Employee Well-being and Engagement – a Growing Challenge for the Japanese Economy

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1. Introduction

In times of highly competitive and dynamic markets, structural changes in the society and an overall uncertain economic outlook, organizations face enormous challenges to maintain competitiveness and sustainable growth. In the search of how to best utilize available resources, management has shifted its focus towards employees who are seen as the success catalysts of an organization.

Compared to a few decades ago, the labor market in highly industrialized countries has significantly changed, and it has become tougher for companies to find, recruit and retain talent, especially due to the effects of an aging society, but also changing needs and expectations of job seekers. At the same time, an increasing complexity of the market environment requires a workforce that proactively embraces future challenges. Managers are now under much pressure to create and implement a holistic concept that integrates employee’s interests, needs, and expectations into strategic decision making.

An engaged workforce is considered to be one of the most important contributors to business success. This essay discusses employee’s well-being by clarifying and discussing the terminology that emerged through time, and also analyzes the current situation of Japan and its future challenges. The author further summarizes the current research state as well as up-to-date research study results.

2. The growing importance of an engaged workforce

It is widely accepted by the academics and practitioners that employee well-being, satisfaction, and engagement have a positive impact on the organization as well as the individual, and these terms have become an important research field in recent years. The number of publications
in fields such as marketing, human resource management, and organizational management is increasing and address the question how organizations can establish and nurture a culture that puts emphasis not only on market share, brand equity, and growth, but which also values the quality of work and the employees who perform the work.

The attraction, recruitment, and retention of talent have always been key elements of a company’s long-term strategy. However, the ability to build a truly engaged workforce—one that is enthusiastic and committed to give it’s best each day—has become a critical issue especially in recent years.

This topic has also become important under the notion of corporate social responsibility (CRS). Glavas (2016) argues that combining engagement, which describes the relationship between individual employees and the organization, with CRS as the relationship between organizations and the society, allows to build more holistic management models. This is supported by evidence that CRS enables employees to be more engaged (see also Yilmaz et al., 2015).

A variety of studies have shown the relation between organizational culture as a fundamental basis to drive employee satisfaction or engagement, and business success. Companies with high employee engagement are considered to be more innovative and competitive, and benefit from a larger share of loyal customers (Fischer and Fischer, 2005; Fujimura, 2011).

The Western literature covers extensive empirical research on the influencers and effects of employee well-being. Accordingly, different terms evolved through time, from the concept of satisfaction (“how much people like to be at the workplace”), to commitment (“how much people want to contribute to business success”) and proactive engagement (“how much people want and actually do to improve business success”) (Kennedy and Panting, 2012). More recently, researchers have put their focus on the question not only on how to build but also sustain employee engagement over the long term (Robertson and Cooper, 2010).

By developing and further elaborating these concepts over the years, academics and practitioners were able to show a stronger correlation with business performance. In a recently published article by Harvard Business Review, the London Business School was able to show that companies with higher satisfaction see their stock returns outperform competitors by 2.3 percent to 3.8 percent per year (Edmans, 2016). It is also emphasized that the higher performance is a result of employee satisfaction and not the other way around.

Most of the publications originate from the Anglo-American sphere, with several important contributions also coming from Europe, such as Germany and Great Britain. In contrast, Japan offers a lower number of academic contributions, especially those that discuss the more differentiated terms commitment and engagement. There is also a growing number of survey
3. Key terminology

The following summarizes the academic literature on employee well-being by discussing the key terms satisfaction, commitment and engagement.

3.1 Employee satisfaction

The term employee satisfaction plays an important role particularly in psychology, business, and economics. Since the 1970s, researchers from the fields of industrial and organizational psychology, marketing research, and human resources investigate this concept by approaching it from different angles (Stock-Homburg, 2011). Human resource management analyzes employee satisfaction as an indicator of whether working conditions comply with worker’s rights (Töpfer and Zander, 1985), while marketing argues that satisfying employees and front-line workers is a requirement for appropriate behavior during customer handling (Goff et al., 1997). The growing interest not only by organizations but also by governments with the social and political goal to improve the quality of work and life conditions has driven the question how to build the basic foundations to achieve satisfaction at the workplace. It therefore became an important target in the humanization of work (Neuberger, 1985; Fischer, 1991). Furthermore, employee satisfaction gained importance in the 1990s as a success indicator for activities to promote workplace health (Bamberg et al., 1998; Heidl et al. 2012).

