

# Will the Japanese Long-Term Employment System Continue to be Maintained?

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## I. Length of employee tenure in Japan

By international standards, employee tenure tends to be longer in Japan. Table 1 shows the ratios of workers by years of employee tenure between 2020 and 2022 in Japan, South Korea, the United States, and European countries. The ratio of workers consecutively employed for ten years or more in Japan is 46.8%, the second highest following the ratio in Italy (48.6%). The ratio exceeds 40% is only in four countries other than Japan.

According to the Ministry of Health, Labour and Welfare (MHLW)'s *Basic Survey on Wage Structure* (2022), the average employee tenure of Japanese workers as a whole is 12.3 years. Of course, this depends on the attributes of workers and the corporate

organizations to which they belong. Comparing male and female workers, average tenure tends to be longer for males, and to be longer if their company is larger in scale (Table 2). The characteristic of Japanese workers in global terms, i.e., longer tenure, appears particularly pronounced among male workers employed by large corporations.

Compared with 2016, the average years of employee tenure in Japan as a whole increased by 0.4 years. The average tenure also increased for all groups by corporate scale, and gender. Japanese workers' tendency to work longer for the same employer has further intensified overall in these few years, irrespective of gender or corporate scale when compared internationally.

Table 1. Ratios of workers by years of employee tenure

	less than 1 year	1-2	3-4	5-9	10-14	15-19	20 or more years	
2021								%
JPN 1)	7.3	14.8	11.7	19.4	14.1	10.1	22.6	JPN
USA 2)	24.3	10.9	17.9	19.9	9.7	6.4	10.8	USA
	less than 1 month	1-5	6-11months	1-2years	3-4	5-9	10 or more years	
USA 3)	—	13.0	9.2	12.7	17.8	19.3	28.0	USA
CAN	—	11.0	8.2	20.7	13.1	17.0	30.0	CAN
UK	1.3	8.3	6.2	21.0	14.8	17.8	30.6	UK
DEU	1.6	6.4	7.2		45.6		39.2	DEU
FRA	2.2	7.6	7.0		40.7		42.6	FRA
ITA	1.6	6.6	5.0		38.3		48.6	ITA
NLD	2.3	10.0	9.0		47.2		31.4	NLD
BEL	1.6	6.3	5.9		42.9		43.3	BEL
DNK	2.2	10.0	9.8		52.2		25.8	DNK
SWE	2.1	8.9	7.9		51.3		29.8	SWE
FIN	3.0	11.0	8.6		45.7		31.7	FIN
NOR	0.5	6.3	7.7		54.4		31.1	NOR
ESP	2.6	9.2	7.0		39.1		42.1	ESP
KOR	6.5	14.1	10.5	21.3	11.5	14.9	21.3	KOR

Sources: Data from Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure*, 2021 (March 2022); U. S. Bureau of Labor Statistics, "Employee Tenure in 2022" (September 2022); and OECD Database (<https://stats.oecd.org/>), "Employment by job tenure intervals" (as of October 2022).

Notes: 1) Targeting regular workers employed by private companies as of the end of June 2021, excluding part-time workers; calculated by JILPT; 2) As of January 2022. The data for one year or more but less than three years is calculated by JILPT; and 3) Data for 2020 provided by OECD.

Table 2. Average years of employee tenure (by gender and corporate scale)

2016			
	All workers	Male workers	Female workers
All companies	11.9	13.3	9.3
1,000 employees or more	13.6	15.4	10.0
100–999 employees	11.4	12.7	9.0
10–99 employees	10.4	11.2	8.8
2022			
	All workers	Male workers	Female workers
All companies	12.3	13.7	9.8
1,000 employees or more	13.9	15.8	10.5
100–999 employees	12.0	13.4	9.6
10–99 employees	11.1	12.0	9.4

Source: Ministry of Health, Labour and Welfare, *Basic Survey on Wage Structure* (2016 and 2022).

