

Paid Vacation System and Organizational Efficiency

有給休暇の取得と組織の生産性向上

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1. Introduction

The Japanese approach to holidays and vacations has been the subject of criticism, both within Japan and outside it, for quite some time. Japan has been noticeably slower than the other leading economies in moving toward reduced working hours and more liberal vacation practices. The problem may be said to arise from the way Japanese workers spend their leisure time and the way that managers understand the idea of labor welfare. More basically, the problem appears to be that management and labor fail to have a consistent and appropriate understanding of the concept of vacation itself.

This paper focuses on the concept of paid vacation within business organizations within

Japan, with respect to issues of human resource management, managerial efficiency, and business organization within an increasingly global society. The term business, as used here, shall refer to an economic enterprise wherein management is concerned with maintaining continuous for profit production of goods or provision of services; while organization refers to the consistent, ordered, but dynamic activity carried out by these enterprises.

2. Business Organization and Paid Vacation

2-1 Business Organization and Cultural Differences

In order to succeed in the increasingly global environment, companies need to understand

キーワード :

Key words : Paid Vacation, Business Organization, Efficiency, Globalization, Culture

the history, culture, and social customs of those countries where they set up and promote their business. They also need to bring their value systems into conformance with global standards. Japanese business organizations may need to rebuild themselves to face these new realities.

In this section, we compare Japanese and American business organizations, and consider the differences in culture and customs. Table 2-1 illustrates the main differences between Japanese and US business organization.

The most well-known peculiarity of the Japanese approach is the practice of lifetime employment, whereby Japanese companies commit to keeping their employees employed all the way through to retirement. While it is true that some companies are already moving away from this system and others are considering whether to do so, the system itself—a product of postwar social conditions, culture, and education—remains fairly entrenched. Japan’s seniority-based promotion system and enterprise-specific labor-union

system are likewise the result of historical and cultural influence.

Table 2-2 shows the cultural differences between Japan and the US. It is interesting to note how these differences correspond to the business-related differences described above.

As suggested by the next tables, differences in business organization are grounded in each country’s culture, history, social environment, and customs. Nonetheless, these differences present important problems for Japanese business organization working within an increasingly global environment.

2-2 Culture and Paid Vacation

Analysis of the tables above suggests that many business-related differences can be traced to any number of cultural differences. For example, differences in promotion systems (see Table 2-2, #7) are related to the different emphasis that the respective cultures give to status and ability. Similarly, differences in decision-making (see Table 2-2, #3) and responsibility can be traced to the different

[Table 2-1]

Comparison of Japanese and American Business Organizations

	Japanese Business Organization	American Business Organization
Employment System	Lifetime	Short-term
Promotion System	Seniority-based Promotion of Generalists	Skill-based Promotion of Specialists
Decisions made by	Group	Individual
Responsibility held by	Group	Individual
Responsibility Scope	To all work	To part of work

emphasis on organizations and individuals. The US businesses pick up their emphasis on personal ability and personal action directly from that country's culture, whereas Japan businesses tend to stress group action and group responsibility as a result of their own culture.

Japan's cultural background, precisely because it different from that of the west (Europe and the US), presents a serious obstacle to globalization of Japanese business organizations. Japanese companies face significant difficulties in revising their organizations in line with international practices.

Japanese emphasis on organizations over individuals is diametrically opposed to the

approach taken in west, and is an important reason that Japanese take a different view of paid vacation than do their western counterparts. Specifically, Japanese place decision-making and workplace responsibility at the group level while giving low weight to individual needs and desires, where western countries grant individuals greater power to make decisions and carry responsibilities.

