

## **An Analysis of Employment Mismatch and Issues to be Challenged**

### Summary of a Research Report on Ways of Enhancing the Matching Function in the Labor Market

#### **1. Purpose of this study; outline of the research report**

##### (1) Purpose and course of the study

In December 2003, RENGO-RIALS (JTUC Research Institute for Advancement of Living Standards) established a committee (chaired by Hitotsubashi University Professor Isao Ohashi) to explore ways of enhancing the matching function in the labor market. The committee critically examined the concept that structural unemployment is the main reason for the high unemployment rate (4–5%) that has prevailed in Japan's labor market since the late 1990s. It also studied and analyzed current employment matching between supply and demand in the labor force, on the basis of data obtained from questionnaire surveys and other sources.

With respect to the current mismatch between corporate hiring policies and job-seekers' expectations, the committee addressed the problem of effectively matching job offers with job applicants. Also discussed were the nature and characteristics of the matching channels between recruiting companies and job-seekers, and the relationship between the shifting of the age composition of employees toward middle and older ages, and young recruits. The committee compiled a research report in October 2005 (to be published in January 2006).

For this study, RENGO-RIALS conducted two surveys, with the cooperation of the Japanese Trade Union Confederation (JTUC-RENGO): a "Questionnaire Survey on Corporate Employment, Retirement and Skill Development" (460 responses submitted, for a response rate of 14.1%) and a "Questionnaire Survey of Mid-career Employees" via postcard (750 responses submitted, for a response rate of 7.6%). The surveys took place between January and March 2005; the data obtained from them was subsequently analyzed.

##### (2) Outline of the research report

For this study, the following problems were researched and analyzed:

Mismatch problems in the labor market from a macro viewpoint

Problems involving the process of matching recruiting companies and job applicants

Relationships between young recruits and older employees already on the payroll

When a new kinetic mismatch index was used during a macro discussion of employment mismatch, we learned that the structural factor has not increased in regional unemployment. Also, structural unemployment was analyzed in terms of job vacancies by department and by job applicants' perceptions. We discovered that half of the current structural unemployment is frictional

unemployment; and that during the recruiting process, both recruiters and job-seekers failed to fully convey information concerning job specification.

In a micro-analysis of employment emphasizing employment channels, in which we focused on formal employment channels like advertising, magazines specializing in help-wanted advertisements, we learned that applicants are numerous, and that the rejection rate of job offer is higher than other channels. However, hiring decisions are made relatively quickly. When informal employment channels, such as personal or company connections are used, the number of applicants is small, and there are fewer rejections of offers, but official hiring decisions take longer. According to data supplied by Japan's public employment security offices (called "Hello Work") and analyzed in this study, the number of persons applying for jobs at these offices is small, and the rejection rate of job offers is low. The wait for official hiring decisions is comparatively long, and the process is similar informal channels. The situation at employment agencies in the private sector is somewhere in between the two described channels.

Corporate hiring data pertaining to the relationship between young recruits and the age composition of employees currently on the payroll showed that companies with a higher percentage of older employees tended to curtail the hiring of younger workers when demand for labor is declining (as it was when this study was done). However, at the same time, an increase in the percentage of employees who retired at the mandatory retirement age did not necessarily generate employment for more young workers.

From these analyses, the following conclusions were reached.

It is important for Hello Work and other employment agencies to inform both prospective employers and job applicants about job specifications, responsibilities, etc., when they engage in recruiting activities.

Employment characteristics vary widely according to the employment channels used. Consequently, it is necessary to choose an employment channel that is appropriate to the type of job or employment conditions in question.

When demand for employment decreases, it is very likely that young people will have difficulty finding employment. More emphasis should be placed on the reemployment of young workers.

Structural unemployment decreases as employment demand increases. The acquisition of detailed information about structural unemployment will require theoretical examination and empirical analysis of the relationship between structural and frictional unemployment.

## **2. Summary of survey results of the "Questionnaire Survey on Corporate Employment, Retirement and Skill Development" and the "Questionnaire Survey of Mid-career Employees"**

(1) Outline of the questionnaire surveys (target groups, response rate, attributes of respondent companies, etc.)