## II. Why is employee tenure in Japan so long?

Why then do Japanese workers tend to work longer for the same employer? It could be because of the long-term employment system established by Japanese companies. This system in Japanese companies has the primary aims of (1) guaranteeing the long-term livelihoods of employees (regular employees), and (2) developing employees' skills over the long term (Inagami 1999). Guarantees of long-term livelihoods are achieved by two elements; namely practicing stable long-term employment with normative frameworks (i.e., new graduate recruits and young mid-career recruits have to be continuously employed until mandatory retirement age) and seniority-based pay structures that provide standard living expenses commensurate with employees' life cycle stages (a system in which wages rise with increasing age and increasing years of continuous employment).

On the other hand, of the two elements that guarantee livelihoods, the seniority-based wage system also reflects employees' long-term skills development, achieved as a result of OJT (on-the-job training) during day-to-day work and the motivating function of a competitive relationship among employees. Many Japanese companies recruit new employees mainly from young people who have just graduated from school (new school graduates). This tendency is prominent among large corporations.

Until they are hired, these graduates have no experience of regular employment in a company, and so it is not known what sort of job skills they might have. When hiring new recruits, therefore, companies are primarily interested in their trainability after hiring, on the assumption that job skills will improve as they accumulate experience of working inside the company. Based on this assumption, many companies form their pay structures with wages gradually increasing as continuous employment is accumulated.

The long-term employment system of Japanese companies and the long tenure of Japanese employees seem to have been achieved based on the intentions of both employers and employees. Specifically, companies need to recoup the investment made in hiring new school graduates and giving them various education and training opportunities designed to boost job skills after hiring them. To achieve this, employees who have acquired a certain level of job skills should ideally work for as long as possible, and the period during which their productivity is greater than the wages they receive should also be as long as possible. Therefore, companies try to raise workers' motivation to stay in the workplace by increasing wages in line with continuous employment. For the employees, meanwhile, if the company adopts a wage structure that places emphasis on long-term continuous employment, the longer they work consecutively for the same company, the higher the wage they can expect to receive. In addition, employees' motivation to remain in long-term

continuous employment is further boosted by the fact that in order to retain employees, many companies adopt a structure in which employee incentives other than regular wages, such as retirement benefit, become more advantageous as their length of employment increases. The aim of this is to encourage employee loyalty.

### III. Will the long-term employment system change?

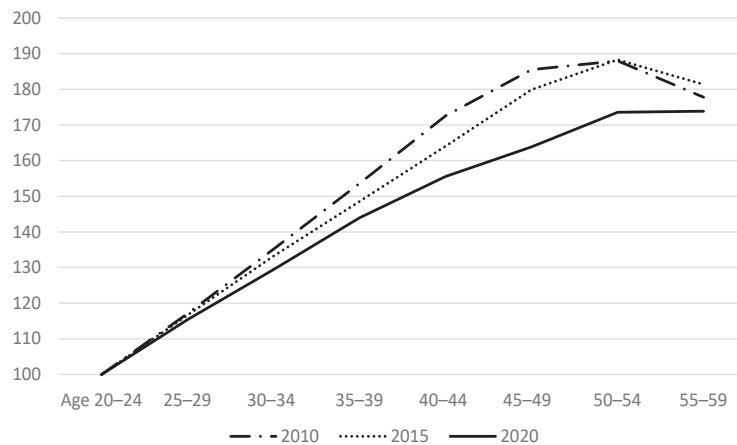
Will the long-term employment system adopted by many Japanese companies continue to be maintained in the future as it has been so far? Enterprise surveys, such as the Japan Institute for Labour Policy and Training (JILPT)'s "Survey on Challenges in Career Formation and Employment Management in the 100-year-life Era" conducted in 2020 (JILPT 2020) and thereafter, reveal that around 80–90% of large- and medium-sized Japanese corporations want to maintain long-term stable employment for as many regular employees as possible in the future. This situation has remained unchanged since before 2010 or even before that (See Fujimoto 2017).

