



Japanese employment: engaging for greater equality – an update

SDG Engagement Equity Fund commentary
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A year has passed since we published a [note](#) exploring the long-standing issues around the under-representation of women within the Japanese labour force. At the time, we cited female workers as an underutilised pool of talent. While the reasons behind this are well rehearsed, the opportunity cost for companies, the economy and wider society are significant.

In the context of the slow progress that has been made across the board, we invited management teams to engage with us around the measures they can take to attract, retain and promote female talent within their organisation as part of wider reforms.

We recognised the positive elements of Japan’s ‘career culture’, but nonetheless are encouraging companies to invest in both the recruitment and subsequent promotion of female talent. Firms should ensure women are supported as mothers – something that will enable them to return to work and maintain an upwards trajectory throughout their careers. Similarly, where the pipeline is limited, the onus is on companies to invest in and promote their industries to girls and under-graduates, as well as to support mid-career re-training opportunities for women.

While answers are not straightforward, we have been pleased with the response from management teams to discuss what is practicable and achievable if we raise our collective ambitions.

Below, we set out below some of the practical areas where changes can be implemented, and progress thus accelerated.

Context – update from September 2020

Japan’s shrinking working population remains a much discussed problem. In very simple terms, this means the country needs to make more of its female population or open the economy to more migrant workers. A combination of both will almost certainly be key.

While significant progress has been made with respect to increasing female participation, the increase in participation has been mostly with respect to temporary, part-time and non-career track roles (over half of women are employed as ‘non-regular workers’). As a result, the government’s previous target of 30% for women in leadership positions by 2020 was quietly shelved and shifted back to 2030.

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Similarly, and related, closing the gender gap continues to happen slower than in other developed countries, as a result of the aforementioned lack of senior representation. This, despite the attention political leaders have notionally given the agenda in recent years. In its latest [Global Gender Gap Report 2020](#), the World Economic Forum ranked Japan 121st out of 153 countries – down further from 110 in 2018. The country also ranked 131st in terms of the proportion of women in senior and leadership positions, well below the world average, marking the country as one of the lowest ranking in the world when it comes to female empowerment.

Given this slow pace of change, it is no surprise that according to a survey conducted in 2021 on gender equality in Japan¹ the majority of respondents believed it would take 10-19 years until 30% of managerial positions in the private sector were occupied by women. One could certainly argue that remains optimistic, given precedent.

More optimistically, in December 2020, the Japanese government published its [Fifth Basic Plan for Gender Equality](#). The plan targets:

30% women in leadership positions as early as possible over the five year period from 2020-2025 (from 18.9% in 2019)

12% female executives (non-executive and executive directors, statutory auditors and executive officers) for listed companies by 2022 (from 6.2% in 2020)

82% female labour participation rate (vs. 77.7% in 2019)

30% of male workers at private companies to take childcare leave (vs. 7.5% in 2019)

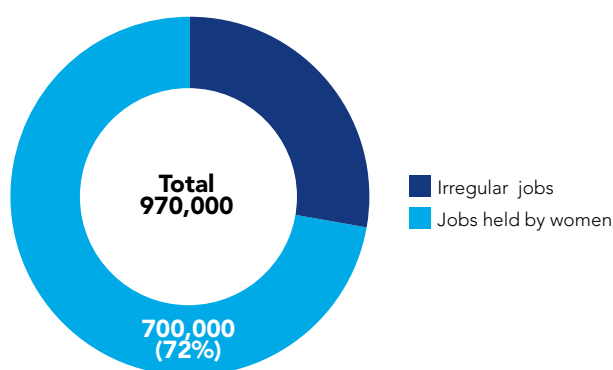
Stepped up measures to convert women from non-regular employment to ‘regular’ employment

¹ Japan: time until reaching 30 percent female managers 2021 | Statista.

In March 2021, the influential Keidanren (Japan Business Federation) also announced a target to increase the female ratio among directors, statutory auditors and executive officers to 30% by 2030 and encourages its members to endorse the target. This is a symbolic step forward even though the target is not binding for its members.

The revision of the Corporate Governance Code, effective from June 2021, in support of these goals encourages companies to set quantitative targets for the appointment of women and foreigners to management positions (and disclose associated progress). The Code, while mentioning the importance of board diversity, fails to mandate the appointment of women to the board.

Less positively, according to the Ministry of Internal Affairs and Communications, an astonishing 970,000 irregular jobs have been lost due to the pandemic, either directly or indirectly². 700,000 of those jobs were held by women.



Senior figures, such as Tokyo Olympics boss Yoshiro Mori, have continued to garner negative headlines and dilute the messaging that this agenda is being taken seriously. That said, while such *faux pas* continue, the public response perhaps signals a change of sentiment, with Mori's quick sacking a sign of progress.

Practical measures

Against this backdrop, we continue to believe that the onus lies with employers and managers because, at the micro-level, they are the ones facing the labour shortfall, and they are the ones responsible for hiring practices and the subsequent promotion of women within their firms. The government can, and should, do more – for example, building day care facilities – but it cannot change the culture within companies, nor intervene in the inner workings of how management mentor, support and promote their female talent.