Questionnaire survey target group; submission methods

The target group comprised a total of 3,265 companies. The breakdown is as follows:

1,865 companies with company-based labor unions operating under the aegis of private industry-specific trade unions (members of Rengo)

1,400 companies chosen from Teikoku Data Bank listings and representing the construction, finance, real estate, and service industries

Questionnaires intended for the former group (RENGO-affiliated, union-related companies) were sent to individual companies via their unions. Questionnaires intended for the latter group were mailed directly to the individual companies. The “Questionnaire Survey on Corporate Employment, Retirement and Skill Development” was intended for companies, while the “Questionnaire Survey of Mid-career Employees” (in postcard form) was to be distributed to three mid-career workers hired in recent years by their employer. Each respondent was asked to return the questionnaire to this research institute by March 7, 2005.

Number of questionnaires submitted

Corporate questionnaires were submitted by 460 companies, for a response rate of 14.1% (in terms of response rate by business type, the response rate for companies receiving the questionnaires from their unions was over 20%). Seven hundred fifty postcard questionnaires completed by individuals were submitted (7.6% of the total number of postcards mailed).

## (2) Outline of survey results

### 1) **Summary of results of the “Questionnaire Survey on Corporate Employment, Retirement and Skill Development”**

Respondents were asked to answer the following questions:

- Are you experiencing a surplus or shortage of permanent employees?
- State the actual number of new employees hired between fiscal 2001 and 2004, and your hiring plan for fiscal 2005.
- State your reasons for hiring new employee and your hiring policy for the future.
- Describe any shift in the number of permanent employees vis-à-vis retirees.
- State your projections for the number of employees in the future.
- How should mid-career workers be recruited and hired?
- Describe your current corporate education and training programs.

Attributes of respondent companies

By industry: manufacturing (41.1%), transportation/communications (19.6%), services (8.9%), wholesale/retail (7.2%), construction (7.0%), electricity/gas (3.5%), finance/insurance (2.4%), and other (4.6%)

By number of permanent employees: 3,000 or more employees (14%), 1,000-2,999 employees (22%), 300-999 employees (33%), and fewer than 300 employees (22%)

By age composition (permanent employees of respondent companies): on average, 24 or under (6.3%), 25-44 (54.1%), and 45 or over (39.6%)

Surplus or shortage of permanent employees: Perception of a shortage (especially of younger workers) has increased

Responses were “adequate supply” (60%), “shortage” (22%), and “surplus” (16%). Responses of “shortage” outnumbered those of “surplus” by 6%. By job category, shortages were more keenly felt in technical/specialized jobs (40%) and research/development (38%) jobs. By age group, 56 percent of employees aged 24 or under, and 36 percent of employees aged 25-44 perceived a shortage of employees. Young and middle-aged workers were more inclined to feel that there was a shortage of employees (see Chart 1).