Accordingly, different requirements for employee satisfaction have been discussed depending on the analytical approach and perspectives, including environmental conditions, personal characteristics, and their integration into the workplace (see “person-environment-fit”; Arvey et al. 1991). Several studies emphasize the work content and interpersonal relationships, showing that the relationship between employee and managers has a high impact on employee satisfaction (Ulrich, 1994; Schmidt, 1996).

3.2 Commitment

In the 1990s, academics elaborated on their assumption that high employee satisfaction reflects more than the right fit with fundamental requirements, but that it has a positive impact on individual performance and overall company success respectively (Fischer and Fischer, 2005).
As a consequence, research studies developed and tested new concepts that go beyond basic requirements such as meeting worker’s rights or workplace health codes. They were stronger linked to human behavior and asked the question, what impact employee satisfaction has on the employee’s attitude towards the company and whether and how an increase in motivational level would benefit the company.

One of the most discussed concepts is the organizational commitment (Brown and Peterson, 1993; Johnston et al., 1990; Dubinsky et al., 1996; Sager et al., 2010). It expresses the sense of affiliation or to what degree an employee identifies himself with the organization. The intensity of this relationship predicts the willingness to actively contribute for the organization (Wilkens, 2004). Cohen (1991, 1993) shows that employees with high organizational commitment have a lower rate of absence, better working morale and are more motivated and productive.

3.3 Engagement

The term employee engagement is a consequent development of commitment and the number of publications investigating this concept has significantly increased in the last 15 years. Already Cohen (1991, 1993) and later Coffman and Gonzales-Molina (2003) made the assumption that high employee engagement and a strong sense of belonging to the organization have a positive influence on work climate and productivity, which is eventually reflected in overall business performance.

The term has gained popularity not only in academics but also in the practical world (Wellins and Concelman, 2005). While several authors do not distinguish between the terms engagement and commitment, others define employee engagement in a more differentiated way by focusing on the roles and responsibilities that employees recognize in their company. It is more about the analysis of a psychological state (Schaufeli and Bakker, 2003). Saks (2006) refers to a strong awareness of engaged employees towards their own role within the organization and their high concentration when performing the work. The Chartered Institute of Personnel and Development defines employee engagement as follows (Alfes et al., 2010):

Intellectual engagement: thinking hard about the job and how to do it better (thinking)
Affective engagement: feeling positive about doing a good job (feeling)
Social engagement: actively taking opportunities to discuss work-related improvements with others at work (acting)

Recruiters, human resource managers and management consultants tend to emphasize the importance of engagement as something directed towards the organization or company, hence the
willingness to work for the company also in the long-term future, while others value the additional contribution that exceeds the contractual agreement (Schaufeli and Bakker, 2010). Human resource consulting companies such as Aon Hewitt puts the behavior of employees into focus by using a definition characterized as follows (Aon Hewitt, 2012, see also Bismarck and Bäumer, 2005):

Speak positively about the organization to the public (say)
Have an intense sense of belonging and desire to be part of the organization (stay)
Are motivated and exert effort toward success in their job and for the company (strive)

The Gallup Organization, a global performance management consulting company, defines engaged employees as those „who are involved in, enthusiastic about and committed to their work and workplace” (Gallup, 2016a). Employees who are not engaged are regarded as people who may be satisfied but are not emotionally connected to their workplace, while disengaged are emotionally disconnected and even jeopardize their team’s performance (Gallup, 2016b).

In a first attempt to conceptualize engagement, Lewis et al. (2011) developed a definition that incorporates all the different viewpoints of both academic and practice, leading to a definition as follows: "Being focused in what you do (thinking), feeling good about yourself in your role and the organisation (feeling), and acting in a way that demonstrates commitment to the organisational values and objectives (acting).”

