

Companies Make Progress in Reforming Employment and Wage Systems—February 2004 Nissay Business Conditions Survey

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1. Introduction

Large companies continue to lead the way in transforming Japan's traditional seniority-based wage system into performance-based wage systems. Meanwhile, despite a rapid recovery in corporate earnings, companies remain reluctant to expand employment, which has hampered job creation.

Also, growth in part-time, temporary and other non-regular employees has remained strong, and is predicted to continue. Against this backdrop, a pension reform proposal was debated from late last year to early this year to make part-time employees eligible for pension plans, but was ultimately shelved. However, the proposal has raised important issues regarding the provision of benefits for the growing number of non-regular employees.

To grasp recent trends in employment practices and wage systems, the latest Nissay Business Conditions survey (conducted in February jointly by Nippon Life Insurance Co., Nissay Leasing Co., and NLI Research Institute, and covering 3,164 companies nationwide) asked companies about employment and wage issues, in addition to collecting time series data on economic trends.

Some key results of the survey are: mid-career hiring has grown centered around younger employees; aging of employees is having a significant impact; the overhaul of seniority-based wage systems is progressing; and two-thirds of companies have taken steps to expand the hiring of women.

2. Over 40% Have Cut Employment, While Wages are Unchanged or Higher

As Figure 1 shows, over the past few years, employment decreased at 43.4% of companies (8.5% + 19.7% + 15.2%), remained unchanged at 30.9% of companies (9.5% + 16.8% + 4.6%), and increased at 23.9% of companies (14.0% + 8.1% + 1.8%). Meanwhile, average wages were

unchanged at 44.6% of companies (8.1% + 16.8% + 19.7%), higher at 32.0% of companies (14.0% + 9.5% + 8.5%), and lower at 21.6% of companies (1.8% + 4.6% + 15.2%). Thus although more companies have decreased rather than increased employment, wage increases have been more common than wage decreases.

When employment and wage trends are observed together, we find that the overwhelming proportion of companies with higher employment have maintained or increased wages. However, even among companies who have downsized, 65.0% report the same or higher wages, indicating that relatively few companies have actually cut wages.

Figure 1 Employment and Average Wage Trends in Recent Years

(%)

	Employment increased			Employment unchanged			Employment decreased		
	Wage up	Wage same	Wage down	Wage up	Wage same	Wage down	Wage up	Wage same	Wage down
All industries	14.0	8.1	1.8	9.5	16.8	4.6	8.5	19.7	15.2
Sector									
Primary manufacturing	10.1	3.6	1.4	10.1	15.9	3.8	11.5	24.0	18.5
Secondary manufacturing	15.4	6.6	0.8	11.8	15.2	3.8	9.9	20.6	14.5
Non-manufacturing	14.1	10.0	2.5	8.6	17.9	5.2	7.2	18.0	14.6
Company size									
Large	10.7	7.2	1.2	4.5	10.7	4.2	10.9	24.6	21.1
2nd-tier	15.2	8.9	2.1	7.7	14.6	4.8	9.5	18.5	16.7
Small & medium	14.0	7.9	1.8	11.7	19.1	4.7	7.6	19.2	13.1
Business conditions									
Good, somewhat good	23.4	9.1	1.7	11.2	16.9	2.4	7.4	16.9	9.7
Normal	14.0	8.2	1.5	10.3	19.6	4.2	9.0	19.3	11.4
Bad, somewhat bad	7.5	7.3	2.1	7.9	14.4	6.7	8.8	22.1	22.2

Notes: Numbers may not add up to 100 due to incomplete responses. Primary manufacturing refers to manufacturing of raw materials; secondary manufacturing refers to all other downstream manufacturing.

3. Most Companies to Maintain Current Employment Level

Regarding hiring plans for the next few years, most companies plan to maintain the same employment level (51.9%). Of the rest, while 24.5% plan to decrease employment, it is encouraging that a rather large proportion (21.7%) plans to increase employment (Figure 2).

