

**Report**

# Employee Relocation Systems from the Standpoint of Diversity Management: Issues and Future Directions

By Mariko Sobue, Senior Expert

## Abstract

Companies are coming to a crossroads in terms of employee relocation systems. During Japan's high-growth era, three important systems—lifetime employment, seniority-based salaries, and company-based unions—were established, and Japanese companies have utilized employee relocation, along with these three systems, as a means to make personnel adjustments in response to growth. Subsequently, companies began using employee relocation for personnel training and screening of management candidates. Companies today have employee relocation policies that have multiple purposes. Lately, however, companies facing pressure to reexamine their employee relocation policies. It goes without saying that relocation has a significant impact on both employees' work and their personal life. Although issues involving compatibility with employees' life plans and financial problems resulting from solo relocation (i.e., relocation with no accompanying family members) have long been pointed out, new issues have recently emerged involving diversity management. This paper considers how employee relocation has been conducted in the past and discusses the role of employee relocation systems and their impact on broader personnel systems. It then clarifies typical issues concerning employee relocation and issues newly arising from the standpoint of diversity management, summarizes measures to solve them, and proposes employee relocation policies that companies should adopt in the future.

This report is a translation of the original article published in the Quarterly Journal of Public Policy & Management (2017, vol.4), Special Edition: Corporate Diversity Promotion and Reform of Working Style. All articles in this edition are written by members of the Diversity Management Strategy Department of Mitsubishi UFJ Research and Consulting.

The original report is available at [https://www.murc.jp/report/rc/journal/quarterly/2017\\_04/](https://www.murc.jp/report/rc/journal/quarterly/2017_04/).

More information on us at <https://www.murc.jp/corporate/virtual/diversity/>.

## 1. Introduction

On March 30, 2017, the Ministry of Health, Labour and Welfare published Hints and Methods for Employment Management Related to Employee Relocation. With well-organized key points for relocation-related employment management, the publication is intended to provide information that is helpful for companies in reexamining their employee relocation policies. The Japanese government has been promoting work reform programs that facilitate various ways of working and the realization of a society in which all people actively participate. Needless to say, these programs are a result of Japan's shrinking labor force due to population aging. One way to compensate for the shrinking labor force is to allow various ways of working and to invite various workers into the labor market at the same time. In general, diversity management refers to a series of actions aimed at increasing corporate value by utilizing various workers and providing them with opportunities to perform to their full potential.

One of the recent issues involving the promotion of diversity management is relocation systems. As considered here, employee relocation refers to employee transfer that requires residential relocation. Employee relocation has a significant impact on both employees' work and their personal life. Due to the difficulty of adjusting one's life plan to relocation, it has been a hurdle in promoting women's active participation. Employee relocation is an issue that needs to be urgently reexamined not only in the context of women's issues, but also from the standpoint of accepting diverse workers and various ways of working.

This paper first reviews how employee relocation has been conducted in the past to clarify the social background of current employee relocation systems. It then discusses the role of employee relocation systems and their impact on broader personnel systems. The information on employee relocation systems used in this paper was obtained from the Research Project on Promotion of Work-Life Balance and Workplace Diversity conducted at the Chuo Graduate School of Strategic Management and from surveys conducted by Mitsubishi UFJ Research and Consulting. After clarifying issues involving today's employee relocation systems based on their actual status and historical background, this paper summarizes measures to address these issues and proposes employee relocation policies that companies should adopt in the future.

## 2. Historical Background and Functions of Employee Relocation Systems

### 2.1 Historical Background of Employee Relocation Systems

Studying the history of employee relocation systems in Japan reveals that their widespread adoption coincided with the country's period of rapid economic growth and the development of its unique employment systems. After the economic boom triggered by the Korean War and the Jinmu Boom in 1955, Japan entered a period of rapid economic growth that lasted for about 20 years. Notable characteristics of this growth period include a shift in industrial structure from an economy based on primary industry to a more sophisticated economy based on secondary industry and growth in the machinery industry driven by rising exports. Also, enhanced international competitiveness and subsequent increases in exports in the heavy chemical industry, in which facility investments expanded, contributed to Japan's increased exports and current account surplus. Such structural changes certainly affected employment systems and the ways in which people worked. As a result, Japanese-style employment systems emerged and became firmly established, and many Japanese companies

still follow them today.

Japanese-style employment systems are symbolized by three important elements: seniority-based salaries, lifetime employment, and company-based unions. The rest of this section considers how each of these elements emerged during the period of rapid economic growth and how it affected employee relocation systems.

Seniority-based salaries emerged from the system of annually recruiting new graduates (*shinsotsu ikkatsu saiyo*) that became widely adopted by many companies as the secondary industry expanded. The origin of the new-graduate recruitment system is said to be the periodic recruitment that Mitsubishi conducted from 1879. Subsequently, Japan saw the creation and termination of an industry–university–government agreement on recruitment of university graduates (*shushoku kyotei*), increased starting salaries of new graduates due to growth of the war industry during the Sino-Japanese War, equalization of starting salaries of new graduates at each company to curb this trend, and establishment of the system of annual recruitment of new graduates, which began to be widely adopted during the economic boom caused by the Korean War and continues today. Companies during the period of rapid growth, particularly large manufacturers, needed to secure a large number of employees in order to meet production plans. It was rational for companies to hire a large group of new graduates who had just completed their studies if the goal was to efficiently acquire a substantial amount of somewhat homogeneous human resources. Also, as companies expected to expand their production sites due to economic growth, they needed to be able to flexibly transfer employees without limitations on where they could work and what types of work they could perform. These circumstances led to a situation where workers improved their skills through a series of transfers and relevant on-the-job training that took place according to corporate production plans, and companies compensated them with seniority-based salaries. The longer employees worked at a company, the more compensation they received as they were considered to have higher-level skills. The strict conditions for firing employees which were unique to Japanese companies along with seniority-based compensation led to the establishment of lifetime employment. Japanese companies have faced strict restrictions on the firing of regular employees, as seen in the four conditions for restructuring-related employment termination that are currently followed in Japan. Because of such restrictions on employment termination, companies needed to continue their workers' employment as long as possible. Also, because the seniority-based compensation system did not guarantee that an employee's salary was proportional to his or her contribution during a given period of time (i.e., younger employees tended to receive low salaries relative to their contribution, while older employees tended to receive high salaries relative to their contribution), employees wanted to continue working until their retirement so that salaries would be ultimately balanced with work contribution. The employee relocation systems played an important role here. It was essential for companies to internally coordinate the supply and demand for human resources in order to continue employing a large number of employees until their retirement regardless of business conditions. Companies therefore started to flexibly transfer employees using their relocation systems. In sum, employee relocation systems evolved in combination with the practice of lifetime employment. These historical developments show why companies have strengthened their authority over personnel matters. Put another way, companies have discretion over a wide range of labor conditions in exchange for continued employment. In addition, company-based unions emerged to coordinate employer–employee relations in closed internal labor markets. In the history of employer–employee relations, companies have held discussions with their workers about the improvement of labor conditions, which sometimes led to