However, the seniority-based wage system practiced by many Japanese companies in tandem with the long-term employment of their employees—an important element in achieving long-term livelihood guarantees for those employees—has the inherent risk that companies pay wages exceeding the productivity of workers whose job skill development has reached its limit. This kind of risk did not surface during the 1950s to 1970s, when Japanese companies were enjoying rapid growth. But from the second half of the 1970s, when the Japanese economy stopped growing as robustly as before, companies increasingly saw the high cost of middle-aged and older workers' wages as problematic. Particularly among large corporations, this triggered the spread of *shukkō*, or temporary transfer to another company while maintaining the employment relationship with the original company, and *tenseki*, or moving out to another company without maintaining the employment relationship with the

original company, known as personnel management practices whereby companies transferred or relocated their own middle-aged and older workers to business partners or subsidiaries. During the long recession in the 1990s, moreover, a succession of companies experienced serious business downturns. Many of these started practicing "solicitation for voluntary early retirement" (*sōki taishoku boshū*), whereby employees over a certain age (usually those in their late 40s to 50s) were offered to retire voluntarily in exchange for add-ons to their retirement pay, or other rewards.

As personnel measures designed to force middle-aged and older workers away from companies (whether by *shukkō*, *tenseki* or solicitation for voluntary early retirement) become established, it is possible that the tendency toward long tenures seen in Japanese workers will gradually weaken. In fact, the average tenures of university or postgraduate degree-holding male employees in their early 50s are tending to become shorter in large corporations (with 1,000 employees or more), albeit gradually (from 25.3 years in 2006 to 24.6 years in 2016).

In addition, given the increasingly fierce global competition coupled with the aging and declining population, companies find it harder to make projections of growth. This is making it harder for them to maintain an organizational structure whereby many employees can be guaranteed a career rising to a certain managerial level (such as section manager). According to the *Basic Survey on Wage Structure*, of employees with university degrees, the proportion of those serving as section managers in their early 40s fell from 32.3% in 1990 to 16.5% in 2021. Although the aforementioned systems of seniority-based wages are still being maintained by Japanese companies, moves to change these systems have become conspicuous since the beginning of the 2000s. During the ten years since 2010, the tendency of wages to increase with age became weaker year by year (Figure 1). "General Survey on Working Conditions" (MHLW 2022) reveals that 40.4% of companies had revised their wage systems during the period between 2019 and 2021. The content of revisions was "to expand the wage portion corresponding to job



Source: Ministry of Health, Labour and Welfare, Basic Survey on Wage Structure (2016).

Note: The average salary for official work hours among ordinary workers aged 20–24 at private companies with ten employees or more = 100.

Figure 1. Situation of wages by age group

content, such as work duties or job type,” “to expand the wage portion corresponding to ability to perform work duties,” or “to expand the wage portion corresponding to performance and results,” among others. In other words, the aim is often to reflect the job performance or job content more closely in the wage, irrespective of age or years of continuous employment.

Thus, as levels of livelihood and career guarantees under long-term employment gradually diminish, employees who want to stay in their current place of work and commit to it are not the overwhelming majority as they had been before. According to the “Survey on the Current Situation and Challenges of Human Resources Development and Skills Development” conducted by JILPT in 2020 (JILPT 2021), in response to the question asking regular employees working for companies with 300 employees or more about their career perspective, 18.4% answered that they would become department or section managers or hold higher positions in the same company and 27.3% answered that they would become an expert for their job in the same company; the respondents who gave these answers were less than 50% of the total.

Some companies are exploring and promoting an employment practice that is different from long-term employment in terms of utilization of human

resources and career formation. The concept of “human capital management,” advocated actively by the Ministry of Economy, Trade and Industry since the beginning of the 2020s, recommends a shift from the relationship in which companies and employees are dependent on each other by means of the long-term employment system and the seniority-based wage structure to a relationship in which companies and individuals choose each other. In addition, around 2000, the Japan Business Federation (Keidanren) and other employers’ associations initiated the idea of “self-regulated career management,” which considers it ideal for individuals to work on career development and continuous learning by themselves, without relying on their company, in the rapidly changing environment. In recent years, there are moves mainly among large companies toward restructuring their systems for skills development and career formation based on this idea.