We review below some specific areas where attention and reform can unlock progress.

1. Mid-career hires

Lifetime employment may be becoming a thing of the past in Japan, but the job market is still less liquid than in many other economies. Companies have an institutionalised graduate recruitment programme and train graduates internally, while offering limited opportunities for experienced candidates. We believe that increasing mid-career hires could help companies improve their gender diversity – particularly at middle management and more senior levels – by providing opportunities for women who have taken career breaks to return to the workforce. The Japanese government is also encouraging mid-career hires to improve diversity in a broader sense, through adding different industry experiences and various perspectives.

We therefore encourage companies to invest more in this area and set specific targets, particularly around the intake of female candidates.

- Financial services group Orix has made a large number of mid-career hires, accounting for about 60% of its total new hires.

2. Relocation culture

Japanese companies typically rotate employees between different jobs and departments to train 'generalists', which often involves relocations abroad or to different parts of the country. Such a system may have worked historically, when the vast majority of women stopped working after getting married or starting a family to follow their husbands, but has become unsustainable in today's world, where many women wish to and do develop their career after having children. Many companies have introduced a system to allow their employees to take some years off work to accompany their spouses' relocations without quitting, but this is not sufficient. Such measures still disrupt a woman's career trajectory.

Meanwhile, some companies have told us that relocations are no longer compulsory and declining such offers does not affect an employee's career development. We believe, however, that this is not the case for the vast majority. Hiring local talent instead of sending people from headquarters would also contribute to creating employment opportunities in smaller cities.

We therefore strongly urge companies to review their approach to relocation, and make adjustments to suit modern styles of working.

² Reuters, Japanese women bear brunt of recession as pandemic unravels Abe's 'Womenomics'.

³ Are the world's richest countries family friendly?: Policy in the OECD and EU (unicef-irc.org).

⁴ Japanese man sues Asics, saying he was punished for taking paternity leave | Japan | The Guardian.

3. Paternity leave

A recurring theme in many of our dialogues with companies has been the topic of paternity leave, as we believe this is key to correcting the gender imbalance as it relates to childcare responsibilities.

On 1st October 2020, the Japanese Ministry of Labor started discussing [a plan to promote paternity leave](#), by making it obligatory for companies to encourage their male employees to take such leave. Although Japan offers generous paternity leave compared to many other countries³, only a small percentage of men take such leave (7.5% in 2019). Of these, very few take more than five days. A major contributing factor is believed to be social expectations at work. Indeed, men who choose to take paternity leave can face harassment⁴.

Companies should put more effort into changing the culture and perception around taking paternity leave, and ensure that all eligible employees take such leave.

4. Working style/culture

Although the long working hours culture and reward for presenteeism is not uniquely a Japanese phenomenon, it is acute for many Japanese companies. Such expectations present a major obstacle for women's progression, particularly those with caring responsibilities.

We cited in our [previous paper](#) that 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 days⁵, 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. In response to this, the government set a target for annual leave take-up rates to reach 70% in 2020 – a target that has been far from universally achieved. It is worth noting that, in general, there is no paid sick leave in Japan. The fact that paid leave take-up is so low therefore suggests that employees are either turning up to work sick, or using leave entitlement for sick days rather than holiday.

The difficulty in taking time off, combined with a long working hours culture, makes it difficult for individuals to pursue their career and spend sufficient time with their families. While many women choose to work reduced hours to accommodate family needs, the working hours of men also needs to change drastically to enable gender equality. We expect companies to implement measures to significantly improve work-life balance for all employees, by setting ambitious targets on reduced overtime and annual leave take-up, and being accountable for achieving them. This may require a fundamental cultural change and removing inefficiencies in various processes.

The last 18 months, and the global working-from-home experiment it brought about, is perhaps a silver lining. The wide adoption of home working during the pandemic has

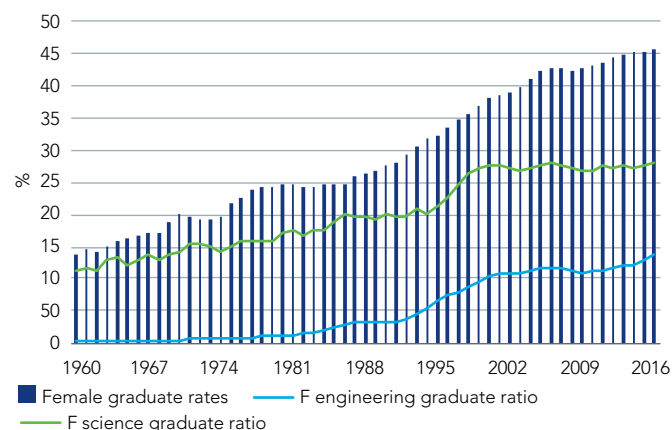
likely shifted expectations and norms. Traditional presenteeism (in the physical sense, at least) may no longer be as important as it once was. Time will tell.

Other positive signs are those international Japanese companies which are introducing a global approach to diversity and inclusion (D&I) in an effort to accelerate progress.