conflict.

As discussed above, employee relocation systems were established in combination with the practice of lifetime employment, which was indirectly related to the seniority-based compensation system. Another important factor was the male-breadwinner model. According to the Cabinet Office, in 1980 there were 11.14 million households with a full-time housewife (i.e., male-breadwinner households) in Japan. Therefore, it was relatively easy for many families to relocate: when the husband was ordered by his company to transfer to an office in another location, his full-time housewife simply moved with him. The number of male-breadwinner households, however, declined to 6.64 million households by 2016. In contrast, the number of two-income households increased from 6.14 million to 11.29 million over the same time period. Two of the three important elements of Japanese-style employment systems—lifetime employment and seniority-based salaries—still exist as part of companies' personnel policies, but often without substance. In fact, it is no exaggeration to say that factors that supported employee relocation as an effective employment management tool have been collapsing.

## 2.2 Functions of Employee Relocation Systems

With the establishment and evolution of relocation systems as described in the previous section, the current purposes of companies' relocation systems can roughly be divided into the following four categories.

1. Reassignment of personnel (including the filling of vacant positions)
2. Training of personnel (through experience with geographically diverse workplaces and associated personal relationships)
3. Training and development of new managers and evaluation of their aptitude for management (through the combination of the above two activities)
4. Prevention of falling into a professional rut and fraud

The first two purposes were discussed in the previous section. Companies expect employee relocation to be an opportunity for personnel training: they transfer employees to various positions through employee relocation systems to coordinate the internal supply and demand for human resources, and these employees gain experience and skills by dealing with changes in their tasks and in internal and external personal relationships. It should be noted, however, that personnel training does not necessarily require employee relocation. Changes in tasks and personal relationships can also be experienced with a transfer that does not require residential relocation. Therefore, personnel training should be regarded as a positive consequence of employee relocation systems rather than one of their purposes. In some cases, however, greater emphasis is placed on the training aspect of employee relocation systems. According a survey of companies conducted by the Research Project on Promotion of Work-Life Balance and Workplace Diversity of the Chuo Graduate School of Strategic Management, the purposes of employee relocation that companies emphasize vary depending on the age of the relocated employees. For employees in their 20s or 30s, 86.5 percent of companies (the highest percentage) emphasize expanding employees' work experience, describing it as "important" or "somewhat important"; 70.0 percent emphasize managing the needs of regional offices; and 66.5 percent emphasize accelerating employees' professional growth through new experience gained in unfamiliar geographical areas. In other words, for this age

group, companies are most likely to emphasize personnel training and second most likely to emphasize coordination of the supply and demand for human resources as the purpose of employee relocation systems. For employees in their 40s, 82.1 percent of companies (the highest percentage) emphasize managing the needs of regional offices; 75.4 percent emphasize expanding employees' work experience; and 58.7 percent emphasize expanding employees' personal networks that are necessary for business. These survey results show that companies' emphasis varies for different employee age groups.<sup>1</sup>

Does the training aspect of employee relocation work effectively? The aforementioned survey provides some interesting results regarding this question. It asked whether and what kind of work-related differences exist between employees with relocation experience and those in the same employment category without relocation experience. To this question, 42.4 percent of companies answered that the relocated employees have improved work performance; 42.4 percent answered that relocated employees have improved management ability; and 27.8 percent (not a small percentage) answered that there was no particular difference. Also, the higher the proportion of employees with relocation experience, the more likely the company was to report no particular work-related difference. In addition, 43.9 percent of companies that have separate employment management systems for employees available for relocation and those unavailable for relocation, with the latter being about 20 percent or less of all employees, report no particular difference. The survey of workers associated with the above survey asked employees with relocation experience whether their relocation had more positive effects on skill development than a transfer that did not require residential relocation. Of the respondents, 38.5 percent answered that relocation had more positive effects on skill development and 35.0 percent reported no difference between relocation and non-relocation transfer. Neither the company survey nor the worker survey definitively shows that employee relocation has unique training functions compared with non-relocation transfer. Put differently, it is difficult to see clear differences between relocation and non-relocation transfers in terms of personnel training although some people think that relocation transfers function the same as or better than non-relocation transfers for personnel training.

With regard to the third purpose of employee relocation systems (training and development of managers and evaluation of their aptitude for management), companies appoint new managers to vacant posts at branch offices to have them gain management experience and develop personal connections and to evaluate their aptitude for management. In some cases, relocation serves as a touchstone for future managers: some companies include successful relocation experience as one of the requirements for promotion to management positions. In particular, at companies whose headquarters functions are concentrated in one city, employees may have to relocate from regional offices to gain experience in management positions. In such cases, a fundamental question arises as to whether it is rational to make relocation a requirement for management promotion. Though details are discussed later, it is possible to consider that the sole logical rationale for making relocation a requirement for management promotion is that the company has a function qualification system (*shokuno shikaku seido*). According to this view, relocation experience is not a universal requirement for management promotion and is merely a requirement set by companies with a function qualification system.