Since the Japanese approach focuses on the group over the individual, it naturally occurs that individuals loose the freedom to take vacations when they need them; instead, vacations are either limited or else managed by the group. Workers encounter resistance when requesting their vacations, and the number of days they eventually get is significantly below

[Table 2-2]

Cultural Differences between Japan and the USA

Japanese Culture and Customs	US Culture and Customs
(1) Fairness more important than wealth	(1) Wealth more important than fairness
(2) Value placed on savings and resource protection	(2) Value placed on consumption / Protection of resources recognized as tied to growth
(3) Organizations are the most important social unit, and Organizational motives are emphasized	(3) The individual is the most important social unit, and Individual motives are emphasized
(4) Characterized by extended families and strong ties among relatives	(4) Characterized by nuclear families willing to move away from other relatives, and Tendency to de-emphasize family ties
(5) Highly ordered, motivated working society	(5) Judeo-Christian morality system, organized on class lines
(6) Education is an investment towards one's reputation and perceived reliability; viewed as set by family	(6) Education is investment in personal development and success
(7) Much importance attached to courtesy, status, rules, formalities	(7) Emphasis on ability and appropriate actions
(8) Tendency to avoid personal confrontation and disputes (Relatively few lawyers)	(8) Tendency to be assertive about one's rights and interests (Many lawyers)

Source: Based on information from P.R. Harris and R.T. Morton, *Managing Cultural Differences, Third Edition*, 1993, Gulf Publishing Co., p394

the number enjoyed by workers in the leading western economies.

ILO Convention 132 calls for 3 “work weeks” of basic paid vacation for a worker who has been on the job for at least 1 year, Japanese companies are only providing about 10 days. And while the ILO “work week” refers only to days that the worker would normally report to work (so that any holidays that fall during a paid-vacation period are not meant to be counted as part of the vacation), this distinction is not necessarily observed within Japan. Also, ILO convention stipulates that at least two of the three weeks are to be taken as a continuous block, since vacations are intended to be continuous.

Japanese workers will continue having trouble taking the type of vacations stipulated by the ILO until such time as it is recognized that individuals have rights that take precedence over group concerns. Japanese companies, as they move toward globalization, must come to accept this principle.

Table 2-3 compares annual paid vacations among the G7 countries. Additional data on

[Table 2-3]

Paid Vacation Days Taken in Seven Leading Economies

Country	by Law	by Convention
France	5 weeks	5 to 6 weeks
Germany	3 weeks	5 to 6 weeks
Britain	----	4 to 6 weeks
Italy	----	4 to 6 weeks
Canada	2 weeks	2 weeks
U.S.A.	----	10 days + “extra”
Japan	10 days	10 days + “extra”

conventions in other countries indicate that most countries in western Europe offer five weeks of paid vacation, while Australia offers 4 weeks. The Table also that for the US, the “extra” in the table denotes multiple extra days; while for Japan, the “extra” often denotes just a single extra day.

[Table 2-4]

Comparison of Annual Paid Vacation Systems

Paid Vacation in Japan	Paid Vacation in Europe / USA
(1) Days taken per year: 10 to 20 days	(1) Days taken per year: 4 to 6 weeks
(2) Utilization rate: Just above 50%	(2) Utilization rate: 100% in principle
(3) Difficult to take long continuous vacations	(3) Free to take continuous days
(4) In general, reason for taking tends to be for illness, ceremonies, and personal business rather than for leisure, pleasure, and self-improvement	(4) Vacations always taken for purposes of leisure. Other paid-leave days are provided for sickness, accident., etc
(5) Managers take fewer vacations	(5) Managers are quick to take vacations
(6) No responsibility to encourage subordinates to take vacations	(6) Responsibility to encourage taking of vacations
(7) Considered when determining promotions	(7) Not considered when determining promotions
(8) No vacation allowance	(8) Vacation allowance provided

The above table indicates that Japanese business organizations differ from their counterparts in Europe and the US with respect to their understanding of what paid vacation is all about.

• Paid Vacations and Globalization

The “5-Year Living Conditions Plan” put forth by the Japanese Cabinet in 1992 established 1800 hours as the target length for a work

year, based in part on the New Maekawa Report issued in May of 1987. The 1800 figure was based on the country comparison chart illustrated Table 2-5.

[Table 2-5]

Manufacturing Work Hours by Country

Country	Working Hours in 1994	Working Hours in 2003
Japan	1966	1975
Britain	1920	1888
U.S.A.	2005	1929
Germany	1542	1525
France	1679	1538

Source: Estimate from Labor Standards Bureau, Wages & Hours Section, Working Hours Division

Envisioning structural reform, the Japanese government has called for working hours to drop to or below western levels by the year 2000. Where previous calls for work-time reduction focused on number of normal work hours, the current target covers total hours: normal hours plus overtime less vacations. This approach necessarily calls attention to taking of paid vacations.

