

Changing Recruitment Practices in Japanese Companies

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Abstract This paper examines recent recruitment practices to determine whether Japanese companies have adapted to the changing global economic environment. A literature review combining company surveys and government related statistical data was used. It was found that many large companies have adapted recruitment processes in varying degrees to deal with the changing economic environment. These changes include varying the number of hires and diversifying hiring conditions. Although many Japanese companies are adapting their recruitment processes, they still appear resistant to change their overall recruitment strategy.

Keywords Recruitment, Personnel Management, Japanese Management

1. Introduction

Over the past decade, Japanese companies have had to adapt their personnel management strategies to deal with staffing issues and a rapidly changing economic environment. In many companies, a large number of older workers born during Japan's baby boom have begun to retire. Also, an increasing number of young employees have been quitting their jobs within a few years of being hired. The issue of employee-company mismatch has become a serious concern for many companies. Furthermore, the global financial crisis in the fall of 2008 forced many Japanese companies to reexamine their personnel management practices. These factors have led many companies to reassess various management practices including recruitment.

The objective of this paper is to examine recent recruitment practices to determine whether Japanese companies have adapted to the changing global economic environment. Past research has indicated that Japanese company recruitment practices have been resistant to change (Robinson, 2003; Jacoby, 2005). Thus this research focused on recruitment practices in large Japanese companies from 2006-2011. This paper thus contributes to the recruitment literature by providing an updated account of recruitment practices in Japan.

Although recruitment is only one part of the personnel

management system, it provides insight into understanding the overall management system, and in particular, issues Japanese companies are facing and the amount of change taking place. Compared with other personnel practices in Japanese companies, information relating to recruitment tends to be more openly available from companies and in the media. A variety of statistical surveys on recruitment are done by both companies and the government. The research method used was a literature review combining company surveys and government related statistical data such as white papers.

Recruitment practices in large traditional companies were examined. These large companies tend to be the trend setters in terms of personnel practices in Japan. This research also concentrated on the recruitment of university graduates. University graduates have been regarded as the core company employees and future company managers.

The next section examines traditional Japanese recruitment practices. This is followed by sections that examine various recruitment practices during the period 2006-2011. These include increasing and decreasing the number of hires and diversifying hiring conditions. The implications of these practices and the impact on companies and university students are then discussed in the final section.

2. Traditional Japanese Recruitment Practices

The recruitment practices used in Japanese companies in the 1970s and 1980s was viewed as having some unique characteristics. Recruitment in large Japanese companies was systematic and based on a specific year long schedule. This early recruitment process is often referred to as "*aotagai*" (buying rice before it is harvested) since students were recruited far in advance of graduation (Jackson & Tomioka, 2004). Recruitment was seen as the beginning of a long-term relationship between the company and individual (Takeda, 2002).

University graduates were hired as core employees. Preference was given by companies to students from prestigious universities. Companies tended to place emphasis on personality, motivation and communication

skills as selection criteria (Sasaki, 1990). In the social science area, little emphasis was placed on what was studied in university or on the specific skills or experiences of the candidate (Haak & Pudenko, 2005). In the natural sciences, in particular, students were often recommended to companies by their professors.

The recruitment season usually began in April when a student entered fourth year. The applicant would have to pass a number of written tests and interviews. The interviews were regarded as the most important part of the selection process. During this process, students were given little input with regard to their future job or work location.

After this process was completed, an advance agreement of employment was reached with the applicants. This advance agreement of employment with applicants is still used by companies today. These students would then all start together the following year in April. Recruits would join a company without knowing which position or department they would be joining.

During the 1990s, the Japanese economy went into a prolonged recession and this impacted the recruitment practices in many companies. To deal with the recession, companies were forced to cut labor costs. One way this was done was to hire more part-time workers and reduce the number of full-time employees (Kono & Clegg, 2001). This was a big change from recruitment practices in the 1980s when companies actively increased the number of full-time employees.

3. Recent Recruitment Practices

3.1. Companies Increase Hiring 2006-2008

From 2003-2008, the overall economy was recovering and many companies saw their sales and profits rise. As well, companies were concerned about the increasing number of retirees. Japanese baby boomers had started to retire in 2007. Companies had been looking for replacements for these employees and also planning for the future. These factors led companies to increase the number of recruits from universities from 2003-2008. In 2007, these numbers were similar to the number of new recruits hired in 1990 at the peak of the economic bubble. Recruitment became a sellers market (Works Institute, 2006).

