

TRENDS

Future Work Styles

Key Lies in Overturning Accepted Practices and Achieving a More Fluid Labor Market

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“Work style reform” is being pursued as a key national strategy, with aims of boosting international competitiveness through higher intellectual productivity among white-collar workers and of resolving social problems that include a falling workforce and long overtime hours. Professor Heizo Takenaka, who serves as an executive advisor at the Consortium for Economy and Empowering Social Structure, sees low turnover within Japan’s labor market as being one of the factors behind the current situation. What reforms will be needed to achieve sustainable economic growth through innovation while also making the labor market more fluid? With reference to current practices and customs in Japan, we asked Professor Takenaka for his thoughts on new ways of working in Society 5.0, from the standpoints of both companies and individuals.

Work Style Reform Essential to Economic Growth

—What do you see as the essential points in this currently very topical question of “work style reform”?

One of the reasons why work style reform is seen by the cabinet as one of its key strategies is that the issue is not only very important in terms of macroeconomic policy, it also represents a strongly felt desire of the public, meaning that pressure for reform is coming from both sides.

With regard to macroeconomic policy, the rigidity of our labor market is seen as one of the reasons why Japan’s economy has failed to prosper. Not only does Japan have a very low level of company startups, it also has very few company closures. In other words, the labor market has low turnover. Growth in an economy works dynamically through the reallocation of resources such

as people, money, goods, and information from low- to high-productivity uses. Put another way, low labor market turnover is a big problem for Japan’s economy.

When we look at why turnover is so low, we find not only that it is difficult for shareholder power and corporate governance to act as drivers for the restructuring of divisions and businesses that deliver poor returns, but also that the traditional labor market practices of lifetime employment and advancement by seniority are an impediment to startups. As higher productivity and a more fluid labor market are vital to economic growth, it is essential that work style reform be part of our growth strategy.

More Fluid Labor Market Brings Benefits to Workers and Companies Both

—So there is also a strong desire for reform among workers?



Born in 1951. Professor Emeritus, Keio University and Professor, Toyo University. He holds a doctorate in economics. Graduated from Hitotsubashi University. After positions that included Visiting Associate Professor at Harvard University and Professor, Faculty of Policy Management at Keio University, he joined the Koizumi cabinet in 2001, holding positions that included Minister of State for Economic and Fiscal Policy, Minister of State for Financial Services, and Minister for Internal Affairs and Communications. His current appointments include Senior Research Fellow at the Japan Center for Economic Research, President of Academyhills, Chairman/Director of Pasona Group Inc., Outside Director of Orix Corporation, and director of SBI Holdings, Inc.

Past practices in which companies demanded excessive loyalty from their employees led to long working hours and imposed a large burden on the public. A famous quote from the Russian author, Maxim Gorky, reads, “When work is a pleasure, life is a joy! When work is a duty, life is slavery.” That says it all.

Work serves as people’s point of contact with society. Given that most workers spend more time at work than they do at home, it is only natural that their jobs are a determining factor in their lives. The character of the workplace environment is a crucial issue both for people’s lives and for society as a whole, and this makes it necessary to impose a regulation on long working hours.

In one sense, there is something that I believe to be even more important than working hours: to provide an environment in which workers have the freedom to quit their jobs. Compare this with the problem of bullying: what makes the situation

so hard on victims is that they find it difficult to change things in the way they would like. Likewise for workers, it is very important that they feel secure in their work, have the freedom to quit, and can look forward to new opportunities.

In other words, more fluid employment structures are just as important for workers. The unfortunate reality, however, is that many workers who find themselves pressured to work long hours, for example, are unable to quit because they fear they will have no other job to go to.

—So a more fluid labor market is vital both to macroeconomic development and to workers?

The important point in this regard is that employees are in a comparatively weak position relative to employers. This has led to recognition of the right to organize by which employees are able to form unions, the right to collective

bargaining under which workers and employers are able to negotiate on equal terms, and the right to collective action by which employees are able to strike. The result of this is that many large corporations have stuck with the status quo rather than restructuring, even when it is detrimental to their financial performance. Unfortunately, at a time when innovation is the driving force behind growth, there is no avoiding that fact that persisting with things as they are regardless of what happens carries major disadvantages for both companies and individuals.

In practice, employee numbers have been falling over the last two decades, even at large companies with capitalizations of one billion yen or more who might have been expected to want to hold on to their staff. While the presumption has been that it is better to keep working at the same company for a long time, this is something that is now starting to change.