**Chart 1: Surplus/ Shortage of Permanent Employees**  
(Total, by job category, by age group)

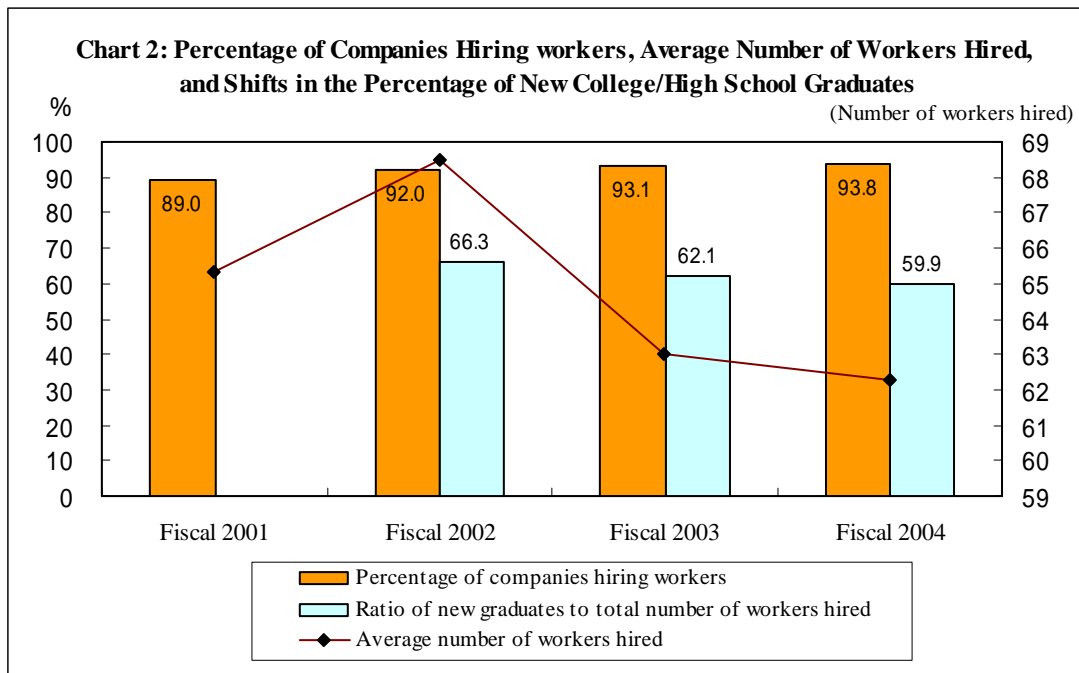
(%)

		Surplus	Adequate supply	Shortage	No response	Number of responses	D.I.*
Total		16.1	60.0	22.2	1.7	460	6.1
By job category	Management	30.0	63.3	6.8	...	444	-23.2
	Research & development	1.4	61.0	37.5	...	277	36.1
	Technical/ specialized	5.2	54.4	40.4	...	366	35.2
	Clerical	15.4	69.1	15.4	...	447	...
	Manufacturing/skilled work	12.1	58.9	29.0	...	338	16.9
	Business/sales	5.4	65.5	29.2	...	391	23.8
By age group	24 or under	0.2	40.7	55.9	3.3	460	55.7
	25-44	12.0	49.1	35.7	3.3	460	23.7
	45-59	48.7	43.5	4.1	3.7	460	-44.6
	60 or over	9.3	69.1	1.7	19.8	460	-7.6

\*D.I. : <responses of “shortage”> - <responses of “surplus”>

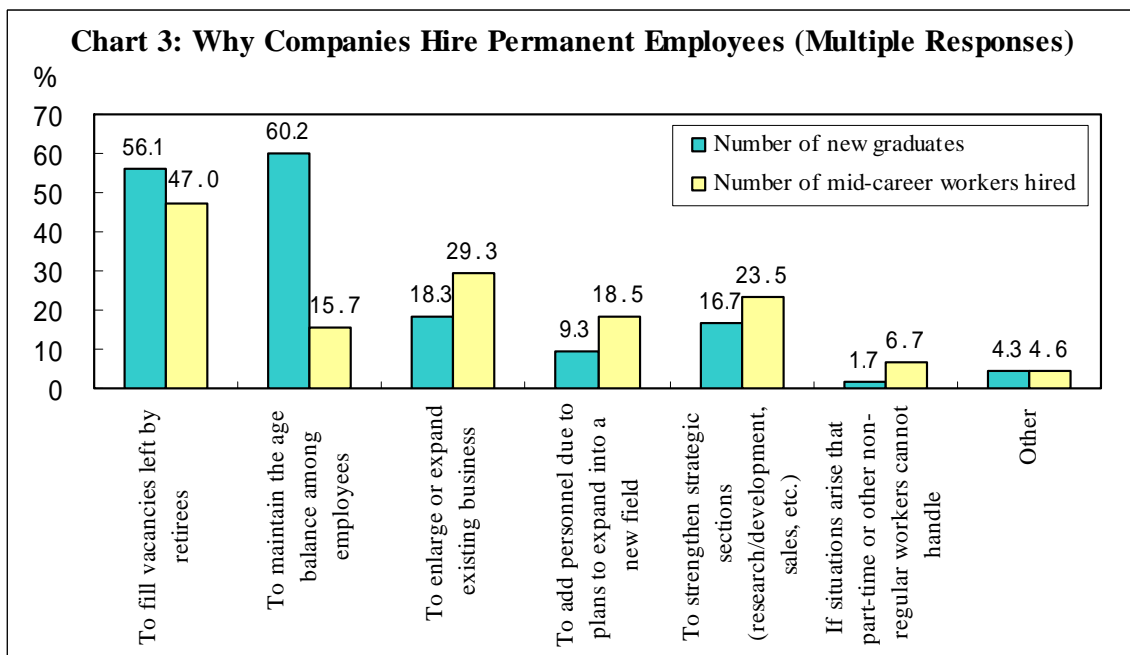
Hiring situation from fiscal 2001 to 2004: a rise in the number of companies that hired new workers

