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Recruitment Trends in Japan

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This paper examines recent recruitment practices in large Japanese companies. It was found that many large companies have adapted recruitment practices in varying degrees to deal with the changing economic environment. These changes include increasing the number of hires, diversifying hiring conditions, extending the recruitment schedule, and dealing with labor turnover issues. The implications of these changes and the impact on companies and university students are then discussed.

JEL Classification: J21, J22, J23

Keywords: Recruitment, Personnel Management, Japanese-Style Management

1. Introduction

Over the past decade, Japanese companies had to adapt their management practices to deal with the changing economic environment. Recently, in many companies, a large number of older workers were starting to retire just as sales and profits were improving. 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. These factors have led many companies to reassess their various management practices such as recruitment.

This paper focused on recent recruitment practices in large Japanese companies. Although it is only one part of the personnel management system, recruitment 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. Information was obtained using company data, newspaper articles, company surveys, and government related data such as white papers.

This paper examined recent recruitment practices taking place in large traditional companies. These large companies tend to be the trend setters in terms of personnel practices in Japan. Small and medium-size companies in Japan tend to emulate these large company management practices. Practices in foreign companies and newer information technology companies although informative may not be as representative of the majority of Japanese company practices.

This research concentrated on the recruitment of university graduates.

University graduates have been regarded as the core company employees and future company managers. One trend beginning in the 1990s was the hiring of more non-core employees such as part time, contract and workers from temp service agencies and reducing the number of full-time employees.¹⁾ In recent years, there has also been an increase in the number of mid-career and foreign workers being hired by Japanese companies. How would an improving economy and the upcoming retirement of baby boomers impact the recruitment of university graduates?

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.²⁾ Recruitment was seen as the beginning of a long-term relationship between the company and individual.³⁾

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.⁴⁾ 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.⁵⁾ 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. This was a big change from recruitment practices in the 1980s when companies actively increased the number of full-time employees.

3. Recent Recruitment Trends

3.1 *Companies Increase Hiring*

Over the last five years the overall economy has been recovering and

many companies have seen their sales and profits rise. As well, companies have been concerned about the increasing number of retirees. Japanese baby boomers have started to retire in 2007. Companies have been looking for replacements for these employees and also planning for the future. These factors have led companies to increase the number of recruits from universities in 2007. These numbers were similar to the number of new recruits hired in 1990 at the peak of the Economic Bubble. Recruitment had become a sellers market.⁶⁾

Many large companies have been increasing the number of recruits for four consecutive years. In 2007, around 44 percent of the company's surveyed indicated they were going to hire more than the previous year.⁷⁾ 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.⁸⁾

The number of jobs available per job applicant also increased from 1.6 in 2006 to over 1.9 percent for students graduating in 2007.⁹⁾ 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 have many more choices than in the past few years. Thus it was a good time to be a university student looking for a job in Japan as companies were actively looking to hire good young workers. It has been said that this year it's 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 such as Mitsubishi Tokyo (2000) and Mizuho FG (2300).¹⁰⁾ Some of the securities companies such as Nikko Cordial (1000) and Daiwa Securities (1400) would also be hiring large numbers of recruits. Four of the largest insurance companies would be hiring around 900 employees each. In most of these companies this is 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.¹¹⁾ 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 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.

Recently, some companies were allowing 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.¹²⁾ 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 more applicants.

A number of companies were also hiring some university graduates as contract employees.¹³⁾ 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 office workers and store sales staff were hired as contract employees.

Recently, there has been an increase in the number of companies that allow new hires to work in a particular city of their choice.¹⁴⁾ In the past this was limited to a few industries such as for female employees in the retail sector. 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.¹⁵⁾ 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.

3.3 Extended Recruitment Schedule

The recruitment season for university students traditionally began one year before entering a company in April at the beginning of a student's fourth year. In recent years, as it is a sellers market, employers appear to be in a rush to get talented young workers and the process has been pushed forward almost half a year. Thus students began the recruitment process in the second

half of their third-year. Figure 1 displays the recruitment schedule for university students graduating in March 2007.

In the past, there were concerns about companies starting recruitment too early and the effects on students and their university studies. This led to the Federation of Economic Organizations (*Keidanren*) issuing ethical guidelines for companies regarding the recruiting process.¹⁶⁾ These guidelines are essentially a gentleman's agreement among companies as to when to officially start and when to officially make job offers. In accordance with these guidelines, job offers can not be made official until October 1st, six months before joining a company.

