



Japanese employment: engaging for greater equality

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Fierce competition: the Japanese labour market

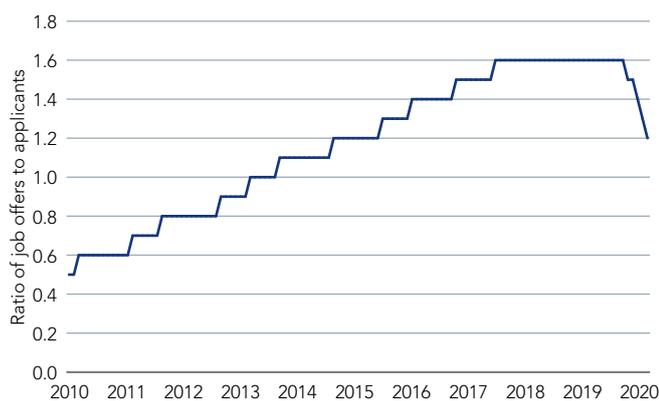
Japan has one of the lowest unemployment rates in the world and its culture is synonymous with a strong dedication to work. Yet working hours are lengthy, there remain two classes of employees, and women are significantly underrepresented in the workforce.



An aging population and restrictive national immigration policy mean that Japanese employers compete for talent and are reluctant to fire those they manage to hire. If cost-cutting is needed, companies tend to adjust wages rather than reduce headcount for fear of putting off future recruits.

The healthy ratio of jobs offers to applicants has been in the latter's favour for some time (see figure 1). As a result, service providers have been established to take on the task of saying 'no' to graduate job offers: Reccel, a job-rejection service, will convey this news for \$185.

Figure 1. Position of power: job offers outweigh applicants



Source: Bloomberg, as at July 2020.

The coronavirus pandemic has already impacted the labour market and in May, the ratio of job offers to applicants fell to its lowest level since October 2015. Much of the pain will be felt by part-time and casual workers, a large proportion of which tend to be female.

Japan's shrinking working population is a well-known problem. By 2060, over a third of Japan's population will be 65 or older, compared to 23.6% in the US and 16.7% in India.¹ The population is expected to decline over the coming decade, while the ratio of older people to those of working age is set to increase significantly.

This trend is prompting a rethink of Japan's historically closed and conservative approach to immigration. While the share of foreign workers in the labour force remains low at about 2%, this number is rising and has contributed to employment growth.

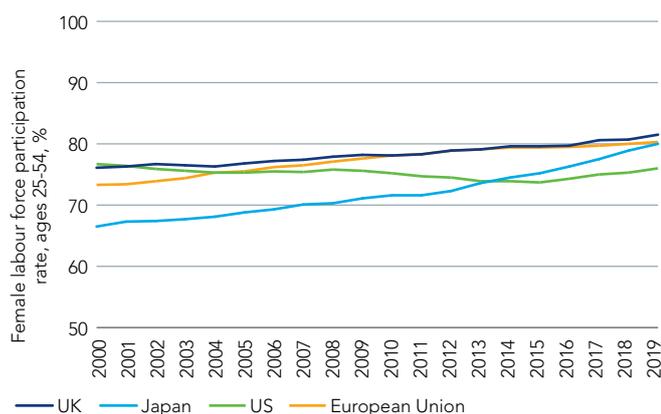
Female participation: an ever-present glass ceiling

Female workers in Japan have long constituted an underutilised pool of talent. The lack of day-care facilities and caregivers, as well as cultural stereotypes that place a larger workload on mothers, have forced many women to lower their ambitions and nearly half of women quit their jobs after having their first child.

This results in poorer outcomes: women earn 25% less than men on average, the third-highest gender pay gap among OECD countries. Japan also ranks 110 out of 149 countries in the World Economic Forum's 2018 Gender Gap Index.

