

# The Urgent Demand for Specialized Personnel in the Non-Manufacturing Sector

by Osamu Kubotani  
Industrial Research Dept.

## 1. Japan Lags in Growth Sectors

### (1) Delayed Transition of the Industrial Structure

Almost a decade after the bubble economy's collapse, Japan's economy remains mired in recession. Still bogged down by the bad loan problem and bloated managements, the economy seems unable to move forward to the next stage of growth.

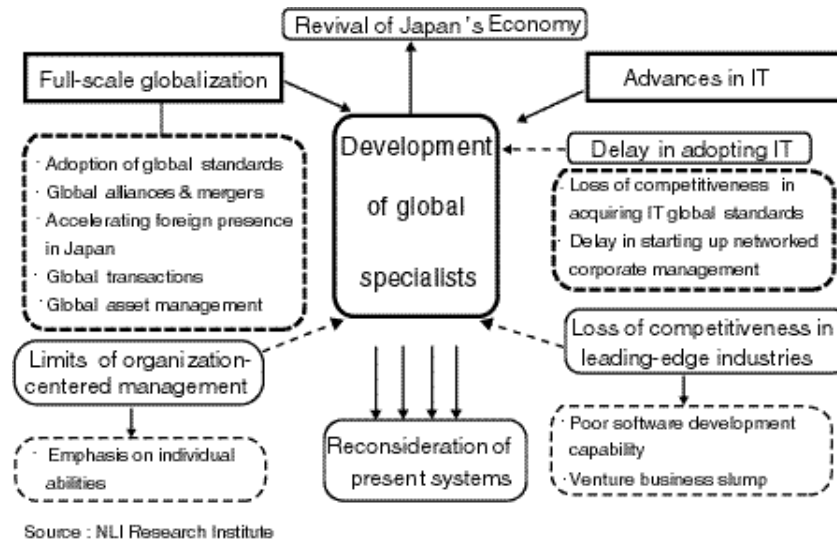
The lackluster economy has relegated Japan to following rather than leading in globalization and information technology. Despite major changes in the business environment, no significant progress has occurred toward a structural transition centered around new growth sectors.

### (2) Shift in Focus from Organization to Individual

The structural lag can be largely attributed to a persistent focus on corporate organization rather than on developing specialist personnel who can function at the global level (Figure 1). This organization-centered management has effectively slowed down the adoption of innovations to speed up or alter work functions.

Organizational strength used to be the forte of Japanese companies. But in the turbulent business environment of the 1990s, individual ability has gained an overriding importance. Thus the crucial issue for businesses is how to secure specialists.

**Figure 1 Economic Revival Requires Development of Specialists**



## 2. Low Global Competitiveness of the Non-Manufacturing Sector

### (1) The Protected Non-Manufacturing Sector

In the past two decades, the service sector of the economy has grown remarkably. The non-manufacturing sector now accounts for over 70 percent of GDP, and the share of financial services, communications, transportation, retail, information services, and specialized services in economic activity is growing rapidly. In 1994, employment in the service industries surpassed that of manufacturing for the first time.

However, much of the non-manufacturing sector has long been protected by entry and pricing regulations. Thus companies have not been subjected to actual price and cost competition, and many industries lag behind in the development of new services and adoption of information technology and efficiency measures for management.