As for the fourth purpose of employee relocation systems (prevention of falling into a professional rut), companies relocate employees in order to maintain or stimulate their motivation by resetting their tasks and relevant personal relationships. There have been many cases in recent years in which employees suffer mental

health issues because of poor interpersonal relationships. Companies therefore have a point in changing such employees' circumstances through relocation. Also, in some industries such as the financial industry, companies may conduct regular employee transfers (including relocations) in order to prevent fraud made possible by the same employees working on a fixed set of tasks over a long period of time. However, companies probably can expect similar effects from on-site transfers instead of relocations. In addition, extended leave can substitute for employee relocation in preventing fraud.

### 3. Effects of Employee Relocation Systems on Personnel Systems

An employee's relocation can cause substantial risk and cost to the employee and his or her family. Therefore, companies often provide extra pay to employees available for relocation. In general, such companies have separate employee categories—location-unrestricted employees who are available for relocation nationwide (*zenkoku kinmu shain*) and location-restricted employees who are unavailable for relocation (*gentei kinmuchi shain*)—and set a pay difference between them. The pay difference is called the relocation premium, which is a common concept in personnel management.

Based on the author's consulting experience, it seems that the relocation premium is about 10 to 20 percent of a position's monthly salary. However, it is difficult to simply compare companies' relocation premiums because their compensation designs vary. The relocation premiums are set mainly with the following methods.

1. Incorporating it in the level of the base salary
2. Incorporating it in regular pay increases
3. Setting an upper limit for promotion of location-restricted employees

First, the relocation premium can be set by creating upper or lower limits for the base salary. For example, a company may create an upper limit of 350,000 yen for location-unrestricted employees and another upper limit of 310,000 yen for location-restricted employees. The ability of location-unrestricted employees to reach higher salary levels results in a pay difference.

Second, the relocation premium can be built into pay increases. For example, location-unrestricted employees may receive a raise of 4,000 yen, whereas location-restricted employees with the same evaluation rating may receive a raise of 3,500 yen. Normally, the rationale for this difference is as follows: location-unrestricted employees receive higher pay raises because they gain more skills through a wider range of professional experience including those from relocation.

Third, the most easy-to-understand upper limit is one that does not allow location-restricted employees to be promoted to management positions. The common, fundamental idea is that managers gain skills by experiencing operations of multiple offices and having contact with various customers and employees. Also, one cannot deny the possibility that such an upper limit reflects a fixed idea of loyalty where managers rush to wherever they are needed whenever the company gives the order. However, there has been a trend in recent years to reexamine and change existing systems so that location-restricted employees can be promoted to management positions. For example, in 2016, AEON Co. Ltd. completely changed its personnel system and made it easier for location-restricted employees to be promoted to upper management positions (division manager, large-store

manager, or higher). The company had previously used a function qualification system, which had made it easy for location-unrestricted employees to gain experience as managers of small regional stores and consequently get promoted to upper management positions. Therefore, in effect, a ceiling existed to location-restricted employees' promotion. In response, the company introduced a post qualification system (*yakuwari tokyu seido*) in an attempt to eliminate the promotion gap resulting from whether employees had relocation experience.

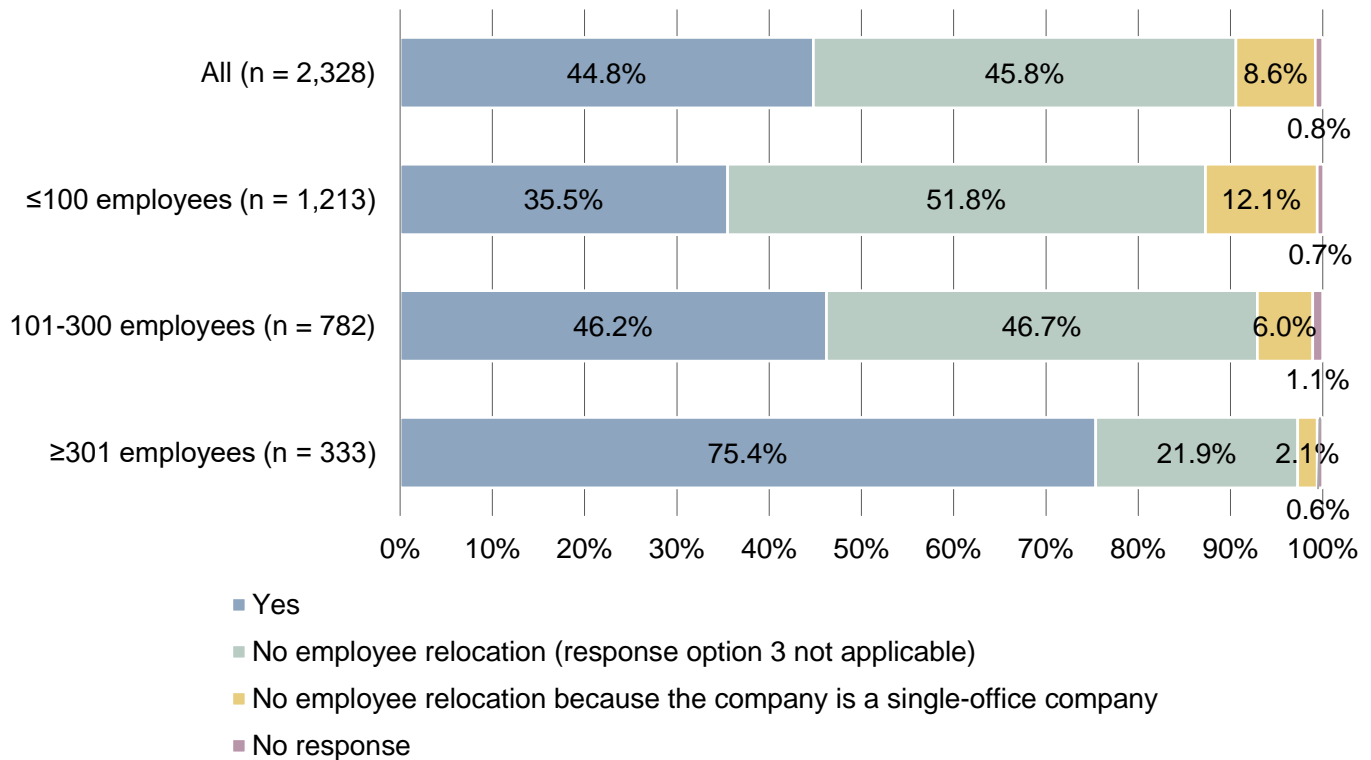
As AEON's case shows, the compensation gap between employees with relocation experience and those without it actually arises from the function qualification system. Under the system, employees are ranked based on their ability and are promoted as their skills grow. Since employees' skills grow as they gain work experience, the system tends to be advantageous to location-unrestricted employees who have many opportunities to gain a wide range of work experience through relocations. Based on the premise that location-unrestricted employees gain experience in exchange for risks associated with relocation, companies can provide a rationale for a difference in the level of the base salary and a gap in regular pay increase. This premise does not hold if a post qualification system is used instead of a function qualification system. The post qualification system is based on the idea that employees are rated according to the level of responsibility attached to their corporate positions. With this system, employees are evaluated based on what roles they play and whether they fulfill their roles, instead of what experience or skills they have gained. Therefore, the traditional rationale for the compensation gap between location-unrestricted employees and location-restricted employees can no longer be used. In other words, whether or not employees have had relocation experience can no longer be considered as a cause of the compensation gap, and the gap would be attributable to companies' personnel management policies. It may be possible to argue that the compensation gap does not arise from personnel management policy and is a premium to compensate for relocation risk. However, the use of allowances is more appropriate than base salary modification in compensating for the risks associated with life change or psychological pressure associated with relocation. The reason is that the base salaries reflect corporate ranks that are determined based on personnel management policy.

