

**Research note**

**Dead-End Careers — The Vicious Cycle of  
Temporary Employment in Japan**

**Summary**

**Keywords:**

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## Introduction

The needs to adjust to global competition and respond to production fluctuations have long been key arguments of employers to use temporary workers. But while this form of employment offers great flexibility for companies, it often results in dead-end careers for temporary workers because their prospects for changing to regular employment become more limited. In this paper, the term regular employment refers to employment conditions under which employment is not bound by a fixed period and the employer provides social security and welfare benefits, while irregular or temporary employment refer to employment conditions under which employment is limited to a fixed period (which can be renewed) and such benefits are not provided. In Japan, companies traditionally hire new graduates as regular employees and provide them with in-house training. Thus, career opportunities and promotions are usually limited to these employees, while the same possibilities for career development are generally not offered to temporary workers.

Based on an analysis of statistics compiled from the General Survey on Dispatched Workers (Haken Rōdōsha Jittai Chōsa) published by the Ministry of Health, Labor and Welfare (MHLW) in 2005, 2009 and 2013, this paper first examines the possibilities for temporary workers to changing to regular employment since the global economic crisis in 2008. Secondly, it examines data from an online survey that I conducted among 111 temporary workers in Japan employed at a global automotive company to evaluate how these workers see their career prospects by themselves. The central research question in this context is how temporary workers judge their chance to change to regular employment under their current employment conditions. Although many temporary workers gain company-specific knowledge during their assignment at an employer, the data of the government indicates that these workers are used as an enduring source of external labor with very limited prospects for advancement. As a framework for illustrating these problems, I draw on the theory of labor market segmentation as initially proposed by Doeringer and Piore (1971) and later developed to fit the changing labor market by other scholars. Applying a recent labor market segmentation model put forward by Köhler, Goetzelt and Schröder (2006), I will argue that the labor market in Japan is divided into a primary and secondary internal labor market, consisting of workers who are directly employed by a company, and a primary and secondary external labor market in which temporary workers are employed, and that the boundaries separating these markets creates obstacles for temporary workers to advance their careers.

## Theoretical Framework

Most theories of labor market segmentation go back to the work of Doeringer and Piore (1971). In their dual labor market model, the labor market is divided into an internal labor market, defined as an administrative unit within which the pricing and allocation of labor is governed by a set of administrative rules and procedures, and

an external labor market, in which pricing, allocating, and training decisions are governed directly by economic variables explained by conventional economic theory (Doeringer and Piore 1971: 8-9). They argued that the most salient feature of the internal labor market is stability of employment, and employers seek to induce this stability through economic incentives. In contrast, jobs in the external labor market tend to be limited in length, or are generally unattractive and provide little incentive for workers to continue working. Building on this segmentation approach, Lutz and Sengenberger (1974, 1978, 1987) developed a three-tier labor market model, that divided the labor market not only into an internal market of good jobs requiring qualifications needed by specific firms and an external market of unattractive jobs requiring no specific skills, but also into a so-called craft (occupational) market of jobs requiring high qualifications that are not related to specific firms but can easily be transferred. These concepts of labor market segmentation predated the diversification of employment and rise in part-time and temporary work that began from the 1990s. Therefore, as a theoretical framework for this paper, I will apply a more recently developed model that draws on the above approaches to explain labor market segmentation in Japan.

Köhler, Goetzelt and Schröder (2006) proposed a model that divides the labor market into internal and external markets, and primary and secondary markets, independent of job skill levels. The criteria for primary and secondary markets, made up of “good” and “bad” jobs, respectively, are the levels of employment and income security. Primary internal markets are defined as having intra-firm employment security indicated by long-term employment and comparatively high wages. Secondary internal markets also have employment security but comparatively low wages. Primary external markets are characterized by corporate employment systems with short- and medium-term employment, good wages, and inter-firm job security. Secondary external markets also feature short- and medium-term employment, however, wages and job security are comparatively poor (Köhler et al. 2006: 23-24). Table 1 shows these different segments of the labor market.