The percentage of the 460 respondent companies that employed new workers in fiscal 2001 through 2004 (up to January 2005) is shown in Chart 2, which shows a modest increase from 89% in fiscal 2001 to 94% in fiscal 2004. The average configuration is new college/high school graduates (about 60%) and mid-career workers (about 40%). In recent years, the percentage of mid-career workers hired has been increasing (Chart 2).



**Reasons for hiring and future hiring policy**

As the main reasons why they hired new graduates, 60% of respondents mentioned, “to maintain the current demographic composition” and “to fill vacancies left by retirees”; 20% or less mentioned that they had hired more workers “to expand existing business.” The main reasons mentioned for hiring mid-career workers were “to fill vacancies left by retirees” (47%), “to expand existing business” (29%), and “to consolidate strategic departments” (24%) (see Chart 3).



To the question about future hiring policy, 40% of medium-sized respondents stated that they would place emphasis on hiring new graduates, while a higher percentage of large-sized companies stated that they give more priority to the hiring of mid-career workers. Regardless of company size, 30% or more of respondents companies pointed out that they would “use temporary workers or outsource work” (see Chart 4).

**Chart 4: Future Hiring Policies (Multiple Responses)**

	(%)						
	Give more priority to the hiring of new graduates	Put more emphasis on the hiring of mid-career workers	Maintain percentage of new graduates and mid-career hired at status quo	Use more temporary employees; outsource more work	Hire more non-regular employees	No response	Number of responses
Total	38.5	24.8	30.9	36.7	26.1	5.9	460
299 or fewer employees	40.6	21.8	26.7	29.7	22.8	8.9	101
300 or more employees	40.8	23.7	29.6	38.2	26.3	5.3	152
1,000 or more employees	36.4	23.2	40.4	40.4	29.3	1.0	99
3,000 or more employees	34.8	36.4	31.8	31.8	19.7	7.6	66

Projections of number of employees in the future

Forty percent of respondents expect the total number of employees to have declined three years from now, 30% expect it to remain at the present level, and 15% predict an increase. By job category, 18% percent project a rise in technical/specialized jobs, while 13% percent foresee an increase in research/development jobs. Fifteen percent of respondents predict a rise in the number of business/sales positions, 17% a decline, and 42%, a status-quo scenario. A significant number of respondents predict a decline in clerical (36%) and management (33%) jobs.

Slightly less than 40% of respondents predict an increase in the number of non-regular employees, 30% status quo, and a little less than 10 percent forecast a decline. Many companies expect an increase (see Chart 5).