Fostering innovation is difficult under the current employment system that is based on rigid practices of long-term employment. Moreover, even if we accept that workers are in the weaker position and adopt a general policy of limiting long working hours, this will still block the emergence of venture businesses and other new startups. What are needed, then, are flexible practices that enable a diverse range of work styles.

Approaching the Issue in Terms of the Reasons for Poor Productivity

—Japan in recent years has been noted for its low productivity compared to Europe and the United States. What do you think has caused this?

Japan's low productivity is believed to arise from a complex mix of different causes. Fundamentally, an increase in capital intensity through investment

in equipment is needed to boost productivity. In Japan, however, background factors that include deflation-driven economic stagnation have resulted in inadequate investment in areas like IT. This is one of the reasons.

Another is the lack of workforce mobility I talked about earlier that is preventing the reallocation of resources from areas where productivity is low to areas where it is high. Other issues include that boosting productivity becomes increasingly difficult the further you progress along the transition from manufacturing to tertiary industries and then to knowledge-intensive industries. In the case of automotive manufacturing, investment in equipment lifts productivity per employee. But just as you can't use efficiency improvements to stage Verdi's opera *Aida*, for example, with only 10 people when it took 100 people to stage it 30 years ago, the problem is that boosting productivity is intrinsically difficult in knowledge-intensive industries where knowledge work makes up a large proportion of activity.

More than this, the problem in Japan is that there are considerable numbers of people who receive a wage without working. The ill effects of practices like lifetime employment and advancement by seniority are considerable.

The inefficiency of the public sector is also a major bottleneck for Japan. Moving house, for example, requires you to visit various government offices during working hours to undertake such procedures as notifying them of your old and new addresses and updating your driver's license. It is very inefficient that this cannot be done outside working hours or over the Internet.

The UK, in contrast, has a "Tell Us Once" service under which the authorities only need to be notified once to do all of these things. Schemes like this should definitely be adopted in Japan. Obviously, individual changes in themselves will

not dramatically improve productivity. Rather, what I believe we need is to proceed with a variety of reforms in parallel.

Development of Rules Founded on Reality and Based on Eliminating Unfairness

—On the other hand, are there any particular advantages that Japan has in undertaking reforms?

I am not sure whether you could call it an advantage, but the reality is that the practices of lifetime employment and advancement by seniority that have impeded labor mobility are already beginning to crumble. In fact, only about 20% of people work under Japan's lifetime employment and seniority systems.

This prompts the question of why Japan's rigid employment practices persist. One answer can be found in a 1979 ruling by the Tokyo High Court. This prohibits abuse of the right of dismissal and imposes very strict conditions on companies. As a result, conscious of the risk of litigation, companies do not feel able to dismiss employees.

Nevertheless, changes in the structure of industry over the last quarter century mean that employment mobility has increased in many different areas. You could say, then, that the growing momentum throughout society for overturning past practices is an advantage for Japan.

—By dismissal, you are talking about the important role of paid layoffs?

The point I want to make is that, if employees are to be compensated for being laid off, rules need to be put in place. In practice, if employees are dismissed, they have no choice but to settle for money and therefore rules are needed.

In fact, Japan and South Korea are the only countries in the Organization for Economic Cooperation and Development (OECD) that lack such rules. What this means is that, while those who belong to a strong labor union are able to receive a commensurate sum on being laid off, those who do not may end up having to accept a very small payout. If rules were in place that eliminate this unfairness, it would make it easier for workers both to work and to quit their jobs. Companies meanwhile, would find it easier to hire, being able to lay staff off again if need be. The end result of doing this would be to make Japan's labor resources more fluid overall.

Unfortunately, the tendency among some parts of the media and elsewhere is to react to mention of paid layoffs with criticisms that don't go beyond the superficial issues, resorting to emotive arguments. This is, after all, an attempt to eliminate unfairness and I believe that a more constructive debate can be had if we instead frame it in simple terms of compensation rules for employment.

Role of Consortium for Economy and Empowering Social Structure

—With regard to eliminating unfairness, the issue of "equal pay for equal work" has become a hot topic.

As it should. It makes no sense for there to be an income gap of several multiples between a fulltime employee and a temporary or part-timer doing the same work at the same place. Naturally, if the fulltime employee has greater obligations, such as having to travel or change workplaces, that needs to be taken into account. Allowing for this, we need to identify best practice and determine what level of difference will be acceptable to all parties.