**Table 1: Labor Market Segments**

	<b>Internal labor markets (Organisation-led)</b>	<b>External labor markets (Market-led)</b>
<b>Primary markets (good jobs)</b>	Primary internal markets (high wages and employment security)	Occupational markets (high wages and employment security)
<b>Secondary markets (bad jobs)</b>	Secondary internal markets (low wages and employment security)	Secondary external markets (low wages and employment insecurity)

Source: Köhler, Goetzelt and Schröder (2006)

This model is not intended to explain the complex human resources architecture behind these four modes of employment. As Lepak and Snell (1999) point out, each employment mode follows its own employment relationships and human resources configuration. Thus, the value of human capital differs in each of the four labor market segments, from high value in the internal primary labor market, where companies invest in human capital in forms of employment training, to low value in the secondary external labor market, where companies only „buy“ labor for a fixed period of time without investing in training. These different levels of value make it difficult for temporary workers to change from external to internal labor markets. Although the segmentation approach of Köhler, Götzelt and Schröder does not support a deeper level of analysis in this regard, it provides a useful theoretical framework for a better understanding of the segmented Japanese labor market because various types of employment can be classified according to its four categories.

### **Temporary Work and Labor Market Segmentation in Japan**

An important source of labor market segmentation in Japan is the employment status conferred within the firm. This status guarantees permanent employment for a core labor force, and reinforces a system of seniority that leads to an age-wage profile (Woo 2013). Accordingly, these employees can be categorized as regular employees, the main component of primary internal labor markets. Meanwhile, with steadily growing numbers of temporary employees, who now comprise 38.7 percent of all employees (MHLW 2011), the distinction between regular employees and non-regular employees has become more prominent in Japan. Not all non-regular employees, however, suffer from low wages and employment insecurity. An increasing number of non-regular employees are hired to replace decreasing numbers of regular employees, and many take over job responsibilities traditionally performed by regular employees. In this context, the introduction of “limited regular employees” as a buffer employment category is now being seriously debated in Japan (Hirano 2015). On these grounds, an even more important reason for adopting the model put forward by Köhler, Goetzelt and Schröder is that it allows various kinds of employment to be differentiated other than internal (good) and external (bad) job categories under a dual-layered labor market model, an important feature given the emergence of new employment categories. For example, part-time workers who have been working for years at the same company without enjoying the benefits of good wages and bonus payments, and regular employees in the so called *ippan shoku* career path, positions mainly for women that do not include promotions nor seniority-based payment (Shimizu and Washizu 2009: 272), can be classified as workers in the secondary internal labor market under this model. Furthermore, the categories of primary and secondary external labor markets are particularly important for classifying temporary workers who execute similar tasks as regular employees in the same company but do not fall under either of the internal labor



fluctuations and often faces unstable employment. As a result of the government's move to extend temporary work to jobs not requiring special skills, the number of people employed as temporary workers grew from about 1 million in 1999 to almost 4 million in 2008 (MHLW 2007 and 2012). This total then declined by 1 million within only a single year with the onset of the global economic crisis (MHLW 2012), as many employers, especially in the manufacturing sector, adjusted their workforce by terminating contracts with temporary work agencies, resulting in a vast number of temporary workers losing their jobs.

### **Declining Career Opportunities for Temporary Workers**

The global economic crisis in 2008 and 2009 demonstrated how temporary work is often associated with discontinuous employment and few opportunities for career advancement. In a recent study on the impact of a demand shock on the employment of temporary workers, Hosono, Takizawa and Tsuru (2014) found that firms were more likely to reduce the ratio of their temporary workers to total staff, mainly in response to production fluctuations, if the firms had a comparatively high product export ratio, high ratio of temporary workers, and high increases in the temporary workers ratio prior to the global economic crisis. Although many of these workers have special skills and gain company-specific knowledge during their assignment at a client-company, opportunities to move from external to internal labor markets are very limited because companies are reluctant to hire temporary workers as regular employees. Several scholars, including Genda (2011) and Okudaira et al. (2013), have analyzed the obstacles temporary workers face when trying to change to regular employment. Okudaira et al. (2013), for example, found no evidence that temporary work experience increases the probability of eventually finding permanent employment compared to directly hired part-time job experience. On the contrary, the results of the study by Hosono, Takizawa and Tsuru (2014) suggest that many companies use temporary workers as a buffer against demand shocks rather than hiring them as regular employees. This is supported by a Japanese government survey indicating that opportunities to change to regular employment contracted drastically following the global economic crisis: 9.3 percent of all companies hired temporary workers as regular employees in 2008, while only 3.0 percent did so in 2012 (MHLW 2009 and 2013). This trend was especially pronounced at companies with more than 1,000 employees, where the majority of temporary workers are employed. More than half of such companies hired temporary workers as regular employees in 2008, compared to only 17.1 percent in 2012.