#### **4. Actual Status of Employee Relocation and Issues Related to Work-Life Balance**

According to a questionnaire survey of companies conducted by Mitsubishi UFJ Research and Consulting in 2016, 44.8 percent of companies conduct employee transfers that require residential relocation. Figure 1 shows that many companies use employee relocation as an employment management tool, though there are differences between companies of different sizes.<sup>2</sup>

Since employee relocation systems have significant impacts on employees and their families, issues related to work-life balance have long been pointed out. The following discusses the main issues.

Figure 1: Employee relocation



Source: Mitsubishi UFJ Research and Consulting (2017). 2016 Survey Project to Understand Work-Family Balance: A Report and results of a Questionnaire Survey of Companies.

#### 4.1 Impacts on Life Plan Design

Since employee relocation entails residential relocation, which is a significant life event, employee relocation often conflicts with employees' individual life plans. For example, when employee relocation coincides with a significant life event, such as marriage, childbirth, childrearing, or family caregiving, employees must choose between relocation and finding a new job. Another issue is that it is difficult for employees to make life plans because their companies do not explicitly specify how long they will work at their new offices. This often poses difficult in life plans, such as whether to choose solo relocation (i.e., relocation with no accompanying family members) or relocation with family members, whether to continue renting a residence, and whether to buy a house.

#### 4.2 Economic Burdens of Solo Relocation

In the past, when male employees with families were ordered by their companies to relocate, they often chose to do so without accompanying family members. As noted above, most households are two-income households, and this fact gives rise to a new set of issues. If the husband and wife both work and if, say, the husband is ordered to relocate, the wife may have to move with him by taking temporary leave or giving up her job. If the couple decide that neither option is desirable for the wife's career development, then the husband has to relocate alone. Solo relocation, however, entails heavy economic burdens, including higher expenditures for housing, food, and health-related items. Although companies provide financial support in the form of solo



relocation allowances, solo relocation would likely have a major negative impact on family finances.

### **4.3 Decreased Family Communication**

Another problem of solo relocation is that having separate residences can lead to decreased family communication and resulting deterioration of family life. Having come back to their original residence after living alone in a distant area for work for a long period of time, many employees find that they have failed to build good relationships with their now-grown children. A similar situation arises in the relationship between the husband and the wife, and many employees and their spouses struggle to picture their retirement life. Since sole relocation entails loss of space and time shared with family members, it significantly impacts the lives of relocated employees and their families.

## **5. Diversity Management and Employee Relocation Systems**

Besides the traditional issues involving employee relocation systems discussed in the previous section, attention has been paid to new issues in recent years as an increasing number of companies have started diversity management, which has led to acceptance of diverse workers and various ways of working. This section discusses new issues arising from employee relocation systems from the standpoint of diversity management and examines ways to deal with them.

