

Companies Respond to the Transforming Employment Environment—Nissay Business Conditions Survey (January 2006)

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The employment environment is undergoing a transformation on several fronts. In preparation for the retirement of baby boomers from 2007, over half of companies surveyed have looked at or begun to aggressively recruit younger workers (under age 35). A system or practice to promote non-regular employees to regular status exists at 41% of companies, and many companies are increasing the number of promotions. Measures to expand employment of women are steadily progressing centered around meeting child care concerns. Meanwhile, only 13.5% of companies are unconcerned about the amended law to stabilize employment of older workers. As for the rest, the overwhelming choice is re-employment.

1. Introduction

Several factors are converging to transform Japan's labor market. On top of the projected long-term population decrease, baby boomers will start retiring next year, aggravating an already troubling shortage of younger workers. Meanwhile, from April 2006 the amended Law Concerning Stabilization of Employment of Older Persons calls on companies to secure employment for persons over age 60. The key question is whether companies will comply by raising the mandatory retirement age above 60

or re-employing retirement-age workers. In addition, under the Law for Measures to Support the Development of the Next Generation, the government is providing greater support for workers to balance work and family commitments. Finally, the swelling ranks of "freeters," temporary staff workers and other non-regular employees raises new issues such as wage and benefit disparities with regular employees, and opportunities for promotion to regular employment.

In light of the transforming labor market, the

Table 1 Intended Measure to Alleviate Future Labor Shortage

	Increase non-regular employment	Increase regular employment of women	Increase employment of foreigners	Increase employment of older workers	Raise retirement age	No measures planned	Other
All industries	52.9	11.4	4.1	32.1	36.9	12.8	9.2
Sector							
Primary manufacturing	52.7	10.7	5.3	39.1	37.6	7.4	7.4
Secondary manufacturing	53.9	11.1	7.8	31.8	39.3	10.1	10.6
Non-manufacturing	52.5	11.9	1.8	30.6	35.5	15.6	8.8
Company size							
Large	55.6	19.8	6.3	34.0	26.7	8.7	12.5
2nd-tier	57.4	11.8	2.8	33.0	37.0	10.5	9.3
Small & medium	49.7	9.2	4.2	31.1	39.3	15.2	8.4
Business conditions							
Favorable	52.0	13.9	5.8	31.8	37.4	9.8	11.9
Normal	52.2	9.0	3.2	32.7	35.2	16.0	7.4
Unfavorable	56.3	11.1	2.9	31.4	38.8	13.1	7.8

Note: Numbers may not add up to 100% due to multiple responses (up to 2 responses).

latest *Nissay Business Conditions Survey* (conducted in January 2006 jointly by Nippon Life Insurance Co., Nissay Leasing Co., and NLI Research Institute, with 2,114 responses collected nationwide) focuses on how companies are tackling employment issues—in particular, the recruitment of younger employees amid the looming labor shortage, promotion of non-regular employees to regular (permanent) status, employment of women, and compliance with the law to stabilize employment of elderly workers.

2. Non-Regular & Older Workers are Preferred to Women in Long Term

With labor shortages expected to worsen as the population starts decreasing, companies must seriously consider how to meet their labor needs in the future. Over one-half of companies (52.9%) intend to fill labor shortages with part-time and other non-regular employees. But many will also rely on older workers by raising the mandatory retirement age (36.9%) or expanding employment of older workers (32.1%), particularly in the manufacturing sector. Thus non-regular and older workers will be instrumental in offsetting the projected shortage of younger workers. Surprisingly, only 11.4% intend to recruit more women as regular employees, indicating that women are still not widely perceived as core employees (Table 1).

Responses differ slightly by company size. Large companies tend to emphasize women's regular employment (19.8%), while small and medium-sized enterprises want to raise the retirement age (39.3%).