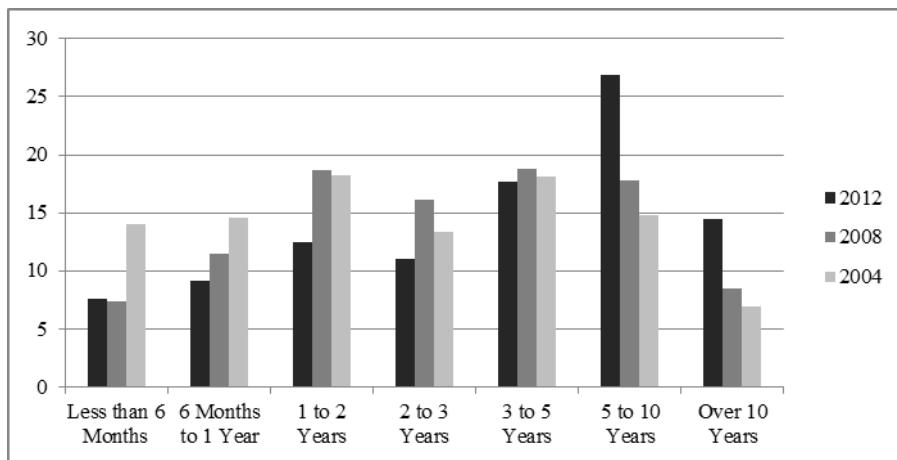
**Table 2: Percentage of companies that hired temporary workers as regular employees in the past year**

	2008			2012		
	Have hired temporary workers as regular workers	Have not hired temporary workers as regular workers	No answer	Have hired temporary workers as regular workers	Have not hired temporary workers as regular workers	No answer
<b>All companies</b>	9.1%	89.9%	1.0%	3.0%	92.1%	4.9%
<b>Size of companies by number of employees</b>						
<b>Over 1000</b>	52.1%	47.0%	0.9%	17.1%	81.4%	1.5%
<b>300 - 999</b>	37.0%	62.4%	0.6%	12.6%	85.3%	2.1%
<b>100 - 299</b>	28.9%	70.8%	0.3%	8.8%	89.3%	1.9%
<b>30 - 99</b>	17.0%	82.4%	0.6%	5.1%	91.5%	3.4%
<b>5 - 29</b>	7.2%	91.7%	1.1%	2.4%	92.3%	5.3%

Source: MHLW 2009 and 2013

In connection with these results, the duration of temporary employment has increased markedly in recent years. In the first general survey on dispatched workers conducted by the Ministry of Health, Labor and Welfare in 2004, 14.8 percent of all surveyed temporary workers had been working in such jobs for between five to ten years, and 6.9 percent for over ten years. Four years later, these figures increased slightly to 17.8 percent and 8.5 percent, respectively. In 2012, however, the percentage of temporary workers employed between five to ten years increased considerably to 26.9 percent, while those employed as temporary workers for over ten years rose to 14.5 percent, almost doubling in four years. These results show that it is becoming increasingly difficult for temporary workers to escape from this form of employment, which leaves many of them with the only option of remaining in temporary jobs.

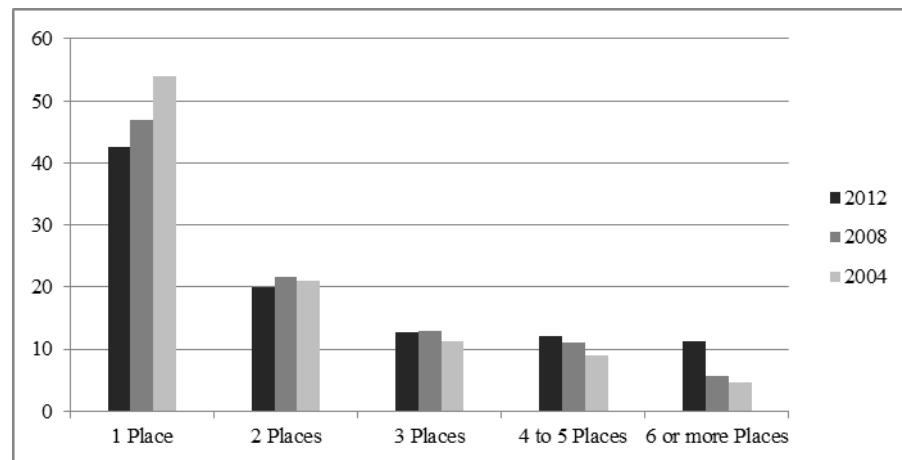
**Graph 1: Duration of temporary employment in the careers of temporary workers**