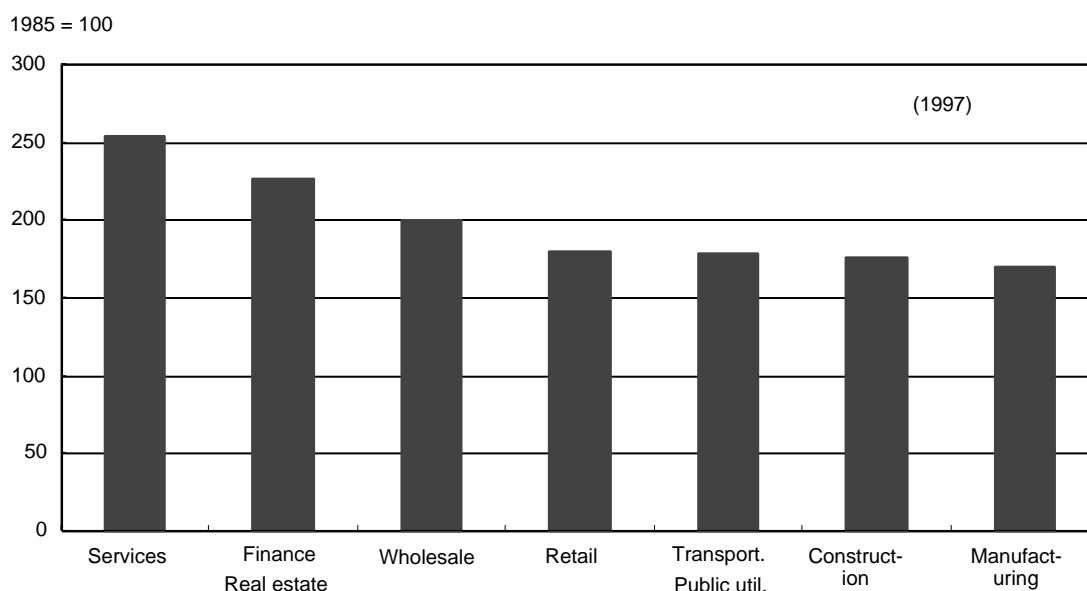
With a few exceptions such as trading companies and game software houses, there are virtually no companies in the non-manufacturing sector that are active at the global level. Thus the sector's global competitiveness is woefully inadequate compared to their foreign counterparts.

## (2) U.S. Resurgence Propelled by Leading-Edge Industries

While Japan remains crippled by the legacy of the bubble economy and lags in new growth areas, numerous non-manufacturing companies in Europe and the U.S. have gained prominence in leading-edge industries.

In the U.S., strong growth in new industries such as software, financial services, personnel staffing services, and health care have supported the economy's resurgence in the 1990s. This is clear from an industry comparison of growth rates over the past decade (Figure 2). To compensate for deindustrialization and declining competitiveness, massive deregulation was effected and a successful structural transition made to new growth industries centered around information technology. These growth industries have been largely supported by the specialized capabilities of individuals.

**Figure 2 Growth Comparison of U.S. Industries (Nominal GDP Basis)**



Source: U.S. Dept. of Commerce, *Survey of Current Business*.

## 3. The Urgency of Developing Specialists

### (1) Growing Importance of Specialists

Japan began deregulating more recently in the 1990s. Dismantling entry restrictions and pricing regulations will accelerate the entry of foreign firms as well as service imports to Japan,

exposing the non-manufacturing sector to international competition. Relatively unregulated industries such as software, entertainment, restaurants, and hotels are already active with foreign firms and service imports.

Because the non-manufacturing sector has largely been protected from competition, there is an urgent need to develop specialists to increase international competitiveness.

Three factors have accentuated the need for specialists in the non-manufacturing sector.

#### Competition in financial services

The start of the Big Bang in 1998 has opened up the financial industry to full-fledged global competition and prompted alliances with foreign firms. As foreign financial institutions enter the domestic retail market, Japanese financial institutions are being challenged to improve a broad range of capabilities, including financial product development, asset management, and venture capital.

The development of financial specialists to bolster these capabilities will have important implications for the national economy. In addition, the Big Bang is expected to transmit a wave of globalization and competition to related industries.

#### Accelerating entry of foreign non-manufacturing firms

Continued foreign pressure is expected to further erode regulatory and non-tariff barriers in the non-manufacturing sector. Deregulation will bring more foreign firms into the domestic market.

Most of the foreign companies coming to Japan will be in the non-manufacturing sector rather than manufacturing – in particular, financial services, distribution, telecommunications, computer software, and consulting.

To respond to the foreign competition, Japanese firms will need to train and secure competent specialists with a global perspective. Of course, foreign firms will also be competing for these specialists in Japan as well.