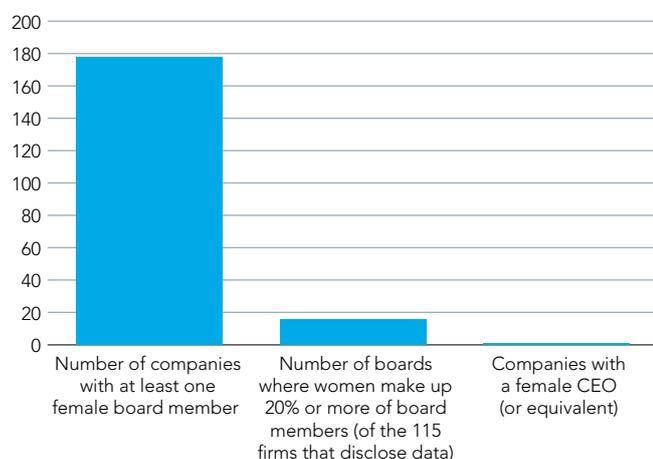
Nonetheless, some progress has been made. Over the past decade, prime-age labour-force participation for women in Japan has exceeded that in the US (see figure 2). However, there is much work to be done before this increased participation rate translates into improved diversity within senior corporate positions.

¹ 'Statistical Handbook of Japan 2019, Chapter 2: Population', published by the Statistics Bureau, Ministry of Internal Affairs and Communications in 2019.

Figure 2. Labour participation: following on the heels

Source: OECD, as at June 2020.

While there has been a dramatic surge in women joining the labour force, there is still a problem with the quality of jobs and level of remuneration. In 2018, 44% of employed women were part-time and temporary workers, compared to only 11.5% of employed men.² Moreover, of the 225 firms listed on the Nikkei 225, just one had a female CEO (see figure 3). This is despite the targets established to increase the share of women in leadership positions from 10% in 2012 to 30% by 2020 – a goal that was abandoned this year in recognition of the lack of progress.

Figure 3. Poor reading: female participation in Nikkei 225 companies

Source: Bloomberg, Federated Hermes. Last financial-year data, as at July 2020.

Dualism: a yawning gap

Japan has an entrenched labour-market dualism between regular and non-regular workers, characterised by a substantial gap in employment conditions and pay. This is driven by employment practices such as lifetime employment, seniority-based wages, mandatory retirement for regular worker and dismissal rules.

There are broadly two types of jobs: full-time and contingent. Full-time regular workers typically enjoy seniority-based wage increases and promotion, while contract and part-time irregular workers – of which companies have been hiring more of in recent years – do not. Surprisingly, an IMF study concluded that full-time regular employment is the primary reason for the overall gender-wage gap: it accounts for more than half of the total difference in pay.³

Indeed, within the full-time category, there are two separate job types for newly hired female workers: a non-career track (Ippanshoku) and a career track (Sōgōshoku). The roles in the first category tend to be more clerical in nature and offer few promotion prospects, although on the plus side they do not require relocation (something which tends to occur every few years in Japanese companies).

The Sōgōshoku path is male dominated, largely because the degree of commitment required does not give women the time to raise children, which remains a strong cultural norm. While this dual-track system created a small number of female executive directors, it also exacerbates the gender pay gap and continues to present a ceiling to progression for the majority of women.

Fewer than half of working women hold full-time positions, compared to almost 80% of men. The Japanese tax and pension systems represent a significant ceiling to female advancement. Indeed, the spousal tax system has been identified⁴ as a major legislative impediment to “womenomics”. To ensure their spouses get a full tax deduction, many women in part-time employment only work until their income reaches 1.5m yen.

The national pension scheme presents a similar quandary. If a woman earns less than 1.3m yen a year, they are defined as financially dependent on their spouse (or other immediate family member). As a result, they receive a pension but are not required to pay contributions.

To create more than a crack in the ceiling, women need to be encouraged to move from part-time to permanent roles. Corporates should respond in an imaginative and proactive manner – something that is illustrated by the hiring push of PlayNext Lab, a Tokyo-based technology start-up, which took the unusual step of targeting women with young children. The move followed several failed attempts to hire applicants (all male) who were lured away to be interviewed by larger competitors.