**Chart 5: Forecasts for a Rise/Decline in Total Number of Employees in Three Years, by Job Type and Employment Status (Regular/Non-regular)**

	(%)						D.I.
	Rise	Status quo	Decline	Don't know	No response	<increase>	<-decrease>
Total: Regular employees	15.2	29.3	39.3	8.9	7.2	-24.1	
Management	5.7	46.1	32.8	9.3	6.1	-27.1	
Research/development	12.8	32.4	7.2	28.9	18.7	5.6	
Technical/specialized	18.0	35.2	14.8	19.3	12.6	3.2	
Clerical	6.1	43.0	36.3	8.7	5.9	-30.2	
Manufacturing/skilled work	11.5	25.4	27.8	20.7	14.6	-16.3	
Business/sales	14.8	41.5	17.0	15.2	11.5	-2.2	
Total: Non-regular employees	36.5	29.1	8.0	17.4	8.9	28.5	
Part-time workers	20.9	30.0	6.7	22.4	20.0	14.2	

More than 40% of the companies that believe there is currently a shortage of workers in specific job types predict an increase of openings in research/development, technical/specialized, and business/sales positions (see Chart 6).

**Chart 6: Forecast of an Increase/Decrease in the Number of Employees in Three Years in Job Categories in Which Companies Currently Perceive a Shortage**

	(%)							D.I.
	Increase	Status quo	Decrease	Don't know	No response	Number of responses	<increase>	--<decrease>
Total: Regular employees	33.3	23.5	31.4	6.9	4.9	102		1.9
Research/development	45.2	34.6	5.8	8.7	5.8	145		39.4
Technical/specialized	41.9	32.4	12.8	8.8	4.1	68		29.1
Business/sales	40.4	35.1	16.7	6.1	1.8	114		23.7
Clerical	23.2	43.5	23.2	5.8	4.3	69		0.0
Manufacturing/skilled work	29.6	28.6	30.6	6.1	5.1	98		-1.0
Management	6.7	70.0	16.7	6.7	0.0	30		-10.0

## 2) Outline of results of the “Questionnaire Survey of Mid-career Employees”

### Respondent attributes

All 750 respondents are mid-career employees. Gender representation is 598 males (79.7%) and 149 females (19.9%). Their ages when hired (both male and female workers) were: 29 or under (48%), 30-39 (7.4%) and 40-49 (9.1%), with 32.1 years the average age. Highest level of education achieved by respondents is as follows: university/college graduates in the humanities and social science (34.0%), high school graduates (30.1%), university graduates in the natural and physical sciences (16.7%), and graduates of vocational and other schools (11.6%).

Current and previous jobs: 40% report current job is “similar to my previous job”; 40% report that current job is “different from my previous job”

Slightly less than 40% of respondents described their current jobs as “similar to my previous job.” Slightly more than 20% replied that their current jobs are “somewhat different from my previous job,” and slightly less than 40% stated that their current jobs are “completely different from my previous job.” About 50% of those who hold business/sales or research/development positions feel that their new jobs are “similar to my previous job.” However, most of the workers who described their current jobs as “completely different from my previous job” hold production (49%) or clerical (47%) positions.

**Chart 7: Similarities between Current and Previous Jobs**

(%)

		Similar	Somewhat different	Completely different	No response	Number of responses
Total		36.4	23.2	37.7	2.7	750
By gender	Male	38.1	22.4	37.3	2.2	598
	Female	30.2	26.8	40.3	2.7	149
By current job category	Management	46.1	25.0	28.9	•••	76
	Business/sales	45.0	18.3	33.9	2.8	109
	Manufacturing	22.0	27.6	48.8	1.6	123
	Research/development	51.8	30.9	16.4	0.9	110
	Clerical	30.1	19.9	46.8	3.2	186
	Other	34.8	21.7	39.9	3.6	138

Job-hunting activities of mid-career employees: Average interval between jobs is 3.7 months

Over 60 percent of respondents got a new job within 3 months after resigning from a former job. On average, it takes female workers nearly one month longer to get a new job than male workers. By job category, slightly less than 80% of research/development/planning workers were reemployed within 3 months, with an average interval of just 2.3 months. Slightly less than 70% of workers who changed from another job category to manufacturing work found employment within 3 months. The average interval was relatively short (3.5 months). There were longer waits for management (4.1 months on average), and clerical (average of 4.3 months) positions.