In this respect it is worth noting the different focus given to work hours and vacations by the government. The 1988 reform of the Labor Standards Act reduced standard work time to a 40-hour work week (8 hours per day), while a 1997 act established penalties for failure to meet this requirement. Nevertheless, Japanese law (as described earlier) still mandates only 10 days of paid vacation (for workers on-the-job for 6 months who have reported to work on at least 80% of work days), considerably below the ILO requirement (ILO Convention 132) for

a 3 “work week” vacation.

In order to bring the paid-vacation system into conformance with western standards, it will be necessary to resolve the Japanese tendency to focus on the group at the expense of the individual. In addition, it is also important to establish an official sick-leave system. As described earlier, one of the reasons that workers do not take full vacations is that they save their vacation days for illness and emergency. Introduction of sick leave would bring Japanese business into closer conformity with global standards and encourage the use of vacation time. Sick leave would provide paid off-days for workers absent for reasons of illness or accident. Standard sick-leave systems allow either unlimited days off or else accumulate 1 or 2 days per month, with accumulated days available for carryover.

3. Paid Vacation and Organizational Efficiency

3-1 Paid Vacation and Human-Resource Management

Businesses management must focus on four types of resources: people (“human resources”), goods, finances, and information. Human resources, in particular, are central to the development of management strategies and achievement of management plans. Management must create an environment that allows workers to perform at full potential. Handling of paid-vacations is one important aspect of human-resource management.

Japanese companies tend to use concepts such as “labor management” and “personnel management” in place of “human-resource management.” It is worth looking at the difference between these terms. Labor management involves securing sufficient labor capacity to maintain maximum profitability over the long term, and formulating comprehensive plans for the purpose of maintaining an orderly work environment that enables workers to perform according to their potential. Personnel management involves determination of each worker’s activities over the full course of the worker’s tenure, as well as the systematic collection and handling of the data required to achieve this. Until recently, it was common to view personnel management as a component of the larger task of labor management. But it is now becoming more common, both in the west and within Japan, to adopt a more comprehensive “human-resource management” approach. This new approach is grounded in behavioral science and recognizes the need to view workers as entire human beings. Human-resource management takes a comprehensive approach to (a) meeting the company’s objectives, (b) providing worker motivation, and (c) maintaining an orderly and efficient working environment. Paid vacations are one essential component of human-resource management, and are recognized as such within standard US accounting practice.

• *Human-Resource Management and Accounting for Compensated Absences:*

Under US accounting practice, human-

development expenditures are written onto the asset account as long-term investment, and are expensed out over subsequent periods. Since education and training are recognized as methods for increasing “human capital,” earnings obtained as a result of these activities can be understood as returns on investment.

It should also be noted that US companies may be required to treat as liabilities their employees’ rights to future paid vacations. This is set forth in “Statement of Financial Accounting Standards” No. 43 as follows.

This statement requires an employer to accrue a liability for employees’ rights to receive compensation for future absences when certain conditions are met. (From FASB No. 43)

Given the current need to come into conformance with global standards, it would be advisable for Japanese business to consider implementation of appropriate paid-vacation accounting—both human-resource perspective, and from a human “productivity” perspective (output minus expenditure). This would help businesses recognize that that paid vacations are a corporate liability rather than a company gift.

3-2 Paid Vacation and Efficiency

In *Wealth of Nations* (1776), Adam Smith identified division of labor as the most important factor in enhancing labor productivity. Smith’s work stands at the very beginning of research into business management and efficiency. In 1883 Britain passed a “factory law” limiting

the work day to 12 hours, an early sign of interest in protection of workers. In 1936 France passed laws recognizing collective agreements, 40-hour work weeks, and paid vacations, significantly improving working conditions. As businesses in Europe expanded their scope of management, they implemented both more efficient management methods and more enlightened policies towards their workers. They came to recognize that shorter working hours and regular vacation could lead to more efficient management of their human resources.

Business commitment to the welfare of employees and their families has become an increasingly important topic. The term “company welfare,” as used in Japan, has been defined as a:

Policy under which the corporation, in conjunction with the government or civil society, and with participation of labor unions where necessary, secures the welfare of employees, with the goal of assuring quality of life for workers and their families, and in turn securing the workers’ cooperation and improving their productivity.