### **5.1 Issues Involving Employee Relocation Systems and Diversity Management**

#### **5.1.1 Women's Continued Employment and Career Development**

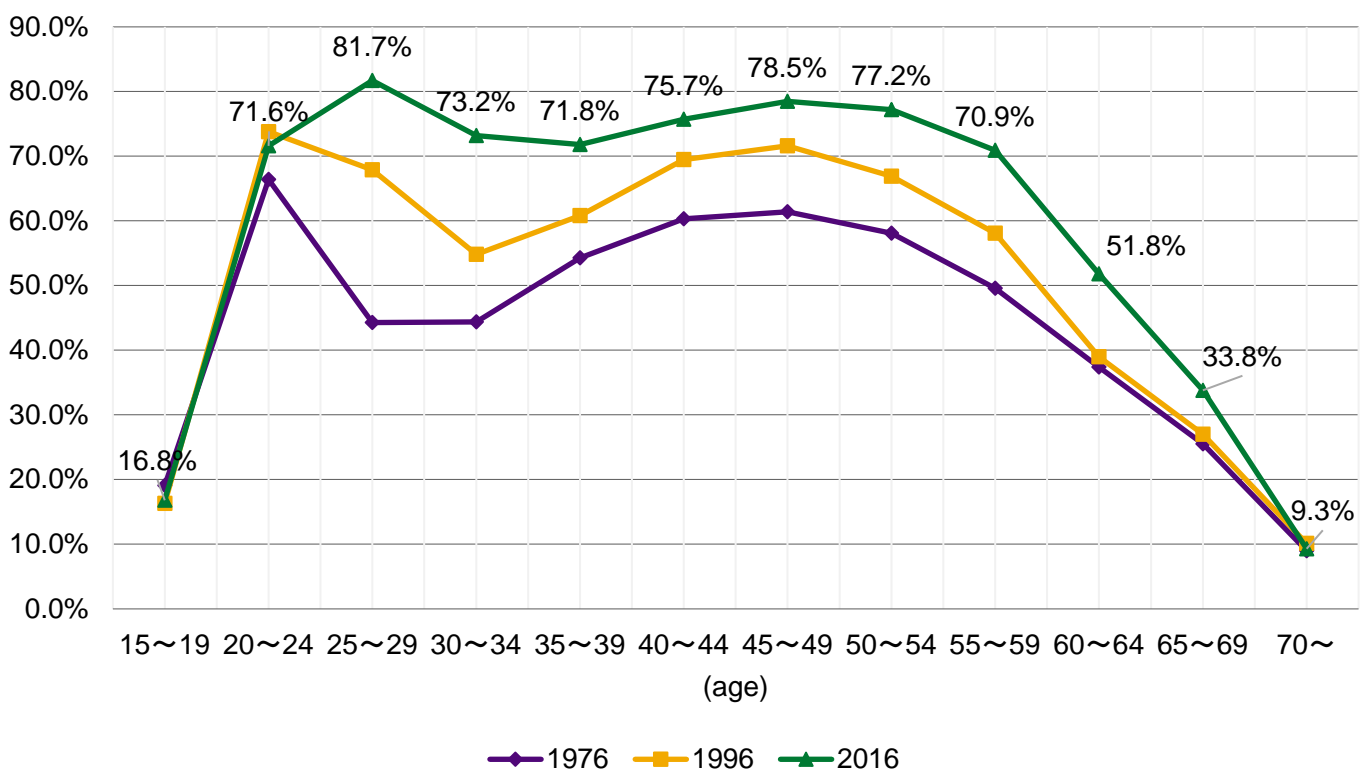
The term "M-shaped curve" has been used to describe the employment situation of women. The term comes from a graph that plots women's employment rate against age group: the employment rate dips for age groups in which women often get married or have children, but is higher for age groups in which childrearing is typically less demanding. As seen in Figure 2, the dip in the M-shaped curve has become smaller and smaller in recent years. The reasons are considered to include expanded corporate measures for supporting work-life balance, an increase in the proportion of unmarried women, and the declining birth rate. Also, it should be noted that women's employment rate has increased for all age groups.

The increase in women's employment rate adds another aspect to relocation issues. As discussed above, the number of two-income households has increased, which has given rise to the problem that workers may have to quit their job because of their spouses' relocation. Even if companies have established mechanisms to support employees' childbirth and childrearing, companies cannot recoup resources invested in such support if these employees quit due to their spouses' relocation to distant areas. For women who continue working after a period of childbirth and childrearing and other women who hope to continue working like them in the future, some plan their career development and want to be promoted to management positions. Following the trend of promoting women's active participation, companies should aim for women to advance their careers. However, employee relocation stands in the way here, too. For women, especially those with children, relocation is a major obstacle to continued employment. Therefore, women's promotion is in effect restricted at companies that emphasize

employee relocation as part of personnel training or that use relocation to evaluate employees' aptitude for management.

In fact, data show a gender difference in terms of whether or not employees have relocation experience. According to a survey conducted by Mitsubishi UFJ Research and Consulting in December 2016, 28.3 percent of male regular employees have post-marriage relocation experience, whereas 12.3 percent of female regular employees have such experience. The government has set a goal of increasing the proportion of women in management positions to at least 30 percent by 2020. However, there is still a long way to go to achieve this goal as the proportion is 12.1 percent as of FY 2016 according to the Ministry of Health, Labour and Welfare.