This section focuses on the recruitment of university students graduating in 2007. Many large companies increased the number of recruits for four consecutive years leading up to 2007. In 2007, around 44 percent of the company's surveyed indicated they were going to hire more than the previous year (BHCP, 2006). 47 percent of the companies stated that they would be hiring about the same number as last year. Of the 2800 companies surveyed, it was indicated that these companies would be hiring on average around 20 percent more university graduates than the previous year (NKS, 2006).

The number of jobs available per job applicant also increased from 1.6 in 2006 to over 1.9 percent for students graduating in 2007 (Works Institute, 2006). This rate had been rising steadily over the past few years. This indicated that over the past few years recruitment had become a sellers market. University graduates had many more choices than in the past few years. Thus it was a good time to be a university student looking for a job Japan as companies were actively looking to hire good young workers. It was said that in 2007, it was actually the students who were choosing the companies.

This increase was greater in certain industries such as those related to financial services. These included banks, securities companies, and insurance companies. Some large banks were planning to hire around 2000 new employees in 2007. This included Mitsubishi Tokyo (2000) and Mizuho FG (2300). Some of the securities companies such as Nikko Cordial (1000) and Daiwa Securities (1400) would also be hiring large numbers of recruits (*Toyo Keizai*, 2007). Four of the largest insurance companies would be hiring around 900 employees each. In most of these companies this was the largest number of recruits since 1990. Many of these financial service companies sharply reduced hiring in the 1990s due to problems related to the collapse of the economic bubble.

There were a number of reasons why companies were hiring more. A 2006 Ministry of Health, Labor and Welfare survey examined these reasons (MHLW, 2006). The main reason cited by companies in this survey was to hire and train young full-time employees to ensure their company's future. The second reason cited was to help companies continue to expand and grow into new areas. The third reason cited was to hire more young employees to stimulate creativity within the company. The fourth reason was to reinvigorate the company and balance out the age structure.

3.2. Companies Decrease Hiring 2009-2011

With the global financial crisis in the fall of 2008, Japanese companies drastically changed their recruitment strategies. The financial collapse in 2008 forced many Japanese companies to restructure including cutting back on recruitment. From 2009, most companies decided to decrease the number of the university students from the previous year. In 2009 companies made 13% fewer job offers than in the previous year (NKS, 2009a). This trend also continued in 2010. For students graduating in 2010, companies were offering 34% fewer job offers. For students graduating in March 2010, the manufacturing sector decreased the number of students they were recruiting by 36% (NKS, 2009b). This meant that in 2010 there would be over 100,000 university students graduating without jobs (NKS, 2010a).

Even in 2011 with companies now recovering, many are still hesitant to actively increase the number of recruits. For students graduating in March 2011, the number of students

who have still been unable to find jobs is a much higher than in the past. This is a much more serious problem in Japan where entry into companies after graduation from university is the main opportunity to become a core employee. As of December 1, 2010 only 68.8% of university students who were looking for jobs had been able to find them (NKS, 2011). This percentage is the lowest since 1996. In comparison, in December 2007, 80% of the students had already received job offers (NKS, 2008a).

One of the causes is an imbalance due to the type of companies that university students are applying to. The vast majority of students are applying to the prestigious large companies and often do not consider smaller and medium-sized companies which are also looking to hire recruits. This means that there is an oversupply of applicants for these large famous companies and a shortage of applicants for small and medium-sized companies.

3.3. Diversity in Hiring Conditions

In the past, most university graduates joined as generalist employees with little job choice. These employees were transferred to various departments within the company in different locations around the country every few years. Some companies allowed recruits to choose which job area or department they would like to work in. Of the company's surveyed, 31 percent responded that they provided some occupational choice when recruiting (Natsume, 2007). Some companies offered a number of specific career courses from which to choose from. For example, Matsushita Electronics offers 16 career courses to choose from. Some companies even allow employees to list their preference for their first job placement. Companies hoped that giving these recruits some choice in the type of job they would be doing would help to attract better applicants.