Education: deeply rooted differences

The structural barriers to gender equality start early and are exacerbated by the gap in university attendance rates, where men account for 56% of enrolled students⁵ – although the rate is much higher at the older and more elite universities. Japan and Turkey are the only two countries in the OECD where female college graduation rates are lower than that of men.⁶

² ‘Work’, Women and men in Japan 2019, published by the Gender Equality Bureau Cabinet Office in 2019.

³ ‘Japan’s gender gap’, published by the IMF in March 2019.

⁴ ‘Womenomics for Japan: is the Abe policy for gendered employment viable in an era of precarity?’, by H. Macnaughtan, published in the The Asia-Pacific Journal, Vol. 13, Issue 12, No. 1 on 30 March 2015.

⁵ ‘Japan Statistical Yearbook 2020’, published by the Statistics Bureau of Japan in 2020.

⁶ ‘Japan’s gender gap’, published by the IMF in March 2019.



A 2017 report revealed the gender gap in STEM subjects, showing that only

10.2%

of engineering researchers were women.

Greater still is the gender gap in certain subject areas, particularly engineering and science, technology, engineering and mathematics (STEM) subjects. The Japanese Cabinet Office's 2017 White Paper on Gender Equality reported that just 10.2% of engineering researchers were women.

The picture is slightly better in science, where 14% of researchers are women. Yet across all fields (including social sciences), only 15.3% of Japanese researchers are women — about half the average proportion among OECD countries. This feeds through to the job market: women make up only 5% of engineers in Japan.⁷

Given this inequity, we think it would be informative for companies to describe the degree to which their career paths are determined by entry qualifications. They could also disclose if they are prepared to help female recruits overcome these apparent impediments to career advancement.

For example, Toyota Motor provides interest-free scholarship or loans to female STEM university students, which do not need repaying if they subsequently join Toyota (half is repaid if they join a group company).

CASE STUDY

Tokyo Medical University scandal

Despite the need for more educated women in the workforce, it was revealed in 2018 that Tokyo Medical University had manipulated admissions for more than a decade in order to reduce the number of female students.

The university reasoned that many women would not continue to work once they married and had children, which would lead to a shortage of doctors at hospitals. A subsequent investigation of 81 other medical schools revealed that several of them had discriminated against applicants by manipulating entrance-exam scores. A year after the scandal was revealed, women passed the attendance exam at a higher rate than men.⁸

Wage inflation: paradoxically low

Despite the labour supply-and-demand dynamics, there is little upward pressure on wages or prices – something the Bank of Japan is counting on to help it hit its 2% inflation target.

This is partly explained by the tendency in recent years for firms to eschew full-time permanent workers in favour of more flexible arrangements. The number of irregular workers – part-timers, fixed-term contracts and temporary-dispatch workers – has significantly increased.

Since the 1990s, these workers have come to account for nearly 40% of the labour force – yet they earn about 60% of the wages of regular employees. In parallel, the number of workers with more than two jobs have grown by about 30% since 2015.

It is surprising that people are working multiple jobs just to earn a living wage, given that Japan's low birth rate means the labour market is at its tightest level in 40 years. The government has set a target which aims to reduce the pay gap between permanent and flexible workers to 80%, as it promotes the 'equal work, equal pay' principle as part of its labour reforms.⁹

Work culture: burning the midnight oil

Most of us are loosely familiar with Japan's devotion to work, the concept of 'lifetime employment' and the ingrained approach of companies to long termism. The country has 33,000 businesses that are at least a century old and a Bank of Korea report found that out of 5,586 companies that have existed for more than 200 years in 41 countries, 56% of them were in Japan.¹⁰ This emphasises how sustainability is an ingrained value in Japanese corporate culture.

Less positive are the implications of this dedication to work: long hours, stress, and the lack of availability of certain jobs. The fact that the Japanese have a term meaning death from overwork – 'Karoshi' – is telling.