While the descriptions of engagement might differ depending on the viewpoints and focus, there is an overall trend to move from an attitudinal satisfaction (the feeling about the own organization) towards a more proactive contribution of each individual, who embraces the goals of an organization and adds value and innovation to his work. Ultimately, the stronger focus on behavior also establishes a closer link to the outcome of such behavior expressed in business performance. In 2002, Harter et al. already indicated that a stronger integration of employees into innovation, processes and customer service motivates employees and ultimately leads to higher growth and productivity (Harter et al. 2002).

The Gallup Organization performed a meta-analysis of many Gallup studies covering several decades to investigate how engagement affects key performance outcomes, regardless of the company’s type or industry. The analysis shows that higher level of engagement is consistently associated with positive business outcomes, including reduced employee turnover and final performance outcomes including higher customer satisfaction, productivity and profitability (Gallup, 2016c).
3.4 Sustainable Engagement

Robertson and Cooper (2010) asked the question under what conditions organizations would be able to sustain a high level of engagement. The authors suggest that in order to achieve long lasting success, a more comprehensive and integrated approach is needed which does not only promote engagement but also satisfaction and well-being at the same time. They argue that a too narrow focus on worker’s behavior such as going for the extra mile and working longer hours could raise the bar for everyone, widening the gap between what is performed by the workforce and what is expected by management, which might hurt overall well-being in the long-term. The authors argue that integrating engagement and well-being will lead to the most productive and happy employees, while solely focusing on engagement raises the risk of high burnout and turnover. On the other hand, a too narrow focus on well-being alone may increase the likeliness of employees to stay at the company, but being less committed to achieve organizational goals (Alfes et al. 2010).

Gourlay et al. (2012) add an additional aspect and differentiate the above mentioned categories based on the motivational reason behind employee engagement. It is assumed that the possibility of creating sustainable engagement depends on the type of underlying motivation. Particularly, they suggest that emotional engagement occurs only if they are intrinsically motivated, by identifying themselves with the organization’s mission and values. This stands in contrast with transactional engagement that emerges from extrinsic motivation such as the need for reward or fear of losing a job. The role of management is regarded as a key factor to achieving sustainable engagement. Gourlay et al. (2012) developed behavioral indicators and criteria for different levels of engagement that can help managers to sustainably improve the work situation at their organization.

3.5 Organizational culture

Organizational culture is regarded as the fundamental driver of employee engagement (see Harter et al., 2002; Harding and Hikspoors, 1995; Robbins, 2001). In a study conducted by Deloitte in 2015 on key business issues (evaluated by organizations based on importance vs. their readiness), employee engagement and culture has become the No. 1 challenge around the world (Brown et al. 2015). This insight shows that organizational culture is not simply a human resource issue anymore but has emerged to a top issue for leadership, and it will play an important role in future attempts to develop a holistic view on the terms and concepts discussed so far.

In academics, the terms corporate culture and organizational culture have been analyzed in more detail already since the beginning of the last century (Dülfer, 1988). The term became well known when Japanese companies were able to capture significant market share in the 1970s in
the electronic and automotive industry, and researchers tried to find the reasons behind Japan’s enormous success. One crucial insight was that the competitive advantage could not be explained by superior technology (see Peters & Waterman, 1982), but was rather the result of unspoken rules and implicit norms, which influenced the behavior of employees within the company. The phenomenon of its own, distinguished corporate culture has become an indicator for successful management and a decisive factor of whether a company will maintain competitiveness. Some publications provide evidence for a positive correlation between organizational culture and its business performance (Wilderom et al., 2000).

Schein (1985) developed a model of organizational culture, which differentiates between three distinct levels in organizational culture: artifacts and behaviors, espoused values, and basic underlying assumptions. The third level builds the ultimate source of values and behavior and therefore defines the beliefs, feelings, and thoughts of managers as well as employees and is also manifested in their actions (Schein, 2000; Sackmann, 2002). The second level includes those elements of an organizations that justify the many activities of employees including strategies, goals, and philosophies. The first level represents the observable elements including organizational structures, processes, manners, and behavior, but also improvement programs such as training and coaching programs.