3. Baby Boomers Will be Replaced by Younger Workers

The baby-boomer cohort, consisting of 6.80 million persons born between 1947 and 1949, will start retiring in 2007. This cohort is 0.80 million persons larger than the 1944~1946 cohort of 4.64 million, and 2.20 million persons larger than the 1950~52 cohort of 5.91 million. Thus the retirement of baby boomers is sure to impact the employee structure and recruitment practices of companies.

Regarding whether the retirement of baby boomers has stimulated recruitment of younger workers (under age 35), almost half of companies (47.4%) have neither looked at or taken action to step up recruitment. However, over half (50.9%) have either looked at or taken action on the matter, and 35.4% have already expanded recruitment (Table 2).

By industry sector, secondary manufacturing is relatively active (54.1%). By company size, large companies are more aggressive, with almost half

Table 2 Intensified Recruitment of Young Employees (under age 35)

	Already in effect	Planned for FY 2006	Pending for FY 2006	Pending for FY 2007~	No plans
All industries	35.4	4.3	5.3	5.9	47.4
Sector					
Primary manufacturing	34.9	4.1	5.0	10.1	43.2
Secondary manufacturing	36.8	6.0	5.3	5.5	45.6
Non-manufacturing	35.2	3.6	5.4	4.9	49.3
Company size					
Large	47.6	3.1	4.2	4.2	37.2
2nd-tier	38.0	3.3	4.5	6.8	45.6
Small & medium	30.6	5.2	6.2	5.8	51.2
Business conditions					
Favorable	42.8	5.2	5.5	4.3	40.7
Normal	31.8	2.9	4.5	6.9	51.5
Unfavorable	28.8	4.9	6.4	7.2	52.2

Note: Numbers may not add up to 100% due to incomplete responses.

(47.6%) already having taken action. By business conditions, companies experiencing favorable conditions are more aggressive, as we would expect.

4. Young Regular Workers Recruited to “Secure Good Employees”

The proportion of non-regular employees has continued to climb, particularly in retail and restaurant industries. At the same time, however, the recovery in business performance and growing complexity of business operations could be spurring recruitment of young regular employees. To test this possibility, we look at whether new regular employees have increased as a ratio to total annual recruitment of young workers over the past two to three years (Table 3). While decreases (17.6%) slightly outnumber increases (15.1%), the difference is minor. No patterns are apparent by industry sector or company size. By business conditions, as expected, companies with favorable conditions are more likely to report a rising ratio.

Turning to the reason for increasing the ratio of regular employees, the overwhelming response is to secure good personnel (74.7%), followed by the expanding range of business (27.8%) and increasing complexity and sophistication of business (20.0%). By sector, primary manufacturing emphasizes the increasing

complexity and sophistication of business (27.7%) and difficulty of hiring non-regular employees (12.8%), while secondary manufacturing emphasizes the expanding range of business (31.6%). By company size, second-tier companies and SMEs emphasize business complexity and sophistication and expanding range of business.

5. 41% of Companies Offer Promotion to Regular Employment

Companies are not only employing more part-time and other non-regular workers, but promoting more of their best non-regular workers to regular employment. A system or practice of promotion to regular employment exists at 41.3% of companies (13.8% have a system, and 27.5% have a practice), while another 6.6% are considering implementation. Thus promotion to regular employment is becoming more widespread, and already affects approximately one-half of companies (Table 4).

By sector, a system or practice of promotion is more common in secondary manufacturing (45.9%). By company size, it is more common at second-tier companies (44.4%). By intended measure to alleviate future labor shortages—an indicator of the employment outlook of companies—promotion is more widespread at companies that intend to expand non-regular employment, regular employment of women, and