**Figure 2: Women's employment rate by age group**



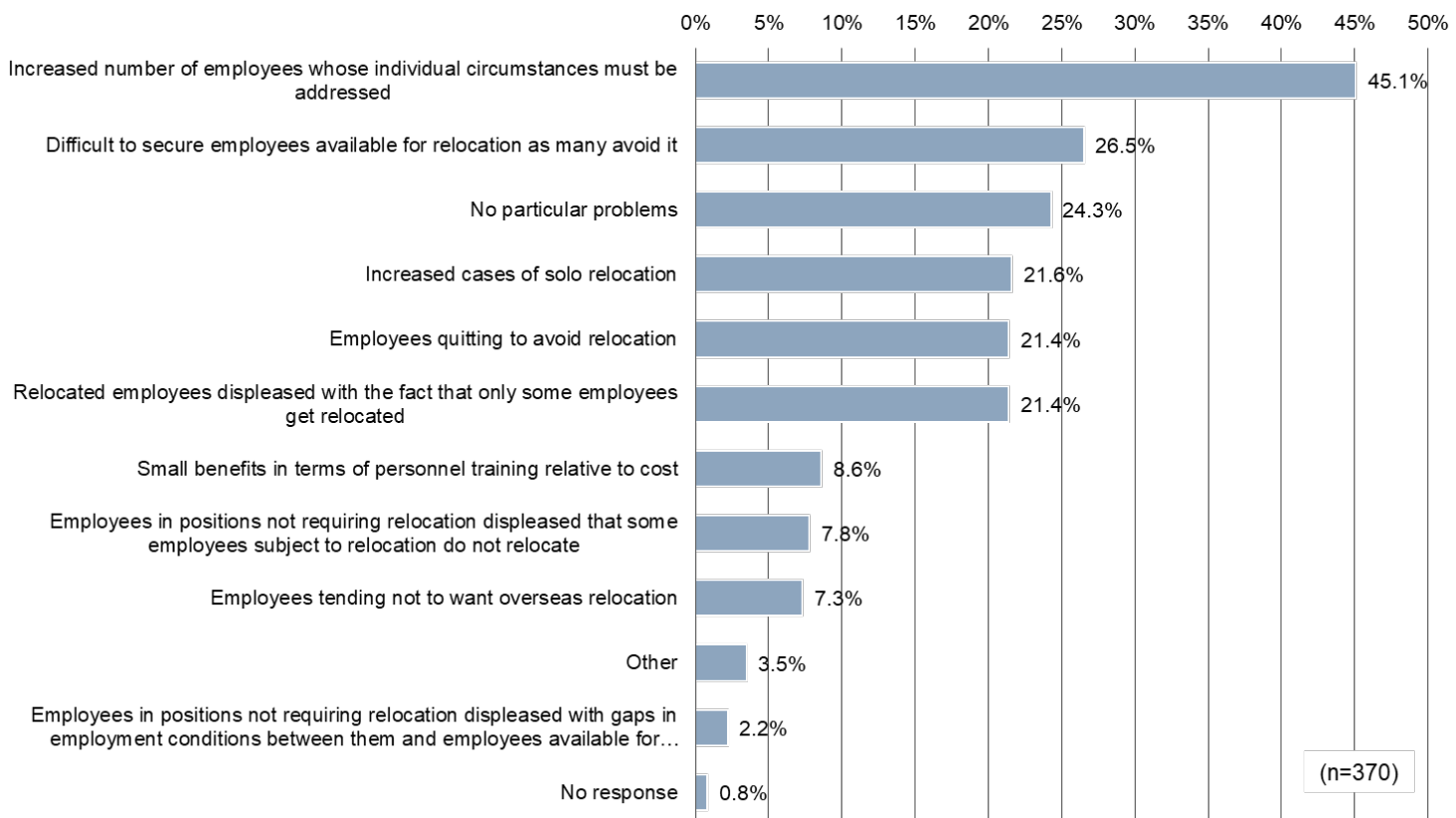
Source: Cabinet Office Gender Equality Bureau (2017). FY 2017 Whitepaper on Gender Equality

### 5.1.2 Limits to Addressing Employees' Individual Circumstances

Relocation issues are not limited to women. As population aging advances, a growing number of issues involving nursing care will arise as a direct result. Middle age is the time when people may need to provide care for their elderly parents. At the same time, middle-aged workers are often in management positions or are responsible for leading or training subordinates and are important to their companies. It is therefore not hard to imagine that more and more middle-aged employees will avoid relocation because of their need to provide family care. In addition, there will be employees who want to avoid relocation for other reasons such as their chronic illness, family responsibilities other than childrearing and family caregiving, and life plan design. According a survey conducted by the Research Project on Promotion of Work-Life Balance and Workplace Diversity of the Chuo Graduate School of Strategic Management, 45.1 percent of companies (the highest percentage) point to an

increased number of employees whose individual circumstances must be addressed as an issue in conducting employee relocations (Figure 3). Many companies already consider employees' circumstances and wishes when they decide to order employees to relocate, but companies still tend to prioritize their own situations. It is expected that as the number of employees whose individual circumstances need to be addressed increases, companies will reach a point where they can no longer waive relocation for employees with special circumstances.

**Figure 3:** Issues that companies consider problematic in conducting employee relocations



Source: Chuo Graduate School of Strategic Management, Research Project on Promotion of Work-Life Balance and Workplace Diversity (2017). Examination of Employee Relocation Policies Required for Promoting Diversity Management: A Research Outline and Questionnaire Survey Results.

## 5.2 Measures to Make Employee Relocation Systems Compatible with Diversity Management

What measures can companies take to make employee relocation systems compatible with diversity management? Various measures can be considered, ranging from fundamental measures including reexamination of employee relocation systems to small measures such as rule-making for addressing employees' individual circumstances.

### 5.2.1 Change in Personnel Management Policy

As discussed above, the fact that promotion or appointment to management positions requires relocation experience is strongly attributable to personnel management policies based on a function qualification system. As AEON's case shows, if companies shift from a function qualification system to a post qualification system and stop evaluating employees based on their relocation experience, they can eliminate a major obstacle to women's career advancement or promotion to management positions. However, the shift to a post qualification system cannot completely eliminate the need for relocation. At a company with multiple domestic production sites, for example, a person may need to have worked at several production sites in order to take on the role of general manager of production with responsibility for the operation of all of a company's factories. However, such posts requiring relocation experience are considered to be limited to upper management positions. Therefore, shifting to a post qualification system would be an effective measure that helps women overcome the relocation issue, develop their careers, and get appointed to management positions.

### 5.2.2 Reexamination of the Purposes of Employee Relocation Systems

How can companies deal with limitations to addressing employees' individual circumstances? Suspending relocation of some employees and accommodating employees' wishes concerning relocation periods, which are discussed below, are reasonable measures; however, it is not realistic to address the circumstances of all relevant employees if most of a company's employees are subject to relocation. To deal with the issue, companies can reexamine and change the number of employees who must be available for relocation. As discussed earlier, companies emphasize personnel training as a purpose of employee relocation systems, but this emphasis may be the main reason why so many employees are subject to relocation. If employee transfer without residential relocation can, to some extent, substitute for employee relocation in terms of personnel training, then the number of employees subject to relocation should become smaller.

Limiting the number of employees available for relocation means restricting the company's ability to internally coordinate the supply and demand for human resources. One way to solve this problem is to increase the number of location-restricted employees. As more and more workers today do not want to be relocated, having separate employment management systems for employees available for relocation and those unavailable for relocation would also be effective as a hiring strategy.