## Ongoing globalization

The non-manufacturing sector, which has done business relying almost exclusively on domestic standards and practices, will no longer be able to do business at home or abroad without conforming to international accounting standards and the ISO series.

In addition, corporate management will be relentlessly pushed toward globalization by global mergers and alliances, new economic frameworks such as the EU, and borderless transactions using computer networks. To survive in the global arena, Japanese firms crucially need specialized personnel with a strong background in international business management, international law, and risk management.

### (2) Need for Training and Securing of Specialists

In light of the global growth of new non-manufacturing industries such as data communications and financial services globally, bolstering the competitiveness of Japan's non-manufacturing sector is an urgent priority. Since non-manufacturing industries provide not physical products but expert knowledge and services, the source of competitive strength lies in the quality of personnel. It would not be exaggerating to say that the ultimate key to the success of the non-manufacturing sector is to nurture and efficiently use competent specialists.

Specialists are particularly needed in the areas shown in Table 1. To attain competitiveness, corporate restructuring for more efficient use of personnel is necessary but not sufficient; companies also need to train and secure specialists who are as competent as their foreign counterparts.

**Table 1 Non-Manufacturing Industries With an Acute Need for Specialists**

Area	Specialization
Technology	Systems engineering, systems analysis, consultancy
Finance	Asset management methodology, financial product development, fund management, economic research, analysis, risk management & audit, financial law
Back office	Legal affairs, accounting, tax accounting, personnel management, marketing, data management, business management

Source: NLI Research Institute

#### 4. Status of Japan's Labor Market

We now turn to the capacity of the domestic labor market to supply the necessary specialists.

##### (1) Increasing Labor Mobility

As the unemployment rises to new highs, labor mobility is gradually increasing. According to a survey of Tokyo area businessmen by Recruit Research, the desire to change employment has grown in the 1990s, with the latest result (1997) of over 35 percent wanting to do so immediately or in the future (Table 2).

**Table 2 Businessmen Desiring a Job Change**

(%)

	Want to change now	Want to change later	Don't intend to change	No response
1991	4.7	20.7	74.6	-
1992	5.8	25.8	68.3	0.1
1995	7.4	27.3	65.1	0.1
1997	7.6	28.1	64.2	0.1

Source: Recruit Research, *Survey of Job Changes Among Tokyo Area Businessmen*.

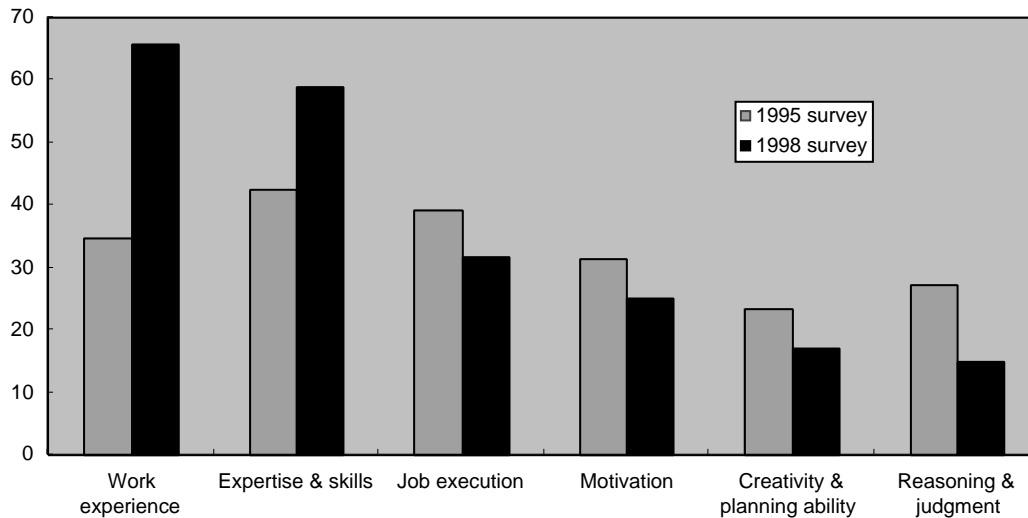
The recent increase in persons who want to change jobs can be attributed to the following factors.

