.4	11.0	13.7

While the recession has dampened hiring intentions among second tier and small and mid-sized companies, the demand for specialized personnel has actually increased. Moreover, the fact that many companies are unable to secure desired personnel suggests that the supply of specialists for second tier and small and mid-sized companies will become a major issue in the job market.

In the future, when observing supply and demand fluctuations in the job market, we must consider the fact that employment strategies have started to emphasize the quality of personnel.