

Japanese Management in Transition

By Japan SPOTLIGHT

We are currently seeing a transition in Japanese management from the conventional lifetime employment and seniority system to a remodeled one based on meritocracy under changing workstyles due to the continuing pandemic. Adjusting business management to global standards will be necessary for globalized companies to maintain their international competitiveness.

Japan SPOTLIGHT held the following interview with Manabu Morikawa, Head of the Chief Human Resource Officers (CHRO) Office of Fujitsu Ltd, one of Japan's giant global companies.

(Online interview on July 19, 2023)

Self-Introduction

JS: First, could you please tell us about your work history and also the new human resources management policy at Fujitsu that you have recently been working on?

Morikawa: I am now working here in Fujitsu as Head of CHRO Office. I joined Fujitsu in 2006 as a mid-career recruit, having been mainly working on human resources management policies. From 2014 for about four years I was stationed in Germany working for our German subsidiary. I was in charge of human resources management policy in Europe and after coming back to Japan, I worked in the labor policy department to deal with labor union issues as senior director.

After the pandemic occurred, Fujitsu created its own unique working concept "Work Life Shift" to achieve a flexible workstyle and has been spearheading a work-life balance in the Japanese business world. Our CHRO Office is also responsible for global human resources management policy. Thus, I am now working, together with our Executive Vice President and Chief Human Resource Officer Mr. Hiroki Hiramatsu, on planning our global human resources management strategy to achieve Fujitsu's business goals.

JS: Fujitsu seems to have been promoting reform of human resources management with the introduction of a global human resources management strategy. How did you start this reform?

Morikawa: At this moment there are 130,000 employees in Fujitsu



Manabu Morikawa

worldwide. Our previous human resources policy was differentiated among the regions of the world. This worked well when our business was exclusively done inside a particular country or region. But now our business cannot be exclusively done within a particular nation. In promoting our business, a variety of human resources among different nations must work together. So without a globally standardized human resources management system, we would face difficulties in promoting our business.

For example, when we are about to assess the performance of employees and reflect this in each employee's salary, we find it impossible to achieve a fair assessment with a human resources management policy that differs among nations or regions. In our

previous human resources management, specified employment was adopted in nations other than Japan, and only in Japan did we have human resource management not based on specified employment but on an individual employee's competence. Of course, it is important to assess each individual employee's competence, but in light of the need to assign employees to new jobs or posts with the increasing job options within the company as well as human resources development, it was necessary for us to move to a human resources management system based on specified employment which is the global standard in order to win the global competition. So we started human resources management based on specific employment for executive employees in April 2020, which was revolutionary for us. Since then, this method has been expanded to general employees. We have been promoting a working environment where each employee can start to think spontaneously about what specific job they are interested in doing or what skills they must acquire to get this specific job.

Human Resource Mobility

JS: Whether specified employment works well or not may depend upon business sectors. The IT business can be friendly to specific employment and human resource mobility would be enhanced in this sector with its introduction. Is that right?

Morikawa: We are declaring that our company will start the transformation from an IT to a DX company. For this reform, it is important to get competent human resources with high DX/ICT skills or expertise. In this light, we are thinking about actively searching for human resources outside the company. As a matter of fact, we see an increase in recruitment of mid-career employees and there are also more experts looking for the next stage of their professional life outside the company they belong to. So I think human resource mobility seems to be increasing.

JS: There was a report in the *Nikkei Journal* on April 19, 2023 that said 37% of all employees in Japan are now mid-career recruits. What percentage of the employees in Fujitsu were recruited as mid-career workers?

Morikawa: It is around 20% in our Japanese corporation. Meanwhile, in our overseas corporations, as we do not have the concept there of employing people right after graduation from schools, most of the employees are recruited mid-career.

JS: As those mid-career recruits increase, do you think that “lifetime employment” or the “seniority system” that are symbolic of Japanese management will gradually losing their influence?

Morikawa: In our company, the idea of a “seniority system” is already gone. As for “lifetime employment”, it is often considered as a bad Japanese management custom and as an impediment to labor mobility. But I guess it can be understood as an instrument for achieving high employment or loyalty to a company. I do not think it would be necessarily all bad for each individual employee to work for the same company or work on the same job for many years and be highly engaged with that company or job. So although the percentage of workers engaged in what we call lifetime employment is decreasing with enhanced labor mobility in society, I do not think this mode of employment will cease to exist. What matters is to keep the option to work for a single company over the long term, while creating a working environment or corporate culture that enables each employee to switch jobs or companies in the interest of their career development.