According to a 2016 government survey, nearly a quarter of Japanese companies require employees to work more than 80 hours of overtime a month (which are often unpaid). In addition to overtime, group post-work socialising is strongly expected. Legislative changes have restricted overtime, although 100 hours are still allowed during busier months. The OECD has recommended greater enforcement of the 360-hour annual limit on overtime.

⁷ 'Women still a minority in engineering and computer science', published by UNESCO on 9 February 2017.

⁸ 'Women pass scandal-hit Tokyo Medical University's entrance exam at higher rate than men', published by The Japan Times on 21 May 2019.

⁹ 'Move forward on "equal work, equal pay"', published by the Japan Times on 17 January 2019.

¹⁰ 'Why so many of the world's oldest companies are in Japan', published by the BBC on 12 February 2020.

Creature comforts: employee benefits

In Japan, employees are expected to work hard and demonstrate strong loyalty and devotion to the firm. This is in exchange for job security and benefits, such as housing subsidies, good insurance, the use of recreation facilities, bonuses and pensions. Wages often begin low, but seniority is rewarded – indeed, promotions are based on a combination of seniority and ability.

As a good rule of thumb, a larger company will offer more employee benefits and security, but a lower base wage. Small venture companies usually have to pay higher base wages and performance incentives but provide little security and few comforts. It's a trade-off either way.

While leave entitlements are commonplace, the Japanese do not take enough time off. A study by Expedia found that on average, Japanese workers did not use 10 of their paid vacation days,¹¹ while 63% of respondents felt guilty for taking paid leave at all. Indeed, government figures from 2018 suggest that only 52% of workers take the paid leave they are entitled to.¹² In response to this, the government has set a target for annual-leave take-up rates to reach 70% in 2020.

Similarly, Japan has some of the most generous parental leave policies in the OECD¹³ and both fathers and mothers are entitled to take up to a year off work when their child is born. However, taking paternity leave is still an unpopular decision among Japanese men. According to figures from Japan's Health Ministry, only 6% of fathers took leave in 2018.

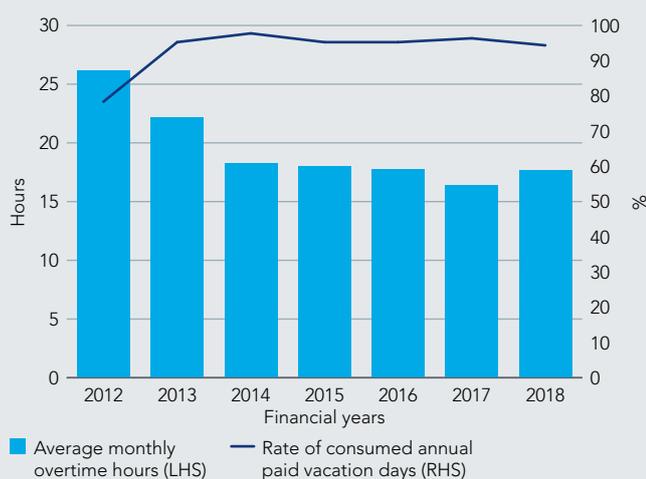
CASE STUDY

Promoting a healthy work-life balance at SCSK

SCSK, a Japanese information technology services company we hold in our Global Small Cap Equity Fund, launched an initiative in 2013 to reduce overtime work and encourage employees to take paid holiday.

The firm returned the reduced overtime pay to employees through incentives or extra leave for periods when there were unforeseen circumstances. Through the initiative, SCSK has been able to reduce overtime and increase the use of paid holiday days (see figure 4).

Figure 4. SCSK: average monthly overtime hours and rate of paid holiday leave



Source: SCSK, as at July 2020.

Japan: core leave entitlements

- **Paid leave:** permanent and contract employees are entitled to a minimum of 10 days of paid leave a year after six months, rising to 20 days after six-and-a-half years' service (combined with 16 public holidays).
- **Sick leave:** in general, there is no paid sick leave in Japan (paid leave is used instead).
- **Maternity leave:** two months at two-thirds of your salary.
- **Childcare leave:** Japan has one of the most generous parental leave benefits in the world. Workers can extend their one-year leave (which the company may contribute to but will not exceed two-thirds of the employee's salary) for a further six months if they cannot find childcare.
- The government encourages fathers to take parental leave, although only 5% of people in private corporations took leave in 2017. The 2020 goal is set at 13%.¹⁴

...government figures from 2018 suggest that only 52% of workers take the paid leave they are entitled to.