A number of companies were also hiring some university graduates as contract employees (*Toyo Keizai*, 2008). Some of the first companies to introduce this were the airline companies when hiring cabin attendants. The railway companies and travel agencies which were also popular companies among university students were also using this kind of contract employment. In this case, these recruits were hired as contract employees for a number of years and then after this fixed period they could become full-time employees. Although these companies were popular places to work among university students, these jobs tend to demand a lot of work, long hours and are low paid. Thus the separation rate tended to be high. Also among some of the financial services such as large banks, some of the office workers and store sales staff were also hired as contract employees.

There has been an increase in the number of companies that allow new hires to work in a particular city of their choice (Natsume, 2007). In the past this was limited to a few industries such as for female employees in the retail sector. Recently this is becoming more common in the financial services such as with banks like Mizuho and Mitsubishi

Tokyo. What is different from the past is that these individuals who choose to work in one location were hired as career track employees. In the past these individuals would have been hired as local employees with limited promotion opportunities.

More companies were also actively hiring university graduates who have worked for a few years and quit their companies to apply along with regular university graduates (JILPT, 2005). Nearly 60 percent of large companies actively recruited these so-called "*dainisotsugyosha*" (second graduates). These were individuals who graduated from university and had worked for less than three years. Some surveys indicate that companies view these second graduates as better in some ways than regular university students because they already have some experience in the work world. This is rather different from the past where getting a job with a large company was seen as a once in a lifetime chance directly after graduating from university.

In 2011, more companies are taking a diverse approach to recruitment. Some companies such as Toyota Motor and Takeda Pharmaceutical have also started considering candidates up to three years after they have graduated (Dickie, 2011). This might allow young Japanese time to study overseas and develop a variety of skills before entering the workforce.

More companies have begun to actively recruit foreign students (KN, 2010). Increasing the number foreign students is seen as a good move for global companies. What is different recently is that many companies are hiring foreign students on equal terms as Japanese students and looking at them as potential management candidates. They are looking at having these recruits eventually return to their home countries and work there in management positions. In particular, companies are looking at hiring students from Asian countries with growing markets such as China and Indonesia.

4. Discussion

Two divergent economic trends appeared to be impacting recruitment practices from 2006-2011. The first was the recovering economy in 2006-2008 that combined with baby boomers retiring led to the job market for university graduates becoming a sellers market. The second trend was the financial collapse in 2008 that caused companies to reassess their recruitment strategies. These two trends seem to be in conflict with regard to recruitment practices. On one hand, as it was a sellers market from 2006-2008, companies were in a hurry to recruit a large number top students. On the other hand, given the recent economic turmoil, companies have been more deliberate and cautious while recruiting a smaller number of students from 2009-2011 as it is a buyers market.

A number of issues have been raised regarding future recruitment practices. The extent of diversification in terms of flexibility, choice for applicants, and increased hiring of

foreign recruits should be further examined. There appears to be a gradual acceptance among companies of labor mobility among students. Allowing students more choice and flexibility may be necessary to attract and keep top individuals.

Follow up studies should examine the effects of recent changes in recruitment practices and their impact on decreasing the number of job offers declined and preventing labor turnover. Although most of the early stages of the recruitment process have gone online and become impersonal with large seminars, this may be one reason for the increasing mismatch over the past few years. Thus the small group seminar style may be effective to help both sides to better understand one another early on in the recruitment process. Follow-up research should also examine how these recruitment practices have been impacted by the government economic policy of Abenomics.

Given all the challenges faced by Japanese companies in a changing global environment, it might be necessary for Japanese companies to rethink the process of mainly hiring university graduates once a year. One view is that given the changing global world of business, this system is no longer effective. However, many company executives still believe that this process of hiring university graduates to become future company leaders is still the best approach. In a recent survey, almost 68% of executives said that it would be best to continue this process as a way of the developing future company leaders and ensure the long-term success of the company (NKS, 2010b).

In conclusion, although many Japanese companies are adapting their recruitment processes, they still appear resistant to change their overall recruitment strategy of hiring inexperienced university graduates en masse as core employees. In the past, successful Japanese companies made necessary changes to deal with a changing economic environment while maintaining the stronger aspects of the traditional management system. Given the rapidly changing economic environment in recent years, companies appear to be adapting their recruitment strategies. As recruitment practices change, this will also impact other parts of the personnel system in Japanese companies.

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