The literature includes several approaches to investigate the question how culture is influenced (see Sackmann, 1990; Schein, 1985; Krüger, 2000), most of them focusing on the micro level of organizations. Krüger (2000) sees a change in organizational culture as a continuous task of leaders and employees, while the need, willingness, and ability to change are the fundamental requirements to minimize risk and instability (see Krüger’s 3 W model). The ongoing globalization and management’s growing challenge to lead multicultural groups have led researchers to broaden the view that integrates a macro perspective (national cultures) and micro perspectives (occupational cultures) in order to explain how organizational culture is shaped and strengthened (Schein, 2010).

4. The current situation in Japan

Compared to the Anglo-American and European sphere, the number of Japanese publications studying employee satisfaction, commitment and engagement is rather limited. A simple keyword search on the scientific platform “Web Of Science” (www.webofknowledge.com) using “employee satisfaction” and “employee engagement” reveals 9871 and 1722 entries, while “employee satisfaction in Japan” and “employee engagement in Japan” results in only 54 or 19 entries, respectively.

A review of the Japanese literature further suggests that the related terms and concepts are not
(or at least not to the full extent) defined and discussed in the Japanese language to the extent as in the Western literature. In many cases, terminology is translated from the English language without being adapted to the unique situation in Japan.

Many papers refer to employee satisfaction (jūgyōin manzukudo) and make them an issue of human resource management (Iwade, 2012, Iwade, 2014) or discuss it in close relation to customer satisfaction (kokyaku manzukudo) (Nonaka, 2016; Yamamoto, 2015; Fujimura, 2011). A further development of the term as described in commitment or engagement is hard to find. These concepts are made popular in Japan via translation of the relevant literature (Yamamoto and Ono, 2004). The majority of these publications are shorter working papers, conference reports, analysis of survey results and popular scientific publications (Suginaka, 2015; Matsumura, 2015; Yamamoto, 2010; Shida, 2010; Shida, 2013).

This is surprising considering the fact that Japan performs low in global employee satisfaction and engagement rankings for many years. The latest summary report of OECD economic surveys for Japan from 2015 indicates that Japan’s well-being index lags behind other OECD countries in a number of dimensions. The work-life balance is one of the worst in the ranking (OECD, 2015). Accordingly, the authors conclude that the culture of long working hours needs to be improved at companies.

The “2016 Trends in Global Employee Engagement” report by Aon Hewitt shows that Japan has the smallest share of engaged employees among all countries worldwide, a situation that has not improved in the last years. Similarly, the 2015 employee engagement study of ORC International shows that although the global engagement index has increased in 2015 to 61%, Japan is ranked bottom in a ranking of 20 countries, with an index of 45% (ORCD Global, 2015). A panel study by Kienbaum from 2013 emphasizes that Japanese employees are the least satisfied in an international comparison. Furthermore, the engagement index has decreased 6 points compared to the previous year, reaching an all-time low of 42 percent (Datakontext, 2014). The study of the Chartered Institute of Personnel and Development also does not draw a better picture, putting Japan on the last place among G8 nations regarding employee satisfaction (Clegg, 2013). Finally, the 2012 Kenexa Worktrends Report indicates that Japan is ranked last in the “employee engagement” index among 28 countries (IBM, 2014).

This situation is in contrast with insights from research published a few decades ago. Cole (1980) and Hatvany and Punick (1981) argue that the high productivity of Japanese firms compared to Western firms during the time of strong growth can be explained by a high level of organizational commitment, loyalty and lower turnover rate among employees and workers. One could also argue that the low engagement stands in contrast with traditional Japanese management concepts such as
continuous improvement (kaizen), which is characterized by a culture of change, where front-line workers are empowered to proactively suggest changes in important business processes to achieve improved quality, cost, and delivery. However, it is also worthwhile to mention that some authors criticized a relatively low degree of “behavioral or effort commitment” of Japanese workers already in the 1980s, but the work did not get much attention (Lincoln and Kalleberg, 1985).

It should not be neglected that an increasing sensitivity in Japan is observable with regard to the importance of employee well-being. The Japan Institute for Labour Policy and Training summarizes findings of employee satisfaction surveys among different employment levels (jūgyōin manzokudo) in a report on Japan’s labour situation, starting from 2003 (JILPT, 2014). In an investigation on labor management practices among Japanese companies, the Institute of Labour Administration reveals that employee satisfaction surveys were introduced in the early 2000s. While even appropriate survey question items did not exist in 2001, Japanese companies started to implement full-scale surveys soon after, reaching an implementation rate of 14.2% in 2004, which further increased to 20.1% in 2007 and 23.1% in 2010 (Recruit, 2010). Okamoto (2012) argues that the increasing diversification of employment types has put pressure on human resource management to better assess the well-being and motivation of regular employees.