Employers current provide a wide range of fringe benefits to workers, including housing allowances, lunch allowances, and so on. The provision of ample paid vacation is a particularly important component of “company welfare” that can promote higher productivity and more effective management. It is therefore unfortunate that many Japanese managers still view paid vacation as a negative influence on

workers; while many of the workers themselves believe that vacations interfere with work objectives and are disruptive of teamwork.

In many cases, of course, it will be necessary to use replacement workers, or to pay overtime to regular workers, to cover the tasks carried out by vacationing workers. Although this may seem like an added expense, the fact is that management can use vacations as an opportunity to improve work procedures and increase management efficiency. Specifically, vacations serve as an opportunity for systematically assessing the ability of the vacationing workers and their replacements. During the vacation it becomes possible to take a fresh look at the work content while at the same time assessing the ability of the replacement worker. And when workers return from vacation, they will need to maintain higher performance levels than those who stood in for them. This encourages workers to exercise more creativity with respect to their work.

For the business, then, promotion of regular vacations (and, in particular, relatively long vacations) can lead directly to enhanced productivity and greater efficiency. At the same time, vacations encourage workers to return to their jobs with renewed vigor and creativity.

3-3 Organizational Efficiency and Globalization

Companies are faced with a perpetual need to make efficient use of their human resources. To achieve this, they must find ways to unlock the full potential of their workers and to bring the results to bear on business operations. In order to realize greater

management efficiency, business managers must understand the essential characteristics of their human resources (workers), and use this understanding as the basis for realizing higher productivity.

Douglas McGregor's book, *Human Side of Enterprise*, is well known for its behavioral-science approach to management theory. McGregor recognizes "humans" as the essential element of management, and stresses the need for integrating humans into the organization (by moving from "X" type organizations toward "Y" type organizations). He believes that individuals have an urge toward self-realization that they satisfy by creative engagement with their work, and that organizations must work to encourage this motivation. Elevating the importance of the individual within the context of the organization is tied directly to the organization's efficiency. The organization recognizes the individual's existence by respecting his or her responsibility and capability for handling the assigned work. Management of working hours and paid vacations is one area of the individual's overall responsibility.

Increasing the amount of paid vacations that workers take (and thereby reducing their overall working hours) can help to raise productivity, reduce absences (illness and accidents), smooth out worker/management relations, and secure and maintain high-quality human resources. Managers should therefore make an effort to reduce overall work hours in the context of rational and efficient work scheduling. Reduction of work

hours is essential for maintaining the high-quality work force required for the company's survival. Promoting use of paid vacations, and increasing the available vacation time, will build morale and are necessary steps in meeting the challenge of globalization.

4. Conclusion: Globalization and Paid Vacation

A business organization is nothing more than a group of individuals. To achieve effective management of human resources, it is necessary to respect the identity of these individuals and to enhance the value they derive from doing their jobs. Proper allotment and use of paid vacations can help management carry out this task.

Mutual trust and responsibility are the essential ingredients of any successful business organization. These are in turn tied to respect for workers as individuals, and to respect for the value of work. When a worker takes a vacation, a third party is entrusted to take over that worker's responsibilities. This type of transfer can occur only where workers assume personal responsibilities and where management implements appropriate daily work control.

Paid vacations offer important advantages. While the original worker is on vacation, the replacement worker gets on-the-job training, as well as the satisfaction of carrying out new responsibilities. The use of a replacement worker also offers a chance for the job content

itself to be re-evaluated. The original worker returns from vacation refreshed, with new vigor and creativity. In these ways, proper use of paid vacation can energize the workplace and increase the efficiency of human-resource management.

It is therefore unfortunate that Japanese workers continue to have trouble obtaining paid vacation. To resolve this problem, Japanese business organizations must follow the western model by moving the focus of responsibility from the group to the individual, and by encouraging specialization as opposed to generalization. Companies that wish to conform to the global practice must change their organizations and paid-vacation systems accordingly.

Globalization involves taking the best ideas from around the world. It is time for Japanese businesses to bring their paid-vacation systems into line with global standards.