##### Growing demand for mid-career specialists

Mid-career hiring increased significantly during the bubble economy as companies pursued expansion plans. Today, the emphasis of demand has shifted from quantity to quality of personnel, and more companies are recruiting specialists from outside the company.

According to a Ministry of Labor survey conducted in 1997, 12.7 percent of companies hired mid-career managers, while 31.8 percent hired mid-career office employees. The most commonly sought qualifications for management positions were work experience and specialized knowledge or skills, and for white collar positions, general knowledge and work experience. Compared to the 1995 survey, fewer companies cited qualitative and abstract qualifications, while more cited concrete qualifications such as work experience and specialization (Figure 3).

**Figure 3 Qualifications Sought in Mid-Career Hiring**



Note: Figures reflect percentage of companies among all companies conducting mid-career hiring.  
 Source: Ministry of Labor, *Survey of Employment Management* (1995 and 1998).

Mid-career hiring is heating up as financial institutions, data services firms, and other companies increasingly depend on the quality of individual specialists. In fact, since the Big Bang began, financial firms have been recruiting a diverse range of specialists (Table 3). As the market for mid-career specialists becomes increasingly important to corporate survival, persons seeking a change of employment will find more opportunities.

**Table 3 Occupations Being Filled by Mid-Career Hiring at Major Financial Institutions**

Job area	Description
Investment trust	Mutual fund sales, customer inquiries
Debt product development	Design of office systems
Securities sales & mgt.	Risk/return analysis, investment decision-making
Asset management	Development of asset management methods for stock derivatives
Foreign mortgage securities	Asset management
International finance	Project finance
International real estate investment	Commercial mortgage lending, management
Overseas operations	Planning of overseas operations
Domestic real estate investment	Building management, construction management
Legal affairs	Legal matters concerning accounting, finance, real estate, insurance
Accounting/taxation	Accounting, tax accounting, consulting on corporate pension plans
Insurance	Development of life and P&C insurance products, risk consulting for corporations

## Relaxation of employment regulations

Flexibility in employment and working conditions has increased due to deregulation in a number of areas including work hour restrictions for women, scope of the discretionary work hours system, personnel staffing categories, and employment referral services. A series of deregulatory measures that might be called a Big Bang in employment is thus gradually creating an infrastructure for greater labor mobility.

## Persistent recession

The persistent recession is forcing companies to reconsider high fixed-cost personnel systems based on lifetime employment in favor of systems that accommodate the increasing mobility of labor.

In addition, business failures among major financial institutions and construction companies since 1997 have released a large number of personnel into the job market. This has awakened employees to the realization that stable employment is no longer a dependable promise.

## (2) Improving the Treatment of Specialists

Given the growing demand for mid-career specialists, companies urgently need to redesign aspects of their personnel systems regarding the hiring and treatment of specialists.

Since the mid 1990s, financial institutions, distribution, and data services have led the non-manufacturing sector in seriously undertaking to train and accommodate specialists by constructing completely new systems for specialists and introducing merit-based pay and discretionary work hour systems (Table 4).



**Table 4 Occupational Categories Established at Financial Institutions**

Company	Year	Job positions
Sumitomo Bank	1998	Leading-edge areas such as derivatives, forex dealing, and asset management
Daiwa Bank	1998	Specialist program (pension trust, short-term and long-term asset management; for career employees with 7 years service and necessary certifications), and professional program (for experts in derivatives, etc.)
Nikko Securities Invest. Trust & Mgt. Co.	1998	Mutual fund operations (fund manager, analyst, and quantitative analysts)
Toyo Trust & Banking Co.	1996	Trust banking specialists (securities management, real estate brokering, land investment trusts, etc.) age 35 and above
Nomura Securities Investment Trust Mgt. Co.	1996	Employees with exceptional ability in asset management and research
Tokai Bank	1994	Employees with 4 years service, age 35 or less ( securities, foreign exchange, overseas business, legal affairs, financial consulting)

Source: Company reports

## **5. Creating a Market for Specialists**

### **(1) Impediments in the Existing Personnel System**

Despite the growing mobility of labor, the strong persistence of traditional employment and evaluation systems, as well as relevant social systems continues to impede the development of specialists who are competent by international norms. Entrenched practices such as lifetime employment and seniority are largely responsible for the absence of a functioning market for specialists. Deprived of this market, specialists who have acquired valuable expertise at a particular company have little hope of seeking better opportunities elsewhere.