### 5.2.3 Multiple Career Path Systems

As discussed above, separate employment management systems can be set up for employees available for relocation and those unavailable for relocation. Such a mechanism is referred to as a multiple career path system. Companies commonly have two relevant categories: location-unrestricted employees and location-restricted employees. Some companies have additional categories that are set based on the geographical scope of relocation destinations, such as global employees who are available for overseas relocation and fixed-region employees who are available for relocation within a certain region. If a company adopts a multiple career path system, its employees can request assignment to their preferred path. In adopting a multiple career path system, companies need to implement ways to switch paths and ensure fair compensation across all career paths in order

to convince their employees that the system works fairly for all career paths. Even if a company adopts a post qualification system, it would need to put in place a monetary incentive for employees available for relocation (the aforementioned relocation premium) to compensate them for relevant risks and costs. In such cases, however, it would be desirable for companies to consider providing additional compensation to employees once they have actually relocated, instead of the traditional method of changing base salaries for different career paths.

#### **5.2.4 Relocation Waivers**

Companies can also suspend relocation orders for employees who have valid reasons such as childrearing, family caregiving, and health problems. Interested employees submit a request for a relocation waiver, and receive approval if the company deems the reason to be valid. If a company adopts this system, it should consider compensation differences between employees approved for a relocation waiver and employees who have actually been relocated. Also, if a company has adopted a multiple career path system and has set a compensation difference between location-unrestricted employees and location-restricted employees, how should it set the compensation of location-unrestricted employees who are approved for a relocation waiver? The company may temporarily provide the same compensation as location-restricted employees' or may continue with the compensation set for location-unrestricted employees if those approved for a relocation waiver have relocated at least once. Companies need to adjust differences in compensation so that they are consistent with other systems in place.

#### **5.2.5 Accommodating Employees' Wishes and Presenting Projections Concerning Relocation Periods**

Companies should listen to employees regarding periods when they are willing to be relocated as well as period when they do not want to be relocated. A fair number of companies consider relocation candidates' individual circumstances before they issue relocation orders. However, this is different from listening to all employees subject to relocation and learning about their circumstances. If companies know about employees' life plans in advance, that knowledge would be useful when they select employees to be relocated in the process of coordinating the supply and demand for human resources.

It should be noted that employees often want some guidelines that would enable them to foresee potential future relocations. In the case of overseas relocation, companies often specify the duration of the job assignment. But, in the case of domestic relocation, companies often do not explicitly set the duration of the job assignment or often extend it indefinitely. If companies can provide employees with information on how long a typical temporary relocation lasts or how many times employees typically relocate by a certain age, it would reduce employees' concerns and would make it easier for them to maintain balance between work and their life plans.

#### **5.2.6 Internal Application Systems**

Companies can set up an internal application system through which employees can apply for transfer to desired vacant posts. This approach is completely different from the existing notion of employee transfer. Traditionally, authority over personnel affairs resides in companies, and companies issue relevant orders to

employees. The internal application system, however, shifts the source of initial action: employees proactively indicate that they are interested in being transferred. From the standpoint of diversity management, this system is one that respects individual employees' preferences. At the same time, however, it must be noted that the system places limits on the scope of companies' discretion.

## 6. Future Employee Relocation Systems

As discussed in the previous sections, employee relocation systems in Japan effectively operated due to the country's rapid economic growth, the three symbols of Japanese-style corporate management (seniority-based salaries, lifetime employment, and company-based unions), function qualification systems, and the male-breadwinner model. Today's Japanese economy, however, is significantly different from one that existed during the period of rapid growth. Some observers say that having gone through a period of expansion and a period of maturity, the economy has entered a period of gradual decline. Consistent with this view, today's economic situations are completely different from those of the period when employee relocation systems supported Japan's economic growth. As workers' values and attributes become diverse, it is essential for companies to properly perform diversity management so that every employee can perform to his or her full potential. Personnel management has shifted from the one-track approach of the male-breadwinner era to the individual-oriented approach of the present, in which two-income households are prevalent. In the past, Japanese companies had substantial authority to issue relocation orders through the systems of seniority-based salaries and lifetime employment. However, now that the economy has matured and childrearing and family caregiving have become serious issues, the balance of power between companies and employees has shifted.

Employee relocation systems will continue to be essential mechanisms for coordinating the supply and demand for human resources. If companies intend to create environments that accept diverse human resources, it is difficult for them to continue the such coordination with the continued assumption that many employees relocate. A similar argument applies to the training aspect of employee relocation systems. Although employee relocation can play a role in professional training, companies cannot apply a training plan that assumes relocation of a wide range of employees. Today, as the trend shifts toward an individual-oriented approach to personnel management, companies have come to a point where they should examine the purpose and rationality of their employee relocation systems. Companies should also reconsider the role of the relocation premium when they reexamine their personnel management systems that assume employee relocation. If the number of employees in positions not requiring relocation increases, there would be an impact on personnel systems. In some cases, it may be more appropriate to shift from a function qualification system to a post qualification system to eliminate the compensation gap resulting from employees' availability and unavailability for relocation. Even if a company continues with a function qualification system, they should reduce disadvantages faced by employees unavailable for relocation, such as the promotion ceiling. To shift away from personnel management systems that assumes employee relocation, companies need to design systems that take into account the circumstances of employees unavailable for relocation.

The advantages of employee relocation systems cannot be completely set aside because of their disadvantages. In order to have diverse human resources, companies must accept various ways of working. The disadvantages of employee relocation reflect its strong influence on employees' lives and ways of working.

Fundamental measures to mitigate this influence include changing personnel management policy, reexamining the purposes of employee relocation, and limiting the number of employees subject to relocation. If companies find it difficult to take such fundamental measures, they should start with gradually setting rules that allow employees to exercise their right to choose. Companies should shift from order-based relocation systems to collaborative systems in which they actively, rather than passively, consider employees' circumstances and wishes and make decisions accordingly. By doing so, companies can make a fundamental shift to individual-oriented personnel management that accommodates employees' values and life plans. If companies can successfully realize individual-oriented personnel systems, they can then develop the foundation of diversity management.