Source: MHLW 2005, 2009, 2013

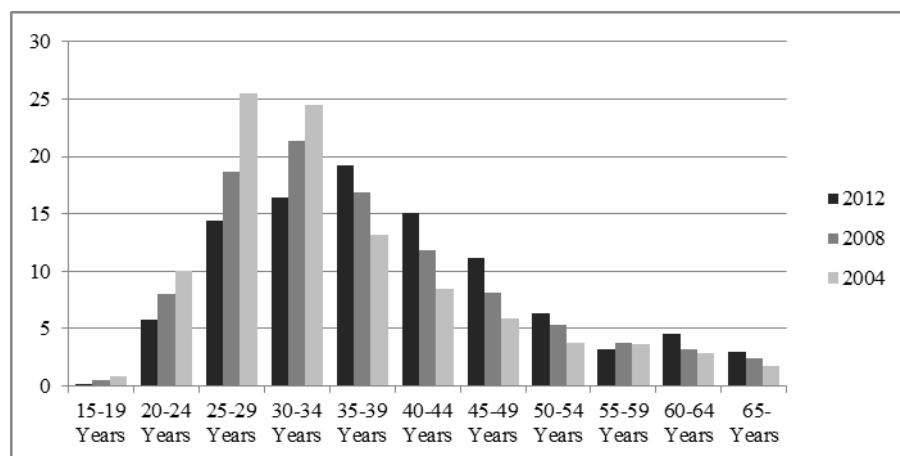
The strong boundary between internal and external labor markets, which makes it difficult for these employees to change to regular employment and advance their careers, is supported by government statistics regarding the number of workplaces where temporary workers have been dispatched. For instance, while the percentage of temporary workers who had been dispatched to only one workplace was over 50 percent in 2004, the figure dropped by more than 10 percentage points by 2012. Meanwhile, the percentage of temporary workers who had been dispatched to six or more different workplaces during their time as a temporary employee almost tripled between 2004 and 2012. These results indicate the growing tendency for these workers to find temporary employment at other companies instead of being hired as regular employees, a trend facilitated by the labor market deregulations that eliminated dispatching period limits for the 26 occupations requiring special skills and extended the period to three years for other job categories.

**Graph 2: Percentage of temporary workers according to number of dispatched workplaces**



Source: MHLW 2005, 2009, 2013

In connection with this trend, the age structure of temporary workers has shifted over the same period between 2004 and 2012. Over half of all temporary workers in Japan fell under the age brackets of 25 to 29 years and 30 to 34 years in 2004, however, in 2012 these brackets together accounted for about 30 percent, and the percentage of temporary workers between the ages of 35 and 54 increased considerably. These results suggest that many workers who had been working in temporary jobs in 2004 continued working as temporary workers by 2012. This assumption is also supported by the data indicating the duration of temporary employment and number of dispatched workplaces, described above. Accordingly, it can be concluded that Japan's current temporary workforce is aging while being largely trapped in an ongoing cycle of temporary employment that offers very limited career prospects.