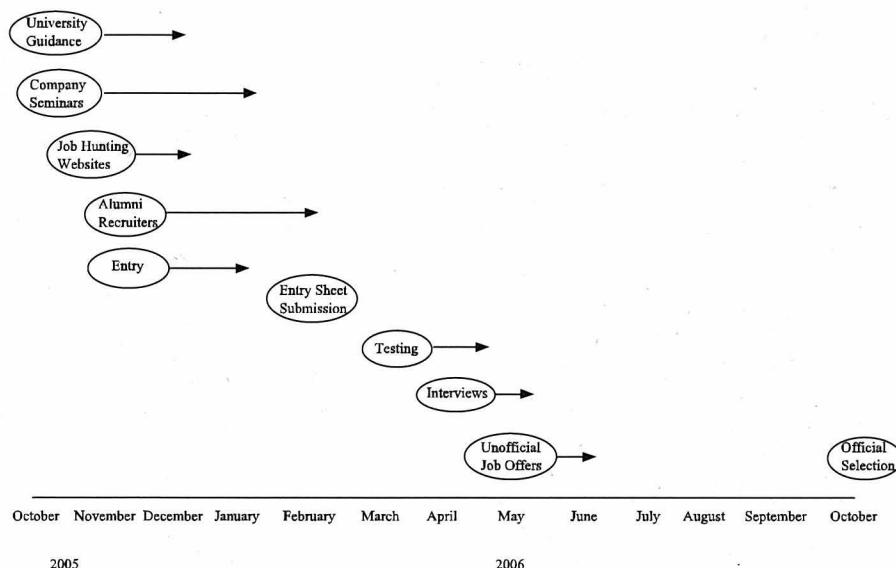


Figure 1. Recruitment Schedule for University Students Graduating in March 2007

The timing of recruitment activities has changed over the past few years. In the past couple of the years, recruitment season has begun in September of a students third year. In 2005, the first big recruitment event took place in late August at a public location in Tokyo. Over 70 large companies took part as well as tens of thousands of students. Much of the content was general such as industry outlooks, talks about work life and career development seminars.¹⁷⁾

When students returned to university in October, a number of university career centers began offering job hunting guidance seminars. At the beginning of October, a number of jobs hunting sites (such as *rikunavi*) opened. This was two weeks earlier than 2004. These web sites offer general job information about companies as well as information on where seminars would be held throughout the country.

Starting in October, on campus company seminars began. Companies came on campus and talked in general terms about working for companies and industry outlooks. It was seen by companies as a way to get a jump start and introduce themselves to the new group of recruits. At this stage, companies

did not have individual meetings with students.

At some company seminars, students participated in group activities. Students were given general problems to solve together. Companies were trying to spot students with leadership and problem solving abilities. Companies hoped that students who did well in these group activities might be interested in applying to this company.

Another strategy was to send recent graduates back to their home universities to promote the company. These alumni recruiters would visit their former class seminars and clubs they attended at the university as well as taking some students out for dinner. Although these type of activities were popular in the past, they seemed to decrease in frequency in the 1990s and have only recently started to become popular again. In some companies, these alumni recruiters were asked to target and nominate one or two students. They might also encourage students to take part in a company internship.

The use of alumni has become popular again for number of reasons.¹⁸⁾ It is seen as one possible way to help prevent mismatch by having students nominate individuals who they know fairly well and they think might be a good fit for the company. Second, many recruiters are unhappy with the online process which usually takes place at this stage. Many feel that the online process is not a good way to get a good feel for these applicants. As well, it is a way to maintain the gentleman's agreement among companies about early recruiting and still get a head start.

Over the past few years, smaller seminars have become common during the early stages. Many of the early seminars tended to be larger events with a few individuals talking to hundreds of students. The last couple of years a number of companies have held smaller events to allow students to talk with younger employees from the company. These mini-seminars were seen as a way for students to talk more directly with people closer to their own age and also encourage more direct contact.

A number of companies held events for students who were planning to apply to meet in small groups with young employees. Many of these young recruiters would then meet with the personnel staff to pass on their comments and suggestions about potential recruits. These meetings with younger employees could provide a number of benefits. These meetings provided students with a real picture of the company to help prevent mismatch. It was also seen as a way to develop a connection between these students and young employees which can be followed up through later recruitment stages and also as a mentor after joining the company.

In November, many companies opened their recruitment website. This is when students make their first contact with a company (referred to as entry). Students sign up at this website to request company recruitment materials. Students also receive an application form (referred to as an entry sheet) when they sign up. Later in the process students submit their entry sheet online. In many large companies, the deadline for submitting applications was February 15th. Thus, the entire application process takes place over the Internet.

Students can request information from as many companies as they

wanted. In early 2006, students requesting information from companies showed the following trends: over 34 percent of the students had contacted more than 40 companies, another 42 percent had contacted between 11 and 40 companies to get information and 23 percent of the students contacted less than 10 companies to sign up and get information.¹⁹⁾

The following data was found regarding students who had submitted applications (entry sheets) to companies. 81 percent submitted applications to 10 companies or less, 18 percent submitted to between 11 and 40 companies and one percent submitted applications to over 40 companies. These numbers were lower than in the previous year.

There were a number of reasons why students submitted less applications.²⁰⁾ One reason was that students realized that it was a sellers market. Thus they were not so insecure that they had to send out to a large number of applications and concentrated on the companies that they most wanted to enter. Also, the process for submitting entry sheets changed slightly in 2006. Many companies required students to attend workshops as a precondition to accept entry sheets. This was seen as a way of screening out students who were not so interested. Some entry sheets also included an essay section which was difficult and time consuming to screen out students who were not so interested.

