

# **Position Paper 2006 on Management and Human Resources**

## **Summary of “Part 2 Management and Labor Issues”**

December 13, 2005

Committee on Management and Labor Policy

Nippon Keidanren

(Japan Business Federation)

---

### **1. Demographic Change**

Japan’s population is rapidly aging. After peaking in 2006 at the latest, the population will start to decline. The issue of population decline must be examined from three perspectives. The first is what to do about this current social phenomenon. The second is the measures that enterprises need to take to deal with population decline. The third is what to do about long-term measures for stopping the decline in the birth rate. Appropriate action is needed, to ensure stable and sustainable growth as population decline begins.

Increasing focus is being placed on work-life balance, which refers to combining career and family life. The basic condition for achieving this is to allow flexibility in ways of working. Individual enterprises should offer and implement various alternatives in terms of work hours, work location, holidays and so on and achieve management based on diversity to make individuals to realize their talents to the fullest. Incorporating this thinking into corporate strategy will, over the long term, help nurture creative individuals and lay a firm foundation for strong corporate competitiveness.

Young people are the future of Japan and a precious resource. It is up to all of society to create a climate that helps them improve their abilities and continue to develop. The central and local governments, schools and industry must work together to improve employment prospects for young people. Enterprises should also be more active in offering jobs to talented and motivated young people and communicating to young people and schools what they are looking for in young employees.

The revised Law on Employment Stability for the Elderly will go into effect in April 2006. This law obligates employers to continue employing workers until they reach 65, through an extended employment system or other means. Systems suitable for individual companies should be designed, after discussion by management and labor. In 2007, the core of the baby boomer generation will begin retiring. This is bound to have a major impact on all industries and raises questions of how to ensure that retiring workers' skills, experience and know-how are passed on. Older workers are in a variety of situations, and they should take advantage not only of paid employment but also other alternatives for social participation.

Changes to the Law for Promoting Employment of Disabled Persons will go into effect. Individuals with mental disabilities will now be counted in each company's actual hiring ratio. But the fact is that there are already many employees on company payrolls with mental disabilities, and measures to administer their employment require considerable time and effort. This situation demands appropriate measures by the government.

Regarding foreign workers, it is important to allow, under certain criteria, non-Japanese workers capable of creating added value to work in Japan. In areas where needs are expected to be particularly pressing in the future due to social changes here, regulatory reform should be carried out to open Japan more widely to foreign workers. At the same time, making it easier for foreign students to take jobs in Japan continues to be important.

## **2. Personnel Strategies to Bolster Competitiveness**

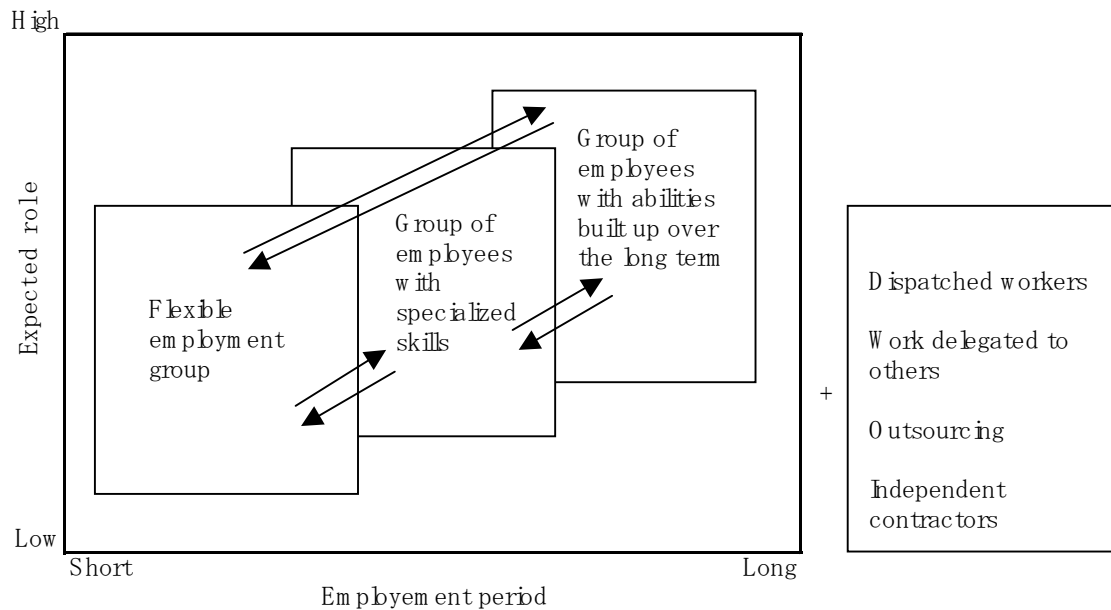
In the face of intensifying global competition, the key to competitive advantage for Japan is to create a system for developing high-quality products and services that meet market and social needs and to provide them in a timely manner. In order to exercise their strengths in these areas, enterprises need to develop organizational and personnel strategies based on people-centered management and management from the long-term perspective that can respond flexibly to a changing environment.