By sector, slightly more non-manufacturing companies plan to increase than decrease employment, while manufacturing companies tend to lean the other way. In particular, a conspicuous proportion of companies in primary manufacturing plans to decrease employment. By company size, the larger the company, the greater is the tendency to

decrease employment.

Figure 2 Planned Change in Employment in Next Few Years (%)

	Will increase	No change	Will reduce
All industries	21.7	51.9	24.5
Sector			
Primary manufacturing	15.9	53.4	29.2
Secondary manufacturing	20.1	51.9	26.7
Non-manufacturing	23.7	51.8	22.1
Company size			
Large	14.7	42.0	36.8
2nd-tier	20.1	49.8	28.6
Small & medium	24.2	55.1	19.6
Impact of employees' aging			
Very significant	22.4	39.6	38.0
Significant	18.0	49.9	31.8
Small	19.2	57.5	22.5
None	31.1	53.7	14.5

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

With regard to the impact of employees' aging, companies experiencing major aging effects are more likely to plan a decrease. On the other hand, many companies planning an increase are either experiencing no impact, or an extremely large impact. We thus surmise that many companies heavily impacted by aging plan to increase employment to supplement aging employees.

4. Of Companies Increasing Employment, 73% to Expand Sales & Marketing

Among companies planning to upsize in the next few years, the overwhelming majority plan to expand sales & marketing divisions (73.1%), followed by production (31.6%) and research & development divisions (23.1%; Figure 3).

Expansion plans vary by sector. Non-manufacturing companies emphasize sales & marketing more than manufacturing companies, who also focus on production and R&D divisions. By company size, while a strong emphasis on sales & marketing is shared by companies of all sizes, the emphasis on R&D tends to increase with size. Also, second-tier and small and mid-sized companies, known to have weak administrative structures, tend to emphasize "other back-office" administrative divisions.

By business conditions, the emphasis on expanding production and R&D divisions tends to increase as reported business conditions improve.

Figure 3 Divisions Targeted for Expansion

(%)

	Sales, marketing	Production	R&D	Advertising, PR	Finance, accounting	Information systems	International business	Other department	Other response
All industries	73.1	31.6	23.1	0.3	4.9	4.5	4.4	7.3	5.2
Sector									
Primary manufacturing	50.6	58.2	48.1	1.3	1.3	2.5	3.8	3.8	0.0
Secondary manufacturing	52.0	54.3	43.4	0.0	5.8	3.5	5.8	4.0	1.7
Non-manufacturing	86.4	16.1	10.1	0.2	5.4	5.2	4.0	9.4	7.7
Company size									
Large	74.6	25.4	27.1	0.0	3.4	1.7	5.1	3.4	6.8
2nd-tier	73.0	33.3	24.3	0.0	4.2	5.3	3.2	7.9	5.3
Small & medium	72.8	31.7	22.1	0.5	5.5	4.6	4.8	7.5	5.0
Business conditions									
Good, somewhat good	70.6	36.5	27.9	0.3	4.3	5.0	3.7	8.0	4.3
Normal	76.6	24.4	18.8	0.0	6.6	4.1	5.6	6.1	5.6
Bad, somewhat bad	74.2	29.4	19.6	0.6	4.3	4.3	4.3	7.4	6.7

Notes: Includes only companies who plan to increase payrolls. Numbers do not add up to 100 due to multiple responses (up to two).

5. Of Companies Increasing Employment, Almost 60% to Tap Younger Mid-Career Hiring

Among companies planning to upsize in the next few years, most (74.7%) will be hiring new graduates (Figure 4). Notably, 57.8% will hire younger mid-career employees, indicating that the practice of mid-career hiring continues to spread. However, mid-career hiring of older employees is mentioned by only 8.7% of companies

By sector, primary manufacturing is less inclined toward mid-career hiring of younger employees, emphasizing instead mid-career hiring of older employees. By company size, larger companies tend to emphasize new graduate hiring more, and to be less dependent on mid-career hiring of younger employees.