In practice, a major obstacle to work style reform is the existence of opposition from vested interests. Behind this lies a fear that work style reform will lead to their having their jobs taken away from them, or that their income will fall as a result of equal pay for equal work. As this is a problem that afflicts all types of reform, what is needed is to get across to the public at large the idea that we need to change to protect what we have.

An important aspect of this is the role played by leaders. Figuring out how to convey the idea of adopting reforms to protect what we have and how to foster unity and trust calls for leadership. On the other hand, in the face of a corporate culture that is mired in tradition, it is often the most innovative and talented staff who are the first to go. The fact that innovation and other change will only happen if a high value is placed on talent makes this a time when management skill is of particular importance.

It was in recognition of this that the Consortium for Economy and Empowering Social Structure was established in November 2017, with Hitachi involved as one of its corporate members. I am currently serving as an executive advisor to the consortium and as a member of the Council on

Investments for the Future, and I am doing what I can as an academic in the field of public policy to act as a catalyst at these organizations.

—Specifically, what activities are you engaged in?

The consortium serves as a forum where different companies can study their respective best practice while also raising a variety of issues that relate to “work style,” with sessions roughly once a month in which people engaged in corporate management, business planning, and human resources are invited to propose topics relating to work style reform and strategic management and growth strategies as well as to present case studies and opinions. As new systems will need to be developed as we proceed with reform, these are debated at the consortium with the aim of generating policy proposals.

Both critical and creative thinking are crucial to these endeavors. Critical thinking takes an analytical approach to issues in order to make a “critical” assessment of the problems they entail, using the word in a positive sense. Creative thinking, meanwhile, is about coming up with practical measures, complete with alternatives. We are combining both approaches in our discussions.



Side Jobs and Recurrent Education to Become Important

—Given that the rapid progress of artificial intelligence (AI) and other forms of digitalization will likely mean that working practices will have to change whether we like it or not, what sort of initiatives do you see as necessary both for companies and for workers?

The first thing that large corporations need to do, I believe, is to allow people to work for more than one employer. Unless we make employment more flexible, we will find it difficult to deal with the rapid changes and various problems that come with digitalization.

What I would like to see is AI specialists, for example, making the most of their skills by working at a number of different organizations, working for one company in the morning, say, another in the afternoon, and teaching at a university in the evening, so that they earn a lot of money and pay a lot of income tax (laughs). As someone doing this sort of work would obviously need to take on an obligation of confidentiality to avoid conflicts of interest between the different organizations, the development of rules is vital.

This represents a major challenge not only for companies but also for the individual workers involved. Something I would like people to keep in mind in this regard is the idea of “compasses over maps” put forward by the Massachusetts Institute of Technology (MIT) Media Lab. Maps are useful but they need to be constantly updated. While each of us no doubt has some sort of map sketched out for our lives, maps can prove unreliable in an era of rapid change. What we need instead is a compass.

A compass in this context can be thought of as providing guidelines for life, with this being underpinned by specialization. If we can achieve clarity about what it is we should be doing and to what purpose we are working, the directions

we ought to be targeting and the specializations we need to acquire to get there should become clear. Joichi Ito, Director of the MIT Media Lab, makes the point that, when the spread of AI leads to shorter working hours as AI takes over traditional jobs, it becomes important for people to adopt a philosophical approach that questions the meaning of their own existence. It is fair to say that work style reform poses a very significant problem for all of us.

—Finally, what are your thoughts on work style in an era of 100-year lifespans?

If we really are approaching a time of 100-year lifespans, then we will need to develop employment practices that allow people to keep working until they are 80 years old. A key factor in achieving this is recurrent education, meaning education that continues throughout life. It will no longer be possible in the future simply to acquire specializations through study at high school and university and then coast for the next 60 years. I believe this makes it vitally important that we go through repeated re-education based on a fine-grained understanding of our various life stages as we continue working.

Clearly this will require revisions to the pension system. As we make changes to working practices, there is a need for extensive debate covering issues such as personal pensions and the education system and salary structures across people’s lifetimes.

We are at a major turning point in history. As part of this, Hitachi is among the leaders of the fourth industrial revolution and is playing a major role in work style reform. As we work toward making a reality of Society 5.0, the future society of Japan, I look forward to your demonstrating your leadership at the forefront of work style reform.