The future source of competitiveness will be the know-how and experience that allows workers alike to respond appropriately to a changing environment. Nurturing employees who have this ability requires a remuneration system that provides motivation and that correctly evaluates skill improvements. As “excellence in the field” implies, we should recognize once more that it is the people on the front lines who, sharing common goals with senior management and actualizing this vision through their own initiative in the field, generated numerous new technologies and know-how and contributed so much to Japanese enterprises. We need to identify the skills that should be maintained and give serious thought to how they can be passed on, as part of overall quality improvement of human resources.

To bring out the potential of a diverse labor force, reforming personnel systems that overemphasize age and length of service will be necessary. New systems should focus on evaluation of ability, role and performance as well as personnel training. It is important for enterprises to continue nurturing the upcoming generation of personnel and improve their competitiveness. Creating training-based personnel systems to enhance intellectual skills and other qualities is a means of boosting corporate competitiveness.

Organizations with a variety of employment and work types will be required to actively support career development of individual employees, in accordance with their role and capabilities, and offer opportunities for education and training. As a measure for combining various types of employment and ways of working to maximize effectiveness, the Japan Business Federation has long advocated the employment portfolio concept (Fig. 13). In personnel administration, creative solutions for making the most of diversity in the workplace—shortened hours, discretionary work hours, flextime, home-based work, and telecommuting, in addition to flexibility in working hours, work location and workplace—are needed. It is also important to administer costs appropriately and flexibly, remunerating employees under various employment and work arrangements fairly and transparently, to boost morale and motivation.

**Fig.13 Employment Portfolio Concept**



Source Prepared based on Japan Business Federation, New Japanese-style Management System, 1995.

### **3. Regulatory Reform and Full Participation by the Private Sector in the Labor Field**

Regulatory reform of labor laws is essential for promoting diverse ways of working and strengthening Japan's international competitiveness. First, concerning setting up an infrastructure suitable for today's diverse employment and work patterns, it is important to greatly expand consultation and information functions so that workers can change jobs smoothly, if and when they wish to do so. The second area is regulatory reform of work hours. A comprehensive review of laws governing work hours such as introducing the white-collar exemption system, where eligible white-collar workers are exempt from regulation of working hours, must be carried out. The third issue concerns the labor contract system. The new legislation on the labor contract system currently under consideration should respect to the fullest autonomous decision-making by labor and management and the principle of freedom to enter into contracts. Last is the issue of the minimum wage system. A regional minimum wage system now applies to all workers, and the industry-based minimum wage system is redundant and unnecessary and should be abolished promptly.

#### **4. Upcoming Negotiations and Consultations with Labor**

The Japanese economy is back on the path to recovery. But the business climate requires constant vigilance, and enterprises must make unceasing efforts to improve their ability to compete. Now conditions are right for enterprises to start taking a more aggressive stance. To take advantage of this opportunity, management and labor must work together even more closely than in the past, and changes to working conditions need to be made judiciously to boost workers' motivation without impairing corporate competitiveness.

The following five points are important in upcoming negotiations with labor. One, following the basic principle of setting wages in accordance with companies' ability to pay. Two, controlling total labor costs. Three, making management decisions from the long-term perspective. Four, reflecting short-term business results in bonuses. Five, discussing broad-ranging issues within the company.

Across-the-board base wage increases not supported by productivity are responsible not only for Japan's high cost structure, they also sap enterprise competitiveness. Wages at each company should be determined by management and labor in accordance with that company's circumstances. In every company, the two sides are free to decide as they wish, but in the end many of them have reached the conclusion that raising wages, already high by international standards, any further is not a realistic option, given tough international competition and uncertain prospects for future business performance.

In the upcoming talks, reviewing the annual wage increment system will once again be an important topic. Comprehensive reforms should be made to the system soon, to reflect capabilities, role and performance and move away from the system where everyone is given an automatic wage raise. In preparation for mass retirement of their baby-boomer employees, companies also need to review their systems for retirement benefits, corporate annuities, extended employment and remuneration for such employees, and implement them flexibly.

Yearly spring talks between management and labor play a valuable role, allowing the two sides to share information and exchange views. In

the future they should meet to discuss wages and other working conditions and also to develop common ground in other areas, such as the economy and enterprise management.

“Struggle”-oriented negotiations, aimed at winning across-the-board wage increases, are a thing of the past, and we are hopeful that more discussion-centered meetings will take place and continue.