JS: With the seniority system gone, many employees

must work for bosses younger than themselves. At such times, do you think there would be conflicts and difficulties in human relations?

Morikawa: I have been working for Fujitsu for 17 years and I have little thought about conflicts between young bosses and their older subordinates. There may be cases in which their ex-bosses become their subordinates. In such cases, there could be some embarrassment on both sides, but I do not think any conflict will arise in such cases if they work together as human beings and colleagues and respect each other as business partners. It is also true that in general, working on the same job for a long time would produce valuable experience and knowledge, and I believe that respect for such senior people’s working skills should be important.

JS: For human resources from overseas, in particular in developing nations, lifetime employment in a Japanese company could be regarded as a merit. Do you agree?

Morikawa: Many of them could be attracted by training courses inside the company in Japan rather than actual lifetime employment. In a Japanese company, the management would need to implement training programs for a definite period in order to make these young recruits from schools into full-fledged employees. In our company, we call these young employees “trainees” for at least one year and they practice “On the Job Training” (OJT). This relates to the Japanese university education system as well. Such training periods do not exist in European nations or the United States. Recruits there have to start working as full-fledged members as soon as they are assigned to a specific section. I think this is because there is a system in their society where they can match their competence or inclination with a specific job through long-term internships with a company during their university student days. In Japan there are not so many long-term internship programs as in the US and Europe, and so companies hiring new graduates must prepare a training period for them. Recently we have seen a growing number of non-Japanese employees, and this does seem to be because they regard Japanese companies highly, since they are friendly for them and can provide them with good training courses.

Merits of New Employment System

JS: Do you think the new employment system just introduced in your company will lead to enhanced competitiveness?

Morikawa: Unless we get competent human resources, we cannot expect business innovation, and so moving to a global standard employment system and getting competitive human resources globally would lead to enhanced business competitiveness as well.

On the side of employees too, they would be highly motivated to work for companies providing a platform for development and education, as well as an appropriate level of salary benchmarked at the market rate for the job and incentives to achieve a high business performance. So this new system is beneficial for both.

JS: So do you think the new employment system will lead to improved job satisfaction for the workers?

Morikawa: Yes. We conduct an engagement survey twice a year in Fujitsu to measure how much our employees are satisfied with their current job. The scores in this survey have been gradually rising since the introduction of this new human resources management policy based on a specified employment system. We see a benchmark of scores of job satisfaction of global IT companies around 75, and our company's score has been rising to reach a little under 70.

JS: Do you think this specified employment system will prevail all over Japan?

Morikawa: Looking at the domestic markets of various sectors, we assume that we cannot expect a drastic expansion of the market unless innovation with significant impact happens. So assuming that our domestic market does not grow greatly, we will need to expand our business globally. Accordingly, we will need to gain human resources globally. It will be difficult to get competent human resources globally unless a company's human resources management system is fixed with the global standard as the baseline. It may depend upon sectors, but any company pursuing global growth will find a specified employment system as the basis of the global standard indispensable for competition, and thus this system will expand all over the world.

JS: It is often said that the Japanese labor market suffers from low mobility. With such a change of employment systems, do you think labor mobility in the Japanese economy will increase? Will that result in enhancing the Japanese economy's growth potential?

Morikawa: Yes. I think that Japanese labor market mobility will increase from now on. Not only among a limited number of sectors or businesses but in Japan overall, this human resources mobility will be enhanced, then we will see a new picture of our economy. With a new system based on specific employment, there will be the merits of working performance assessment and higher salaries for employees and greater availability of human resources outside the company for the management. This means both management and employees can gain from this new system, and with innovation encouraged by this, it would lead to higher economic growth.

Specified Employment System

JS: Changes in employment systems could lead to concerns for employees, in particular elderly ones, about possible loss of jobs or declines in income. What do you think?

Morikawa: It is certainly true that there will be some who cannot accept these changes all of a sudden if they are accustomed to the lifetime employment and seniority systems. So I think we have to examine the new human resources management policies in detail with the labor unions and communicate properly with the affected people. Fujitsu is not pursuing an American-style employment system in which anybody could lose their job at any time and there would be no desk for a fired person on the day after their dismissal was announced. We are thinking about creating a corporate culture where each individual employee is treated autonomously as an independent skilled worker even while changing jobs within the company, and we want to recruit people who find this corporate culture attractive.

We have introduced an educational on-demand platform with various content to enable anyone to learn at anytime and anywhere at the company's expense, and with this we want to send a positive message to our employees: "Let's change our minds and build up our own careers autonomously as the company changes also."