#### IV. Shortage in labor supply due to population decline and aging, and promotion of longer-term continuous employment

Despite the intentions and actions of employers and employees that imply the decadence of the long-

term employment system as discussed above, workers tend to work for the same employer for a longer term in recent years. This may be largely due to the declining birthrate and population aging that are ongoing in Japanese society, the accompanying decline in working-age population, and the forecast of a shortage in labor supply.

Against the background of the declining birthrate and population aging, the total population of Japan started to decline after peaking at 128.08 million in 2018, but the working-age population aged between 15 and 64 peaked in 1995, more than 20 years earlier than the total population. The working-age population in 2021 was 74.5 million, about 12.5 million fewer than the figure when it peaked at 87.26 million. The working-age population is projected to continue to decline, with nearly 15 million fewer in 2040 than in 2021. Amid this situation, companies started to give consideration to the retention of their employees in order to prevent the shortage in labor supply from becoming more serious. As a result, workers tend to work for the same employer for a longer term than before.

Furthermore, there was concern about whether the pension system can survive amid the declining birthrate and population aging, and to address this situation, the policy to request companies to continue employing workers until they reach old age was carried out in the past decade or so. This may also be the cause of longer-term continuous employment. The starting age for public pension payments has been gradually raised from 60 since 2001, and the government has been urging companies to continue employing workers past 60 which is the typical mandatory retirement age. An amendment to the Act on Stabilization of Employment of Elderly Persons made it compulsory for companies to secure employment opportunities for workers who wish to continue working after 60 up to the starting age for public pension payments, with effect from April 2006. In April 2013, the starting age for public pension payments was further raised to the age of 65, which is the government's target level. As of 2024, companies are obliged to employ all workers who wish to remain in employment up to age 65.

There are three methods for implementing measures to secure continuous employment until the age of 65: (1) abolishing the mandatory retirement age; (2) raising the mandatory retirement age; and (3) introducing systems for continuing to employ workers after they reach the age of 60 (i.e., employment extension and re-employment). According to “Age of the 100-Year Life: Current State of Employment Measures for the Elderly” (MHLW 2023), 99.9% of companies with 21 employees or more implemented measures to secure continuous employment until the age of 65; of these companies, 3.9% abolished the mandatory retirement age, 22.5% raised the mandatory retirement age, and 70.6% introduced the continued employment system. In recent years, more companies raised the mandatory retirement age from 60 to 65. Thus, as almost all companies implement measures to secure continued employment until the age of 65, the majority of workers now continue to work for the same employer beyond the mandatory retirement age of 60. Between June 2021 and May 2022, 87.1% of some 380,000 people who reached the mandatory retirement age of 60 continued to work for their previous employer.

## **V. Challenges and future of the long-term employment system**

However, there are many challenges to overcome even if the tendency toward long tenures continues due to the shortage in labor supply and the long-term employment system is maintained in the future. The first challenge relates to continued employment from the age of 60, which can be regarded as the major cause of the continued tendency toward long tenures. Given the current situation, most workers who continue to be employed by their previous employer after reaching the age of 60 receive only about 70 to 80% of the wage they received at the age of 60, while job content and working hours remain almost unchanged, and they are generally employed on fixed-term contracts according to “Survey on Employment of Older Persons,” an enterprise survey conducted in 2019 (JILPT 2020). In addition, the practice whereby managerial personnel leave their

managerial positions upon reaching a certain age before 60 (e.g., age of 55 or 58), which is referred to as “age limit system for managerial personnel (or *yakushoku-teinen seido*),” is becoming popular mainly among large companies. In view of the circumstances regarding the treatment of elderly workers, although policies promoting the employment of older persons carried out over the last 15 years or so have led to the development of systems that enable employees in a company to remain employed longer, it is less likely that workers will continue to build and leverage their careers in a single company with high motivation.

Furthermore, how to assign and treat workers appropriately as necessary for companies in the course of utilizing human resources, and how to motivate workers for skills development and career formation, which is closely related to their assignment and treatment, are still challenges for many companies.

Will the Japanese long-term employment system be maintained with these challenges remaining and the tendency toward long tenures continuing, or will a new long-term employment system be created by responding to these challenges? Or, will an

employment system that is different from the long-term employment system spread gradually? Attention should be paid to future developments.

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