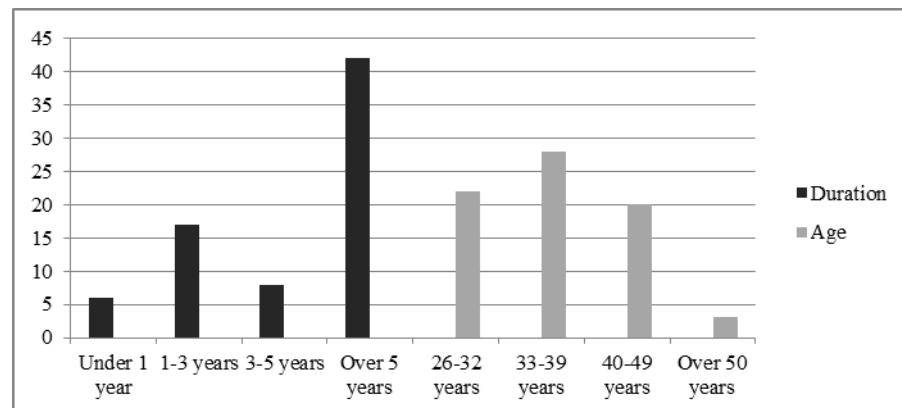
**Graph 3: Breakdown of temporary workers by age**

Source: MHLW 2005, 2009, 2013

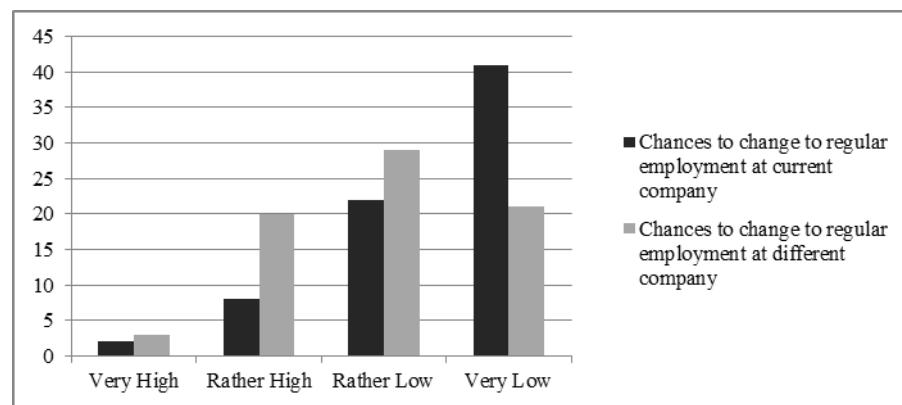
### Temporary Workers Perception of Career Opportunities

Given these results, the question remains how temporary workers see their career prospects by themselves. Although a lot of research has been done on the transition from temporary to regular employment, it is little known about the temporary workers perception of their career opportunities. To shed more light on this topic, I analyzed data from an online survey that I conducted among 111 temporary workers employed at a global automotive company with more than 1,000 employees that also fits the criteria of the companies described by Hosono, Takizawa and Tsuru (2014) as cited earlier in this paper. With a return rate of 65.7 per cent the answers of 73 temporary workers could be analyzed.<sup>1</sup> As the survey shows, the vast majority of the examined temporary workers have been working in temporary employment for a total of more than five years already, while only about 10 per cent working as temporary workers for less than one year (see graph 4). This is in line with the most recent government survey results on the duration of temporary employment as stated above, with the greatest number of temporary workers in the category of five to ten years. Accordingly the age structure of the examined temporary workers is similar to the latest government survey with over two thirds of the respondents in the age between mid-thirty to end-fourty.

<sup>1</sup> The survey was conducted for comparative research on the perception of employment conditions of temporary workers in Japan and Germany. For a full description of the survey and detailed results see Hennings (2013).

**Graph 4: Duration of temporary employment and age structure**

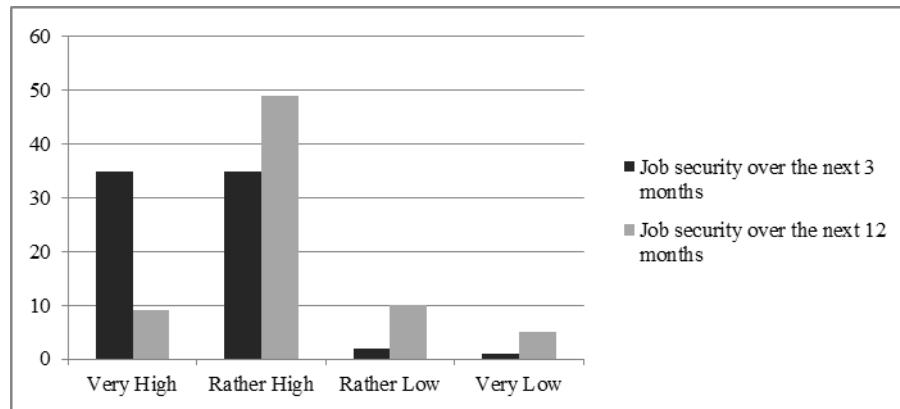
Asked how they see their chances to change to regular employment at their current company, almost 90 per cent of the respondents said they see their chances as very low or rather low (with the majority responding very low). In contrast, only 2.8 per cent consider their chances as very high. At the same time, however, the number of positive responds increases when asked about the chances to change to regular employment at another company. Together almost one third of the respondents see their chances here rather high or very high (with most responds on rather high), although the majority of respondents still does not see any chances to secure regular employment at another company either.