Looking at the hours of learning spent by employees by generation, those in their 40s and 50s tend to spend more time than those in their 20s and 30s. Judging from such data, I think that our employees in the older generation can better understand our message that they will need to improve their career prospects by learning autonomously. There are now also some people trying to learn about jobs that are totally different from their own specialty, such as salespeople trying to learn about marketing and marketing experts trying to learn about finance. We are continuing communications with our employees to encourage their change of mindset and convince them that they must change now to survive in business.

Humanistic Management

JS: Experts in business management are saying today that from now on we will need a more fine-tuned human resources management system to meet the needs of each individual employee in order to enhance their job satisfaction. What do you think?

Morikawa: Yes, I think we will need such a tailor-made human resources management system eventually. Fujitsu wants to be a company that promotes well-being. However, what each person regards as well-being will differ, and so we need to think about each individual's needs and aim for such a tailor-made human resources

management policy. So far, Japanese companies' human resources management policies have been devised in accordance with the Labor Standards Act drafted on the basis of protecting mainly industrial factory workers. This has been an extremely efficient way of managing labor, but it defines working people as a mass and does not greatly respect an individual worker's well-being or needs. How we respond to these individual needs with a tailor-made approach from now on will be up to each company's corporate culture. From a global perspective, we will need to respond to these needs by considering the cultural backgrounds of different trading or business customs among various nations.

JS: So even with the end of the seniority system and with lifetime employment declining, you would not have a harsh management system but a more humanistic one aimed at ensuring an individual employee's well-being. Is this right?

Morikawa: Yes, exactly. I believe that innovation is born from human beings and we should enhance investment in human resources and human capital as sources of innovation.

Investment in Human Resources

JS: Companies' reluctance to invest in facilities and equipment due to a lack of innovation is often referred to as a reason for the stagnancy of the Japanese economy as well as low labor mobility. Assuming that enhanced labor mobility triggers innovation, do you think it will also eventually lead to increased investment in facilities and equipment?

Morikawa: Given that it is human beings who initiate innovation, I do not think that Japanese companies have not been undertaking fine-tuned direct investment in human capital, in other words, intangible assets. Perhaps they have failed to make their investment in human capital visible in spite of their actual efforts. In Japan, having achieved development in the manufacturing sector, corporate investment in tangible assets such as facilities and equipment for manufacturing has been the principal one. I would explain that lack of competent human resources or investment in human capital would be behind the lack of innovation in Japan. In this regard, many pundits in Japan are now talking about human capital management.

Currently, Japanese companies' investment in intangible assets is much less than in other major nations. It is absolutely necessary to increase such investment from now on. This should not be done only by private companies but by the government as well. The government should enhance investment in education, as human capital is indispensable for any economy. Japanese mandatory education is up to the high-school level and I am concerned that there is very little investment in advanced education after high-

school. Many Japanese start to work after graduating from universities, but it will be necessary for them to acquire more skills and knowledge after leaving university in order to become innovators. I would hope that they continue to study for another two or four years. Of course, it is not possible for all students to do so, as there are additional expenses needed for graduate schools. But it is vital that we change the situation where it takes 10-15 years to pay back student loans. We need investment in university education and individuals eager to go to university and graduate school. I think it is important to allocate money for investment in such intangible assets, though investment in facilities and equipment is important as well.

Views on Japanese Economic Policy

JS: Finally, do you have anything to say about Japanese economic policy?

Morikawa: As I told you, I would like the Japanese government to take a serious view of the much lower level of human capital investment in Japan than in other countries. It is clear that we should invest more in human capital to restore our stagnant economy.

There also seem to be many regulations still that impede the vitalization of the labor market. For example, the tax exemption amount for retirement benefits increases in accordance with the working years. This is nothing but a message to recommend that workers work for the same company for a long time. I think we must change it.

JS: I have heard from university professors of economics that there are very few graduate school students in social sciences or the humanities who have got jobs in private companies. In the light of the increasing need for human resources development, as we have discussed, will there be a greater need for people with knowledge of business management or other social sciences from now on?

Morikawa: Yes, I agree with those professors. Greater knowledge will become a source of a company's competitiveness as well. So I would like more of those students with knowledge of technology and social sciences to pursue jobs in the private sector. We have started collaboration with some universities to initiate a long-term internship program. We would like to begin alliances with more universities in order to have more graduates work for our company after they have learned about the nature of our jobs during their internship working experience.

JS

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