Table 3 Change in Ratio of Young Regular Employees, and Reason for Increase

	Ratio in total recruitment			Reason for increasing ratio						
	Growing	No change	Declining	To secure good employees	Business is more complex	Business range is expanding	Business abroad is expanding	Business upturn	Nonreg. employees are scarce	Other
All industries	15.1	65.8	17.6	74.7	20.0	27.8	3.8	16.9	5.9	14.4
Sector										
Primary manufacturing	13.9	67.8	16.0	74.5	27.7	23.4	6.4	19.1	12.8	10.6
Secondary manufacturing	15.8	64.9	18.3	74.7	20.0	31.6	8.4	18.9	4.2	8.4
Non-manufacturing	15.2	66.0	17.5	74.4	17.1	27.4	0.6	14.0	4.9	18.9
Company size										
Large	16.0	61.5	18.8	78.3	6.5	23.9	8.7	19.6	6.5	15.2
2nd-tier	15.0	65.4	18.5	81.6	23.3	29.1	4.9	14.6	4.9	15.5
Small & medium	14.9	67.2	16.8	69.8	21.9	28.4	1.8	17.2	5.9	13.6
Business conditions										
Favorable	22.0	61.6	15.7	76.6	17.1	30.4	5.1	22.8	4.4	12.7
Normal	12.8	69.5	15.9	76.2	19.8	27.0	3.2	11.1	8.7	14.3
Unfavorable	7.7	64.8	26.4	57.1	35.7	21.4	0.0	14.3	0.0	17.9

Note: Numbers may not add up to 100% due to incomplete and multiple responses

Table 4 Promotion to Regular Employment—Prevalence and Recent Trend

(%)

	Promotion to regular employment				Number of promotions in last 2~3 years				
	System exists	Practice exists	Under study	None	Up	Up somewhat	No change	Down somewhat	Down
All industries	13.8	27.5	6.6	50.5	12.2	34.2	48.1	1.6	1.0
Sector									
Primary manufacturing	10.9	26.6	5.6	54.4	13.4	34.6	44.1	1.6	2.4
Secondary manufacturing	16.6	29.3	7.0	46.3	11.6	33.0	48.9	1.8	0.0
Non-manufacturing	13.3	27.2	6.7	51.2	12.3	33.3	50.2	1.4	1.1
Company size									
Large	19.4	20.8	6.9	49.7	9.5	31.0	51.7	2.6	1.7
2nd-tier	17.6	26.8	6.7	47.6	13.1	31.8	50.5	1.3	1.0
Small & medium	10.0	29.7	6.4	52.4	12.2	36.7	45.3	1.6	0.9
Intended measure for alleviating future labor shortage									
Expand non-regular employment	16.7	32.5	7.7	42.6	10.7	36.5	46.3	1.6	1.1
Expand women's regular employment	23.6	33.1	6.2	36.0	17.5	36.5	43.1	2.9	0.0
Expand employment of foreigners	12.6	37.9	10.3	39.1	13.6	45.5	34.1	2.3	0.0
Expand employment of older workers	12.2	28.8	9.4	48.4	11.9	38.8	43.5	1.4	1.4
Raise retirement age	12.8	27.7	5.6	53.3	12.0	31.3	52.5	0.9	0.9
None	9.6	17.8	3.7	67.4	12.2	25.7	56.8	0.0	1.4

Note: Numbers may not add up to 100% due to incomplete and multiple responses

employment of foreigners.

Turning to recent trends in the past two to three years, the number of promotions has risen at 46.4% of companies (12.2% report an increase, and 34.2% report a slight increase). Only 2.6% report a decline. By sector, an increase in promotions is most prevalent in primary manufacturing (48.0%), and by company size, at SMEs (48.9%). By intended measure to alleviate future labor shortages, promotion to regular

employment is more common at companies emphasizing the regular employment of women and employment of foreigners.

6. Promotion to Regular Employment Expected to Increase

For all companies, including those without any form of promotion to regular employment, the overwhelming expectation is for the current number of promotions not to change in the future

Table 5 Prediction for Promotion to Regular Employment

(%)