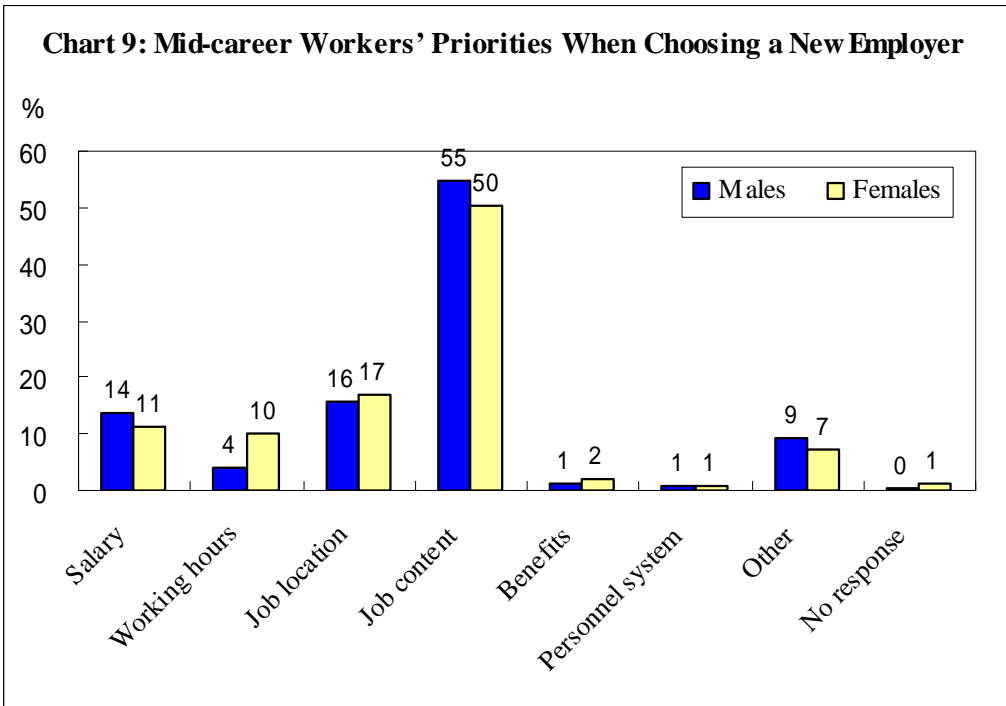
**Chart 8: Time Elapsed between Resignation from One Job and Getting the Next Job**

(%; months)

		Less than 3 months	3-6 months	6-12 months	12 months-2 years	2 years or more	No response	Number of responses	Median (in months)	Average (in months)
Total		61.3	14.1	13.3	5.3	2.9	2.9	750	1.0	3.7
By gender	Male	62.5	13.4	13.9	4.9	2.8	2.5	598	1.0	3.5
	Female	57.7	17.4	11.4	7.4	3.3	2.7	149	2.0	4.4
By current job category	Management	60.5	11.8	13.2	5.2	3.9	5.3	76	1.0	4.1
	Business/sales	56.0	17.4	16.5	4.6	3.7	1.8	109	2.0	3.9
	Manufacturing	67.5	13.0	11.4	5.7	1.6	0.8	123	1.0	3.5
	Research/development/planning	77.3	9.1	8.2	4.5	0.9	•••	110	0.0	2.3
	Clerical	54.8	19.9	10.8	6.4	3.8	4.3	186	2.0	4.3
	Other	58.7	9.4	20.3	5.0	3.6	2.9	138	1.0	4.0

Mid-career workers' priorities when choosing a new employer: job content

Mid-career employees' priorities when choosing a new company were job content (54%), job location (16%), and salary (13%). Though there was not much difference between responses from men and women, female workers attached more importance to working hours and job location (see Chart 9).



Difficulties encountered by mid-career workers while job-hunting

Among the difficulties mid-career employees encountered while job-hunting, 28% of respondents mentioned “work experience;” 24.5% cited difficulty “describing my abilities convincingly.” Twenty-six percent of male mid-career employees also mentioned the difficulty of “describing my abilities convincingly” (see Chart 10).