Stated differently, the Japanese employment system is not designed to value or reward specialists. Particularly in the non-manufacturing sector, the aim of personnel policies is to develop generalists through periodic personnel rotations across departments. The idea of committing personnel to specialized long-term training and development is quite alien to this approach.

### **(2) Urgently Needed Market for Non-Technical Staff Occupations**

The underdeveloped market, difficulty of access, and lack of compensation systems for specialists have important implications for the success of the economy's structural transition.

Some progress is occurring in the personnel market infrastructure, including the liberalization of personnel staffing categories and employment agency business. But compared to engineers in technical fields, staff personnel in the non-manufacturing sector and in management still do not enjoy certification systems for specialists, social prestige, nor do they rate well internationally. In light of this, the following improvements are suggested:

Construct a comprehensive personnel database of staff specialists.

Establish certification systems with international credibility in areas such as marketing, consulting, systems design, financial product development and asset management, etc.

Adopt global standards for existing certifications in areas such as law, accounting, and tax accounting.

Enhance systems to support the development of staff specialists (including the Ministry of Labor's "Business Career System" and promotion of specialization).

Moreover, to further promote job mobility and invigorate the personnel market, the public and private sectors need to cooperate in the following areas:

*Portability of corporate pension plans* – Some companies have already introduced the Japanese equivalent of the 401K defined benefit plan of the U.S., allowing employees to take their pension plan with them when they change employers. Since one impediment to changing jobs has been the lack of portability of corporate pension plans, this plan is expected to promote labor mobility. The infrastructure needs to be constructed for the full-fledged introduction of this plan.

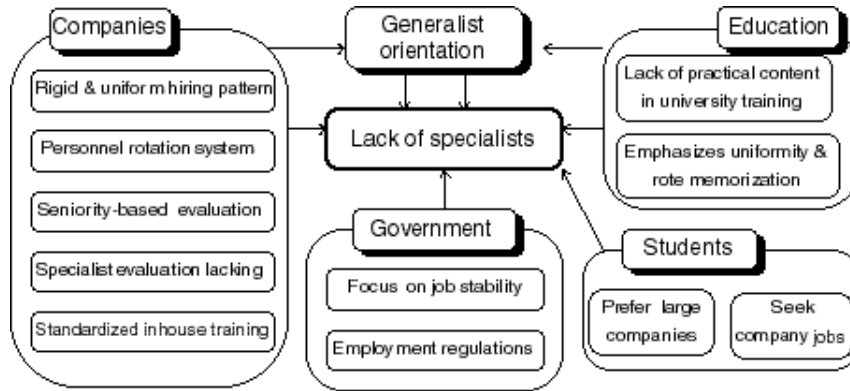
*Deregulation and development of personnel businesses* – As mentioned earlier, despite some easing in the 1990s, employment regulation remains extensive compared to other countries.

Moreover, personnel businesses such as staffing and job referral services are growing rapidly despite the recession as companies opt for variable labor costs and demand more specialists. Since the growth of the personnel business increases job mobility and stimulates the personnel market, the industry needs to be encouraged through further deregulation.

*Development of specialist outsourcers* – As continued low economic growth prompts companies to focus on their core competence areas, more companies are transferring their non-core functions to outsourcers. From the viewpoint of expanding job opportunities for special-

ists, it is important to form outsourcers of specialized personnel that can meet the needs of these companies. With major foreign outsourcers actively moving into the Japanese market, domestic outsourcers need to become more advanced.

**Figure 4 The Inhospitable Climate for Nurturing Specialists**



Source : NLI Research Institute