	Increase	Increase slightly	No change	Decrease slightly	Decrease
All industries	3.7	16.1	73.1	1.0	0.9
Sector					
Primary manufacturing	1.5	17.5	73.7	0.9	1.2
Secondary manufacturing	3.0	19.1	73.0	1.2	0.5
Non-manufacturing	4.7	14.4	73.0	0.9	1.0
Company size					
Large	3.8	15.6	74.0	1.0	0.3
2nd-tier	4.2	17.9	71.9	1.0	1.0
Small & medium	3.3	15.2	73.6	1.1	0.9
Intended measure for alleviating future labor shortage					
Expand nonregular employment	3.8	20.6	70.3	1.6	1.0
Expand regular employment of women	8.7	25.2	61.6	0.0	0.0
Expand employment of foreigners	6.9	28.7	62.1	0.0	1.1
Expand employment of older workers	4.6	18.0	71.4	0.9	0.9
Raise retirement age	3.1	16.2	74.7	1.2	0.4
None	2.2	6.3	83.0	0.4	1.5

Note: Numbers may not add up to 100% due to incomplete responses

(73.1%), while slightly less than 20% of companies expect an increase (3.7% expect an increase, 16.1% expect a slight increase). Meanwhile, only 1.9% expect a decrease of any kind. Considering the composition of expectations for an increase and for no change, we surmise that promotions will continue to grow, but not accelerate drastically.

7. Women's Employment Measures Emphasize Child Care

Measures to expand the employment of women will be critical in alleviating future labor shortages. We found that only 28.9% of companies have not taken any action in this area, while the majority of companies have responded in some way (Table 6).

Looking back at the same survey taken two years ago, 34.1% of companies then had taken no action. Thus the percentage of companies taking action to expand women's employment has risen by 5.2-percentage points, indicating that steady progress is underway.

The most commonly implemented measures relate to child care (48.1%), with the proportion of

companies rising approximately 20-percentage points from two years earlier. This increase is attributed in large part to new laws such as the Law for Measures to Support the Development of the Next Generation (fully enforced in 2005), which requires companies to create the necessary work environment to balance work and family commitments, and the amended Child Care and Family Care Leave Law, which enhances leave provisions. The next most common action is to improve the work environment and facilities (28.0%).

The manufacturing sector and large companies tend to be more active implementers. By intended measure to alleviate future labor shortages, companies expressing an intention to expand women's regular employment are more active, as expected.

8. Only 14% are Unconcerned About Stabilization of Older Workers

Under the amended employment stabilization law for older persons, companies with a mandatory retirement age below 65 must do one of the following from April 1, 2006 for employees over age 60: (1) raise the mandatory retirement age, (2) introduce a system for continued

Table 6 Measures Already Adopted to Expand Employment of Women

	Set up office for women's work issues	Work hours related	Child care related	Promotion to management	Improve work environment, facilities	Other	None
All industries	1.6	17.8	48.1	14.2	28.0	3.1	28.9
Sector							
Primary manufacturing	1.2	18.6	54.4	10.9	29.9	1.2	27.2
Secondary manufacturing	1.5	17.8	54.4	14.1	29.0	3.8	25.8
Non-manufacturing	1.9	17.0	42.8	15.6	26.8	3.2	31.4
Company size							
Large	1.0	19.8	67.4	19.1	34.7	3.1	12.5
2nd-tier	1.7	17.9	55.6	16.0	31.4	3.6	22.4
Small & medium	1.6	17.2	38.8	11.9	24.2	2.8	37.1
Intended measure for alleviating future labor shortage							
Expand non-regular employment	1.9	18.8	48.6	16.3	30.2	3.5	27.6
Expand regular employment of women	4.1	21.1	55.0	31.4	38.4	4.1	9.1
Expand employment of foreigners	2.3	18.4	49.4	16.1	32.2	5.7	26.4
Expand employment of older workers	0.9	18.6	53.4	14.9	32.7	3.1	24.8
Raise retirement age	1.8	18.7	48.1	14.4	29.4	2.7	29.6
None	1.5	11.5	37.4	6.3	17.8	1.9	47.0
All industries (Feb. 2004 survey)	2.4	18.8	28.6	12.4	29.2	4.2	34.1

Note: Numbers may not add up to 100% due to multiple responses (up to two responses).