Not every employee can relocate. Though this is an obvious truth, traditional relocation policies have not necessarily addressed it in a serious manner. The time has come for companies to operate under the new concept of diversity management, take a fresh look at the role of employee relocation, and explore new employee relocation systems and appropriate personnel management methods.

## Endnotes

1. The company survey asked the respondent companies about their branch offices. The relevant question was answered by only companies that have domestic or overseas offices that need personnel transfers (requiring residential relocation) from the headquarters. The question asking about the importance of different reasons for employee relocation had two response sections—one for employees in their 20s or 30s and another for employees in their 40s.
2. Whether or not companies have employee relocation systems depends on their number of employees and thus on the number of offices. Since employee relocation occurs between two offices that are geographically separated, there is no employee relocation at single-office companies. It is natural that companies with more employees have more offices, and this is why companies with more employees are more likely to conduct employee relocations.

## References

- Equal Employment, Children, and Families Bureau, Ministry of Health, Labour and Welfare (2017). *Tenkin ni kansuru koyokanri no hinto to shuho* [Hints and Methods for Employment Management Related to Employee Relocation].  
(<http://www.mhlw.go.jp/file/04-Houdouhappyou-11903000-Koyoukintoujidoukateikyoku-Shokugyoukateiryouri-tsuka/0000160191.pdf>).
- Cabinet Office Gender Equality Bureau (2017). *Danjo kyodo sankakuhakusyo heisei 29 nenban* [FY 2017 Whitepaper on Gender Equality]
- Mitsubishi UFJ Research and Consulting (2017). *Heisei 28 nendo shigoto to katei no ryoritsu ni kansuru jittai haaku no tameno chosa kenkyu jigyo hokokusho kigyo anketo chosa kekka* [2016 Survey Project to Understand Work-Family Balance: A Report and Results of a Questionnaire Survey of Companies].  
(<http://www.mhlw.go.jp/file/06-Seisakujouhou-11900000-Koyoukintoujidoukateikyoku/0000174276.pdf>).
- Mitsubishi UFJ Research and Consulting (2017). *Heisei 28 nendo shigoto to katei no ryoritsu ni kansuru jittai haaku no tameno chosa kenkyu jigyo hokokusho rodosha anketo chosa kekka* [2016 Survey Project to Understand Work-Family Balance: A Report and Results of a Questionnaire Survey of Workers].(<http://www.mhlw.go.jp/file/06-Seisakujouhou-11900000-Koyoukintoujidoukateikyoku/0000174277.pdf>).
- Mitsubishi UFJ Research and Consulting (2015). *Consulting report josei kanrishoku no ikusei toyo ni kansuru chosa: kigyo joshi kara no kitaikan to kanrishokuzo (hatarakikata) minaoshi ga kagi* [Survey on Training and Appointment of Female Managers—The Key Is the Company's and Superiors' Expectations and Reexamination of Managers' Ways of Working—].  
([http://www.murc.jp/thinktank/rc/report/consulting\\_report/cr\\_150416](http://www.murc.jp/thinktank/rc/report/consulting_report/cr_150416)).
- Chuo Graduate School of Strategic Management, Research Project on Promotion of Work-Life Balance and Workplace Diversity (2015). *Diversity keiei suishin no tame ni motomerareru tenkin seisaku no kentou no joukousei ni kansuru teigen* [Proposals on the Direction of the Examination of Employee Relocation Policies Required for Promoting Diversity Management].



([http://c-faculty.chuo-u.ac.jp/~wlb/material/pdf/Survey\\_summary\\_tenkin2016.pdf](http://c-faculty.chuo-u.ac.jp/~wlb/material/pdf/Survey_summary_tenkin2016.pdf)).

Chuo Graduate School of Strategic Management, Research Project on Promotion of Work-Life Balance and Workplace Diversity (2017). *Diversity keiei suishin no tame ni motomerareru tenkin seisaku no kentou kenkyu no gaiyou to anketo chosa kekka* [Examination of Employee Relocation Policies Required for Promoting Diversity Management: A Research Outline and Questionnaire Survey Results].

([http://c-faculty.chuo-u.ac.jp/~wlb/material/pdf/Survey\\_report\\_tenkin2016.pdf](http://c-faculty.chuo-u.ac.jp/~wlb/material/pdf/Survey_report_tenkin2016.pdf)).

Ishida, M (2013). *Kodo seicho to rodoho: nihon teki koyo sisutemu to rodoho no sougo kouchiku* [High Economic Growth and Labor Law: Reciprocal Construction of the Japanese-Style Employment System and Labor Law]. *Nihon Rodo Kenkyu Zasshi*, 634, 78-87.

Japan Institute for Labor Policy and Training (2015). *Kigyo ni okeru tenkin no jittai ni kansuru hiaringu chosa* [Interview Survey on Employee Relocation at Companies]. (<http://www.jil.go.jp/institute/siryu/2016/179.html>).

Recruit Works Institute (2015). *Works*, 134. (*Tenkin no yukue* [The Future of Employee Relocation]).

- This document and any content and information contained herein are provided for information purposes only and do not constitute an offer to sell or the solicitation of an offer to buy any securities or financial instruments.
- This document and the content and information contained herein are based on information that we believe is reasonably reliable. However, this document and any and all content and information contained herein are provided “as is” and “as available”. Mitsubishi UFJ Research and Consulting Co., Ltd. (MURC) makes no warranties of any kind regarding the document or any and all content and information contained herein. Under no circumstances shall MURC, its directors, officers, employees, or representatives be liable to you for direct, indirect, incidental, consequential, special, punitive, or exemplary damages arising from this document and the content and information contained herein.
- This document and any and all content and information herein are protected by copyrights, trademarks, service marks, international treaties, and/or proprietary rights under any applicable laws. Unless otherwise permitted by law, you may not copy, reproduce, publish, upload, or transmit any or all of this document or any content or information contained herein without the written consent of MURC.