Figure 4 Planned Hiring Method

(%)

	New graduate	Mid-career (age ~34)	Mid-career (age 35~)	Part-time, non-regular	Other
All industries	74.7	57.8	8.7	24.5	4.7
Sector					
Primary manufacturing	78.5	48.1	13.9	26.6	7.6
Secondary manufacturing	78.6	48.1	9.8	19.7	2.3
Non-manufacturing	71.8	48.1	7.7	26.7	5.2
Company size					
Large	84.7	48.1	10.2	22.0	10.2
2nd-tier	78.3	48.1	7.9	29.6	3.7
Small & medium	71.7	48.1	8.9	22.6	4.3
Business conditions					
Good, somewhat good	75.5	48.1	8.4	23.2	4.6
Normal	75.6	48.1	9.6	25.9	3.6
Bad, somewhat bad	73.0	48.1	8.6	23.9	5.5

Notes: Includes only companies who plan to increase payrolls. Numbers do not add up to 100 due to multiple responses (up to two).

6. Of Companies Reducing Employment, Over Half Target “Other Back-Office”

Among companies planning to downsize over the next few years, the main areas targeted for downsizing are “other back-office” divisions (55.6%), followed by production (41.4%) and sales & marketing (21.3%). The emphasis on other back-office divisions reflects a cost-cutting orientation, while reductions in production and sales & marketing can reflect improved operational efficiency or downsizing (Figure 5).

By sector, while “other back-office” division is the most frequent response across all sectors, the manufacturing sector focuses on production, and the non-manufacturing sector focuses on sales & marketing and finance & accounting. By company size, many second-tier companies target production, while many small and mid-sized companies target finance & accounting.

By business conditions, sales & marketing and finance & accounting are increasingly targeted as reported business conditions worsen, while production is increasingly targeted as business conditions improve.

Figure 5 Divisions Targeted for Downsizing

(%)

	Sales, marketing	Production	R&D	Advertising, PR	Finance, accounting	Information systems	International business	Other division	Other response
All industries	21.3	41.4	1.0	0.5	13.2	2.6	0.3	55.6	14.2
Sector									
Primary manufacturing	13.8	66.9	0.7	0.0	5.5	2.1	0.0	58.6	7.6
Secondary manufacturing	10.0	66.5	2.2	0.0	9.1	2.6	0.0	49.6	10.0
Non-manufacturing	31.0	16.4	0.5	1.1	18.8	2.9	0.5	57.8	18.8
Company size									
Large	20.3	39.9	0.7	0.0	12.8	2.7	1.4	57.4	14.2
2nd-tier	21.6	45.4	1.9	0.4	8.9	3.0	0.0	57.6	13.8
Small & medium	21.7	39.2	0.6	0.6	16.6	2.3	0.0	53.2	14.4
Business conditions									
Good, somewhat good	13.1	49.2	0.8	0.0	9.0	4.1	0.0	58.2	14.8
Normal	19.2	40.6	0.9	0.4	12.1	1.3	0.0	49.6	16.5
Bad, somewhat bad	24.6	39.8	1.2	0.7	15.2	2.8	0.5	58.3	12.8

Notes: Includes only companies who plan to reduce payrolls. Numbers do not add up to 100 due to multiple responses (up to two).

7. 70% are Impacted by Employees' Aging

As many as 69.4% of companies report being impacted by the aging of employees: 6.1% are very significantly impacted, 31.7% are significantly impacted, and 31.6% are slightly impacted.

By sector, many companies in the manufacturing sector, and particularly in primary manufacturing, have been impacted. The impact tends to increase with company size; notably, only 16.2% of large companies report being free of any impact.

In addition, as reported business conditions improve, companies tend to be less impacted by aging, suggesting that aging may negatively affect business performance.