In 2010, researchers attempt to verify the SECI model (Socialization, Externalization, Combination, Internalization) by Nonaka and Takeuchi. SECI tries to model knowledge creation and transfer within organizations and helps to identify the relationship between knowledge exchange among employees (related to company risks or goals) and their satisfaction (Yoshida, 2012).

Nevertheless, these examples appear to be rather fragmented approaches and limit the view on the traditional concept of employee satisfaction. Considering structural changes in Japan’s society and an overall weak economic outlook, a consistently low engagement among the Japanese workforce will pose a high risk for Japan’s economy in the mid- and long-term.

4.1 Discussion

One may argue that Japanese tend to answer surveys in a modest and understated way, which could bias global comparison. For instance, Shimazu, Schaufeli, Miyanaka and Iwata (2010) emphasize that extremely low engagement scores need to be viewed carefully, because Japanese people suppress the expression of positive affect. Furthermore, they discovered lower measurement accuracy at high levels of engagement among western employees, which requires special attention when making a global comparison of these numbers. Nevertheless, the consistent and significantly low satisfaction and engagement scores throughout the studies of various research
companies suggest a fundamental problem that needs to be investigated more closely from both macro- and micro-economic perspectives.

Never before have the reasons been more compelling to build an engaged workforce. According to the 2016 Edelman trust barometer which measures the average trust of a country in the institutions of government, business, media, and NGOs, Japan is ranked among the bottom three in the international ranking. This low result is consistent among the informed public, general population and mass population (Edelman, 2016).

Japan is confronted with the highest average age of workers worldwide, and the declining population makes it more difficult for companies to recruit and retain skillful workers in means to secure innovation, competitiveness and cost-effectiveness. Furthermore, the share of regular workers at companies has reached an all-time low of 62.6% in 2014, while the share of temporary and part-time workers has constantly increased (18.0% and 7.7% in 2014, respectively) (JILPT, 2016). A 2015 report by McKinsey reveals that women occupy only few leadership roles after the childbearing years, emphasizing the need to encourage more women to participate in the workforce and create better career pathways (Desveaux et al., 2016).

Japanese leaders will need to make a conscious effort to engage workers of all ages, and at all levels of the organization, regardless of whether workers are performing un-skilled standard operations or specialized tasks. After all, workers should not just be compensated with a paycheck, but achieve a sense of pride and fulfillment from their work by contributing to company values that match their own.

Some companies in Japan have started to implement employee satisfaction improvement programs as part of their CSR initiatives, which go beyond short-term countermeasures to raise motivation or adjusting to work health requirements. For instance, Toyota Motor Corporation lists several training, development and diversification initiatives for both managers and employees in their Sustainability Data Book 2016 (Toyota, 2016). Similarly, Fast Retailing Co., Ltd. is promoting efforts to increase diversity among its workforce by offering special development programs for female managers and offering long-term training programs for management positions over a 10-year timeline (Fast Retailing, 2016).

5. Conclusion

This essay briefly summarized the concept of employee well-being by discussing key terminology that evolved through time, including employee satisfaction, commitment, and (sustainable) engagement. The low performance of Japan in global employee satisfaction and engagement surveys is consistent throughout the years and throughout the studies by various research organizations.
Yet, a systematic and comprehensive investigation especially in the field of employee engagement in Japan is hard to find.

The question how to optimally use human resources by continuously motivating and encouraging the workforce with the purpose of long-term business success and social welfare should become a top priority issue in Japan. In order to succeed, leaders need to look beyond the traditional view of employee satisfaction that addresses more fundamental aspects of well-being including work-life balance, health requirements, welfare programs, and physical facilities. The focus should shift to the question how to fully engage Japanese in the workplace through intrinsic motivation. The ability to engage employees and establish an emotional bonding to the firm will be a decisive factor for future success.

References