5. Pipeline challenges

It remains striking that while the male to female ratio at university has narrowed, women represented 45% of students in Japanese universities in 2020. Japan and Turkey are the only two countries in the Organisation for Economic Co-operation and Development (OECD) where female college graduation rates are lower than that of men⁶. The gender gap in key subject areas such as engineering, and science and technology are also highly skewed in favour of men (see figure below⁷). This presents a serious challenge for many companies in hiring female engineers or scientists. These roles account for most jobs in certain sectors, such as technology and manufacturing, and these sectors make up a significant part of Japan's economy.

Figure 1. Female graduation rates in Japan from 1960-2016



Source: Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT), 2016.

We therefore encourage companies to approach this issue with a long-term view, by encouraging and supporting school-age girls to study science and engineering degrees. They should also send messages to rectify any biases against women pursuing careers in science and technology and ensure they are not unintentionally exacerbating traditional gender stereotyping. It is important that companies improve the visibility of female employees to give younger women assurance and confidence about their career in science and technology.

- The lack of diversity in the STEM pipeline is not unique to Japan (although more pronounced). Recognising this, National Instruments in the US have committed to investing \$3.4m over the coming four years in STEM education initiatives serving underrepresented or economically disadvantaged students.

⁵ "How to use your vacation time", published by Expedia on 15 October 2018.

⁶ "Japan's gender gap", published by the IMF in March 2019.

⁷ Source: MEXT, School Basic Survey.

6. Training and education

The conventional view is that the historic promise of lifetime employment was centred around incentivising firms to invest in their human capital. Skills, however, are classified into two types: general skills and specific skills. For the past several decades, the notion of specific skills revolving around on-the-job training has been widely accepted, acting as the foundation for long-term employment and the prevailing seniority wage system. Because of the presumption that a large number of female employees would leave jobs after childbirth and not return, women have been treated unfairly, with firms not offering on-the-job, specific training for part-time workers. Given the aforementioned skill shortages in certain industries, and more macro labour shortages, this approach has left talent unfulfilled.

Many companies now provide targeted training programmes and mentoring systems to aid women's career development. While these will be helpful in enhancing women's skills and confidence, it is extremely important to educate male-dominated management about the importance of diversity and inclusion and unconscious biases. While companies should provide such training and guidance to management, training is insufficient if it is not integrated within wider organisational initiatives that seek to debias processes themselves. There is a need to break some of the traditional values and customs and create a corporate culture that embraces gender equality and values greater work-life balance, as discussed. To achieve this, authentic leadership from the top of an organisation is needed, with messaging reinforced and expectations cascaded down through the company.

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

The below table provides an update of the state of play among the Japanese companies held in the SDG Engagement Equity Fund.

Figure 2. Notable initiatives from our portfolio companies

Name	Number of employees	Headlines	Notable initiatives	% F employees,	% F management,	% F on board,	% paid leave taken,
HORIBA LTD	8,288	> The company has extended its target for 20% of its decision-makers to be women to 2023 from 2021 (11.4% as of H1 2021)	Horiba's management is actively promoting paternity leave (first five days are paid) in order to shift the culture with more men encouraged to take paternity leave	26.0%	17.0%	12.5%	63.0%
NIFCO INC	11,804	> Enhanced disclosure levels > Appointed a new female executive officer from outside the company > Missed their 2020 targets for paid leave take-up (target was 80% and they achieved 76.8%) and females in management (target was 8% but achieved 5%).	The firm has created a development plan for management candidates and is implementing these measures through training, transfers, and consultations with career advisors	15.4%	5.0%	11.1%	76.8%
NISSAN CHEMICAL	2,895	> Appointed first female board director (previously zero) > Ratio of females among new graduates in the 'regular' position up year-on-year from 22% to 25% (still below highs of 2018 (30.6%) > Ratio of taking annual leave ticking downwards, now 71% (trend downwards every year since 2017 from 77.6%)	New targets to 2026: > Increase the ratio of female employees in 'regular' position to 13%+ (from 9.6%) > Increase the ratio of female graduates in 'regular' position to 30%+ (from 25%) > Double the number of female managers > Encourage male employees to take childcare leave > Continue to maintain annual leave take-up to 70%+	11.9%	2.5%	10.0%	71.0%
OPEN HOUSE CO LTD	2,642	> Appointed two female independent outsider board directors (previously zero) > Paid leave take-up rate increased markedly to 56.2% (vs 42% in '19 and just 14.6% in '18)	> Have set a new target to increase their female manager ratio to 10% (from 6.3% in Sept 2020) by Sept 2025 > Since January 2021 have actively distributed to relevant people information about maternity leave, childcare leave and returning to work	22.0%	7.1%	0.0%	56.2%
YAOKO CO LTD	14,772	> Paid-leave usage rate doubled in 2020	A significant proportion (350/800) of managers are store managers and deputy managers, positions for which the company is actively aiming to promote women	19.0%	7.6%	9.0%	36.4%

Source: Federated Hermes, September 2021.

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