Figure 6 Impact of Employees' Aging

(%)

	Very significant	Significant	Slight	None	Other
All industries	6.1	31.7	31.6	26.8	0.9
Sector					
Primary manufacturing	5.6	37.3	32.3	21.0	0.2
Secondary manufacturing	5.1	33.2	32.0	26.6	1.2
Non-manufacturing	6.6	29.4	31.5	28.6	1.0
Company size					
Large	7.2	33.6	34.6	16.2	1.7
2nd-tier	6.0	34.3	30.2	25.3	1.3
Small & medium	5.8	30.0	31.7	30.0	0.6
Business conditions					
Good, somewhat good	4.8	31.6	31.8	28.4	0.9
Normal	5.7	29.2	33.0	27.8	1.4
Bad, somewhat bad	7.3	34.1	30.6	24.7	0.5

Note: Numbers may not add up to 10 due to incomplete responses.

8. 60% Have Revised Wage System to Accommodate Aging of Employees

Among companies impacted by the aging of employees, the most common measure being taken by far is to revise the wage system (59.3%), followed by to limit or stop new hiring (17.3%), to take no measures (14.8%), and to create new job positions (13.4%).

By sector, wage system revision (62.1%) and creation of new management positions (15.1%) are most pronounced among non-manufacturing companies, while voluntary retirement (14.0%) is pronounced among secondary manufacturing companies. By company size, the tendency to implement measures of some kind grows with company size. In particular, a conspicuous proportion of large companies (23.1%) has implemented voluntary retirement.

By business conditions, companies reporting good conditions are more likely to train & develop older employees, while companies reporting bad business conditions are more apt to limit or stop new hiring.

Figure 7 Measures Implemented in Response to Employees' Aging

(%)

	Voluntary retirement	Revise benefit package	Revise wage system	Create new positions	Increase personnel loans	Stop/ limit new hiring	Develop elderly HR	None in particular	Other
All industries	11.6	7.8	59.3	13.4	5.3	17.3	11.2	14.8	6.1
Sector									
Primary manufacturing	9.4	8.6	56.8	11.5	8.0	19.0	11.3	14.2	7.2
Secondary manufacturing	14.0	7.4	56.1	12.0	4.5	17.7	12.9	15.5	7.8
Non-manufacturing	11.2	8.0	62.1	15.1	4.8	16.5	10.4	14.4	5.1
Company size									
Large	23.1	8.6	61.1	12.9	6.6	15.2	9.6	9.6	7.9
2nd-tier	11.6	7.4	62.2	15.1	5.0	17.2	12.1	11.5	8.5
Small & medium	8.8	7.7	57.2	12.6	5.1	17.8	11.1	18.1	4.5
Business conditions									
Good, somewhat good	11.5	8.3	58.0	13.5	6.4	12.0	13.5	16.0	7.6
Normal	10.0	7.5	58.8	13.4	5.4	16.1	11.8	15.4	6.8
Bad, somewhat bad	12.8	7.8	60.6	13.5	4.5	21.7	9.2	13.6	4.6

Notes: Includes only companies reporting "very significant," "significant," or "some" impact from employees' aging. Numbers do not add up to 100 due to multiple responses (up to two).

9. Over 40% of Large Companies Disregard Seniority in Management Compensation

Regarding management compensation, only 25.7% of companies plan to maintain seniority-based wage factors such as age and length of service, while 34.7% plan to reduce or eliminate these factors, and 28.4% have already done so. The seniority-based wage system thus continues to change rapidly (Figure 8).

By company size, only 12.7% of large companies plan no change, while 43.0% have already eliminated seniority factors from the wage system. By business conditions, companies reporting good conditions are more likely to have already eliminated these factors.

As for non-management compensation, most companies are moving ahead with abolishing seniority-based factors: only 31.5% of companies plan to maintain the current system, while 41.7% plan to reduce or eliminate seniority-based factors, and 13.9% have already done so. Notably, only 20.4% of large companies plan not to change the current system.