**Graph 5: Chances to change to regular employment**

Given the fact that the sample represents workers at a huge production company with a high product export ratio and a high ratio of temporary workers to react to a changing demand, the chances to change to regular employment at another company are seen more positive, although the respondents see their job at the current

company as relatively secure. When asked how they judge their job security within the next three months at the current company, 96 per cent of all respondents answered with very high or rather high. Asked the same question over a period of one year, most responds shifted from very high to rather high but altogether still 90 per cent see their job as secure over the next twelve months.

**Graph 6: Job security over the next 3 and next 12 months**



Given the results that most temporary workers have been working in this form of employment for already long time, the anxiety to lose their job in the short- to medium-term is very limited, although almost all respondents answered that they are aware to lose their jobs faster than regular employees during economic downturns. This shows that temporary workers in Japan are well informed about the risks this employment bears and have a realistic view of their career opportunities in the future. Thus, the majority of these employees does not believe in the chance to change to regular employment and sees their career prospects rather in continuous temporary employment.

### Future Outlook and Conclusion

The prospects of improving conditions for temporary workers in Japan are unlikely given the country's ongoing recession and the government's plans to further liberalize the labor market. A bill to revise the Temporary Dispatching Worker Law submitted by the Abe administration that will likely increase the difficulties faced by temporary employees in securing regular employment has already passed the Lower House (Aoki 2015). One of the main purposes of the revision is to allow companies to employ dispatched temporary staff in the same jobs indefinitely as long as they replace individual workers every three years. At present, the 1986 law prohibits the employment of such workers for the same job for more than three years, except in the 26 job categories requiring special skills, such as interpretation and secretarial

work. If the new law passes the Upper House, the boundary between internal and external labor markets may become even more impenetrable because employers are likely to replace the temporary workers on staff after three years instead of hiring them as regular employees. Furthermore, temporary employees with special skills who want to continue working at the same company may be forced to find different employment after three years if they cannot become regular employees. These factors will not only rapidly increase the number of workplaces these workers have been dispatched to, but also lead to a longer duration of temporary employment in their careers. In 2012, over one quarter of temporary workers had already worked five to ten years in this form of employment, an increase of almost ten percent compared to the survey four years earlier. Given the current economic recession in Japan and another expected wave of labor market liberalization, the duration that workers are temporarily employed is likely to lengthen and the percentage of older temporary workers will increase, accordingly. These trends undermine the principle of regular employment as the basic form of employment and bolster the external labor market, which should only be a source of flexible labor for a limited period of time.

As shown in this paper, labor markets are still strongly segmented in Japan and movements between the segments are becoming increasingly limited. Furthermore, the model proposed by Köhler, Goetzelt and Schröder (2006) provides an appropriate framework for conceptualizing increasingly diverse categories of employment, and for better understanding the obstacles temporary workers face to become regular employees. In order to improve the careers prospects of these employees, policies to reduce the boundaries between labor market segments should be implemented by law-makers and companies, particularly the boundaries between internal and external labor markets. Companies may have difficulties hiring temporary workers as regular employees during economic downturns, but they should explore the feasibility of reassigning such workers to different positions or locations in the company. The skills and knowledge gained through job rotation then should be rewarded by companies through pay raises or, as far as possible, employment as regular employee when the economic situation is favorable. In addition, government policies should be designed to support the hiring of temporary workers as regular employees instead of making it easier for companies to use dispatched temporary staff for the same job indefinitely as long as they replace individual workers every three years. Such policies would be beneficial for temporary employees to advance their careers and could help leading to a more positive perception of temporary employment again.

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