Table 7 Status of Employment Stabilization Measures

(%)

	Slated for FY 2006	Pending further study	Not under study	Already in compliance
All industries	18.8	55.6	13.5	9.4
Sector				
Primary manufacturing	23.4	54.7	10.7	7.7
Secondary manufacturing	19.3	55.9	12.0	11.3
Non-manufacturing	17.6	56.6	15.0	8.7
Company size				
Large	21.5	43.8	13.9	15.3
2nd-tier	19.1	60.3	10.8	8.0
Small & medium	18.1	55.9	15.2	8.7
Intended measure for alleviating future labor shortage				
Expand non-regular employment	18.8	55.9	15.1	9.1
Expand regular employment of women	18.6	60.3	9.9	10.7
Expand employment of foreigners	13.8	49.4	20.7	13.8
Expand employment of older workers	23.9	54.3	10.3	10.3
Raise retirement age	19.9	65.8	6.3	7.1
None	13.7	47.4	23.0	12.2

Note: Numbers may not add up to 100% due to incomplete responses

employment, or (3) abolish mandatory retirement. In the continued employment option, companies can offer work in one of two ways to retiring employees who so desire—extended employment, where the period of employment continues uninterrupted by mandatory retirement, and re-employment, where employees must first retire from the company and are then re-employed.

Only 13.5% of companies have not considered ways to comply with the law. At most companies, compliance decisions are either completed or pending. Slightly over half of companies are still studying options (55.6%), while 18.8% have committed to implementing measures from fiscal 2006, and 9.4% are already in compliance. At the time of the survey (January 2006), only about 20% of companies had formally decided on an action.

By sector, manufacturing tends to be slightly more active in complying. By company size, large companies are more likely to have already complied. By intended measure to alleviate future labor shortages, actions are slightly further along among companies that intend to raise the retirement age, expand regular employment of women, and expand employment of older workers.

9. Re-Employment is Preferred Method of Stabilization

To stabilize the employment of older workers, companies overwhelmingly prefer to re-employ workers (86.7%) rather than to raise the mandatory retirement age (23.9%) or extend the employment period (17.5%). Re-employment means that employees are to retire from their present career, and be hired again under new terms (Table 8).

By sector, non-manufacturing has a slight edge over manufacturing on two stabilization measures—raising the retirement age and extending the employment period. By company size, large companies are less inclined toward either of these measures. By implementation status, over three times as many companies are thinking about raising the retirement age (29.0%) as have already committed themselves in fiscal 2006 (8.8%).

10. 47.9% Expect Over Half of Eligible Older Workers to Work

Although the amended employment stabilization law for older workers aims to provide persons over age 60 the opportunity to continue working,

Table 8 Stabilization Measure Choices and Implementation Status

	Raise retirement age	Extend employment period	Re-employ retiring workers	End mandatory retirement
All industries	23.9	17.5	86.7	0.4
Sector				
Primary manufacturing	20.1	12.5	89.8	0.8
Secondary manufacturing	23.7	16.4	87.6	0.0
Non-manufacturing	25.6	19.8	85.3	0.5
Company size				
Large	20.2	14.9	87.8	0.0
2nd-tier	26.6	18.2	87.3	0.2
Small & medium	22.8	17.8	85.9	0.7
Implementation status				
Slated for FY 2006	8.8	12.1	91.0	0.0
Pending further study	29.0	19.4	85.2	0.6

Note: Numbers may not add up to 100% due to multiple responses

not everybody is necessarily included. At companies that will re-employ retired workers or extend the employment period, the law permits them to establish employment criteria in consultation with the labor union.

We asked companies (as of January 2006) to estimate the percentage of eligible workers over age 60 expected to actually work after April 2006 (Table 9). The employment stabilization rate estimates are broadly scattered. The most common estimate is for under 10% of older workers to continue work (29.8%), followed by 50 ~ 74% (23.9%). Overall, almost half of the companies (47.9%) expect the stabilization rate to

reach 50% or higher.