Figure 8 Age and Length of Service as Factors in Compensation

(%)

	Management					Non-management				
	Already eliminated	Decided to eliminate	Plan to eliminate or reduce	No change planned	Other	Already eliminated	Decided to eliminate	Plan to eliminate or reduce	No change planned	Other
All industries	28.4	3.0	34.7	25.7	4.8	13.9	3.0	41.7	31.5	6.0
Sector										
Primary manufacturing	27.6	2.2	36.5	26.4	3.8	10.3	2.4	45.4	33.1	5.0
Secondary manufacturing	29.0	2.9	37.9	23.5	4.4	12.5	3.5	46.6	29.1	5.7
Non-manufacturing	28.2	3.3	32.8	26.5	5.2	15.4	3.1	38.9	32.1	6.3
Company size										
Large	43.0	3.2	27.9	12.7	5.0	16.9	4.7	41.0	20.4	8.2
2nd-tier	32.2	3.3	34.6	22.0	4.0	16.2	3.3	43.7	27.4	5.2
Small & medium	23.2	2.8	36.2	30.4	5.1	12.1	2.5	40.8	36.1	6.0
Business conditions										
Good, somewhat good	32.9	2.8	31.4	25.8	3.6	16.5	3.5	41.7	29.9	4.5
Normal	29.6	3.6	32.4	25.3	5.2	13.5	3.3	39.9	31.9	7.0
Bad, somewhat bad	24.1	2.5	39.2	26.0	5.3	12.3	2.4	43.6	32.4	6.2

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

10. Almost 60% to Meet Future Labor Shortages with Non-Regular Employees

Due to the decreasing birthrate and rapid aging, the working-age population is predicted to decline and cause labor shortages in the future. The most common measure for dealing with future labor shortages is to increase part-time and other non-regular employment (58.3%), followed by no particular measure (22.1%), and hiring more older workers (15.7%).

By sector, secondary manufacturing companies tend to deal more aggressively with this problem, particularly by hiring more foreign employees (9.2%). By company size, the smaller the company, the stronger the tendency to plan no particular response. However, small and mid-sized companies are slightly more inclined to hire older workers (16.3%) and raise the retirement age (16.2%).

Also, companies planning to increase employment in the next few years tend to emphasize hiring of women as regular employees and of older employees, indicating an increasingly flexible stance in dealing with future labor shortages.

Figure 9 Response to Future Labor Shortages

(%)

	Hire more regular women employees	Hire more part-time, non-regular employees	Hire more foreigners	Hire more older employees	Extend retirement age	No specific measure	Other
All industries	9.9	58.3	4.2	15.7	14.7	22.1	9.6
Sector							
Primary manufacturing	9.7	57.7	4.6	17.7	17.7	22.4	10.5
Secondary manufacturing	9.4	63.0	9.2	16.4	15.8	16.5	11.5
Non-manufacturing	10.2	56.3	1.8	15.1	13.3	24.9	8.5
Company size							
Large	10.9	59.0	3.2	14.7	11.9	13.4	12.4
2nd-tier	9.8	61.8	6.2	14.7	13.2	19.0	11.0
Small & medium	9.7	56.3	3.5	16.3	16.2	25.7	8.3
Planned payroll changes							
Increase	16.0	58.2	5.7	16.6	13.2	24.6	7.6
No change	8.4	57.5	3.9	16.0	14.7	23.8	10.6
Decrease	8.3	63.7	4.0	14.8	16.8	17.8	9.4

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

11. Pension Reform Would Prompt 23% to Hire Ineligible Part-Timers

In the ongoing pension reform debate, a key issue raised last year was whether to expand the employees' pension plan to cover part-time employees. Although the issue has been tabled this time, we asked companies how they would respond to such a measure in the future. The most common response is to take no particular action (41.6%), followed by to focus on hiring part-time employees who do not work enough hours to be eligible for the plan (23.3%), and to create more distinctions in part-time positions (18.5%; Figure 10).