¹¹ 'How to use your vacation time', published by Expedia on 15 October 2018.

¹² Ministry of Health, Labour and Welfare.

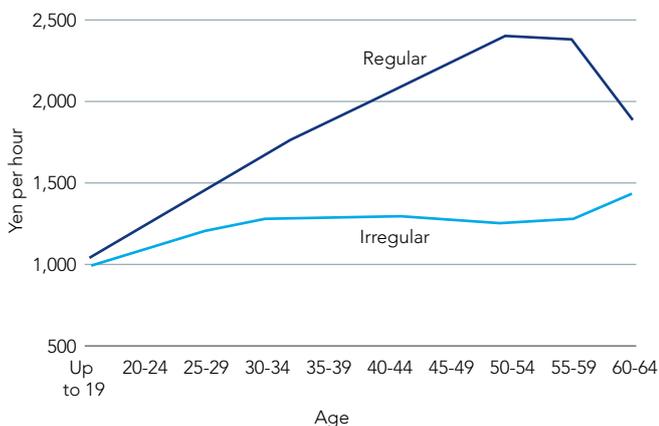
¹³ 'Parental leave systems', published by the OECD.

¹⁴ 'The Fourth Basic Plan for Gender Equality, Women and Men in Japan 2019', published by Gender Equality Bureau Cabinet Office in 2019.

Fringe benefits: equal pay for equal work

Businesses have been urged to play a more proactive role in improving conditions for irregular workers, a step that could provide a much-needed boost in consumer spending. While wages for regular workers tend to rise over their career, this is not the case for irregular employees (see figure 5).

Figure 5. A parting of ways: wage increases for regular workers only



Source: The Financial Times, Ministry of Health, Labour and Welfare, as at June 2020.

Over the past 40 years, employer expenditure on fringe benefits has grown by more than 30%.¹⁵ This could help explain the persistency of overtime hours, given that shorter working hours increase fixed costs per worker and the overall hourly cost.

New legislation¹⁶ came into effect on 1 April 2020 for large companies – and applies for smaller companies from 2021 – with an objective to ensure equal pay for equal work between the so-called regular workers (permanent and full-time employees) and irregular workers (fixed-term employees, part-time workers and temporary agency workers).

The new guideline prohibits firms from discriminating against irregular workers when providing benefits such as holiday and late-night work allowances. It also bans irrational disparities between regular and irregular workers and holds employers accountable if the workers demand an explanation for the gap.

Research by Mizuho¹⁷ in 2016 found that while 60%–80% of companies pay commuting allowances and bonuses to non-regular employees, less than 20% provided retirement benefits or subsidies for nursing and childcare.

Many irregular workers are employed through temporary worker agencies. As a result, the agency must choose to follow either their own equal employment framework or that of the company at which the worker is placed in order to ensure equal pay for equal work. The principle dictates that a temporary agency worker should receive the same treatment as the client company's employees who do the same work.

Many companies – Nippon Express Co. is one – have indicated that they plan to increase the wages of their workers on irregular contracts to be on a par with their regular full-time counterparts who work under the same conditions.

Our demands: seizing the winds of change

It is likely that in the near-term, women will suffer the most from the impact of the coronavirus epidemic. Most of the lost jobs are either temporary or part-time roles – ones which women make up a disproportionate share – or are in sectors in which women make up a growing part of, such as tourism and services.

At the international business of Federated Hermes, we believe that SDG 8 – decent work and economic growth – is inextricably linked to other SDGs (read more about this in our series, 'The new working world'.) Companies have a considerable impact on individual lives, and their practices can affect economic, physical and mental wellbeing.