By sector, primary manufacturing (53.4%) shows a stronger expectation for a 50% or higher stabilization rate. By company size, fewer large companies expect a stabilization rate of 75% or higher. By stabilization measure (implemented and pending; multiple response), companies citing “end mandatory retirement” and “raise the retirement age” tend to expect a very low stabilization rate of under 10%. On the other hand, companies citing re-employment tend to expect relatively high stabilization rates.

Table 9 Expected Employment Stabilization Rate

	Percentage of older workers expected to continue working					
	0~9%	10~29%	30~49%	50~74%	75~99%	100%
All industries	29.8	11.6	10.6	23.9	19.8	4.2
Sector						
Primary manufacturing	21.5	12.6	12.6	30.3	21.0	2.2
Secondary manufacturing	32.6	10.7	9.6	23.4	20.1	3.9
Non-manufacturing	30.6	12.2	10.0	22.0	20.2	5.1
Company size						
Large	26.9	14.0	18.8	27.4	11.8	1.1
2nd-tier	30.5	10.7	9.9	27.2	19.5	2.3
Small & medium	30.4	11.7	8.9	20.9	22.1	6.0
Stabilization measure						
Raise retirement age	41.8	16.1	7.8	17.7	12.7	3.9
Extend employment period	39.1	13.1	11.5	17.9	15.3	3.0
Re-employ retired workers	29.1	11.4	11.2	25.2	19.5	3.5
End mandatory retirement	57.1	14.3	14.3	0.0	0.0	14.3

Note: Companies that did not respond are excluded (approximately 20%). Stabilization measures may not add up to 100% due to multiple responses

Table 10 Why Some Companies Expect a Stabilization Rate Below 50%

(%)

	Few applicants	Low demand for skills	Few positions available	Other
All industries	26.0	28.6	10.3	30.4
Sector				
Primary manufacturing	28.8	29.8	10.6	25.0
Secondary manufacturing	32.9	29.2	10.5	23.7
Non-manufacturing	20.5	28.3	9.9	36.5
Company size				
Large	29.7	28.8	10.8	26.1
2nd-tier	27.7	31.9	11.3	26.5
Small & medium	23.6	26.5	9.4	34.1
Expected stabilization rate				
~10%	24.3	26.7	6.7	36.3
10~29%	19.0	32.5	15.3	28.2
30~50%	38.3	29.5	14.8	16.1

Note: Numbers may not add up to 100% due to incomplete responses

11. Reason for Low Expectations

For companies expecting fewer than 50% of 60-year-old workers to continue working, we take a closer look at reasons cited for the low expectations (Table 10).

The most common reason is low demand for their skill sets (28.6%), followed by lack of applicants (26.0%), and lack of available positions for continued employment (10.3%). However, as many as 30.4% of companies cite a variety of other reasons, suggesting that many companies have trouble identifying a specific cause as of January 2006.

By sector and company size, the non-manufacturing sector and SMEs put greater emphasis on “other” reasons (36.5% and 34.1%, respectively), and less emphasis on lack of applicants (20.5% and 23.6%, respectively). By expected stabilization rate, companies expecting fewer than 10% of eligible workers to continue working are especially prone to mention other reasons (36.3%) for the low expectation.

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Nissay Business Conditions Survey

Survey date: January 2006

Sample size and composition: 2,114 (see below)

① By company size

	Companies	(%)
Large	288	13.6%
2nd-tier	687	32.5%
Small & medium	1,135	53.7%
No response, other	4	0.2%
Total	2,114	100.0%

Note: Large companies are defined as having over 1,000 employees; 2nd-tier companies have 301–1,000; small & medium companies have up to 300.

② By region

	Companies	(%)
Hokkaido	94	4.4%
Tohoku	137	6.5%
Kanto	552	26.1%
Koshinetsu, Hokuriku	49	2.3%
Tokai	334	15.8%
Kinki	524	24.8%
Chugoku	159	7.5%
Shikoku	71	3.4%
Kyushu	115	5.4%
No response, other	79	3.7%
Total	2,114	100.0%