By sector, a relatively large proportion of non-manufacturing companies emphasizes hiring part-time employees and creating more part-time distinctions. By company size, large companies are more inclined to take action of some kind, with only 36.3% indicating no action. By business conditions, companies reporting good conditions are less inclined to take action, which suggests that they are less concerned about the ramifications of pension plan participation by part-time employees.

Figure 10 Response to Possible Pension Plan Participation for Part-Timers

(%)

	Hire ineligible part-timers	Create more part-time distinctions	Limit part-time hiring	No specific measure	Other
All industries	23.3	18.5	11.1	41.6	13.1
Sector					
Primary manufacturing	15.1	13.3	12.1	50.0	12.9
Secondary manufacturing	21.3	18.3	12.1	44.7	12.9
Non-manufacturing	26.2	20.1	10.5	37.9	13.2
Company size					
Large	21.9	19.4	8.2	36.3	13.9
2nd-tier	22.9	20.1	10.1	42.1	12.6
Small & medium	23.9	17.3	12.2	42.5	13.2
Business conditions					
Good, somewhat good	20.6	16.8	10.8	47.2	13.3
Normal	23.5	20.1	8.7	40.8	13.5
Bad, somewhat bad	25.3	18.3	13.5	38.4	12.7

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

12. Two-Thirds of Companies Take Measures to Hire More Women

Two-thirds of companies have taken measures of some kind to hire more women. The leading measures are to develop facilities and an environment that encourage women to work (29.2%), to offer childcare considerations (28.6%), and to offer work hour considerations (18.8%; Figure 11).

By company size, larger companies tend to be more active in implementing measures. In particular, 45.3% of large companies have taken measures regarding childcare, and 15.7% actively promote women to management positions. By business conditions, companies reporting good conditions are more likely to implement measures of some kind. Among companies that plan to meet future labor shortages by hiring more women as regular employees, more aggressive measures are taken, with 44.7% developing facilities and an environment that encourage women to work, and 29.4% actively promoting women to management positions.

Figure 11 Measures to Expand Hiring of Women

(%)

	Create dept. for women	Work hour consider- ations	Childcare consider- ations	Management promotion	Facilities & environment for women	Other	No specific measure
All industries	2.4	18.8	28.6	12.4	29.2	4.2	34.1
Sector							
Primary manufacturing	2.8	19.2	33.1	9.9	29.8	2.8	34.1
Secondary manufacturing	2.3	20.3	32.5	11.4	33.4	4.3	29.6
Non-manufacturing	2.3	18.0	25.4	14.0	27.1	4.3	36.8
Company size							
Large	1.5	20.6	45.3	15.7	33.6	4.2	15.9
2nd-tier	3.1	17.8	33.1	14.2	31.5	3.8	29.1
Small & medium	2.3	18.9	22.6	10.6	27.1	4.4	41.0
Business conditions							
Good, somewhat good	3.1	20.8	32.6	13.8	32.5	4.5	28.2
Normal	1.6	18.7	27.4	11.6	29.2	3.9	35.2
Bad, somewhat bad	2.6	17.7	27.0	12.1	27.1	4.3	37.5
May hire more regular women employees	5.4	25.2	30.0	29.4	44.7	4.8	16.0

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

Nissay Business Conditions Survey

Survey date: February 2004

Sample size and composition: 3,164 companies, as shown below

① By company size			② By region		
	No. of companies	Composition (%)		No. of companies	Composition (%)
Large	402	12.7	Hokkaido	66	2.1
2nd-tier	939	29.7	Tohoku	150	4.7
Small & medium	1,813	57.3	Kanto	1,044	33.0
No response, other	10	0.3	Koshinetsu, Hokuriku	77	2.4
Total	3,164	100.0	Tokai	299	9.5
Note: Large companies have over 1,000 employees; 2nd-tier companies have 301–1,000; small & medium companies have up to 300.			Kinki	858	27.1
			Chugoku	253	8.0
			Shikoku	113	3.6
			Kyushu	234	7.4
			No response, other	70	2.2
			Total	3,164	100.0