One way we believe that Japanese firms could support the attainment of SDG 8 is through their employment practices. In turn, improved corporate reporting is a means to shine a light on this area and catalyse improvements. In 2015, Japan's Diet approved new legislation that required companies with over 300 employees to set numerical targets for the hiring and promotion of female employees¹⁸ and for all listed companies to disclose the female-to-male ratio of board members in their financial reports. However, progress has been slow, and the targets set often too modest.

In light of this, in the first instance we would like to see greater reporting – and ambition – on the following issues, disaggregated by gender:

- Female representation by pay quartile and contract type (permanent and temporary).
- Employee-turnover rates.
- Annual employee hires (distinguishing whether they are graduate or mid-career hires).
- Return-work-rates:
 - The proportion of eligible males and females who take parental leave and the median length of leave taken.
 - The share who are working for the firm a year later.
 - The proportion promoted three years later.
- Paid-leave take-up rates.
- Investment in training and development.
- Descriptions of initiatives to resolve pipeline challenges, including financial support for academic qualifications or programmes which positively discriminate towards particular traits or characteristics.

¹⁵ The Journal of Applied Business and Economics, published in 2012.

¹⁶ 'Ensuring Fair Treatment of Workers Irrespective of their Employment Types (Revision of the Part-time Employment Act, Labour Contract Act and the Worker Dispatching Act)', published by the Ministry of Health, Labor and Welfare in 2019.

¹⁷ 'Survey of Top Management on Human Resources and Labour', by Keidanren, published by Mizuho Securities Research.

¹⁸ 'Abenomics is womenomics', by T. Mizuno, published by Discuss Japan – Japan Foreign Policy Forum in 2016.

There is still a need for progress across the board. However, some of our portfolio companies in the SDG Engagement Equity Fund have taken steps to improve their hiring and employment practices. We intend to prioritise this agenda further in our future dialogues with these firms.

Figure 6. Notable initiatives from our portfolio companies

Notable initiatives		Number of employees	Personnel expense per employee, \$	Labour % of sales	Female employees, % of the total (typically full-time workers)	Female management, % of the total	Female executives, % of the total	Females on the board, % of the total	Paid leave taken, % of allowance
HORIBA LTD	The company launched the HORIBA Stained Glass Project Office, a diversity promotion unit, in 2017. This is responsible for connecting and aligning the top management, worksite employees and HR in promoting diversity, so the opinions of all parties are heard	8,288	23,497	10.6	26	17	5	13	63.0
NIFCO INC	The firm has created a development plan for management candidates and is implementing these measures through training, transfers and consultations with career advisors	11,804	15,834	7.5	15	5.5	0	17	73.8
NISSAN CHEMICAL	The company aims for 30% of new regular-position graduates to be women, as well as to expand the range of occupations held by women in each department.	2,895	55,941	7.6	11.1	2.5	0	0	75.8
OPEN HOUSE CO LTD	The firm is enhancing internships in order to promote the active hiring of female technical staff. It has also developed a flexible employment system and career path for life events	2,642	21,340	1.1	10	7.1	No data	0	42.3
RELO GROUP INC	As part of its fringe-benefits service, the firm has a system in place to provide childcare support, housekeeping and nursing-care support services. The temporary childcare assistance system is well received by client companies.	4,134	39,169	5.5	No data	No data	No data	No data	No data
YAOKO CO LTD	The company is creating female-only deputy store manager positions.	14,772	33,371	13.0	18.4	7.6	0	8	18.1



Supporting SDG 5

Next steps: a collective raising of ambition



The Japanese labour market remains characterised by low unemployment and the underutilisation of its female population. In light of this, we believe that companies should take a more courageous approach to hiring. The untapped talent of the country's female population has a clear opportunity cost, and we encourage firms to be innovative when reforming their benefits proposition and the associated take-up, tailoring their offerings to support the ability of women to work productively.

We recognise the positive elements of Japan's 'career culture' and encourage companies to invest in both the recruitment and subsequent promotion of female talent. Firms should ensure women are supported through their child-rearing years – something that will enable them to return to work and maintain an upwards trajectory throughout their careers.

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