Although most companies had agreed to start interviews in April, in reality, most companies started their interview process in March. The way around the gentleman's agreement was to get young company employees to meet with students in a group format. In some cases, students were required to meet a number of times with employees from a single company in March.

The peak of the recruitment season began in April as most companies honored the gentleman's agreement. A number of companies started interviewing on Monday, April 3rd. Since in many large companies informal interviews had already begun in March, by April it was already into the later stages of the final interviews. By mid-April, some companies were already starting to make unofficial job offers. From mid to late April most of the large companies made unofficial job offers. Many companies had finished their initial recruitment process by the end of April. Some companies continued on with this process into June, especially large companies doing large scale recruiting.

The majority of job hunting university students (80 percent) had received unofficial job offers by the end of May.²¹⁾ Still many of the students (70 percent) were continuing to job hunt. The reason for this was that they didn't get their first choice or that they were looking for a better company. 57 percent of the students interviewed said that they had received an unofficial job offer from the company they were most interested in. In accordance with the gentleman's agreement, companies were only able to make official job offers from October 1st.

3.4 Declining Job Offers and Labor Turnover

As these unofficial job offers were made often one year in advance, companies were becoming concerned that recruits were changing their minds

sometime during their fourth year. Many companies were active from April until September to try to make sure that students who received a job offer would not later turn it down. Companies took various actions to deal with this concern.²²⁾ Ninety percent of the companies invited the recruits out for dinner or other small gatherings. 57 percent contacted recruits regularly by email. 50 percent contacted them regularly by mail or telephone. 37 percent got recruits to take part in an Internet community with other recruits from the same company.

There were various reasons why recruits declined job offers. The main reason for declining a job offer was that the student got a job offer from another company. Recruits also cited becoming discouraged after talking to individuals from that company other than recruiters. Another reason was that the company didn't contact them after they received the job offer. Others changed their mind because it didn't seem like they would be able to do what they really wanted to do in that company.

As well as applicants declining job offers, companies were also concerned about labor turnover among young employees. Companies have had to deal with an increasing number of young employees who quit their jobs within a few years after being hired. Even among university students, recent data suggests that over 35 percent of these graduates will leave their job within three years of being hired.²³⁾ It should be noted that separation rates are lower in larger companies. Labor turnover was a major concern for companies which had placed a great deal of time and resources into recruiting and then training these new recruits during the first few years after being hired. Companies were thus trying to decrease potential labor turnover through their recruitment process.

One way companies have dealt with this concern was to make use of internships. In some cases, internships became a prerequisite to apply to a company. It was hoped that by observing potential recruits on the job, employers could get a better idea of a recruit's potential and whether this was a good match for the company and this individual. Other companies were simply factoring in turnover when doing recruitment. They were thus hiring more recruits under the assumption that some recruits would leave within the first few years.

Activities aimed at preventing labor turnover continued to be used after the recruit entered the company. Companies set up systems to help new recruits get adjusted to their new jobs. These systems include mentoring by a senior employee slightly older than the recruit. Some companies were also encouraging new employees to live together in company dormitories.²⁴⁾ It was hoped that mentors and dorm mates would provide a support network to help these new recruits.

4. Discussion

Two economic trends appeared to be impacting recruitment practices in 2006-2007. The first was the recovering economy which combined with baby boomers retiring led to the job market for university graduates becoming a

sellers market. The second trend was the increasing labor turnover rate among young employees. These two trends seem to be in conflict with regard to recruitment practices. On one hand, as it was a sellers market, companies would seem to be in a hurry to recruit top students. On the other hand, companies would need to be deliberate and cautious during the recruitment process to prevent mismatch and potential labor turnover.

Based on the research, a number of issues have been raised regarding future recruitment practices. First, will companies continue to increase the number of hires? It will be interesting to observe recruitment practices over the next few years to see whether companies continue to increase the number of hires. For students graduating in 2008, this trend has continued and companies did increase the number of hires. The trend also seems to be continuing for students graduating in 2009.

Second, given that the recruitment season was extended for students graduating in 2007, will companies continue to push forward the start of their recruitment season? For students graduating in March 2009, it seems like the process has been pushed up even further. In June 2007, many of the recruitment websites for 2009 had started up and were encouraging students to register. Also a number of companies in June were already accepting applications for summer internships and in August and September 2007 many of these internships took place. In some companies, it was hinted that students interested in working for a company should take part in these internships during the summer of their third year. This also raises the issue of the effectiveness of the gentleman's agreement among companies and whether it needs to be revised.

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.

The extent of diversification in terms of flexibility and choice for applicants in the recruiting process 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 applicants.

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 fact that recruitment is now a sellers market and the reality of increasing labor turnover of younger workers, companies appear to be adapting their recruitment process. As recruitment practices change, this will also impact other parts of the personnel system in Japanese companies.

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